

Country Insight Snapshot United Kingdom

November 2017



Written 03 November 2017

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB2d

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

G

Rating Outlook: Deteriorating 

CORE OUTLOOK


- + The UK's long-term economic potential exceeds that of most other European economies.
- + The UK is a stable democracy, and a well-entrenched rule of law guarantees the security of contracts, liberalised markets, and a relatively strict competition policy regime.
- Uncertainty stemming from the Brexit referendum is clouding the country's medium- to long-term outlook.
- Infrastructure for land transport is congested and unreliable by European standards.

KEY DEVELOPMENT

The central bank raises interest rates for the first time in a decade, creating additional headwinds for the already struggling economy.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable 

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Deteriorating 

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

G

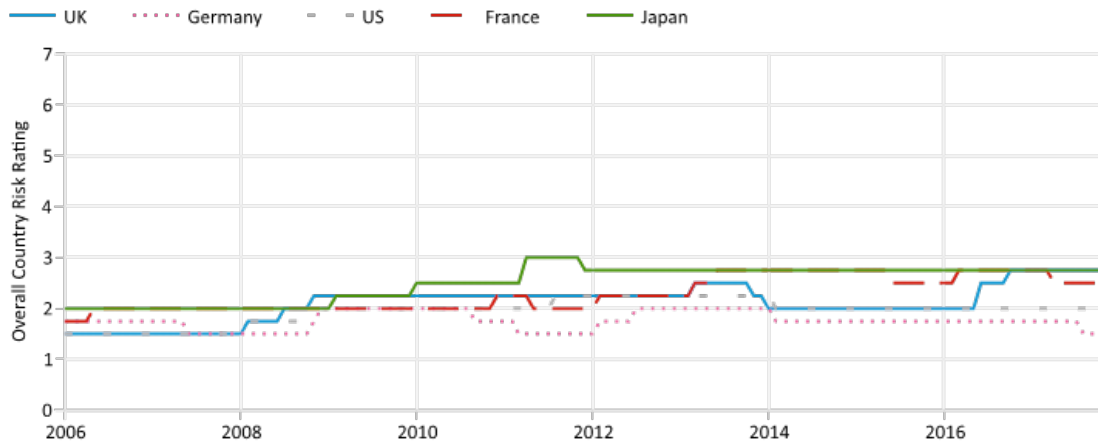
Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

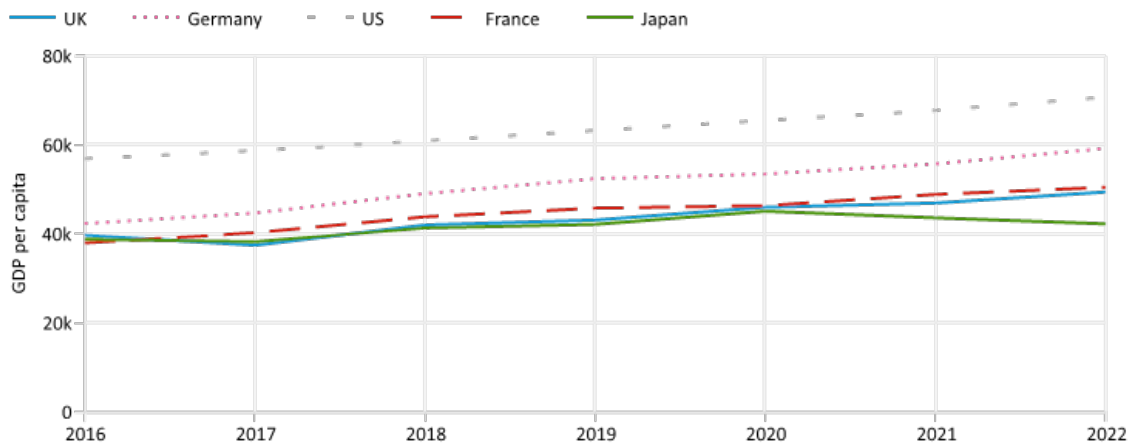
Rating History and Comparison



Source : Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Economic Sentiment Indicator



Source : National Statistical Offices / Haver Analytics



Economic Indicators

Indicator	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-4.3	-4.4	-3.4	-3.0	-2.6	-2.6	-2.8	-3.0
Govt balance, % GDP	-4.3	-3.0	-3.0	-3.0	-3.0	-2.7	-2.5	-2.4
Inflation, annual avge %	0.0	0.7	2.6	2.6	2.5	2.3	2.0	2.1
Real GDP Growth, %	2.2	1.8	1.6	1.3	1.6	1.7	1.8	2.0
Unemployment, %	5.3	4.8	4.3	4.4	4.5	4.3	4.1	4.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to the *Global Competitiveness Report 2017-18*, published by the World Economic Forum, the UK is the world's 8th most competitive economy (out of 137 countries surveyed). Compared with the 2016-17 edition, the ranking is down by one position. The UK scores particularly well in the technological readiness sub-index (4th), as well as in labour market efficiency (6th), market size and business sophistication (both 7th). Weaknesses are to be found in the fields of health and primary education (17th), higher education and training (20th) and - particularly - in the macroeconomic environment (68th, although this is up from 85th in the previous report). According to survey respondents, the biggest obstacles for doing business in the UK are tax regulations and, as a new entry compared with last year's report, political instability, followed by tax rates.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: OA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

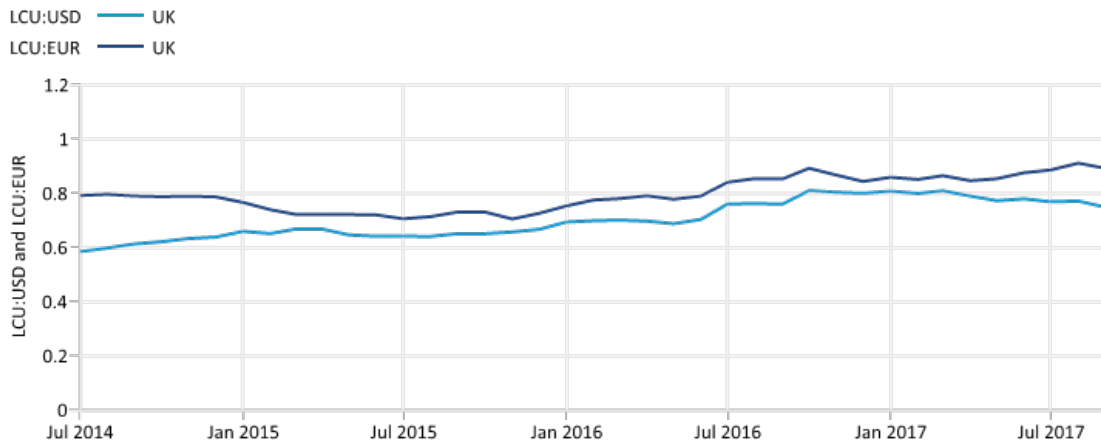
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



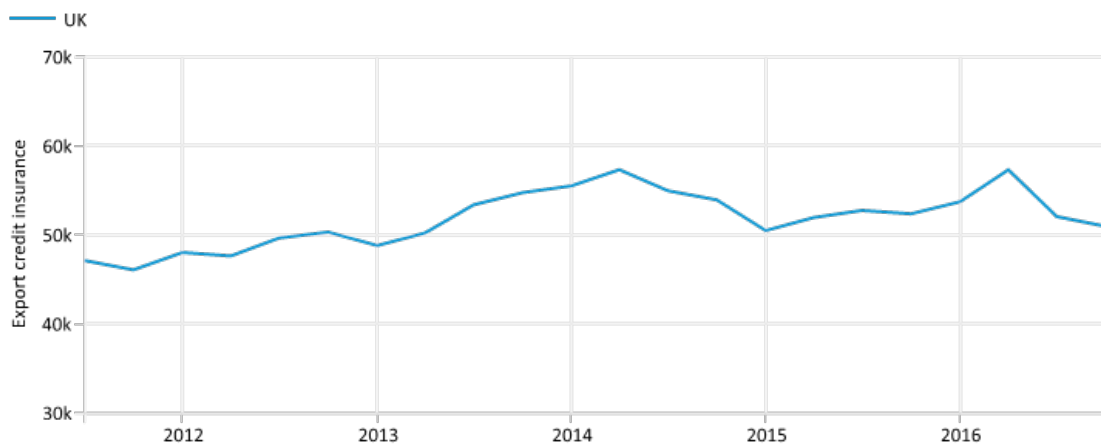
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = British pound

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

First interest rate rise since 2007

In a 7-2 decision, and in line with Dun & Bradstreet's expectations, the members of the Bank of England's Monetary Policy Committee decided to increase the key policy by 25 basis points to 0.5% on 2 November. Although this move only reverses a cut implemented by the Bank in the aftermath of the Brexit referendum last year, it is of importance for two reasons. Firstly, the increase is the first interest rate rise in the UK since 2007, with other central banks already having started to return to a more restrictive monetary policy (the US Federal Reserve) or about to embark on such a journey (the ECB). Secondly, unlike in the euro zone and in the US, where economic indicators look promising, rate setters in the UK faced a tough choice: real GDP growth has slowed since the start of 2017, but at the same time inflation has increased (to 3.0% in September, with the Bank expecting a further rise to 3.2% in October, significantly above the 2% target). While the interest rate rise will help to arrest inflationary pressures over the medium term, it will also create additional headwinds for the British economy.

As a baseline scenario, we expect two further interest rate rises over the next two years, bringing the key policy rate to 1.0% by the end of 2019. That said, the outcome of the Brexit talks will have a significant impact on monetary policy, as a failure to reach a deal with the EU would have an immensely negative effect on the economy, requiring additional monetary (and fiscal) stimulus. As we do not expect such a scenario to materialise, we have left our real GDP and inflation forecasts for 2018-22 unchanged for the time being. Dun & Bradstreet continues to predict that both inflation and real GDP growth will move towards 2% over the next five years.

Business Regulatory Environment

Good international competitiveness confirmed

Meanwhile, despite the political and macroeconomic problems originating from the Brexit vote, the UK's international competitiveness is still sound, as highlighted by the World Bank's recent *Doing Business 2018* report. The UK is ranked the world's 7th most competitive economy (out of 190 countries surveyed), defending its position from last year. Starting a business is straightforward, as are dealing with construction permits and resolving insolvencies (all ranked 14th). Positively, protecting minority investors (10th) and getting electricity (9th) are even less of a concern for businesses operating in the UK. That said, registering property is slightly more onerous in the UK, compared with the OECD average (the UK is ranked 47th in this sub index) and enforcing contracts is also a slight issue (31st). Regardless of the outcome of the Brexit negotiations, Dun & Bradstreet forecasts no change to the UK's generally outstanding business regulatory environment in the coming years.



COUNTRY PROFILE AND STATISTICS

Overview

The UK lies off the northwest of the European mainland and consists of four countries (England, Wales, Scotland and Northern Ireland, the last of which shares a separate island with the Republic of Ireland). As an EU member since 1973, the UK played an important role in shaping the institution, but remained reluctant to cede sovereignty in areas that it saw as strategic, even before the June 2016 Brexit vote.

Given its imperial past, the UK is a key actor in international politics, while cultural, historical and ideological links make it a natural ally of the US. The UK is a modern, well-established democracy. Two main parties (Conservative and Labour) dominate the political scene, with national parties from Scotland and Wales, as well as the Liberal Democrats and, until recently, the UK Independence Party, acting as secondary forces.

The economy, dominated by the services sector, is highly developed, liberalised and globally integrated. Financial services companies concentrated in London, one of the foremost global financial centres, have long been a strong driver of economic growth, helping the UK to outperform most other G7 economies in the ten years to 2007. However, the 2008 international financial crisis turned the reliance on banking and related services into a vulnerability, now emphasised by the looming British departure from the EU.

Key Facts

Key Fact	Detail
Head of government	Prime Minister Theresa MAY
Capital	London
Timezone	GMT
Official language	English
Population (millions)	65.8
GDP (USD billions)	2,618.9
GDP per capita (USD)	39,808
Life expectancy (years)	81.1
Literacy (% of adult pop.)	99.9
Surface area (sq km)	243,610

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017f
Real GDP growth (%)	1.9	3.1	2.2	1.8	1.6
Nominal GDP in USDbn	2,720	2,999	2,861	2,619	2,482
Nominal GDP in local currency (bn)	1,740	1,822	1,873	1,940	2,021
GDP per Capita in USD	42,071	46,125	43,750	39,808	37,510
Population (year-end, m)	64.6	65.0	65.4	65.8	66.2
Exchange rate (yr avge, USD-LCU)	0.6	0.6	0.7	0.7	0.8
Current Account in USDbn	-119.9	-139.7	-122.5	-115.5	-83.3
Current Account (% of GDP)	-4.4	-4.7	-4.3	-4.4	-3.4
FX reserves (year-end, USDbn)	92.4	95.7	119.0	123.5	128.4
Import Cover (months)	1.3	1.3	1.7	1.9	1.8
Inflation (annual avge, %)	2.6	1.5	0.0	0.7	2.6
Govt Balance (% GDP)	-5.6	-5.6	-4.3	-3.0	-3.0

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	1.3	1.6	1.7	1.8	2.0
Nominal GDP in USDbn	2,800	2,891	3,100	3,182	3,367
Nominal GDP in local currency (bn)	2,100	2,186	2,273	2,360	2,457
GDP per Capita in USD	42,057	43,179	46,042	46,999	49,481
Population (year-end, m)	66.6	67.0	67.3	67.7	68.1
Exchange rate (yr avge, USD-LCU)	0.8	0.8	0.7	0.7	0.7
Current Account in USDbn	-83.6	-73.9	-79.4	-88.0	-100.9
Current Account (% of GDP)	-3.0	-2.6	-2.6	-2.8	-3.0
FX reserves (year-end, USDbn)	133.6	136.2	139.0	141.8	144.6
Import Cover (months)	1.8	1.8	1.8	1.8	1.8
Inflation (annual avge, %)	2.6	2.5	2.3	2.0	2.1
Govt Balance (% GDP)	-3.0	-3.0	-2.7	-2.5	-2.4

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UK	Germany	US	France	Japan
Income per Capita (USD)	37,510	44,753	58,786	40,327	38,291
Country Population (m)	66.2	82.1	324.5	65.0	126.0
Internet users (% of population)	94.8	89.6	76.2	85.6	92.0
Real GDP Growth (% p.a., 2018 - 2027)	1.8 - 3.5	1.8 - 3.0	1.8 - 2.5	1.3 - 2.5	-0.5 - 1.2

Source : Various sources/Dun & Bradstreet



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