Country Insight Snapshot

United Kingdom

August 2021

Written 13 August 2021

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: Improving

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

KEY DEVELOPMENT

We are upgrading the overall country risk rating by one quartile to DB2d as the short-term economic outlook is bouncing back quickly from the pandemic-induced recession.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Improving

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

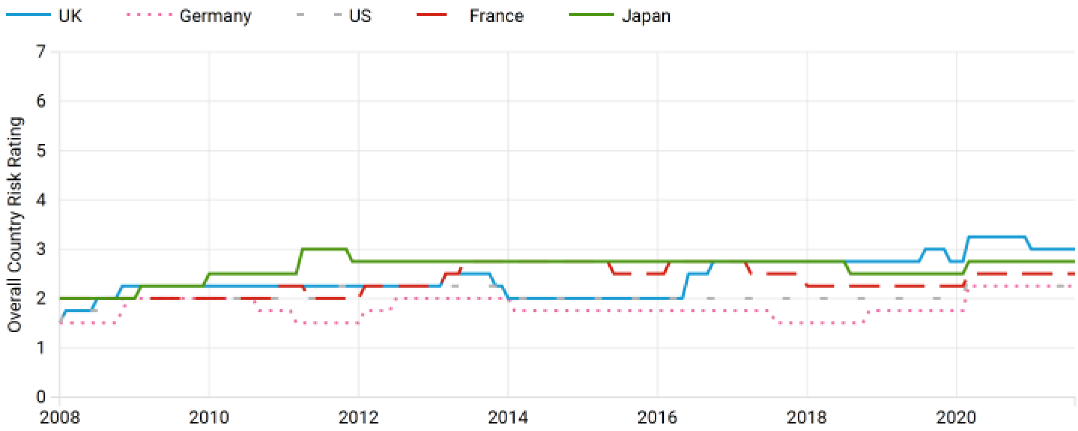
G

Trend: Stable

Key Development has had a positive impact on the outlook.

KEY INDICATORS

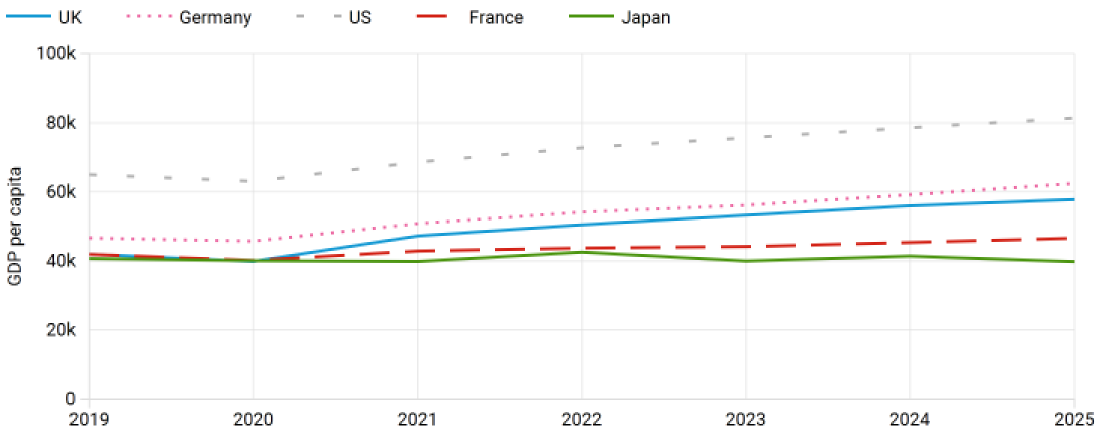
Rating History and Comparison



Source: Dun & Bradstreet

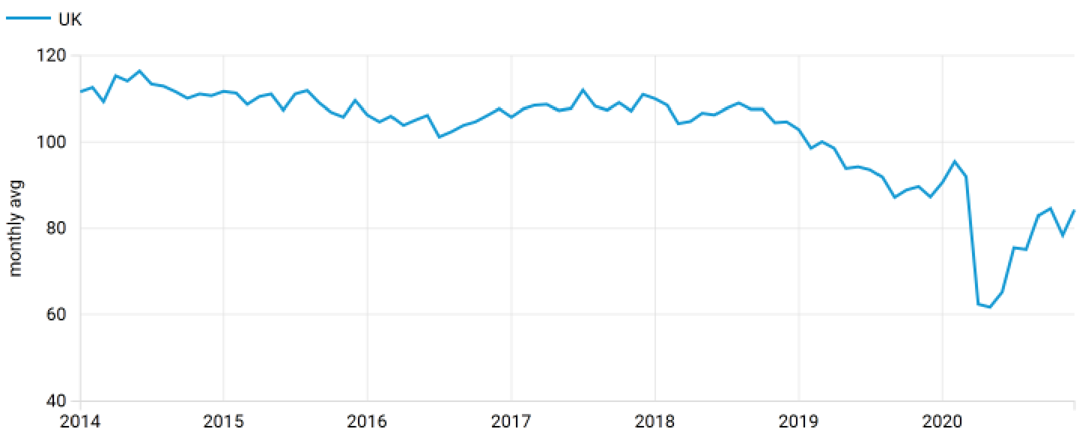
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Economic Sentiment Indicator



Source: National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2018	2019	2020	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	-3.7	-3.1	-3.5	-3.3	-3.4	-2.8	-2.6	-2.5
Govt balance, % GDP	-2.2	-2.3	-10.0	-8.1	-6.2	-3.4	-3.0	-3.4
Inflation, annual avge %	2.5	1.8	0.9	1.7	2.1	2.0	2.1	1.8
Real GDP Growth, %	1.3	1.4	-9.8	6.7	5.5	4.0	2.9	2.5
Unemployment (annual avge, %)	4.1	3.8	4.5	5.0	5.1	4.8	5.2	5.3

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Our proprietary B2B payments performance information shows a stagnation in the share of prompt payments in Q2. Overall, 41.2% of all bills had been settled on time in June 2021, largely unchanged from the 41.1% recorded at the end of March. That said, the March 2021 reading is significantly down from the March 2020 values (the last pre-pandemic value) when 47.2% of all bills had been settled in a timely manner.

A sectoral breakdown shows that agriculture and construction pay more than 50% of all bills on time, while the slowest payment patterns can be seen in materials processing (34.3%), government (28.9%) and machinery manufacturing (28.5%). While companies with less than five employees had paid 47.3% of their bills promptly in June 2021, this share drops to a low 11.3% for companies with more than 1000 workers. In a European comparison, the UK's performance is ranked mid-table: average payment delays stood at 14.4 days in Q1 2021, both for the EU and the UK.

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.

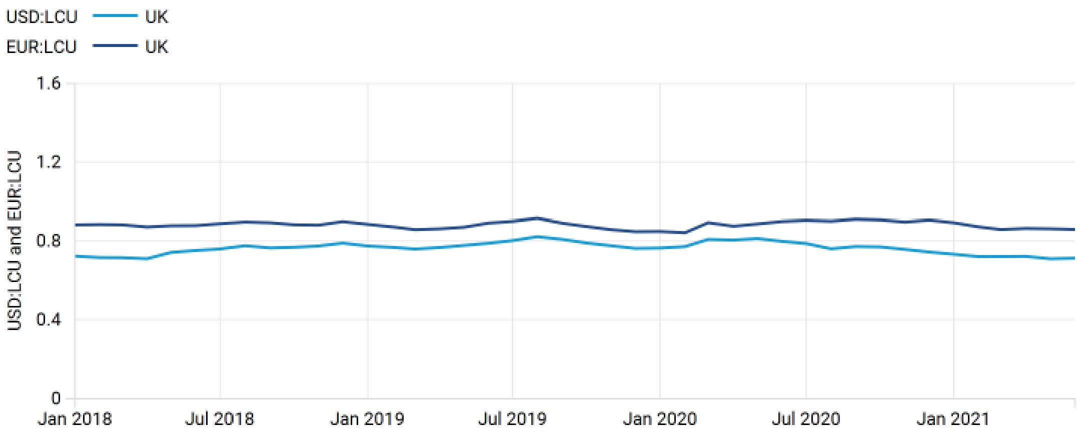
Local Delays: 0-1 month

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

FX/Bank Delays: No delays reported

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.

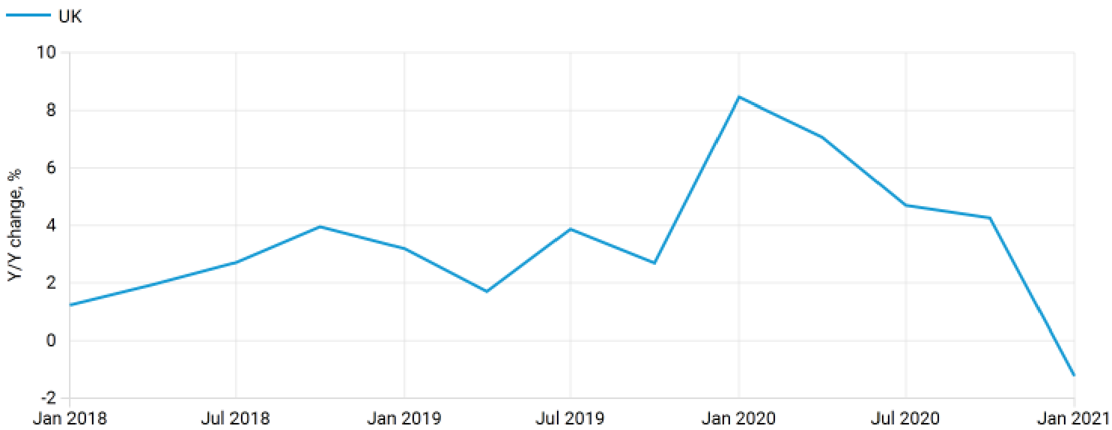
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = British pound

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics

RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Country risk rating upgraded to pre-pandemic reading

For the second time this year, we are upgrading the UK's risk rating as the country is bouncing back quickly from the pandemic-induced recession. This decision comes on the back of recently-published real GDP growth data from the Office for National Statistics. In the April-June period, the economy expanded by a high 4.8% q/q (and an even higher 22.2% in y/y terms). As the country came out of another lockdown in Q2, the sharp increase is no surprise (while the double digit y/y growth can also be explained by base effects). That said, the UK comfortably outperformed the neighbouring euro zone (+2.0% q/q in April-June) and the prospects for an ongoing recovery remain sound.

Consumer confidence, despite remaining in negative territory continues to improve. The -7 points recorded in July was the best reading since February 2020, the month before the Covid outbreak in the country. Order books in the British industry are filling up, and output levels in the sector have reached a multi-year high, according to *Monthly Industrial Trends Survey*, compiled by the Confederation of British Industry (CBI).

Meanwhile, the sizeable service sector, which accounts for roughly 80% of the country's GDP, is also increasingly upbeat about the outlook: the CBI *Service Sector Survey* from Q2 2021 shows that the 'optimism of the business situation' sub-index came in at 63 points, up from 23 points in Q1 and the highest reading since the launch of the index in 1998. At the same time, retailers and wholesale traders are also optimistic about the remainder of the year, indicating that the upturn seen in Q2 2021 is broad based and will last for the next quarters. Taking all these factors into account, we have also upgraded our real GDP growth forecast for 2021 to 6.7% (from previously 6.3%) while revising our unemployment forecast downwards slightly. We are also maintaining an 'improving' outlook, indicating that further upgrades to the risk rating are likely.

Business Continuity

Headwinds remain visible especially in the supply-chain sphere

Despite the risk rating and real GDP growth upgrade this month, several headwinds will weigh on the country's economic performance in 2021-22. In the supply-chain sphere, rising global shipping costs, knock-on effects of port closures in Asia, as well as a shortage of lorry drivers in the UK are all creating disruption. According to the British Road Haulage Association, the country lacks 100,000 heavy goods vehicle drivers, caused by Brexit (as some drivers have returned to their home countries in Central Europe), Covid self-isolation rules, as well as changes to self-employment rules. While some of the problems will be of a temporary nature, the unfavourable composition of the workforce in the sector (around half of all lorry drivers in the UK are older than 50 years) will pose challenges over the medium run as logistics companies are struggling to attract candidates.

Positively for companies trading between the UK and the EU, latest data shows a further normalisation in trade (after a turbulent start in early 2021, following the introduction of the post-Brexit trade regime). UK exports to the EU are now back to pre-pandemic values, indicating that companies have learned how to deal with the increased paperwork and red tape.

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 between 1973-2020, 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 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 Northern Ireland, Scotland and Wales, as well as the Liberal Democrats, 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 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)	67.9
GDP (USD billions)	2,707.7
GDP per capita (USD)	39,887
Life expectancy (years)	81.2
Literacy (% of adult pop.)	99.9
Surface area (sq km)	243,610

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	1.7	1.7	1.3	1.4	-9.8
Nominal GDP in USDbn	2,693	2,663	2,858	2,832	2,708
Nominal GDP in local currency (bn)	1,995	2,069	2,142	2,218	2,112
GDP per Capita in USD	40,623	39,902	42,559	41,932	39,887
Population (year-end, m)	66.3	66.7	67.1	67.5	67.9
Exchange rate (yr avge, USD-LCU)	0.7	0.8	0.7	0.8	0.8
Current Account in USDbn	-147.7	-100.4	-104.8	-87.5	-95.5
Current Account (% of GDP)	-5.5	-3.8	-3.7	-3.1	-3.5
FX reserves (year-end, USDbn)	123.5	137.9	159.9	158.4	161.2
Import Cover (months)	1.8	2.0	2.1	2.1	2.6
Inflation (annual avge, %)	0.7	2.7	2.5	1.8	0.9
Govt Balance (% GDP)	-3.3	-2.4	-2.2	-2.3	-10.0

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	6.7	5.5	4.0	2.9	2.5
Nominal GDP in USDbn	3,221	3,454	3,662	3,863	4,004
Nominal GDP in local currency (bn)	2,289	2,463	2,611	2,742	2,860
GDP per Capita in USD	47,227	50,432	53,250	55,975	57,794
Population (year-end, m)	68.2	68.5	68.8	69.0	69.3
Exchange rate (yr avge, USD-LCU)	0.7	0.7	0.7	0.7	0.7
Current Account in USDbn	-107.2	-118.9	-102.6	-101.8	-100.4
Current Account (% of GDP)	-3.3	-3.4	-2.8	-2.6	-2.5
FX reserves (year-end, USDbn)	164.4	167.7	171.1	174.5	178.0
Import Cover (months)	2.4	2.3	2.3	2.3	2.3
Inflation (annual avge, %)	1.7	2.1	2.0	2.1	1.8
Govt Balance (% GDP)	-8.1	-6.2	-3.4	-3.0	-3.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UK	Germany	US	France	Japan
Income per Capita (USD)	47,227	50,793	68,594	42,872	39,866
Country Population (m)	68.2	83.9	332.9	65.4	125.5
Internet users (% of population)	94.9	89.7	87.3	82.0	84.6
Real GDP Growth (% p.a., 2021 - 2030)	1.5 - 2.8	0.5 - 2.5	1.5 - 3.5	0.5 - 2.5	-0.8 - 1.3

Source: Various sources/Dun & Bradstreet

LINKS

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