

# United Kingdom Rating Report



## Credit strengths

- Strong institutional framework
- Large, wealthy and diversified economy
- Robust debt profile and market access

## Credit challenges

- High public debt and a challenging fiscal and economic outlook
- Weak external position with persistent current account deficits
- Prolonged uncertainties surrounding the post-Brexit UK-EU trade relationship

## Rating rationale:

**Strong institutional framework:** The UK benefits from robust financial supervisory, economic and monetary governance frameworks. This strong institutional setup allows the UK to navigate political and financial market turmoil, as seen most recently in September 2022.

**Large, wealthy and diversified economy:** The UK economy proved broadly resilient to the Covid-19 shock, with output edging close to pre-pandemic level by late 2021. While the economic outlook has since weakened materially, comparatively high wealth and a very diversified economic base remain significant resilience factors. We expect GDP growth of 0.6% in 2023, remaining weak at 0.5% in 2024 as higher interest rates impact private consumption and investments slow.

**Robust debt profile and market access:** Despite the heightened volatility in gilt markets last year, the UK significantly benefits 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. The government's debt portfolio has an exceptionally high average debt maturity of 14.3 years, with the Bank of England holding around one-third of outstanding gilts and treasury bills.

**Rating challenges include:** i) the country's high level of public debt and a challenging fiscal and economic outlook; ii) a weak external position with persistent current account deficits; and iii) the prolonged uncertainties surrounding the implementation of the post-Brexit UK-EU trade agreement.

## United Kingdom's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aa+	GBP [+1]	+2/3	AA	
Public Finance Risk	20%	bb		+1/3		
External Economic Risk	10%	ccc		0		
Financial Stability Risk	10%	aaa		+2/3		
ESG Risk	Environmental Factors	5%		a		0
	Social Factors	7.5%		bb+		0
	Governance Factors	12.5%		aaa		0
<b>Indicative outcome</b>		<b>a+</b>		<b>+2</b>		
<b>Additional considerations</b>				<b>0</b>		

Note: \*The reserve-currency adjustment applies to currencies in the IMF's SDR basket. \*\*The qualitative-scorecard 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.

## Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12-18 months.

### Positive rating-change drivers

- Significant improvement of the fiscal outlook including a stable downward trajectory of public debt in the medium term
- Reduction of external vulnerabilities

### Negative rating-change drivers

- Protracted fiscal deterioration leading to weaker debt sustainability
- Growth outlook weakening significantly over the medium term
- Increase in external vulnerabilities or weakening of sterling's reserve currency status
- Weakening governance profile

## Ratings and Outlook

### Foreign currency

Long-term issuer rating	AA/Stable
Senior unsecured debt	AA/Stable
Short-term issuer rating	S-1+/Stable

### Local currency

Long-term issuer rating	AA/Stable
Senior unsecured debt	AA/Stable
Short-term issuer rating	S-1+/Stable

## Lead Analyst

Eiko Sievert  
+49 69 6677389-79  
[e.sievert@scoperatings.com](mailto:e.sievert@scoperatings.com)

## Team Leader

Dr Giacomo Barisone  
+49 69 6677389-22  
[g.barisone@scoperatings.com](mailto:g.barisone@scoperatings.com)

## Scope Ratings GmbH

Neue Mainzer Straße 66-68  
60311 Frankfurt am Main

Phone +49 69 6677389-0

## Headquarters

Lennéstraße 5  
10785 Berlin

Phone +49 30 27891-0  
Fax +49 30 27891-100

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)



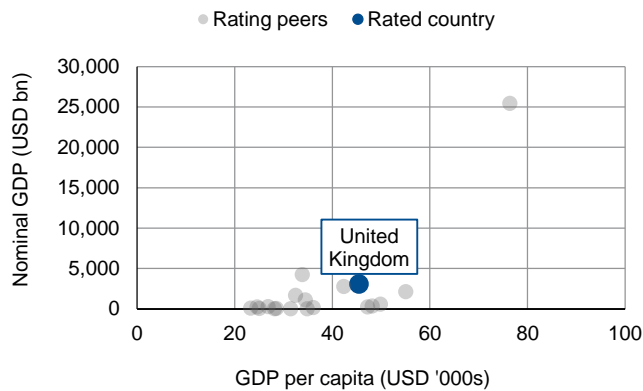
Bloomberg: RESP SCOP

### Domestic Economic Risk

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

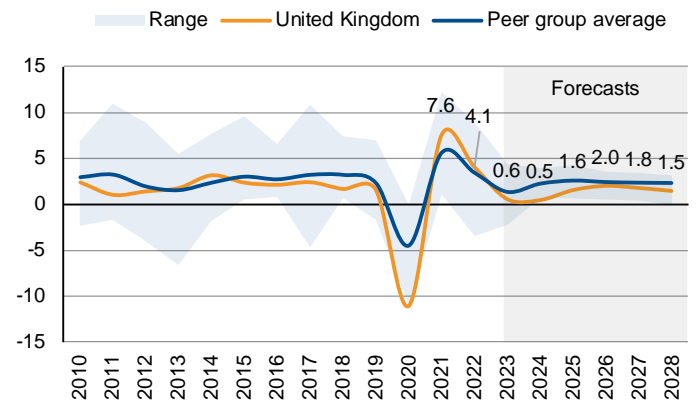
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Growth potential of the economy	Neutral	0	Moderate growth potential compared with peers
	Monetary policy framework	Strong	+1/3	Highly credible and effective central bank; independent monetary policy
	Macro-economic stability and sustainability	Strong	+1/3	Diversified economy and flexible labour market; strong institutional framework has supported quick recoveries following recent shocks

#### Nominal GDP and GDP per capita



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

#### Real GDP growth, %



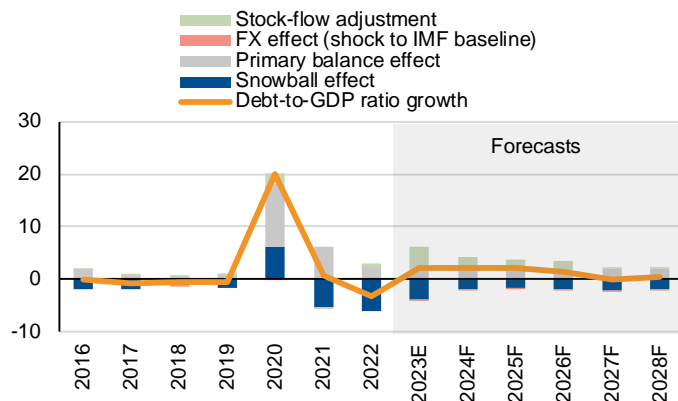
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

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

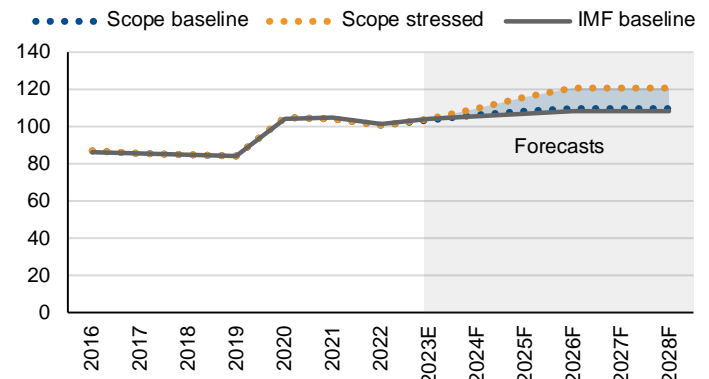
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Fiscal policy framework	Neutral	0	Renewed focus on budgetary discipline, but revised fiscal framework could weaken future fiscal discipline
	Debt sustainability	Neutral	0	Debt expected to gradually increase, but still in line with most peers
	Debt profile and market access	Strong	+1/3	Excellent government market access, long average debt maturity, significant debt held by central bank, but high share of index-linked government debt

#### Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

#### Debt-to-GDP forecasts, % of GDP



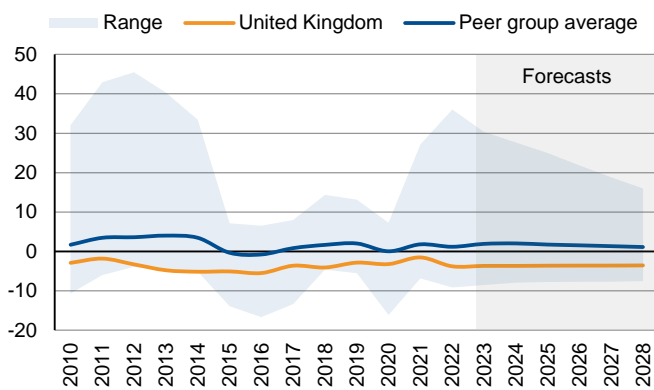
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

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

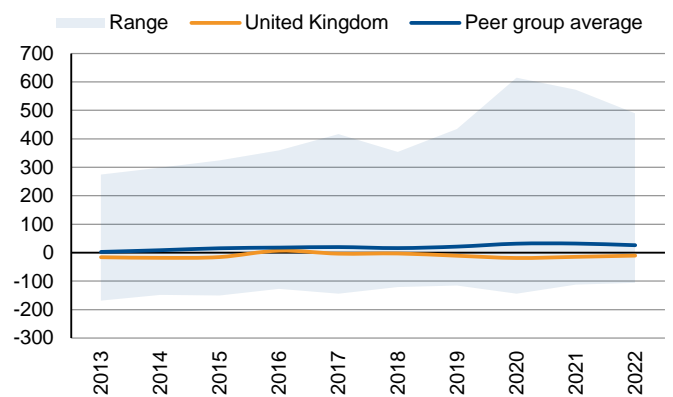
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Current account resilience	Neutral	0	Expectations of persistent current account deficit
	External debt structure	Weak	-1/3	High external debt, with high foreign currency composition
	Resilience to short-term external shocks	Strong	+1/3	Sterling as a reserve currency shields against short-term external shocks; track record of effective institutional responses to recent shocks

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



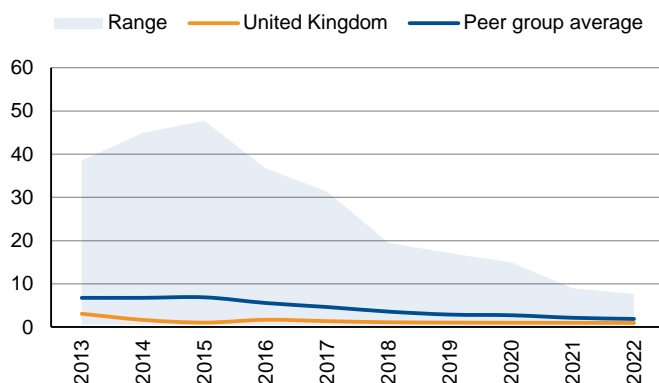
Source: IMF, Scope Ratings

### Financial Stability Risk

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

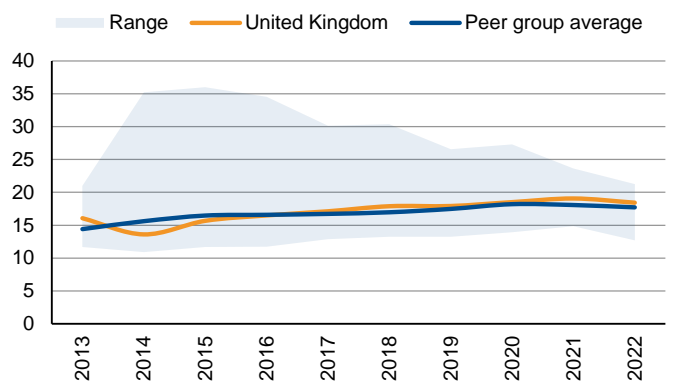
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Strong	+1/3	Banking-system capitalisation remains sound, low NPLs, good profitability
	Banking sector oversight	Strong	+1/3	Sophisticated financial regulatory system and strong macro-prudential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

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



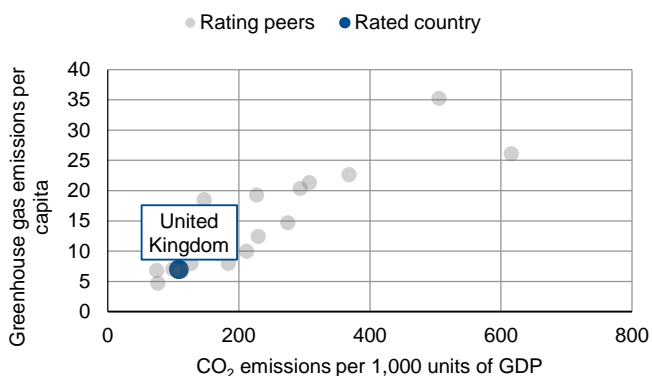
Source: IMF, Scope Ratings

### Environmental, Social and Governance (ESG) Risk

#### Overview of Scope's qualitative assessments for the United Kingdom's ESG Risk

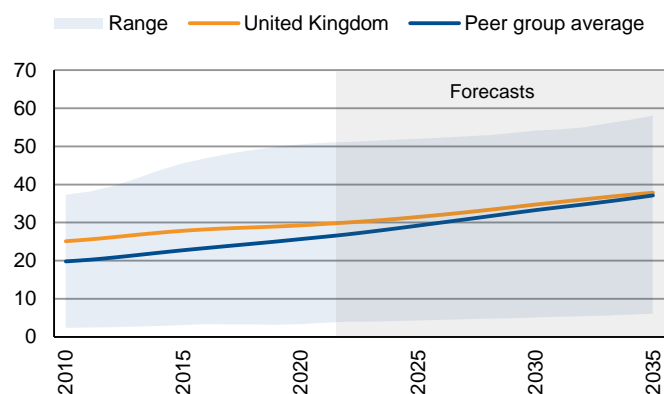
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Environmental factors	Neutral	0	Ambitious commitment to carbon neutrality by 2050; low carbon intensity compared with peers; weakening of some carbon reduction commitments
	Social factors	Neutral	0	Substantial social safety nets; challenges include high income inequality, elevated poverty rates compared with peers and the risk of social exclusion
	Governance factors	Neutral	0	Resilient institutional framework, but ongoing domestic and international Brexit-related challenges

CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



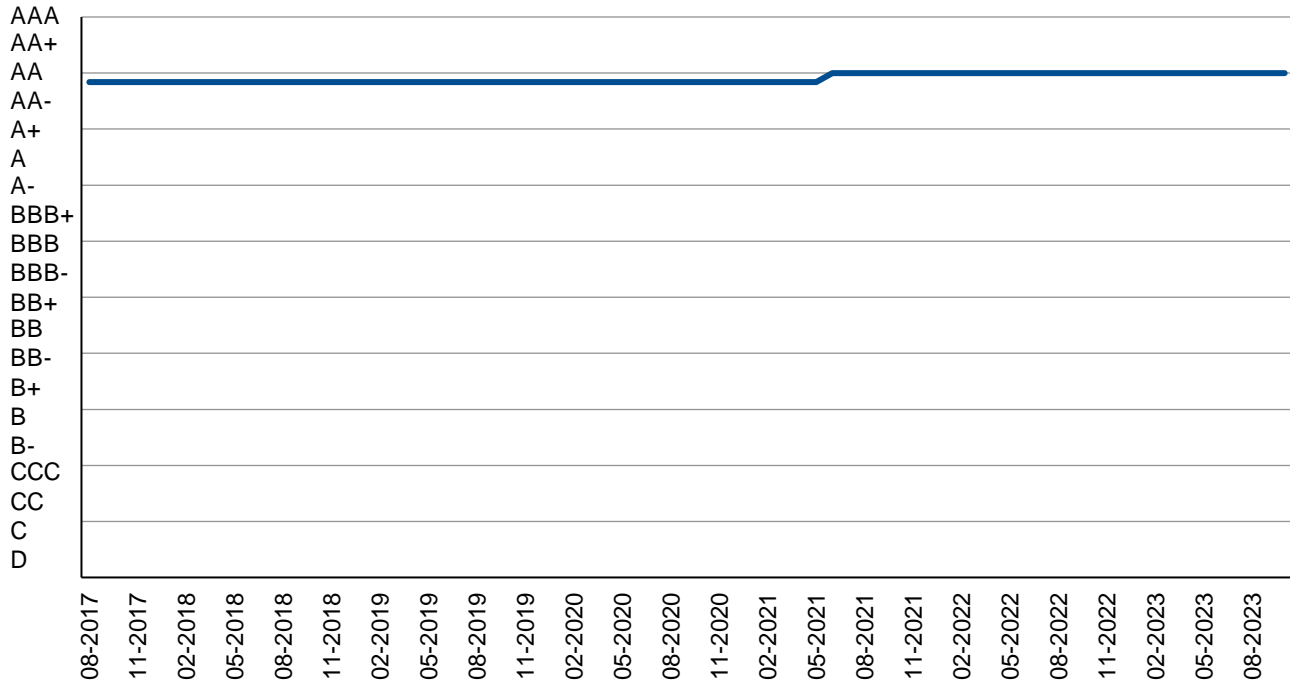
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

**Appendix I. Rating history (foreign-currency long-term issuer rating)**



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

**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 core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Belgium
Cyprus
Czech Republic
Estonia
France
Japan
Lithuania
Malta
Portugal
Slovenia
United States

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

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, 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
Domestic Economic	GDP per capita, USD '000s	IMF	43.4	42.8	40.3	46.4	45.5
	Nominal GDP, USD bn	IMF	2,881.8	2,858.7	2,706.5	3,123.2	3,081.9
	Real growth, %	IMF	1.7	1.6	-11.0	7.6	4.1
	CPI inflation, %	IMF	2.5	1.8	0.9	2.6	9.1
	Unemployment rate, %	WB	4.0	3.7	4.5	4.8	3.6
Public Finance	Public debt, % of GDP	IMF	85.2	84.5	104.6	105.2	101.9
	Net interest payment, % of revenue	IMF	4.5	3.8	2.9	5.7	8.6
	Primary balance, % of GDP	IMF	-0.5	-0.9	-12.0	-6.1	-2.2
External Economic	Current-account balance, % of GDP	IMF	-4.1	-2.8	-3.2	-1.5	-3.8
	Total reserves, months of imports	WB	1.6	1.7	2.1	1.9	1.5
	NIIP, % of GDP	IMF	-2.9	-11.0	-19.1	-14.9	-10.5
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	17.9	17.9	18.5	19.1	18.4
	Credit to the private sector, % of GDP	WB	133.7	132.3	146.6	139.3	130.7
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	121.8	116.1	111.0	108.7	-
	Income share of bottom 50%, %	WID	20.2	20.3	20.3	20.3	-
	Labour-force participation rate, %	WB	78.1	78.4	78.0	77.4	-
	Old-age dependency ratio, %	UN	28.8	29.0	29.3	29.7	30.0
	Composite governance indicators*	WB	1.3	1.4	1.3	1.2	1.3

\* Average of the six World Bank Worldwide Governance Indicators.

### Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 3 November 2023

32.44



## Scope Ratings GmbH

### Headquarters Berlin

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0

### Oslo

Karenslyst allé 53  
N-0279 Oslo

Phone +47 21 62 31 42

### Frankfurt am Main

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

### Madrid

Paseo de la Castellana 141  
E-28046 Madrid

Phone +34 91 94 91 66 2

### Paris

10 avenue de Messine  
FR-75008 Paris

Phone +33 6 6289 3512

### Milan

Via Nino Bixio, 31  
20129 Milano MI

Phone +39 02 8295 8254

## Scope Ratings UK Limited

### London

52 Grosvenor Gardens  
London SW1W 0AU

Phone +44 20 7824 5180

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

## Disclaimer

© 2023 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.