Strategic partnership for
confident decision making

Capital Economics

Macroeconomic Scenarios for IFRS 9

Forward-looking scenarios for IFRS 9 expected credit loss estimation

Strategic partnership for confident decision making

Capital Economics scenarios for IFRS 9 and strategic planning, grounded in our award-winning macro insight

UK lenders face a volatile economic backdrop, heightened regulatory scrutiny and rapidly evolving credit risks. IFRS 9 requires institutions to build probability-weighted, forward-looking macroeconomic scenarios into their Expected Credit Loss (ECL) models, rather than relying on historical loss experience alone. Getting that right demands both rigorous economic forecasting and the credibility to stand behind it with auditors and regulators. Capital Economics provides independent, trusted insight to help you navigate these complexities with clarity and confidence.

WHY CAPITAL ECONOMICS

Our IFRS 9 macroeconomic scenario service combines forward-looking scenario probabilities, a proprietary stress testing model, clear narratives and the expert judgement of our award-winning economists to deliver scenarios you can confidently use for both regulatory requirements and business planning. Our analysis and forecasts are independent, and we are a trusted provider of insights to the financial sector, with a strong track record of accuracy awards from organisations including LSEG and FocusEconomics.

For many clients, our IFRS 9 scenario service is a natural extension of their existing CE relationship, bringing the same economist credibility and analytical rigour directly into their credit risk process.

Benefits for lenders

REGULATORY CONFIDENCE

Confidently meet IFRS 9 requirements for probability-weighted outcomes and forward-looking assumptions with our independently produced macroeconomic scenarios. All supporting model documentation, probability methodology and scenario narratives are audit-ready.

RIGOROUS PROBABILITY ASSESSMENT

Each scenario's percentile band, derived from more than 25 years of forecast track record, translates directly into the probability weights you assign in your ECL models, strengthening your assessments and supporting regulatory compliance.

TIMELY INSIGHTS

Economic conditions can shift quickly. We update our scenarios regularly, and in real time during periods of volatility, ensuring your models remain relevant and your decisions well informed.

BESPOKE FLEXIBILITY

Unlike rigid, one-size-fits-all alternatives, our service is tailored to your institution's specific needs – the right scenarios, indicators and geographic coverage to match your risk profile. We work to your timeline rather than a fixed publication schedule.

BEYOND IFRS 9

Our macroeconomic scenarios have applications well beyond regulatory compliance, from corporate stress testing and capital planning to asset allocation and long-run actuarial projections. The same scenarios that serve your IFRS 9 process can support a much broader set of decisions across your organisation.

*Three-time top-forecaster of major economies by Refinitiv 2024-2025

From macroeconomic and market insight to IFRS 9-ready scenarios

Strategic partnership for confident decision making

High level methodology

BASELINE FORECASTS

Our baseline forecasts are built on detailed analysis of economic data, historical context and evolving relationships within a robust analytical framework, rather than relying solely on large-scale econometric models. This approach allows us to clearly explain the drivers of our forecasts, including the impact of one-off events. Our economists combine statistical techniques with experience and expert judgement to derive the baseline, with senior economists regularly reviewing and challenging the outlook to identify new trends and reassess assumptions as conditions evolve.

STRUCTURAL ECONOMIC MODEL

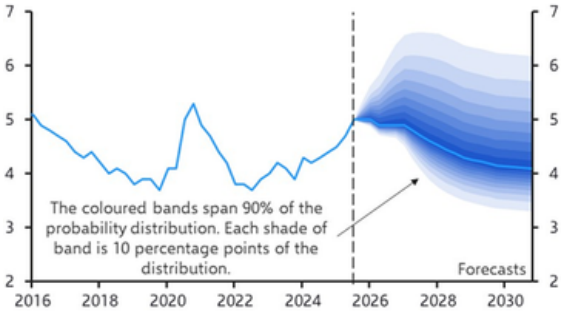
Our scenarios are produced using a proprietary macroeconomic stress testing model of the UK economy, built and maintained in-house and underpinned by economic theory. The model ensures internal consistency across scenarios and across updates, with shocks propagating through the system in line with expected economic relationships. While the model provides a robust framework, the expert judgement of our award-winning economists is central to the construction of our scenarios, ensuring that each scenario reflects a coherent and credible economic narrative rather than a purely mechanical output.

A suite of scenarios complements our baseline outlook, spanning upside and downside outcomes across a range of severities. Each scenario is accompanied by a concise, jargon-free narrative and clearly defined assumptions, tailored to your portfolio or regulatory requirements.

ASSESSING SCENARIO PROBABILITIES

Our approach to quantifying scenario probabilities follows the same fan chart methodology used by the Bank of England and the European Central Bank. More than 25 years of accurate forecasting informs the probability distribution around our baseline, expressed as percentile bands that widen over longer horizons in line with our track record. We then assess the balance of risks using our proprietary UK Economic Risk Index, constructed using Principal Component Analysis across 10 indicators spanning business sentiment, household confidence, financial market conditions, and housing market expectations (see Chart 2). The Risk Index informs scenario probabilities in two ways: it adjusts the overall width of the forecast bands and shifts the balance of risks between upside and downside outcomes, introducing skew into the distribution when uncertainty is elevated. The index, scenario paths, and probability weights are reviewed at each reporting date, in line with IFRS 9 requirements.

CHART 1: Unemployment rate base case and probability distribution (%)



Sources: LSEG Data and Analytics, Capital Economics

CHART 2: Capital Economics UK Economic Risk Index

Sources: Capital Economics

Senior macro expertise. Decisions you can stand behind.

Strategic partnership for confident decision making

Meet the senior team

Our consultancy and modelling teams partner with financial institutions to transform the complexities of IFRS 9 into clear, defensible and commercially robust solutions. The teams are fully integrated with our award-winning UK Economics team, whose internally produced baseline forecasts and ongoing peer review ensure that our IFRS 9 work is grounded in robust, independently validated macroeconomic thinking. From initial scoping and ECL model development to audit support and ongoing model refresh cycles, we provide the technical expertise and practical experience needed to support successful implementation and sustained compliance.

Paul Ashworth

CHIEF DATA AND MODELLING ECONOMIST

Paul Ashworth is the Chief Data & Modelling Economist at Capital Economics. He joined CE in 2001 from the National Institute of Economic and Social Research (NIESR), where he worked on developing their macroeconometric model of the world economy (NiGEM), after taking degrees in Economics and Mathematics at Strathclyde University (BSc) and Warwick University (MSc) and completing a PhD on asymmetric adjustment in macroeconomic models.

Alexandra Dreisin

HEAD OF MODELLING

Alexandra Dreisin is Head of Modelling at Capital Economics, where she leads the firm's quantitative modelling work, including the design and development of macroeconomic models for IFRS 9 and CECL scenario frameworks. Prior to this role, she spent over 10 years on the Consultancy team. Before joining Capital Economics in 2014, she was a research analyst at macro investment firm SLJ Macro Partners, and prior to that an economist at the US Bureau of Labor Statistics specialising in quantitative analysis and seasonal adjustment of the Consumer Price Index.

Paul Dales

CHIEF UK ECONOMIST

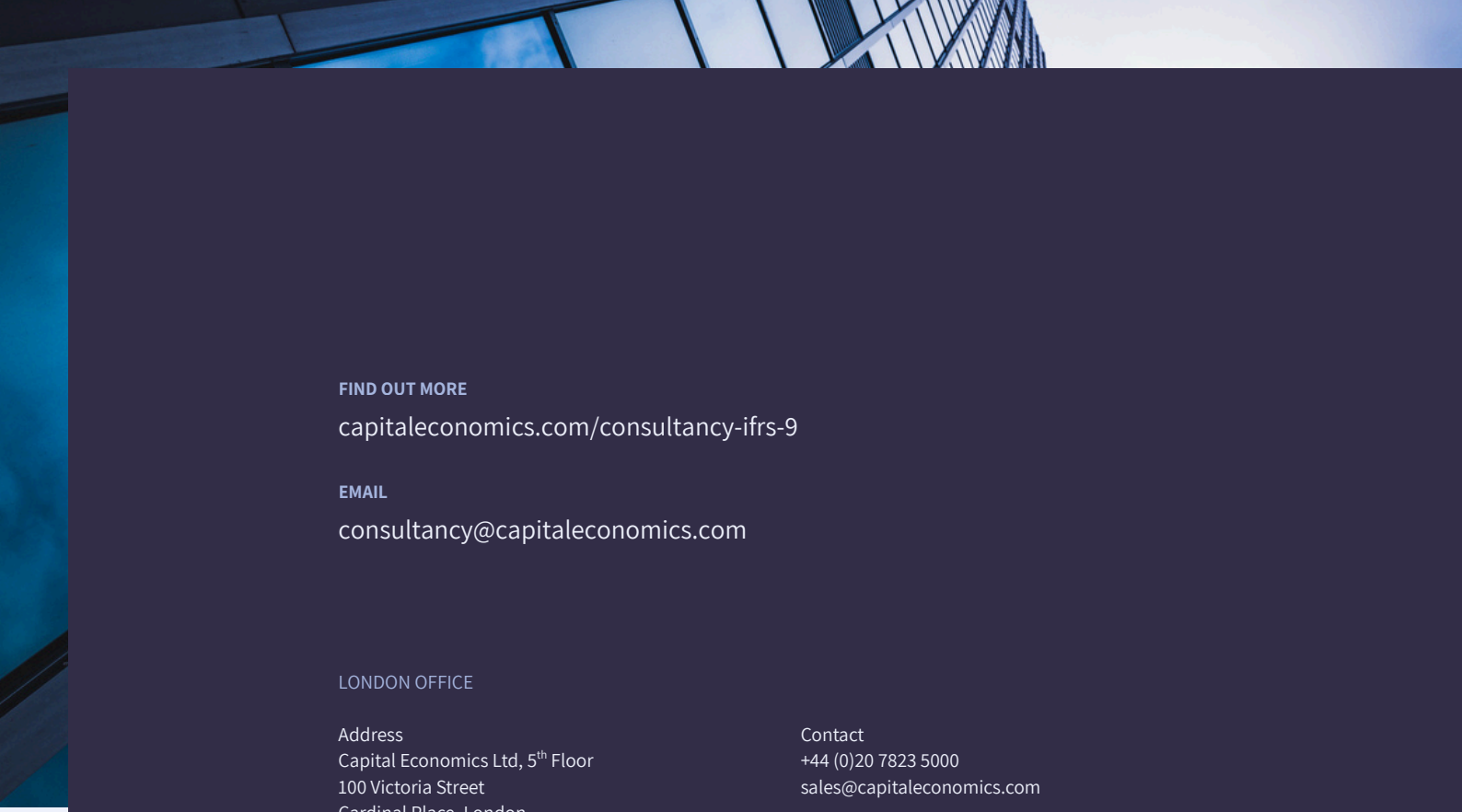
Paul Dales is our Chief UK Economist, with overall responsibility for our analysis and forecasts of UK Economics and UK Housing. Paul joined Capital Economics soon after it was founded in 1999 and has previously been our Chief Australia & New Zealand Economist and Senior US Economist. In 2022, he led the team that was named UK Economics Forecaster of the Year by the Sunday Times. Paul regularly writes articles for the London Evening Standard and frequently appears on TV and radio.

Grant Colqhoun

CHIEF CONSULTANCY ECONOMIST

Grant is Chief Consultancy Economist and since joining Capital Economics in January 2018 has led due diligence, scenario planning and advocacy projects covering a range of countries. In previous roles he was Group Economist at a leading mining and metals consultancy, headed Oxford Economics sectoral forecasting service and held economist positions at HM Treasury and British Steel. Grant has extensive experience of the Chinese economy and in analysing and forecasting economic sectors internationally.

> We're now fully integrating Capital Economics' risk scores into our internal reporting for monthly collectability assessments under US GAAP and IFRS. We fully trust the quality of Capital Economics' service and look forward to continuing and expanding our strategic partnership with the CE team.
>
> **Global Credit Risk Data Solutions**
> Meta Platforms



FIND OUT MORE

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