dun&bradstreet

Country Insight Snapshot
United Kingdom

July 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.

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 Brexit is clouding the country's medium- to long-term outlook.

- Infrastructure for land transport is congested and unreliable by European standards.

KEY DEVELOPMENT

The risk of a no-deal Brexit in October is rising after Boris Johnson replaces Theresa May as prime minister.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

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.

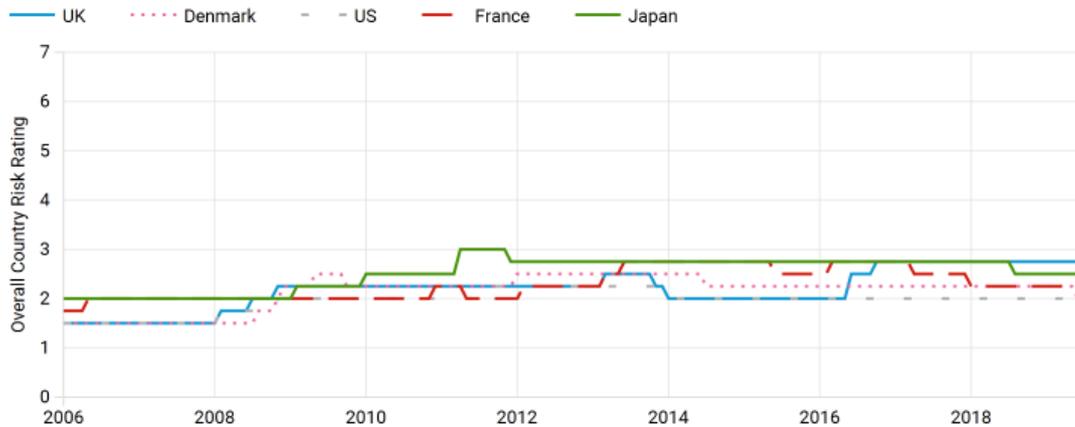## POLITICAL ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

Key Development has had a negative impact on the outlook.
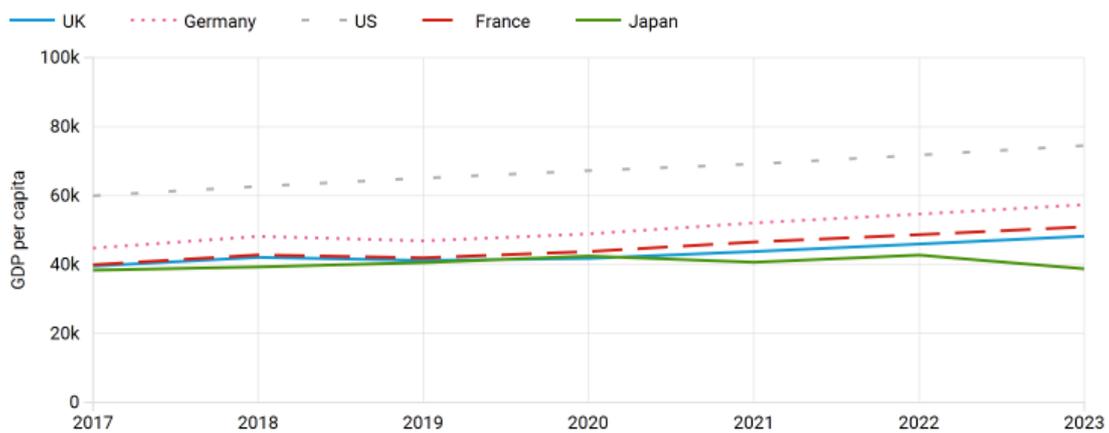
KEY INDICATORS

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	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-5.3	-3.3	-3.9	-2.7	-2.3	-2.5	-2.7	-3.0
Govt balance, % GDP	-2.9	-1.9	-1.5	-2.0	-2.4	-2.7	-2.6	-2.6
Inflation, annual avge %	0.7	2.7	2.5	2.1	2.1	2.0	2.1	2.1
Real GDP Growth, %	1.8	1.8	1.4	1.3	1.5	1.7	1.8	1.8
Unemployment, %	4.8	4.3	4.0	3.9	4.2	4.5	4.8	5.0

Source: 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
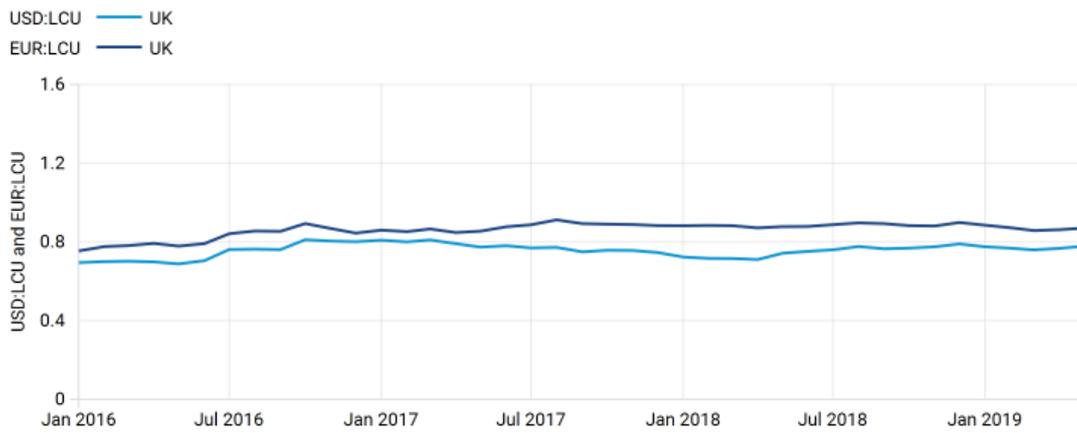
Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = British pound

Credit Conditions

Source: Export Credit Agencies

Insured export credit exposures, USDm

RISKS AND OPPORTUNITIES

Political/Insecurity Risk

New prime minister appointed

On 24 July, Boris Johnson succeeded Theresa May as British prime minister. Almost immediately, Johnson reshuffled the cabinet, filling senior positions with supporters of a tougher Brexit stance. While Johnson campaigned in the 2016 referendum for Britain to leave the EU (unlike May), and although he has re-iterated that Brexit will happen on 31 October, it remains to be seen how this will actually unfold over the coming weeks and months. The leadership change and the cabinet reshuffle have certainly increased the risk of a 'no-deal' Brexit (we have consequently downgraded the political environment outlook from 'stable' to 'deteriorating'), but Johnson is unlikely to command a parliamentary majority for such an attempt. Over the past quarters, parliament has repeatedly voted against a no-deal Brexit, and it seems more likely that Johnson would face a vote of no-confidence rather than be able to secure a majority for an unmanaged exit from the EU.

Should Johnson's attempt to re-negotiate May's Brexit deal with the EU be unsuccessful (which seems likely) and parliament stop a no-deal Brexit, early elections are the most realistic scenario. Unfortunately, polls are inconclusive, and it is possible that no party would secure an outright parliamentary majority, further exacerbating the already high degree of political uncertainty. For the time being we are maintaining our risk rating of DB2d, but we would downgrade it (and adjust our macroeconomic forecasts) were the likelihood of a no-deal Brexit to increase further: a no-deal departure would have significant adverse impacts in the British economy and would reduce the returns of doing business with the country, at least over the short to medium term.

Short-Term Economic Outlook

Retail sector continues to struggle

In addition to the unclear political situation, the economy continues to send conflicting messages. Worryingly, latest retail sector data points towards a challenging operating environment. According to the Confederation of British Industry, retail sales contracted in July, the third month of contraction, making this the longest decline since 2011. Our own data shows that the sector is one of seven (out of a total of 14) that is currently seeing a rise in the number of business failures.

The muted level of household demand is somewhat surprising, as labour market conditions remain sound. Employment stands at record high levels, unemployment is ultra low, and wage growth is solid. the latest figures from the Office for National Statistics show that wages expanded by 3.6% y/y in the three months to May, the fastest growth rate since 2008. When inflation is taken into account (currently it is around 2.0%), the growth rate was the fastest in three years. However, without a solution to the ongoing Brexit crisis, households are likely to remain cautious, especially when purchasing big ticket items (car registrations were down in 2017, 2018 and Jan-May 2019). Dun & Bradstreet expects real GDP to grow by 1.3% this year and 1.4% in 2020, assuming a no-deal Brexit is avoided. Should this not be the case, the UK would almost certainly enter a recession, as global demand is also switching into a lower gear.

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 Boris JOHNSON
Capital	London
Timezone	GMT
Official language	English
Population (millions)	67.1
GDP (USD billions)	2,825.4
GDP per capita (USD)	42,081
Life expectancy (years)	81.0
Literacy (% of adult pop.)	99.9
Surface area (sq km)	243,610

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018
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	46,386	43,978	40,110	39,533	42,081
Population (year-end, m)	65.4	65.9	66.3	66.7	67.1
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	-87.9	-108.8
Current Account (% of GDP)	-4.9	-4.9	-5.3	-3.3	-3.9
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)	-5.3	-4.2	-2.9	-1.9	-1.5

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.3	1.5	1.7	1.8	1.8
Nominal GDP in USDbn	2,780	2,836	2,985	3,146	3,315
Nominal GDP in local currency (bn)	2,190	2,269	2,352	2,444	2,540
GDP per Capita in USD	41,170	41,771	43,762	45,933	48,204
Population (year-end, m)	67.5	67.9	68.2	68.5	68.8
Exchange rate (yr avge, USD-LCU)	0.8	0.8	0.8	0.8	0.8
Current Account in USDbn	-75.1	-65.1	-73.2	-85.6	-99.5
Current Account (% of GDP)	-2.7	-2.3	-2.5	-2.7	-3.0
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	2.1	2.0	2.1	2.1
Govt Balance (% GDP)	-2.0	-2.4	-2.7	-2.6	-2.6

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UK	Germany	US	France	Japan
Income per Capita (USD)	41,170	46,864	65,057	41,937	40,545
Country Population (m)	67.5	83.5	329.1	65.1	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

Source: Various sources/Dun & Bradstreet

LINKS

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Please click here to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 (0)1628 492700
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet
Marlow International
Parkway
Marlow
Bucks SL7 1AJ
United Kingdom
Tel: 01628 492000
Fax: 01628 492929
Email: countryinsight@dnb.com

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