

Country Insight Snapshot United Kingdom

March 2020





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: 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

Dun & Bradstreet downgrades its rating outlook for the United Kingdom from 'stable' to 'deteriorating' as the country is hit by the coronavirus outbreak.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



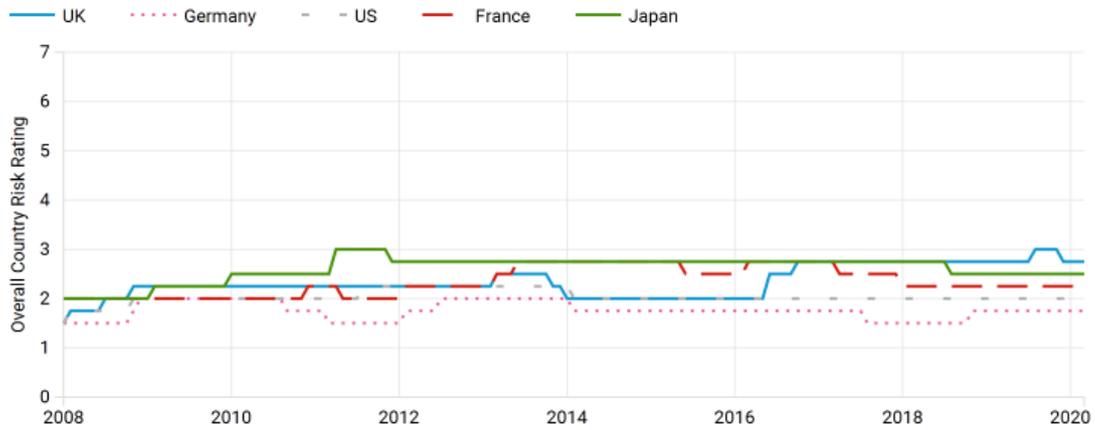
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

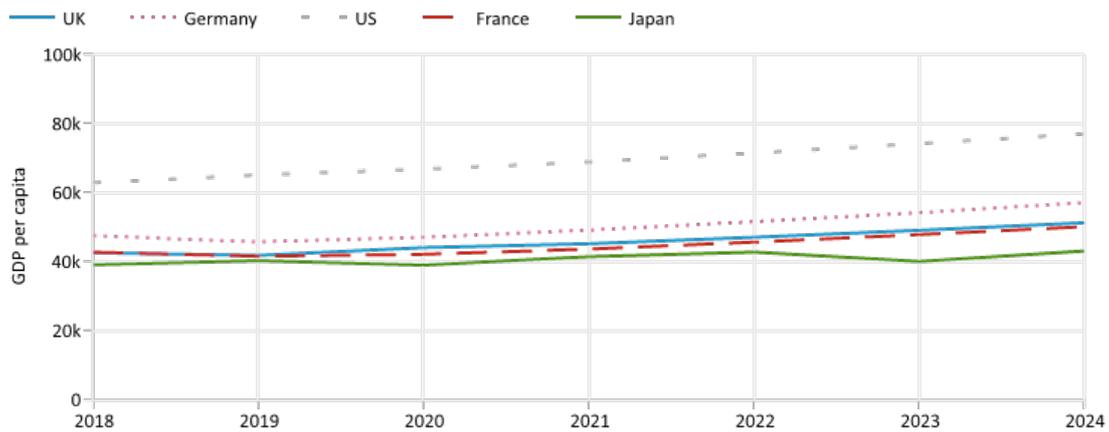
Rating History and Comparison



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	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-3.5	-3.9	-4.2	-4.4	-4.1	-4.4	-4.6	-4.9
Govt balance, % GDP	-2.4	-2.2	-2.0	-3.3	-3.0	-2.8	-2.9	-3.0
Inflation, annual avge %	2.7	2.5	1.9	1.5	2.0	2.1	2.1	2.1
Real GDP Growth, %	1.9	1.3	1.4	0.8	1.3	1.9	2.0	2.1
Unemployment, %	4.3	4.0	3.8	4.4	4.5	4.8	5.0	5.0

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

According to the World Economic Forum's *Global Competitiveness Report 2019*, the UK is the world's 9th most competitive economy (out of 141 countries surveyed). Compared with the report's previous edition, the ranking is down by one position. The UK scores particularly well in the macroeconomic stability sub-index (1st), as well as in the financial market sub-index (7th), market size (8th) and labour market (9th). Weaknesses are to be found in the fields of health (33rd), ICT adaptation (31st), product market (21st) and skills (11th). Physical infrastructure is somewhat dated, with the quality of roads being ranked 36th (down from 26th the year before), and the efficiency of rail services ranked 31st. Air transport connectivity is judged to be more competitive (6th), while efficiency of seaport services is in 21st 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

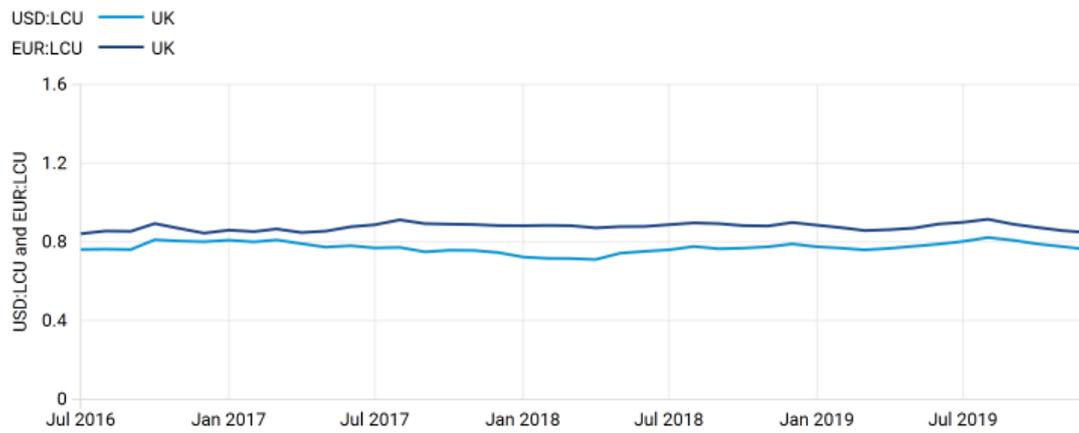
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 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

Business Continuity

Risk rating outlook downgraded to 'deteriorating'

Dun & Bradstreet has downgraded the UK's risk rating outlook from a previous 'stable' to now 'deteriorating' as the economy will be exposed to the coronavirus outbreak via several transmission channels, all increasing the risk of doing business with the country. At the same time, we are revising both our supply and credit environment outlooks from 'stable' to 'deteriorating'. It is of considerable concern that the virus outbreak is impacting more and more countries, including Italy where the government has put the entire country under lockdown. This, together with the quarantine measures in other parts of the globe, most notably in China and South Korea, will endanger supply chain integrity of UK-based companies over the coming weeks and months.

At the same time, the virus outbreak in China - and the increasing global contagion - has led to stock market corrections. In the UK, the FTSE100 index dropped by more than 13% in the month to 9 March, with commodity producers and tourism/airline companies being hit particularly hard. As several firms have issued profit warnings for 2020, investment activity - which had remained lacklustre over the past few years already - is likely to suffer, and thereby weigh on economic performance (see below).

Worryingly for the UK, supply chain integrity is not only endangered by the coronavirus outbreak, but also by the end of the Brexit transition period on 31 December 2020. Although free-trade talks between the UK and the EU have started this week, it is already obvious that finding a compromise between the entrenched negotiation positions will be very difficult, and all the more so because of the tight time frame. Even in a best case scenario - a tariff-and-quota-free trade regime between the two blocs - paperwork will increase, and costs will be higher than currently. In addition, market access for the service sector is unlikely to be covered in the initial FTA, which will cause problems for this sector that produces around 80% of the UK's GDP.

Short-Term Economic Outlook

Growth forecast downgraded

Although the impact of the coronavirus outbreak on the UK economy is currently smaller than in other countries (like China, South Korea and Italy), real GDP growth will inevitably be hit. Lower demand from key export markets, reduced tourism revenues, falling investment, as well as a drop in consumer and industrial confidence, will all create additional headwinds for the British economy - coming at a time when growth had already been weak: data for Q4 2019 showed a stagnation in q/q terms. As a consequence, Dun & Bradstreet is revising its real GDP growth forecast for 2020 downwards from 1.2% to now 0.8%, assuming that large-scale lockdown procedures (such as in China and Italy) will not become necessary.

Should the number of infected people rise more quickly than currently anticipated, further downward revisions - as well as a downgrade to the country's risk rating - would become necessary. Domestic monetary and fiscal policy would provide some additional support should the virus spread, but these measures are very unlikely to be sufficient to offset the negative spillover effects.



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 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)	67.5
GDP (USD billions)	2,827.1
GDP per capita (USD)	41,864
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	2015	2016	2017	2018	2019e
Real GDP growth (%)	2.4	1.9	1.9	1.3	1.4
Nominal GDP in USDbn	2,929	2,694	2,666	2,861	2,827
Nominal GDP in local currency (bn)	1,917	1,995	2,072	2,144	2,215
GDP per Capita in USD	44,467	40,639	39,958	42,609	41,864
Population (year-end, m)	65.9	66.3	66.7	67.1	67.5
Exchange rate (yr avge, USD-LCU)	0.7	0.7	0.8	0.7	0.8
Current Account in USDbn	-143.6	-141.8	-93.0	-110.2	-117.4
Current Account (% of GDP)	-4.9	-5.3	-3.5	-3.9	-4.2
FX reserves (year-end, USDbn)	137.5	123.5	137.9	159.9	158.4
Import Cover (months)	1.9	1.8	2.0	2.1	2.0
Inflation (annual avge, %)	0.0	0.7	2.7	2.5	1.9
Govt Balance (% GDP)	-4.6	-3.3	-2.4	-2.2	-2.0

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	0.8	1.3	1.9	2.0	2.1
Nominal GDP in USDbn	2,994	3,084	3,227	3,379	3,541
Nominal GDP in local currency (bn)	2,266	2,341	2,434	2,534	2,640
GDP per Capita in USD	44,105	45,217	47,108	49,133	51,297
Population (year-end, m)	67.9	68.2	68.5	68.8	69.0
Exchange rate (yr avge, USD-LCU)	0.8	0.8	0.8	0.8	0.7
Current Account in USDbn	-132.8	-127.2	-141.1	-156.4	-172.2
Current Account (% of GDP)	-4.4	-4.1	-4.4	-4.6	-4.9
FX reserves (year-end, USDbn)	161.5	164.8	168.1	171.4	174.9
Import Cover (months)	2.0	2.0	2.0	1.9	1.9
Inflation (annual avge, %)	1.5	2.0	2.1	2.1	2.1
Govt Balance (% GDP)	-3.3	-3.0	-2.8	-2.9	-3.0

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UK	Germany	US	France	Japan
Income per Capita (USD)	44,325	47,094	67,212	42,171	39,044
Country Population (m)	67.9	83.8	331.0	65.3	125.5
Internet users (% of population)	94.8	89.6	76.2	85.6	92.0
Real GDP Growth (% p.a., 2020 - 2029)	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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