

Country Insight Snapshot United Kingdom

April 2019





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.



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 from 'deteriorating' to 'stable' as Brexit is delayed by several months and labour market data remains robust.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



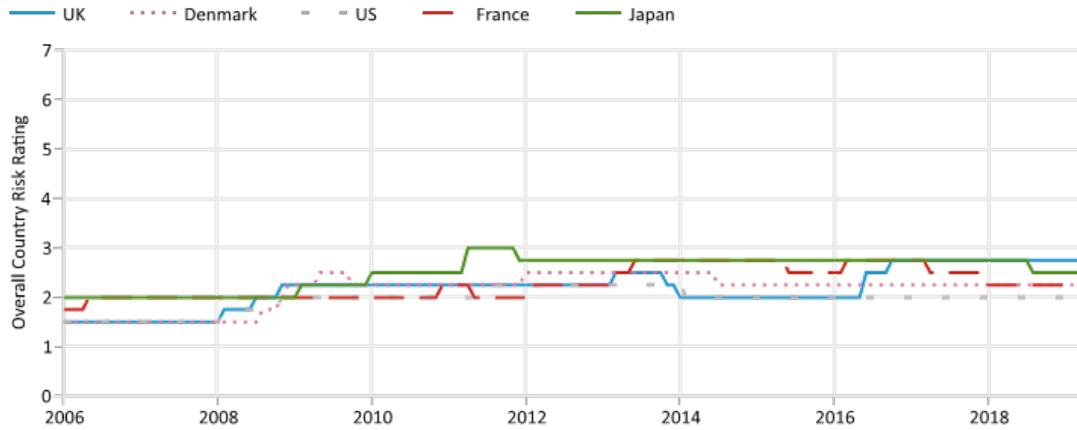
Trend: Stable

Key Development has had a positive impact on the outlook.



KEY INDICATORS

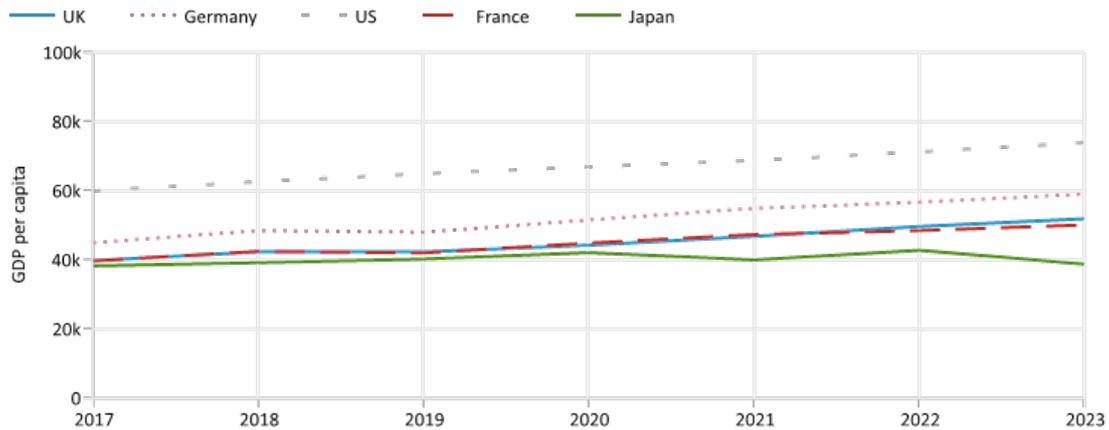
Rating History and Comparison



Sources: Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Sources: Haver Analytics/Dun & Bradstreet

Economic Sentiment Indicator



Sources: National Statistical Offices / Haver Analytics



Economic Indicators

| Indicator | 2016 | 2017 | 2018e | 2019f | 2020f | 2021f | 2022f | 2023f |
|--------------------------|------|------|-------|-------|-------|-------|-------|-------|
| C/A balance % GDP | -5.3 | -3.7 | -3.8 | -3.2 | -2.8 | -2.9 | -3.1 | -3.3 |
| Govt balance, % GDP | -2.9 | -1.9 | -1.8 | -2.0 | -2.4 | -2.7 | -2.6 | -2.6 |
| Inflation, annual avge % | 0.7 | 2.7 | 2.5 | 2.1 | 2.3 | 2.0 | 2.1 | 2.1 |
| Real GDP Growth, % | 1.8 | 1.8 | 1.4 | 1.4 | 1.6 | 1.7 | 1.8 | 1.8 |
| Unemployment, % | 4.8 | 4.3 | 4.0 | 4.4 | 4.5 | 4.6 | 4.5 | 4.5 |

Sources: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to the World Economic Forum's *Global Competitiveness Report 2018*, the UK is the world's 8th most competitive economy (out of 140 countries surveyed). Compared with the previous edition, the ranking is down by two positions. The UK scores particularly well in the macroeconomic stability sub-index (1st), as well as in institutions, market size, business dynamism and innovation capabilities (all 7th). Weaknesses are to be found in the fields of health (29th), ICT adaptation (28th), skills (13th) and product market (12th). Physical infrastructure is somewhat dated, with the quality of roads being ranked 26th, and the efficiency of rail services ranked 22nd. Air transport is judged to be more competitive (6th), while efficiency of seaport services is in 15th position.

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

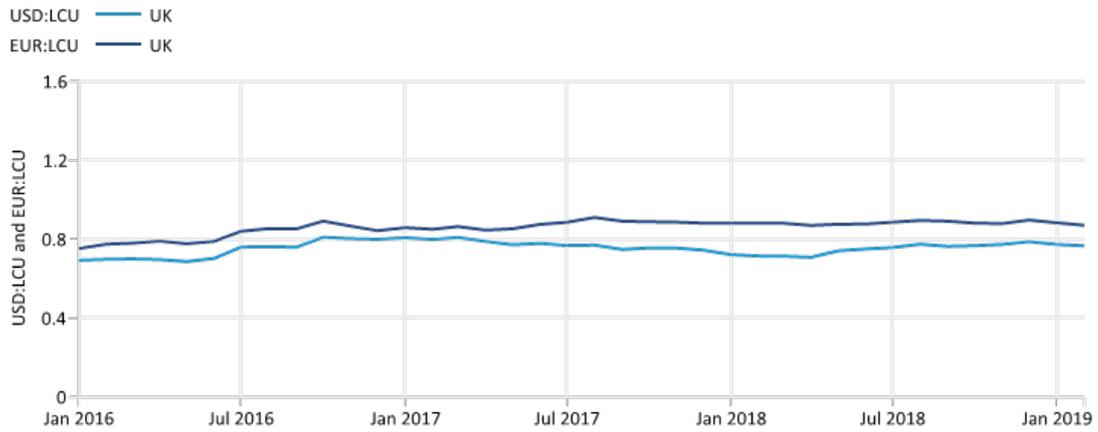
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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



Sources: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = British pound

Credit Conditions



Sources: Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Rating outlook upgraded

Dun & Bradstreet has upgraded the UK's rating outlook from 'deteriorating' to 'stable'. We have also upgraded the supply environment outlook in the same fashion, while assigning the political environment a 'stable' outlook (upgraded from its previously 'deteriorating rapidly' status). These decisions come on the back of a further postponement of the Brexit date (to October 2019) and the falling risk of a no-deal Brexit (which would have severe consequences for the British economy were it to occur). While no way out of the impasse has been found yet, talks between the government and the opposition are ongoing, and there is the small chance of the Labour Party supporting a softer form of Brexit than the one currently proposed by Prime Minister Theresa May's Conservative administration. Should these talks prove unsuccessful (the more probable scenario), a general election could be called or a second referendum could take place.

While it remains unclear if the UK will leave the EU in October 2019, it has become evident throughout Q1 2019 that the British parliament has little appetite for a no-deal Brexit - this significantly reduces the risks of doing business with the country. The next political milestones to watch out for are the upcoming elections to the European Parliament in late May which, in the UK, could serve as a proxy-referendum about Brexit. It is likely that the Conservatives and Labour will both suffer in the elections, losing voters to the Liberal Democrats and the recently founded Change UK Party (which both support remaining in the EU), as well as to UKIP and the new Brexit Party. We continue to recommend monitoring the political landscape closely as the frequency of events is high. As a baseline scenario, we still expect the UK to leave the EU on soft terms at a later stage in 2019, but such an outcome is by no means certain.

Short-Term Economic Outlook

Labour market data remains strong

While real GDP growth has suffered since the Brexit referendum, the UK labour market has shown no signs of contagion. Recent figures from the Office for National Statistics (ONS) shows that employment rose by a sizeable 179,000 (most of whom are women) in the three months to February 2019 (and by 457,000 y/y), bringing the overall level of employment to a record high 32.7m people. Unemployment has fallen by a further 27,000 and the number of economically inactive people fell by 114,000 to 8.5m; this represents a rate of just under 21% of the working age population, the joint lowest level on record.

The growing tightness of the domestic labour market is also having an impact on wages. According to ONS data, average weekly earnings (including bonuses) grew by 3.5% in the three months to February, the sharpest rise since mid-2008. As inflation has come down over the past months and is now below the central bank's 2.0% target, real wage growth is also substantial. While this is welcome news for households (which, on average, have seen their incomes stagnate since the global financial crisis more than a decade ago), it increases input costs for companies operating in the UK. As the country's minimum wage rose by almost 5% in April and the number of vacant positions is still rising, Dun & Bradstreet predicts wages to rise substantially over the coming quarters.



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) | 66.6 |
| GDP (USD billions) | 2,825.2 |
| GDP per capita (USD) | 42,437 |
| Life expectancy (years) | 81.5 |
| Literacy (% of adult pop.) | 99.9 |
| Surface area (sq km) | 243,610 |

Sources: Various sources/Dun & Bradstreet

Historical Data

| Metric | 2014 | 2015 | 2016 | 2017 | 2018e |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 2.9 | 2.3 | 1.8 | 1.8 | 1.4 |
| Nominal GDP in USDbn | 3,035 | 2,896 | 2,659 | 2,638 | 2,825 |
| Nominal GDP in local currency (bn) | 1,844 | 1,896 | 1,970 | 2,050 | 2,118 |
| GDP per Capita in USD | 46,677 | 44,290 | 40,421 | 39,858 | 42,437 |
| Population (year-end, m) | 65.0 | 65.4 | 65.8 | 66.2 | 66.6 |
| Exchange rate (yr avge, USD-LCU) | 0.6 | 0.7 | 0.7 | 0.8 | 0.7 |
| Current Account in USDbn | -149.4 | -142.2 | -140.3 | -98.4 | -106.4 |
| Current Account (% of GDP) | -4.9 | -4.9 | -5.3 | -3.7 | -3.8 |
| FX reserves (year-end, USDbn) | 112.5 | 137.5 | 123.5 | 137.9 | 159.9 |
| Import Cover (months) | 1.5 | 2.0 | 1.9 | 2.0 | 2.2 |
| Inflation (annual avge, %) | 1.5 | 0.0 | 0.7 | 2.7 | 2.5 |
| Govt Balance (% GDP) | -5.4 | -4.2 | -2.9 | -1.9 | -1.8 |

Sources: Haver Analytics/Dun & Bradstreet



Forecasts

| Metric | 2019f | 2020f | 2021f | 2022f | 2023f |
|------------------------------------|--------|--------|--------|--------|--------|
| Real GDP growth (%) | 1.4 | 1.6 | 1.7 | 1.8 | 1.8 |
| Nominal GDP in USDbn | 2,839 | 2,986 | 3,175 | 3,384 | 3,557 |
| Nominal GDP in local currency (bn) | 2,192 | 2,277 | 2,362 | 2,454 | 2,549 |
| GDP per Capita in USD | 42,406 | 44,343 | 46,899 | 49,729 | 52,003 |
| Population (year-end, m) | 67.0 | 67.3 | 67.7 | 68.1 | 68.4 |
| Exchange rate (yr avge, USD-LCU) | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 |
| Current Account in USDbn | -92.2 | -82.8 | -91.4 | -104.4 | -118.8 |
| Current Account (% of GDP) | -3.2 | -2.8 | -2.9 | -3.1 | -3.3 |
| FX reserves (year-end, USDbn) | 163.1 | 166.3 | 169.7 | 173.1 | 176.5 |
| Import Cover (months) | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Inflation (annual avge, %) | 2.1 | 2.3 | 2.0 | 2.1 | 2.1 |
| Govt Balance (% GDP) | -2.0 | -2.4 | -2.7 | -2.6 | -2.6 |

Sources: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

| Indicator | UK | Germany | US | France | Japan |
|---------------------------------------|-----------|-----------|-----------|-----------|------------|
| Income per Capita (USD) | 42,406 | 48,100 | 64,983 | 42,142 | 40,295 |
| Country Population (m) | 67.0 | 82.4 | 329.1 | 65.5 | 126.0 |
| Internet users (% of population) | 94.8 | 89.6 | 76.2 | 85.6 | 92.0 |
| Real GDP Growth (% p.a., 2019 - 2028) | 1.8 - 3.5 | 1.8 - 3.0 | 1.8 - 2.5 | 1.3 - 2.5 | -0.5 - 1.2 |

Sources: Various sources/Dun & Bradstreet



LINKS

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