

Country Insight Snapshot United Kingdom

April 2018





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: Stable

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 Brexit is clouding the country's medium- to long-term outlook.
- Infrastructure for land transport is congested and unreliable by European standards.

KEY DEVELOPMENT

Dun & Bradstreet upgrades its rating outlook for the UK for the first time since the Brexit referendum in June 2016.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

G

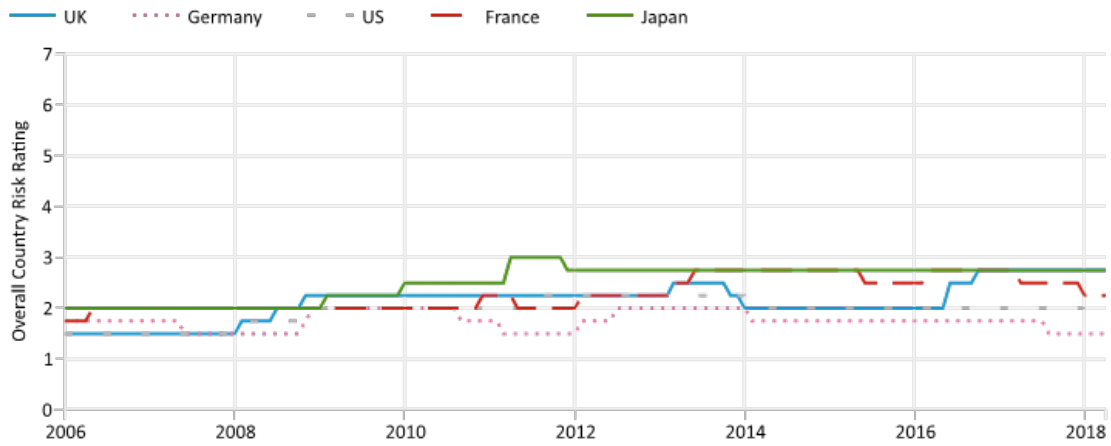
Trend: Deteriorating

Key Development has had a positive impact on the outlook.



KEY INDICATORS

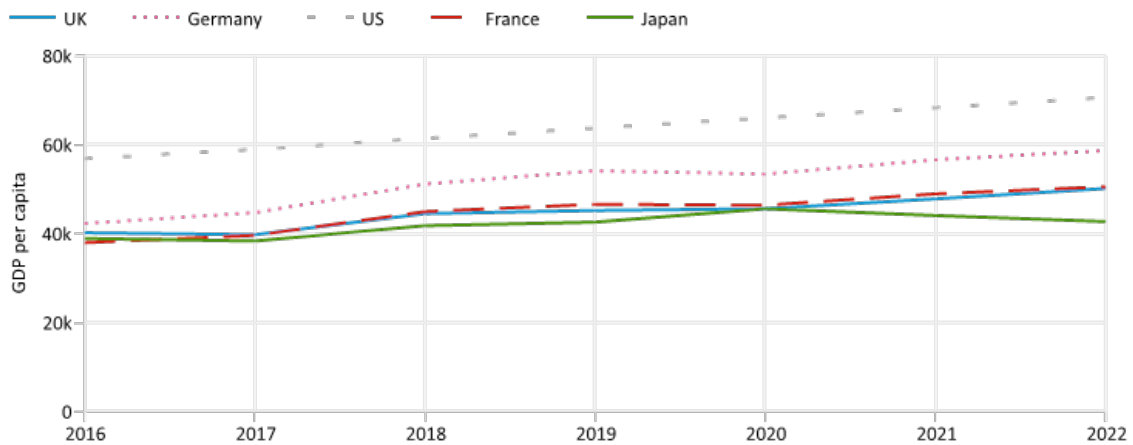
Rating History and Comparison



Source : Dun & Bradstreet

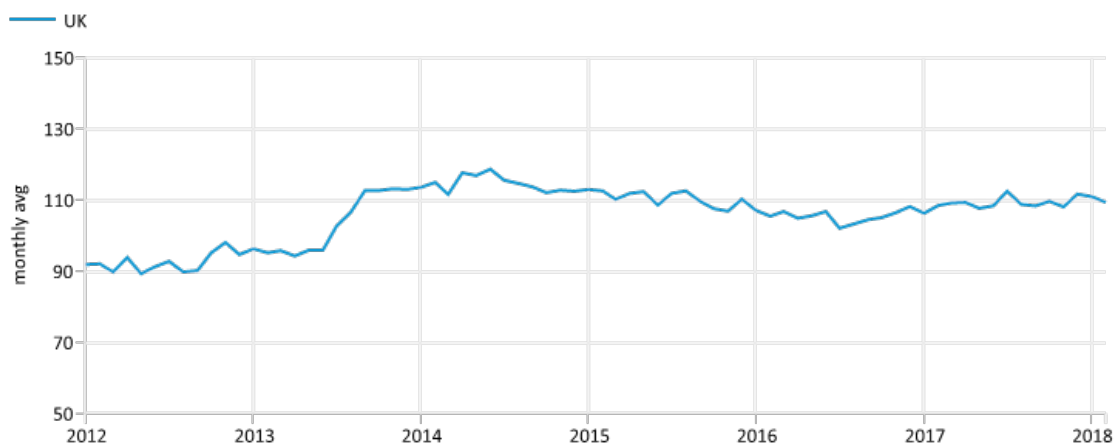
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Economic Sentiment Indicator



Source : National Statistical Offices / Haver Analytics



Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-5.2	-5.8	-4.5	-4.4	-3.9	-4.0	-4.1	-4.3
Govt balance, % GDP	-4.3	-3.0	-3.0	-3.2	-3.1	-2.9	-2.7	-2.6
Inflation, annual avge %	0.0	0.7	2.6	2.5	2.3	2.3	2.0	2.1
Real GDP Growth, %	2.3	1.9	1.8	1.5	1.6	1.6	1.7	1.8
Unemployment, %	5.3	4.8	4.4	4.4	4.5	4.3	4.1	4.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to the World Economic Forum's *Global Competitiveness Report 2017-18*, 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

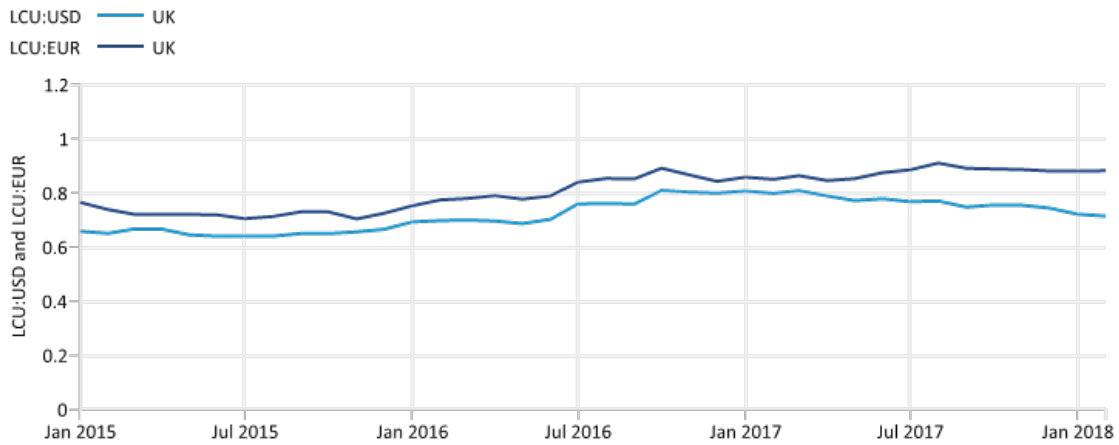
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



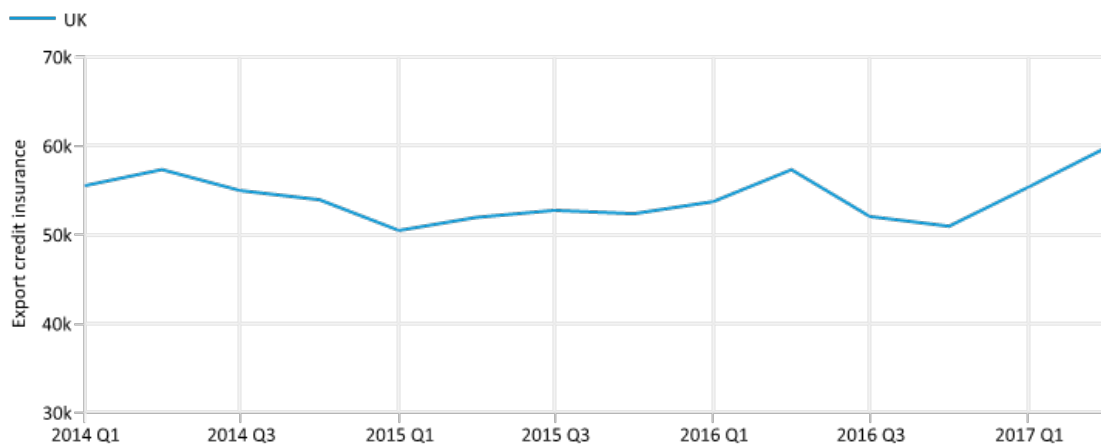
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = British pound

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; part of the increase going into 2017 is due to methodology changes.



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Rating outlook upgraded

Our rating outlook for the UK has been stuck on 'deteriorating' since the Brexit referendum in mid-2016, but this month Dun & Bradstreet has upgraded it to 'stable' after talks between the EU and the British government made some progress. This has reduced the level of short-term risk. At an EU summit in Brussels on 22-23 March, both sides reached general agreement on the start of a 21-month long transition phase following formal Brexit in March 2019. This means that EU laws will remain in force in the UK until December 2020, maintaining each party's access to each other's markets as well as guaranteeing the freedom of movement for employees.

However, several downside risks persist. Firstly, a solution for the Anglo-Irish border question still needs to be found. Secondly, the transition deal terminates at the end of 2020, leaving little time for negotiating the trade and investment partnership between the EU and the UK after the transition phase. As a baseline scenario, we still expect a free-trade agreement to come into force after the transition phase - but mutual access to markets will be more complicated than under the current regime.

Short-Term Economic Outlook

Inflationary pressures easing

Also positively, the latest figures from the Bank of England (the central bank) show that inflation has moderated somewhat since the start of the year. Having hovered at around 3.0% since September 2017, consumer prices increased by just 2.7% y/y in February. Although still significantly above the Bank's 2.0% inflation target, the recent drop shows that the sharp increase in import prices (caused by the weaker pound after the Brexit vote) is starting to be eliminated from the calculation. Worryingly, however, wages have started to pick up at a considerable pace (+2.6% y/y in the three months to January) and there is still pressure on the Bank to raise interest rates in order to prevent what economists are calling a 'wage-price spiral' (higher wages causing higher prices, in turn leading to higher wage growth in order to compensate employees for the inflation rise). Dun & Bradstreet still expects two interest rate rises in 2018, bringing the key policy rate to 0.75% at the end of the year. This will help to arrest additional inflationary pressures and we predict that consumer prices will rise by 2.5% this year before falling to 2.3% in 2019.

Meanwhile, forward-looking indicators continue to ease, pointing toward a more challenging macroeconomic environment in the year ahead. Eurostat's Industrial Confidence Indicator dropped to just 0.1 in March, only narrowly above the neutral 0-points line and the lowest reading since October 2016. Furthermore, consumers are still curtailing spending - also a consequence of the elevated inflation rate. Several insolvencies among retail chains and increasing problems for so-called 'casual dining' chains in recent weeks highlight the elevated levels of credit risk in some parts of the British economy.



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)	66.2
GDP (USD billions)	2,638.0
GDP per capita (USD)	39,859
Life expectancy (years)	81.3
Literacy (% of adult pop.)	99.9
Surface area (sq km)	243,610

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	2.1	3.1	2.3	1.9	1.8
Nominal GDP in USDbn	2,740	3,023	2,886	2,651	2,638
Nominal GDP in local currency (bn)	1,753	1,837	1,889	1,963	2,050
GDP per Capita in USD	42,385	46,494	44,124	40,293	39,859
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	-151.9	-161.2	-149.8	-154.9	-118.9
Current Account (% of GDP)	-5.5	-5.3	-5.2	-5.8	-4.5
FX reserves (year-end, USDbn)	106.7	112.5	137.5	123.5	137.9
Import Cover (months)	1.5	1.5	2.0	1.8	1.9
Inflation (annual avge, %)	2.6	1.5	0.0	0.7	2.6
Govt Balance (% GDP)	-5.4	-5.4	-4.3	-3.0	-3.0

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	1.5	1.6	1.6	1.7	1.8
Nominal GDP in USDbn	2,970	3,033	3,077	3,244	3,420
Nominal GDP in local currency (bn)	2,132	2,215	2,301	2,386	2,479
GDP per Capita in USD	44,612	45,301	45,696	47,923	50,250
Population (year-end, m)	66.6	67.0	67.3	67.7	68.1
Exchange rate (yr avge, USD-LCU)	0.7	0.7	0.7	0.7	0.7
Current Account in USDbn	-130.5	-117.1	-123.9	-133.8	-148.1
Current Account (% of GDP)	-4.4	-3.9	-4.0	-4.1	-4.3
FX reserves (year-end, USDbn)	143.4	146.3	149.2	152.2	155.3
Import Cover (months)	2.0	2.0	2.0	2.0	2.0
Inflation (annual avge, %)	2.5	2.3	2.3	2.0	2.1
Govt Balance (% GDP)	-3.2	-3.1	-2.9	-2.7	-2.6

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UK	Germany	US	France	Japan
Income per Capita (USD)	44,612	51,253	61,495	45,043	41,891
Country Population (m)	66.6	82.3	326.8	65.2	125.5
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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