Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
UNITED KINGDOM	Assigned Ratings/Outlook: **AA /negative**	Type: Monitoring, Unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	02-06-2017 01-03-2024 "Sovereign Ratings" "Rating Criteria and Definitions"

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Rating Action

Neuss, 01 March 2024

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "AA" for the United Kingdom. Creditreform Rating has also affirmed the UK's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "AA". The outlook remains negative.

Key Rating Drivers

1. Large and wealthy economy, featuring a diversified economic structure, flexible labor market, welcoming business environment and highly competitive financial services sector; we expect likely weak economic growth this year to pick up moderately next year amid the advancing disinflationary process and gradually improving financial conditions, with geopolitical tensions remaining a downside risk
2. Medium-term growth prospects are improving in light of expected monetary policy rate cuts from the middle of this year and amid progressing adaptation to the post-Brexit regime, notwithstanding remaining uncertainties around the latter; relatively high, albeit receding, household indebtedness could pose some constraints alongside comparatively low productivity growth
3. Very strong institutional quality and ongoing efforts to further enhance this, buttressed by highly credible and accountable institutions in charge of monetary policy and financial sector governance; domestic political volatility has ebbed recently, but policy predictability remains somewhat constrained given the upcoming general election; re-intensifying cooperation with the EU in our view facilitates a smoother adjustment to the post-Brexit era
4. While we expect the pronounced headline deficit to narrow over the medium term, uncertainty over the medium-term fiscal outlook has increased on the back of the challenging international environment and limited visibility regarding fiscal policy priorities after the upcoming parliamentary election, against the backdrop of the relatively high debt-to-GDP; despite some decrease, interest payments look set to remain elevated; sound debt management and a benign debt structure act as mitigating factors regarding fiscal risks
5. Continued current account deficits, also likely to persist over the medium term, underscore vulnerabilities to sudden reversals in capital flows; risks associated with the negative net international investment position (NIIP) remain somewhat mitigated by the currency composition and large stock of external assets

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

The sovereign's creditworthiness is backed by its strong macroeconomic profile, including the large size and wealth of its diversified economy, as well as a flexible labor market, and a highly competitive financial services sector. Whilst we forecast real GDP to leave recessionary territory this year and grow moderately in the near term, the medium-term growth outlook is brightening somewhat on the back of waning inflationary pressure, which should give way to an easing of monetary policy starting around the middle of this year. Adjustment to the post-Brexit regime has progressed and is additionally backed by a recently more cooperative stance between the EU and the UK, although some uncertainties remain. While the situation in the Red Sea adds to risks for the disinflationary process alongside persistent geopolitical tensions, potentially delaying an expected pick-up of the economic activity, we assume further adjustment to the challenging international environment over the medium term, also among the UK's key European trading partners. Pockets of vulnerability continue to relate to still comparatively high levels of private household indebtedness, despite recent improvements.

Provisionary estimates of the real GDP for Q4-23 suggest that the UK's economy was in a technical recession in the second half of last year, with q-o-q declines by 0.1% and 0.3% in Q3-23 and Q4-23, respectively. In 2023 as a whole, real GDP nearly stagnated, expanding by a meagre 0.1%, representing a significant slowdown in growth compared to 2022 (4.3%), weighed down by high inflation, as well as adverse effects from an aggressive monetary policy tightening cycle and geopolitical tensions. Moreover, businesses have to digest the increase in the corporate tax rate from 19% to 25% as of Apr-23.

Current sentiment indicators suggest that economic activity may have troughed, but we still expect some further unfolding of negative effects of the higher interest-rate environment on domestic demand in 2024. The flash Purchasing Manager Index (PMI) for the service sector in February was well in expansionary territory (54.3 points), remaining stable compared to January, when it reached the highest since May 2023. While the respective flash PMI for the manufacturing sector remained in contractionary territory, it saw an increase in February. That said, supply chain bottlenecks linked to attacks on ships in the Red Sea pose challenges and add to production costs at the current juncture.

Meanwhile, likely spurred by retreating inflation rates, consumer confidence as captured by the GfK's indicator climbed to its highest level in two years in January generally backing expectations for an uplift in private consumption during the course of the year. However, it dipped by two points in February. UK inflation as measured by the CPI stood at 4.0% in Jan-24, after peaking at 11.1% in Oct-22, dragged down largely by lower prices for electricity, gas and other fuels. The core rate remains higher, but has also edged down, posting at 5.1% in Jan-24.

Although wage dynamics seem to be abating, growth in average weekly earnings remains strong and is likely to support household expenditure, as real incomes are starting to rise. Net effects on domestic demand from recent fiscal policy measures are somewhat mixed. The freezing of the personal income tax thresholds is set to require a higher number of employees who receive a large pay rise to pay higher tax rates. A positive effect on household expenditure is likely to

[1] This rating update takes into account information available until 23 February 2024.

emanate from the reduction in the rates of National Insurance contributions for employees, which has come into effect from January, as well as for the self-employed, which will apply from April 2024. Adding to more favorable prospects for private consumption, the national living wage (for persons aged 21 and older) will be lifted by 9.8% from April 2024, the highest ever recorded increase.

The labor market remains tight overall. The unemployment rate has decreased in recent months, posting at 3.8% in the three months to December 2023 (aged 16 and over, s.a.). Hinting at persisting challenges to finding suitable staff, the number of vacancies remains relatively high, notwithstanding recent declines. The UK's labor market activity rate remains below its pre-pandemic level, posting at 78.1% (Oct-Dec 23), with evidence pointing towards a higher level of long-term sickness as one key factor behind this. In an attempt to address this specific issue, the government announced a package of measures in its Autumn Statement. Apart from health issues, Brexit has likely reduced labor supply in the lower-skilled sector to some extent, also affecting labor market participation metrics.

High financing costs and economic uncertainty look set to weigh on gross fixed capital formation over the coming months. However, given our expectation for cuts in the Bank rate from the middle of the year (see below), prospects for business and housing investment should gradually improve. Drawing on the latest Decision Maker Panel published in Feb-24, average expected annual capital expenditure over the next year is positive. The decision to make permanent the 100 per cent first-year capital allowance ("full expensing") on qualifying plant and machinery investment, i.e. beyond the initially foreseen period until 31-Mar-2026, adds to a more benign investment outlook beyond this year, underscored by the government's intentions to facilitate investment in critical infrastructure, enhancing energy security and accelerating the transition towards becoming a carbon neutral economy.

We do not expect significant growth contributions via net external trade this year, in light of the weakness in foreign demand, in particular with regard to main European trading partners. Risks linked to the war in Ukraine and the conflict in the Middle East are flanked by disruptions to shipping in the Red Sea, affecting global trade and entailing potential knock-on effects on commodity prices if tensions escalate or continue for a prolonged period.

On the whole, we forecast real GDP growth to increase only slightly to 0.3% in 2024 and to accelerate to 1.4% in 2025. Downward-trending inflation and the expected easing monetary policy stance beginning later this year should support a moderate recovery of domestic demand, despite some fiscal tightening implied by recent policy measures. We stress the possibility that the upcoming spring budget (6 March) may come with further measures to support domestic demand, thus potentially entailing some upside risks for our current view. Downside risks to these projections continue pertain to possible renewed spikes in commodity prices and a disruption in trade flows in light of the abovementioned geopolitical tensions.

In the recent past, the UK's goods exports accounted for a smaller proportion of worldwide goods exports than prior to the pandemic. Judging by IMF data on global goods exports, the UK's global market share edged down to 3.1% in 2022. On a more positive note, some of the Brexit-related uncertainty has diminished, as also underscored by the recent implementation report (Jun-23) on the EU-UK Trade and Cooperation Agreement (TCA). With the Windsor Framework (Feb-23) and the Memorandum of Understanding with the EU on regulatory cooperation in financial services (Jun-23), as well as the re-association of the UK with the EU Horizon and Copernicus programs from Jan-24, medium-term growth prospects appear somewhat more constructive in our view, notwithstanding remaining uncertainties over implementation details. As regards progress on the way to establishing free trade agreements with other jurisdictions, we note that the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed in Jul-23, and it is expected to enter into force in the second half of 2024. There were also setbacks, given that negotiations with Canada were suspended in Jan-24.

We think that medium-and-longer-term growth prospects may be backed to a limited extent by full expensing made permanent, as this could set some impulses to business investment, which in terms of GDP has been trailing that of European peers over the last decade. Efforts to address the higher level of labor market inactivity as compared to the pre-pandemic years are under way. In this context, it is also worth highlighting recent developments in net migration. According to the Migration Observatory, which draws on data from the Office for National Statistics (ONS), total net migration in the year to Jun-23 was markedly above pre-pandemic (2019) levels, mainly driven by non-EU migrants. International students and skilled workers - particularly in the health and care sector - were among main drivers, apart from non-EU migrants coming to the UK via humanitarian routes. The Office for Budget Responsibility (OBR, Nov-23) forecasts potential output to average 1.6% between 2024 and 2028, matching the average over the period 2010-2019, with the total factor productivity component growing in significance over time.

The UK's creditworthiness is generally buttressed by its exceptionally high innovative capacity, as reflected by its fourth ranking among 132 economies considered in the UN's Global Innovation Index 2023, in particular in the innovation pillars 'creative outputs' and 'market sophistication'. The most recent OECD Services Trade Restrictiveness Index attests the UK with having one of the lowest regulatory barriers to services trade (2023), underpinning its welcoming business environment. That said, the UK moved down by six places to rank 29 out of 64 participating economies in the IMD World Competitiveness Ranking 2023. In a bid to further shore up the economy's competitive stance, the government announced the introduction of a simplified and improved system for R&D tax relief from April 2024 with the Nov-23 Autumn Statement. Further to the aim to boost cutting-edge technology, investment in compute for AI is to be stepped up within the next two financial years.

Vulnerabilities related to UK household indebtedness have receded somewhat amid strong income growth recently, although household debt-to-disposable income readings continue to compare as high by European standard. The ratio has dropped below its pre-pandemic level as of Q3-23, standing at 126.0% (Q3-22: 135.7%).

Institutional Structure

We consider the UK's creditworthiness to be underpinned by its very strong institutional quality, including sound frameworks regarding monetary policy, fiscal policy and the financial sector. The strong governance framework is also broadly reflected in the recent set of the World Bank's Worldwide Governance Indicators (WGIs). Since our last review, domestic political volatility complicating policy predictability has ebbed further, and engagement with the EU appears more constructive following a phase of repeated controversy in the context of implementing the post-Brexit regime. The Windsor Framework, the intended enhanced regulatory cooperation, and the UK's regained access to scientific EU programs in our view also contribute positively to the institutional framework. With regard to the upcoming general election to be held by January 2025, current polls see the opposition Labour party *in the lead. The possibility of another Scottish referendum on independence seems a more remote tail risk at this stage.*

The WGIs, our preferred gauge when assessing a sovereign's institutional quality, generally reflect the UK's very strong institutional set-up. Referring to the base year 2022, the UK's relative ranks compare favorably against the EU average in all four dimensions on which we put particular emphasis, but by and large align with the respective medians of the sovereigns in our AA-rated universe.

Following a turbulent domestic political phase in 2022 featuring three prime ministers in quick succession, things have calmed from our perception, although there are some uncertainties regarding medium-term economic and fiscal priorities with a view to the upcoming parliamentary election. A date has not yet been set, and while the election will have to be held by Jan-25, a date later this year seems to become more likely. Judging by current polls, the Labour Party remains the frontrunner, with a sizeable lead over the ruling Conservatives. Long-standing challenges around the National Health Service (NHS) are likely to remain an important issue both for the incumbent and the main opposition party, and climate policies may feature prominently as well.

We continue to view the UK as a stronghold in terms of effective regimes on anti-money laundering (AML) and countering the financing of terrorism (CFT). The introduction of a regulatory regime for crypto assets, as well as commitment to strengthening existing legislation to facilitate the prosecution of economic crimes from our perception underscore the UK's forward-looking approach. The crypto asset regime is part of the Financial Services and Markets Act 2023 (FSMA), adopted by parliament in Jun-23, which also revokes retained EU law and substitutes it with domestic regulations in a bid to strengthen the UK's position as an international financial services hub after Brexit. More generally, we note that with the coming into force of the Retained EU Law (Revocation and Reform) Act on 1 January 2024, a substantial number of retained EU laws have been revoked and UK courts are to be conferred with new powers.

On the subject of climate protection policies and greening the economy, the UK remains committed to its net zero goal in terms of greenhouse gas emissions by 2050. Regarding the use of renewable energy sources, the UK exhibits room to catch up compared to the EU level, with 14.0% of the UK's overall gross final energy consumption stemming from renewable energy sources in 2022 (EU: 23.0%, Eurostat data). That said, the share has more than tripled since 2012. There has been progress regarding the production of power from the offshore windfarm 'Dogger bank', although the sector seems to remain subject to headwinds, partly related to supply-chain issues.

Fiscal Sustainability

Our assessment of the UK's creditworthiness considers risks to fiscal sustainability related to the relatively high level of government debt, which we expect to remain well above its pre-pandemic level in the upcoming two fiscal years (FY), edging somewhat higher. The uncertainty over the medium-term fiscal outlook has increased in light of the challenging geopolitical environment and the upcoming parliamentary election, notwithstanding commitment to medium-term fiscal consolidation. Risks are mitigated by the authorities' sound debt management, the sterling's status as reserve currency and a favorable maturity profile. Whilst the banking sector appears sound, the debt-servicing capacity of the private sector remains to be monitored in light of high interest rates, despite cuts in the Bank rate *looming on the horizon. In addition, the possibility of sizeable asset price corrections, as well as adverse developments in the large non-bank financial sector, represent vulnerabilities.*

Partly due to energy support measures, the UK continued to display a relatively high general government deficit compared to our AA-rated peers (Maastricht terms), albeit declining somewhat to -5.4% of GDP in the fiscal year 2022/2023 (FY 22/23; calendar year 2022: -4.7% of GDP). Although a large share of the relief efforts has been wound down, the deficit will likely remain significant in FY 23/24, as welfare spending increased. However, public sector net borrowing was on course to come in below latest forecasts by the (OBR, Nov-23). According to provisionary ONS data, it amounted to GBP 96.9bn in the first ten months of FY 23/24, GBP 3.1bn less than in the same period of the previous year and standing 8.7% below the OBR forecast. The revenue side was driven by higher tax receipts, and, to a lesser extent, by social contributions. Interest payments and subsidies came in lower than in the first ten months of FY 22/23, while benefits and cost-of-living payments increased. On the central government level, expenditure exceeded respective revenue.

Amid signs of a more favorable outcome of public finances than previously envisaged for the outgoing fiscal year, the government had announced some relief to employees and the self-employed, as well as for businesses, with the Autumn Statement in Nov-23, including cuts to the National Insurance Contribution rate. We still think that the general government deficit will narrow on the back of a moderate economic acceleration in the near term. After an expected fiscal deficit of roughly 4.6% of GDP in FY 23/24, we project the deficit to shrink to 4.5% of GDP in FY 24/25 and 3.8% of GDP in FY 25/26 (Maastricht terms), acknowledging that uncertainty around these estimates remains high.

Unpredictable events related to the wars in Ukraine and the Middle East, as well as disruptions in trade flows linked to Houthi attacks in the Red Sea, add to this. Moreover, we recall that previous decisions including the freezing of personal income tax thresholds would still imply a tightening fiscal stance over the next few years, as also outlined by the OBR as of Nov-23. While we do not expect this picture to change fundamentally, visibility over any decisions announced with the upcoming spring budget and which may entail some further short-term relief for households and businesses in view of the approaching election, is very limited at this stage. A conceivable change in government following the election accentuates uncertainty around the currently envisaged path of spending constraints in the medium term. Generally, cost pressure associated with the NHS will continue to represent a burden, which is likely to be exacerbated by less favorable demographic developments further out.

As of Q3-23, the United Kingdom's debt-to-GDP ratio stood at 100.0% of GDP. Taking into account the developments described above, including decreasing nominal GDP growth on the back of fading inflationary pressure, we forecast general government debt to increase to 100.8% of GDP in FY 23/24, 102.7% of GDP in FY 24/25 and 103.6% of GDP in FY 25/26 (Maastricht terms).

Despite the aggressive hiking cycle regarding the Bank rate and high interest costs related to index-linked gilts, interest payments seem to be lower than in the previous fiscal year (FY 22/23), but stand at a relatively high 8.8% set against revenue over the four quarters to Q3-23 (Maastricht terms), the second highest when compared with respective ratios of the EU members.

Although experiencing a period of decline in the interim, on 23 February 2024 the yield on 10-year gilts and the spread with bunds were both higher y-o-y, standing at 4.0% and 168bp, respectively (weekly data). For the fourth consecutive time, the BoE's Monetary Policy Committee decided to leave the Bank rate unchanged at 5.25% at its January monetary policy meeting. The vote to maintain the Bank rate was 6:3, with two members favoring a 0.25 p.p. increase, and one member opting for a 0.25 p.p. reduction. We now expect a first cut in the Bank rate to take place this June, with an overall reduction by 75bp by the end of the year.

Judging by metrics capturing capitalization and asset quality, the UK's large banking sector is in a sound condition. The CET1-ratio stood at 15.9% in Q3-23 (BoE data), which is in line with the average degree of capitalization in the EU (EBA data). Asset quality improved y-o-y, as underscored by a non-performing loan ratio amounting to 0.76% in Q2-23 (IMF data). With the purpose of preserving banks' shock-absorbing capacity without e.g. restricting credit supply to the economy, the FPC decided to keep the countercyclical capital buffer rate at 2%.

Having increased after the onset of the Corona crisis, the number of monthly company insolvencies recently appeared to fluctuate around a higher level than prior to the pandemic, although still well below their long-term average. We will continue to monitor related developments, given that businesses will face higher pressure from tight financial conditions for some time, before relief from a turning monetary policy cycle kicks in. Similarly, we will pay attention to the debt-servicing capacity and the condition of the household sector balance sheet. Contingent liabilities appear moderate, amounting to 1.8% of GDP in FY 22/23 (ONS data).

Risks around the housing market will have to be monitored, but may be about to abate somewhat. House price dynamics have reversed: According to the HM Land Treasury's UK house price index for all types of property, house prices fell by 2.1% in November 2023 (November 2022: +8.1% y-o-y). Lending dynamics to the private sector have slowed. Mortgage approvals for house purchases were well below the pre-pandemic reading in Dec-23, and residential property transactions valued at GBP 40,000 or above declined by 20.2% y-o-y (s.a.) in Q4-23. House price valuations appear less stretched than during our last review, as reflected, for example, in the OECD price-to-income ratio, which nevertheless continues to hint at price misalignments.

While there remain vulnerabilities to financial market shocks given the significance of the UK's financial sector, including the increasing relevance of fintech and risks around cyber-criminality, risks to fiscal sustainability are mitigated by the long average maturity of debt, the sterling's status as a reserve currency and the considerable institutional investor base.

Foreign Exposure

We assess external risks, in particular related to the country's role as an important financial hub and persistent current account deficits, as manageable. External debt is mainly GBP-denominated, which combined with exchange rate flexibility, mitigates risks to some extent. While agreed closer cooperation with the EU on regulatory frameworks in the financial sector constitutes a constructive step, there remains uncertainty around more robust frameworks for services trade, also with regard to free trade agreements with other jurisdictions, notwithstanding further progress. The current account deficit has narrowed amid retreating energy prices, and we expect deficits of a broadly similar magnitude to persist in the medium term.

Since our last review, the current account deficit has narrowed to -2.0% of GDP (cumulative over the four quarters to Q3-23), from -3.1% of GDP in 2022, on the back of lower energy prices which caused the deficit in goods shrink to -6.7% of GDP as of Q3-23. By contrast, the surplus in services has remained relatively stable (Q3-23: 6.0% of GDP).

The UK remains a net international debtor, with its NIIP having slipped further into negative territory according to recent data, standing at -26.5% of GDP in Q3-23 (2022: -14.3% of GDP). We expect the current account balance to continue to display a deficit position over the medium term, of a similar order of magnitude than on average since the middle of last decade (~3.5% of GDP), and thus consider it as unlikely to contribute to an improving NIIP.

Rating Outlook and Sensitivity

Our rating outlook on the United Kingdom remains negative. This reflects in particular elevated uncertainty over fiscal consolidation in the medium term, given still subdued economic growth prospects amid geopolitical risks, impaired visibility over policy priorities after the election and elevated interest outlays.

We could consider downgrading the sovereign's credit ratings if fiscal metrics deteriorate significantly, including marked increases in the debt-to-GDP ratio from its relatively high level and waning confidence over a prospective stabilization or reversal. Downward pressure on the credit ratings could arise if economic activity remains in or near recessionary territory for a more protracted period, rendering fiscal consolidation considerably more challenging, possibly flanked by shifting policy priorities. Although appearing less likely at this stage, backtracking on agreements reached with the EU on post-Brexit regimes might add to downward pressure on the rating.

Conversely, we could consider an upgrade of the rating or outlook if the economy grows more strongly than we expect at the current juncture, translating into a more favorable fiscal outlook. A sustained reduction in the debt-to-GDP ratio or strong confidence therein, could also warrant a positive rating action. Tangible signs for improved productivity levels and/or for increasing potential growth, possibly on the back of marked increases in labor supply, would add to upward pressure on the outlook or the rating.

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Ratings*

Long-term sovereign rating	AA /negative
Foreign currency senior unsecured long-term debt	AA /negative
Local currency senior unsecured long-term debt	AA /negative

*) Unsolicited

ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box

Environmental Quality	Ecological Risks	Ressource Management	Education	Health	Demographic
Labor	Equality	Technology & Infrastructure	Safety & Security	Judicial system	Quality of Public Services
Integrity of Public Officials	Quality and Efficacy of Regulations	Civil Liberties/ Political Participation	Market Access	Business Environment	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the assessment of an economy's competitive stance by e.g. the World Bank, the World Economic Forum, the European Commission, IMD Business School and the World Intellectual Property Organization (UN) add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof. What is more, risks pertaining to social cohesion with a view to the Irish border and the Scottish independence movement touch upon the social dimension in our ESG framework as well. This is reflected, among other things, by the WGI "Political Stability", and would ultimately affect institutional performance. Therefore, the ESG factor 'Safety and Security' is of importance.

While Covid-19 may exert adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2018	2019	2020	2021	2022	2023e	2024e
Macroeconomic Performance							
Real GDP growth	1.4	1.6	-10.4	8.7	4.3	0.1	0.3
GDP per capita (PPP, USD)	47,918	49,292	44,239	49,591	54,284	56,836	58,227
Credit to the private sector/GDP	86.7	85.9	94.3	90.0	85.5	n/a	n/a
Unemployment rate	4.2	3.9	4.7	4.6	3.9	4.0	n/a
Unit labor costs (index 2019=100)	97.3	100.0	105.5	106.4	112.3	n/a	n/a
World Competitiveness Ranking (rank)	20	23	19	18	23	29	n/a
Life expectancy at birth (years)	81.3	81.4	80.4	80.7	n/a	n/a	n/a
Institutional Structure							
WGI Rule of Law (score)	1.6	1.6	1.5	1.4	1.4	n/a	n/a
WGI Control of Corruption (score)	1.8	1.7	1.7	1.6	1.6	n/a	n/a
WGI Voice and Accountability (score)	1.4	1.3	1.2	1.3	1.2	n/a	n/a
WGI Government Effectiveness (score)	1.4	1.4	1.3	1.2	1.2	n/a	n/a
CPI inflation rate, y-o-y change	2.5	1.8	0.9	2.6	9.1	7.3	2.6
GHG emissions (tons of CO2 equivalent p.c.)	7.0	6.7	6.0	6.3	n/a	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP*	-1.9	-2.9	-15.3	-5.9	-5.4	-4.6	-4.5
General government gross debt/GDP*	84.8	84.6	107.6	101.0	99.4	100.8	102.7
Interest/revenue	6.5	5.7	5.1	6.9	10.3	n/a	n/a
Debt/revenue	223.5	223.1	269.8	259.7	238.7	n/a	n/a
Average maturity all gilts (years)	15.8	15.9	15.3	15.1	15.1	n/a	n/a
Foreign exposure							
Current account balance/GDP	-3.9	-2.7	-2.9	-0.5	-3.1	n/a	n/a
International reserves/imports	25.6	25.0	28.7	29.2	21.7	n/a	n/a
NIIP/GDP	-2.5	-11.0	-9.3	-14.0	-14.3	n/a	n/a
External debt/GDP	299.9	289.7	335.6	317.8	290.7	n/a	n/a

Sources: IMF, World Bank, BIS, IMD, ONS, DMO, own estimates

*) Maastricht terms, fiscal years, i.e. calendar year 2017 ⇔ FY 17/18, etc.

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	02.06.2017	AA /stable
Monitoring	30.03.2018	AA /stable
Monitoring	29.03.2019	AA /stable
Monitoring	27.03.2020	AA /negative
Monitoring	25.09.2020	AA /negative
Monitoring	19.03.2021	AA /negative
Monitoring	18.03.2022	AA /stable
Monitoring	03.03.2023	AA /negative
Monitoring	01.03.2024	AA /negative

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. HM Treasury participated in the credit rating process as it commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of HM Treasury during their review. However, the rating outcome as well as the related outlook remained unchanged.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models, and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, World Intellectual Property Organization (WIPO), IMD Business School, Bank of England, HM Treasury, Debt Management Office, Office for Budget Responsibility (OBR), Office for National Statistics (ONS), UK Government – Department of International Trade, National Institute of Economic and Social Research (NIESR).

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision."

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website.

No ancillary services in the regulatory sense were carried out for this rating object. Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses ancillary services provided for the rated entity or any related third party, if any, in its rating reports. For the complete list of provided rating and credit service ancillaries please refer to https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html#non-core-busi-ness-activities.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

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An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

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