

United Kingdom

Rating report

Rating rationale

Reserve-currency status, deep capital markets, strong institutions and an independent monetary policy: Despite heightened volatility in gilt markets in 2022, the UK continues to benefit significantly from its access to deep domestic capital markets, the City of London as one of the world’s leading financial centres, and sterling’s status as a reserve currency. Furthermore, the UK benefits from robust financial, economic and monetary governance frameworks – including an independent monetary policy. This strong institutional support allows for swift reactions to crises, recently in September 2022 during an episode of market turmoil involving pension funds.

Robust structure of sovereign debt: The government’s debt portfolio has an exceptionally-long average debt maturity of 14.5 years, with the Bank of England furthermore still holding nearly one third of outstanding gilts.

Large, wealthy and diversified economy: The UK economy proved broadly resilient to the Covid-19 economic crisis, with output having reached pre-pandemic levels by late 2021. While the economic outlook has since weakened materially, comparatively high wealth and a very-diversified economic base remain significant factors underscoring economic resilience. GDP growth was just 0.1% last year and we expect it to stay tepid around 0.5% in 2024 before 1.4% in 2025 as higher interest rates for longer affect private consumption and investment.

Rating challenges include: i) the country’s elevated level of public debt and a challenging fiscal and economic outlook; ii) a weak external position with persistent current-account deficits and foreseen long-run weakening of sterling as a reserve currency; and iii) the prolonged uncertainties surrounding execution of the post-Brexit UK-EU trading arrangement.

Figure 1: The United Kingdom’s sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	aaa	GBP	United Kingdom	2/3	AA
Public finance risk	20%	bb-			0	
External economic risk	10%	b			-1/3	
Financial stability risk	10%	aaa			2/3	
ESG risk	Environmental factors	5%	[+1]	[-0]	0	
	Social factors	7.5%			0	
	Governance factors	12.5%	aaa		0	
Sovereign Quantitative Model			aa-		+1	
Additional considerations					0	

*The reserve-currency quantitative adjustment applies to currencies in the IMF’s Special Drawing Rights (SDR) basket. **The political-risk quantitative adjustment is based on the World Bank’s Political Stability & Absence of Violence/Terrorism index. ***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope’s [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

AA/Stable

Senior unsecured debt

AA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

AA/Stable

Senior unsecured debt

AA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Lead Analyst

Dennis Shen
+ 49 30 2218239-48
m.mustermann@scoperatings.com

Team Leader

Alvise Lennkh-Yunus
+49 69 6677389-85
a.lennkh@scoperatings.com

Credit strengths and challenges

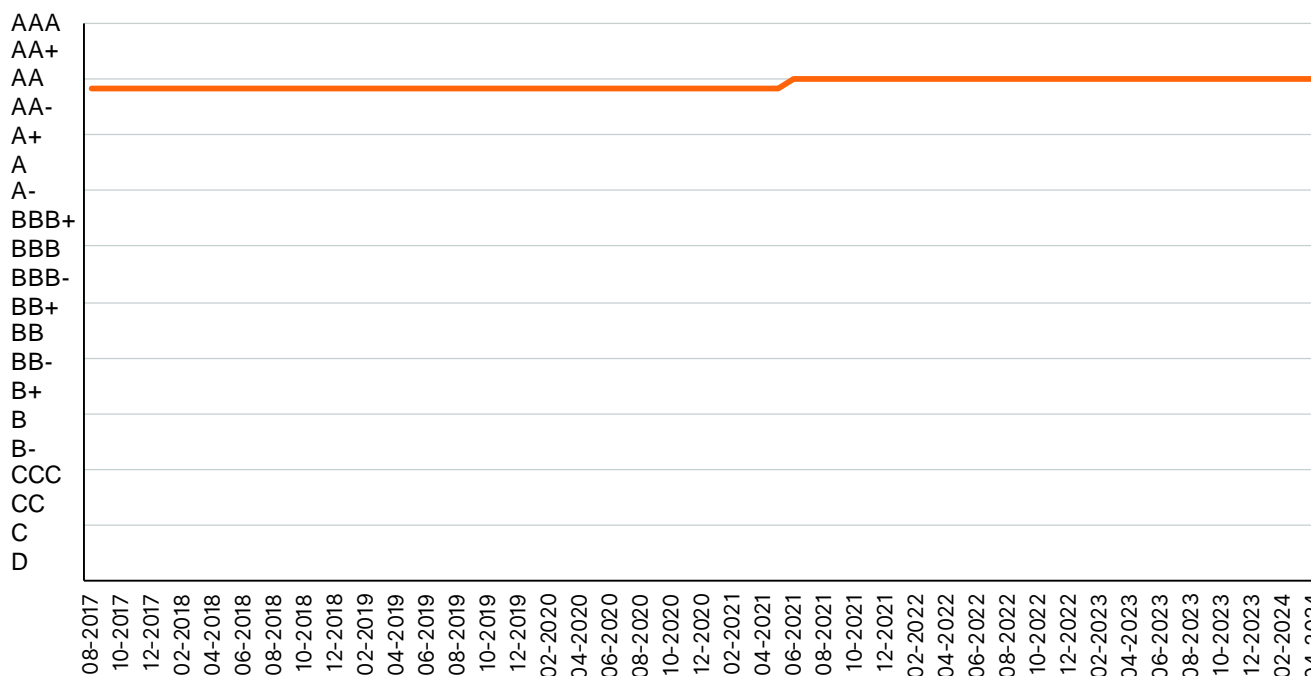
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Reserve-currency status, deep capital markets and an independent monetary policy Strong institutional framework Robust structure of the sovereign debt Large, wealthy and well-diversified economy 	<ul style="list-style-type: none"> Elevated public debt and a challenging fiscal and economic outlook Weak external position and recurrent current-account deficits Prolonged uncertainties surrounding the post-Brexit UK-EU trading relationship

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Significant improvement of the fiscal outlook including a stabilisation of the public-debt ratio through the cycle Significant reduction of external-sector vulnerabilities 	<ul style="list-style-type: none"> Challenges to the UK’s status as a global safe haven and/or visible attenuation of sterling’s status as a reserve currency Protracted fiscal deterioration resulting in weakened debt sustainability Medium-run growth outlook weakening significantly

Figure 2: Rating history¹



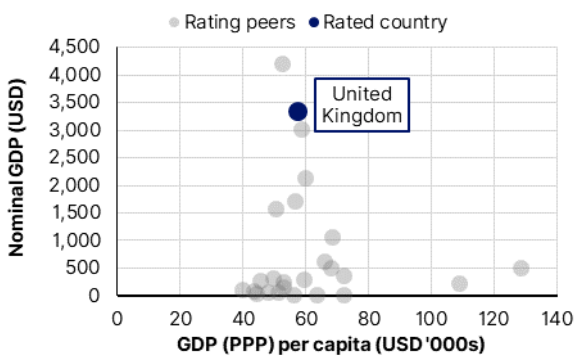
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of the United Kingdom's Domestic Economic Risk

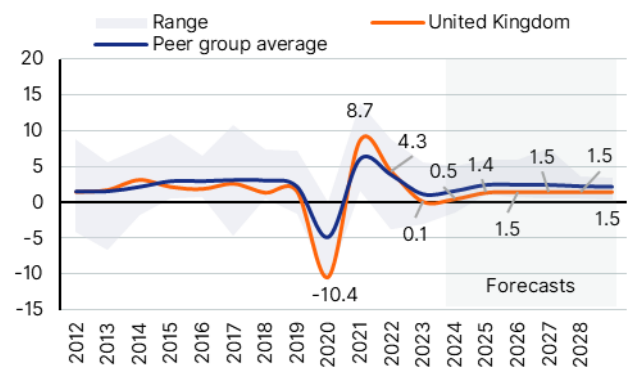
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Growth potential and outlook	Neutral	0	Moderate growth potential compared against that of sovereign peers
	Monetary policy framework	Strong	+1/3	One of the world's leading central banks; an independent monetary policy
	Macroeconomic stability and sustainability	Strong	+1/3	Diversified economy and flexible labour market; strong institutional framework has supported quick recoveries from recent crises

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



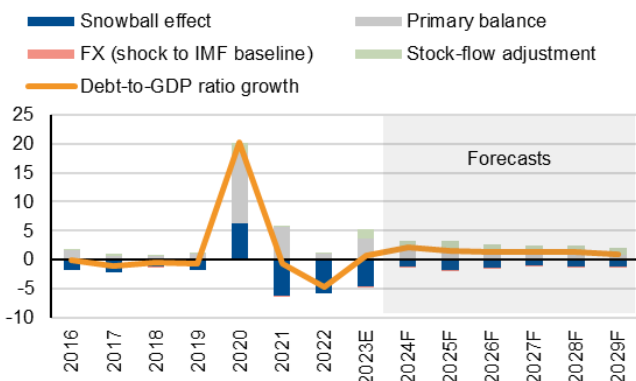
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of the United Kingdom's Public Finance Risk

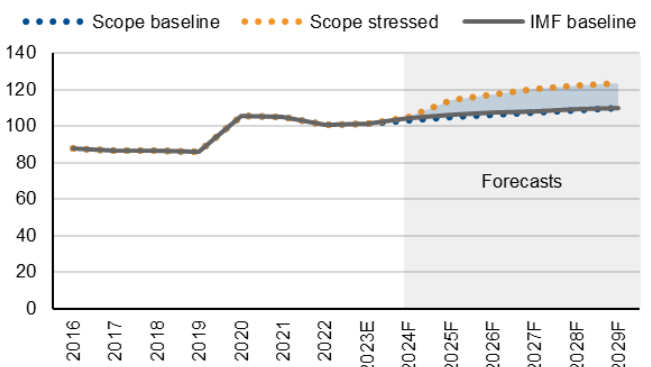
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Fiscal policy framework	Weak	-1/3	Revised fiscal framework could weaken future fiscal discipline; rolling targets over a five-year horizon and low hurdles to amendments of the framework
	Long-term debt trajectory	Neutral	0	Debt ratio expected to gradually rise, but still in line with levels of most sovereign peers
	Debt profile and market access	Strong	+1/3	Excellent government market access, very-long average debt maturity, significant government debt held by the central bank, but high share of index-linked debt and rising interest payments

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

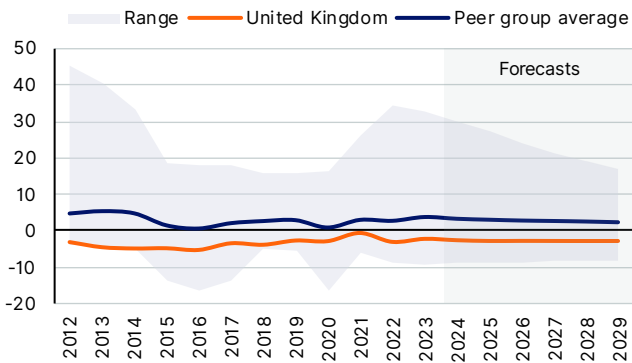
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of the United Kingdom's External Economic Risk

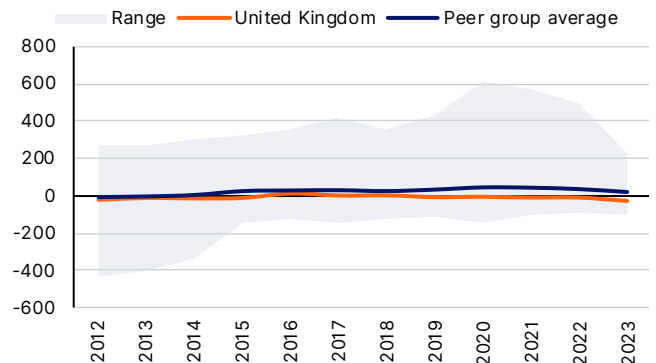
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Current account resilience	Neutral	0	Expectation of persistent current-account deficits
	External debt structure	Weak	-1/3	Elevated external debt, with high foreign-currency composition
	Resilience to short-term external shocks	Neutral	0	Sterling as a reserve currency protects against external shocks; track record of effective institutional responses to economic crises

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



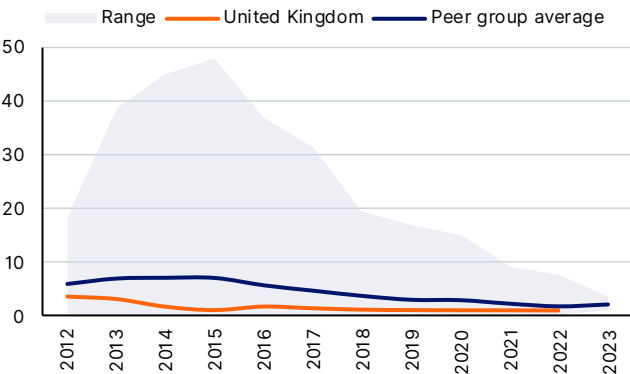
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of the United Kingdom's Financial Stability Risk

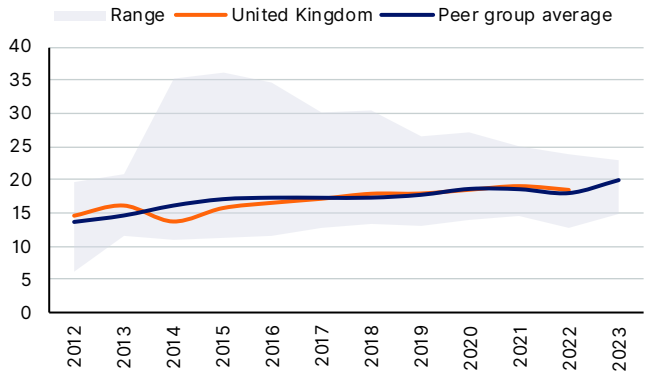
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Strong	+1/3	Banking-system capitalisation remains sound, low NPLs, good profitability
	Financial sector oversight and governance	Strong	+1/3	Sophisticated financial-regulatory system and strong macro-prudential governance framework
	Financial imbalances	Neutral	0	Elevated private-debt levels, high asset valuations and sharp rise in the cost of borrowing

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



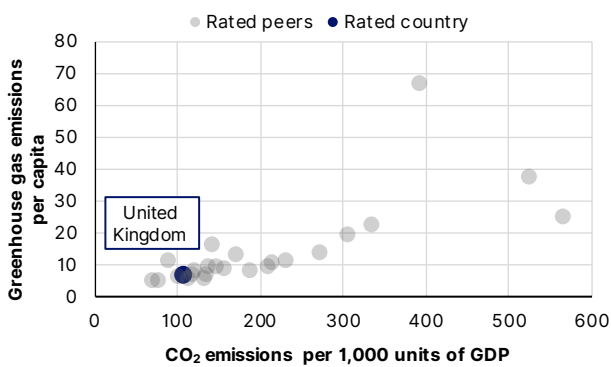
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of the United Kingdom's ESG Risk

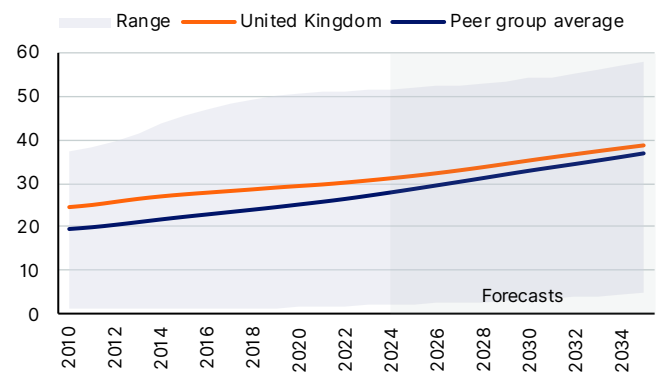
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Environmental factors	Neutral	0	Ambitious commitment to carbon neutrality by 2050; low carbon intensity compared with economies of sovereign peers; weakening of environmental protections since Brexit
	Social factors	Neutral	0	Substantial social safety nets; challenges include high income inequality, elevated poverty rates compared against in economies of sovereign peers and the risk of social exclusion
	Governance factors	Neutral	0	Resilient institutional framework, but ongoing Brexit-related challenges

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

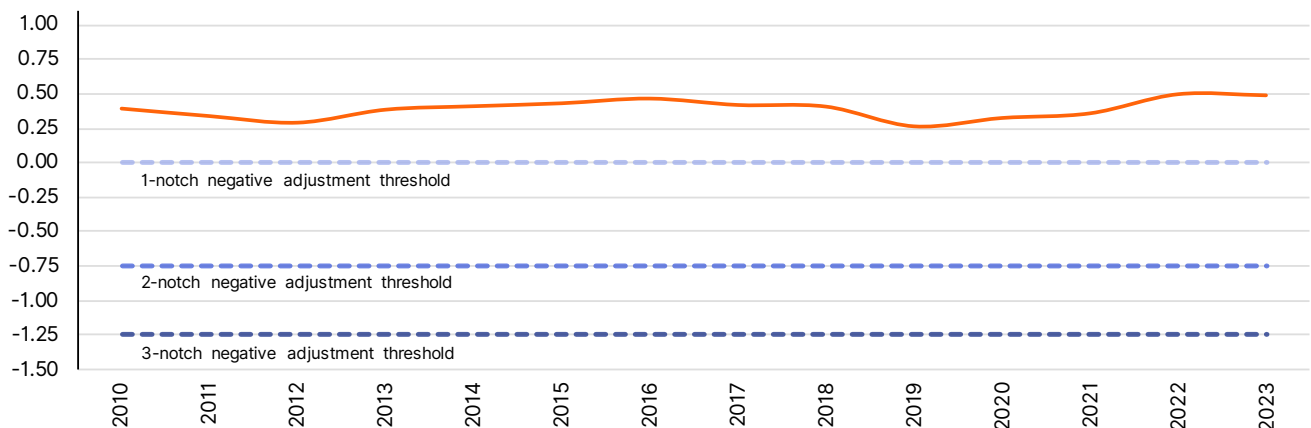
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, United Kingdom, 3-year moving average



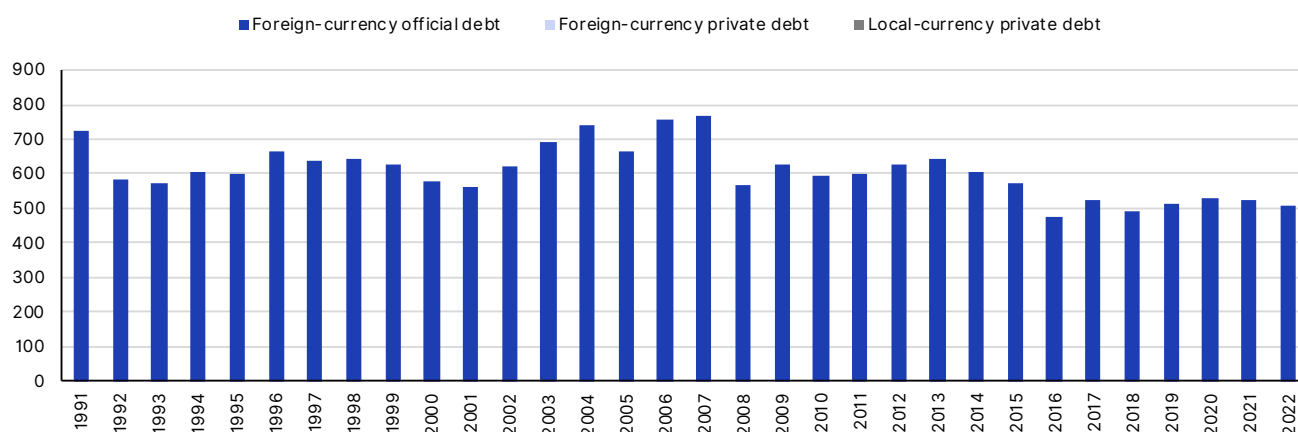
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*	
Austria	France
Belgium	Japan
Croatia	Lithuania
Cyprus	Malta
Czech Republic	Portugal
Estonia	Slovenia
Finland	Spain

*Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 24 April 2024	27.2

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	47.7	49.0	44.3	50.2	55.7	57.5
	Nominal GDP, USD bn	IMF	2,875	2,853	2,700	3,142	3,100	3,345
	Real growth, %	IMF	1.4	1.6	-10.4	8.7	4.3	0.1
	CPI inflation, %	IMF	2.5	1.8	0.9	2.6	9.1	7.3
	Unemployment rate, %	Office for National Statistics (UK) – ONS	4.2	3.9	4.7	4.6	3.9	4.0
Public Finance	Public debt, % of GDP	IMF	86.3	85.7	105.8	105.2	100.4	101.1
	Net interest payment, % of government revenue	IMF	4.7	4.0	3.1	5.8	9.4	6.4
	Primary balance, % of GDP	IMF	-0.6	-1.0	-12.0	-5.6	-1.0	-3.6
External Economic	Current-account balance, % of GDP	ONS	-3.9	-2.7	-2.9	-0.5	-3.1	-3.3
	Total reserves, months of imports	WB	1.6	1.7	2.1	1.9	1.5	-
	NIIP, % of GDP	IMF	-2.4	-11.3	-9.7	-13.7	-13.8	-
Financial Stability	NPL ratio, % of total loans	IMF	1.1	1.0	1.0	1.0	0.9	-
	Tier 1 ratio, % of risk-weighted assets	IMF	17.0	17.7	17.2	18.4	17.3	18.3
	Credit to the private sector, % of GDP	WB	134.0	132.6	147.0	138.5	129.9	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	120.5	113.7	114.5	112.5	108.6	-
	Income share of bottom 50%, %	WID	20.2	19.0	18.9	20.1	20.2	-
	Labour-force participation rate, %	ONS	78.7	79.0	78.8	78.4	78.2	78.3
	Old-age dependency ratio, %	UN	28.7	29.1	29.5	29.8	30.2	30.7
	Composite governance indicators*	WB	1.6	1.5	1.4	1.4	1.4	-
	Political stability, index	WB	0.1	0.5	0.5	0.5	0.5	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
[scoperatings.com](https://www.scoperatings.com)

Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
[Scope contacts](#)

Disclaimer

© 2024 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.