10 August 2018

Public Finance

United Kingdom Rating Report

SCOPE AA NEGATIVE OUTLOOK

Credit strengths

- Sterling reserve currency status
- Historic institutional strengths
- Large, diversified economy

Credit weaknesses

- Brexit-related uncertainty
- Weakening economic outlook
- Uncertainty in policy framework

Rating rationale and Outlook: The UK's AA rating is underpinned by its large, diversified economy, monetary policy and exchange rate flexibility, and reserve currency status. In addition, the UK benefits from deep capital markets, a long public debt maturity structure, and historical institutional strengths. Scope considers a 'soft Brexit' or 'no Brexit' outcome to negotiations with the European Union to be the most probable, though 'hard Brexit' will remain central to the public discourse in the period ahead. Debt remains at elevated levels, and the economic and fiscal policy outlook has weakened owing to uncertainty around and consequences of the EU exit process. While the UK maintains significant credit strengths – including London's role as one of the world's premier financial centres, Scope considers the current constellation of risks to remain consistent with a Negative Outlook.

Figure 1: Sovereign scorecard results

Scope's sovereign risk categories	UK	Peer comparison Average
Domestic economic risk		
Public finance risk		
External economic risk		
Financial risk		
Political and institutional risk		
Qualitative adjustment (notches)	0	
Final rating	AA	

AAA AA A BBB BB B CCC CC C

NB. The comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS rating can be adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Source: Scope Ratings GmbH

Positive rating-change drivers

- Conclusive soft or no Brexit outcome, materially reducing uncertainty and ensuring single market access
- Economic and/or fiscal outlooks show significant resilience
- Reduced external vulnerabilities

Negative rating-change drivers

- Crystallisation of a 'no-deal' exit
- Significant evidence of weakening in the economic and/or fiscal outlooks
- External vulnerabilities increase and/or sterling's reserve currency status comes under challenge

Ratings & Outlook

Foreign currency

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

Local currency

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

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Bloomberg: SCOP

Brexit and institutional/political risk

Recent events and policy decisions

New Brexit proposal…

Prime Minister Theresa May announced a 'substantial evolution' in the UK's desired outcome from Brexit negotiations in the Chequers statement of 6 July 2018[1]. This new proposal seeks to maintain the status quo in the single market and a common rulebook for goods along with a 'Facilitated Customs Arrangement' with the European Union, intended to allow an invisible Irish land border. However, the proposal allows greater divergence on services, which is meaningful for a UK services sector that accounts for 79% of the economy and 45% of exports. The UK is now seeking arrangements on financial services that preserve integrated markets but do *not* replicate the EU's passporting schemes.

On the one hand, the plan should be interpreted as a move that increases the chances of a deal, especially if the UK is now willing to accelerate negotiations surrounding the 'backstop' on the Irish border (which may, ultimately, require a permanent anchor of the whole of the UK remaining in the customs union as a last, fall-back option). On the other hand, the distance between the EU and UK's negotiation positions remains very wide.

… that, while a step in the right direction, is nonetheless unworkable.

The latest strategy, details of which were published in a white paper dated 12 July 2018[2], is nonetheless unlikely to represent a workable arrangement given the implicit division of the single market between goods and services, the end to free movement (even though the UK proposes a 'mobility framework'), the proposal of a joint resolution committee and independent arbiter (rather than sole reliance on the European Court of Justice), and the significant concerns which remain around the practicalities of the customs proposal. In addition, the UK reserves the right not to incorporate EU rules into the UK's legal order, with the result that membership of the single market for goods and access to one another's markets could balance on a knife's edge. It is the opinion of the European Commission that this latter observation may actually give the UK *more* influence over EC rule changes from outside the union than the UK presently has as a member, due to the risk of mutual market curtailment.

A soft Brexit (baseline) or no-Brexit scenario are the most probable

In an August 2017 special comment, Scope outlined its view that the most likely long-run end-state is either an eventual soft Brexit (Scope's baseline) or a no-Brexit reversal scenario, rather than hard Brexit (the latter defined as the UK exiting the single market and customs union). This view is based on the inherent complexity of the exit negotiations, which hinders a successful hard Brexit on any short- to medium-run horizon, the significant economic, financial, political and institutional consequences of any crystallisation of the no-deal form of hard Brexit, as well as meaningful collective pressure from parliament, the devolved administrations, the EU, UK civil society and business for an approach that avoids the destabilisation associated with a 'cliff-edge' exit.

At the same time, given the limited foresight demonstrated in exit negotiations to date and the wide distance remaining between the UK and EU positions, the lack of a common front within the UK government, the present government's stated intention of achieving a long-run hard Brexit and a new free trade arrangement with the EU (even if the government's approach has been materially softened), and the very limited time left for talks before March 2019 (with some time furthermore needed for voting procedures in the UK Parliament, EU member states and the European Parliament), concerns surrounding a hard Brexit are likely to remain central to the Brexit discourse and may escalate further in scale if no deal prevails as March 2019 approaches (not least as a self-imposed

Table of Content

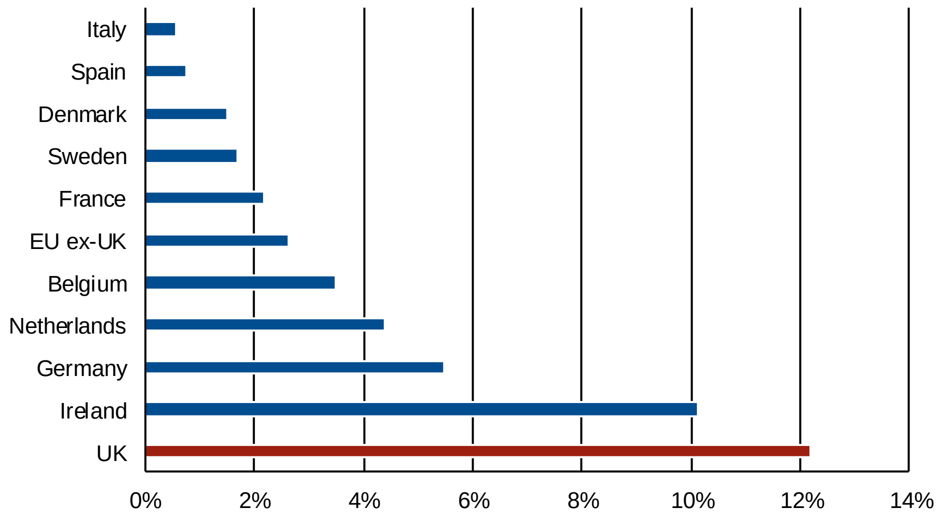
[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723460/CHEQUERS_STATEMENT_-_FINAL.PDF
[2] UK Government. (2018) "The future relationship between the United Kingdom and the European Union", Policy paper, 12 July 2018.

October 2018 target for an agreement approaches, a date that could easily come and go, with the following scheduled European Council in December). In this respect, the situation could get worse before it gets better. The downside risk that a hard Brexit presents contributes to Scope's Negative Outlook on the UK's sovereign rating.

Several factors limit the ultimate likelihood of a no-deal exit, however

One of the factors diminishing the probability of a cliff-edge exit is the asymmetric economic impact this would have on the UK itself. Wen Chen of the University of Groningen and collaborators[3] have concluded that Brexit trade-related risk exposures are the highest for the UK itself, with 10-17% of GDP potentially affected. The upper boundaries within this range apply to many areas in the Midlands and northern England that voted in favour of Brexit. In contrast, the trade risk to the rest of the EU in aggregate is an order of magnitude lower at 2.6% of GDP – though there are at least two important exceptions here, namely Ireland (with an exposure of 10.1% of GDP) and some regions of Germany, especially southern Germany (**Figure 2**).

Figure 2: National level trade-related exposure to Brexit, % of GDP



Source: Chen, Wen et al. (2018)

Next, stepped up preparations for a no-deal Brexit, including GBP 3bn per annum (0.1% of GDP) set aside for exit contingencies in the 2018 and 2019 budgets, are far from adequate given concerns surrounding goods shortages and spiking prices in a no-deal scenario, delays in industry (including automotive) and retail supply chains, disruptions at borders in the absence of prepared customs checks and revised aviation agreements, uncertainties around the legal status of EU and UK citizens in each other's territories, trade, regulatory and legal matters being left in limbo, etc. The coming issuance of a series of 'technical notices' to businesses and the public in August and September on how to prepare for a no-deal departure does not bridge this gap. In Scope's view, the implementation of *commensurate* contingency plans for a no-deal scenario at the very minimum requires a UK government committed to pursuing a no-deal outcome (as more than a last resort) – something lacking at the moment, even with a UK planning summit scheduled in September on the matter of no-deal preparations[4]. When combined with a UK parliament that does not back a no-deal exit, a civil society now in support of a second referendum[5], the uncertainties that the re-imposition of a hard border on Ireland (as well as between Spain and Gibraltar) would create, threats to the institutional integrity

[3] Chen, Wen et al. (2018) "The continental divide? Economic exposure to Brexit in regions and countries on both sides of The Channel", Pap Reg Sci. 2018;97:25-54.
[4] https://www.bloomberg.com/news/articles/2018-08-08/u-k-s-may-is-said-to-plan-cabinet-summit-on-no-deal-brexit
[5] https://www.thetimes.co.uk/article/majority-now-back-a-second-referendum-on-brexit-terms-hwg632gqf

of the United Kingdom with regard to Scotland in a hard-Brexit scenario, and the long-term damage that a no-deal exit would do to goodwill between the UK and the EU in areas of cooperation, the lack of economic and financial preparedness for a no-deal exit increases the chances that this outcome will ultimately not prove feasible. Even a default to WTO trade relations, viewed as the safe fall-back option in the case of no deal, is not automatic and would require the completion of talks with WTO parties, including the EU. Even in the scenario of a change in Conservative Party leadership resulting in a government more in favour of pursuing no deal, such a government would, in the end, face the same meaningful realities to the feasibility of a no-deal departure.

The most probable short-term outcomes on 29 March 2019 are either an exit in name only or an extension of Article 50

In Scope's view, in the near term, the primary test instead to a 'Brexit in name only' on 29 March 2019 with an agreement (and entry into a near-identical transition period in which deeper negotiations on the future relationship would begin) will hinge on: i) whether the UK can ultimately accept an amended version of the Irish backstop that could hypothetically require the whole of the UK to remain permanently[6] in the customs union (going potentially beyond current UK and EU deliberations around the specificities of only Northern Ireland remaining in the customs union as a backstop[7]); ii) whether the UK is willing to exit the EU and enter a transitional stage without assurances on what the future holds, giving up its decision-making power inside the EU and sealing many of the costs of Brexit, but with the benefits unknown; and iii) in order to avoid the worst case scenario of no deal, whether the EU can give enough ground in the period ahead to facilitate a vague, non-binding future relationship declaration that can be accepted in votes in both the UK and European parliaments – in the former case, possibly nonetheless requiring the support of Labour Party members of parliament to get through.

Alternatively, if such terms cannot be agreed to before March 2019 and/or if political instability accentuates in the UK, postponing discussions further, an extension of Article 50 (and the UK's status *inside* the EU) is an alternative (which nevertheless requires the unanimous decision of the EU-28), even if it would be hard to digest by all counterparties. Implied here, in the case of no deal in the period before 29 March 2019, Scope considers a last resort extension of Article 50 talks to be more probable than a no-deal Brexit from the EU. Such an extension could theoretically replace the implementation period, which is already slated to last from March 2019 to December 2020 – the difference being that an extension of Article 50 would leave the UK within the EU during this period, affording the UK and EU greater flexibility to pursue negotiations with all options still on the table.

An Article 50 extension would increase the chance of no Brexit

The scenario of an Article 50 extension would, however, represent a clear setback to delivering Brexit within the two years scheduled and may see political change within the United Kingdom, including in government leadership. While soft Brexit and hard Brexit long-run outcomes remain on the table even in the case of an Article 50 extension, the probability of no Brexit increases comparatively in this scenario, owing to the time it allows for further shifts in public opinion as well as the space given to hold a second referendum (requiring an Act of Parliament) and/or early elections.

In July 2018, a YouGov/Times survey found that 50% of respondents would prefer to remain in the EU, with 33% in favour of a no-deal exit and only 17% in favour of leaving with a deal[8]. The relatively even vote split in the 2016 referendum itself (52% backing 'Leave' to 48% backing 'Remain') alongside opinion surveys since April 2017 that have consistently shown a plurality favouring Remain underscore risks to the popular mandate

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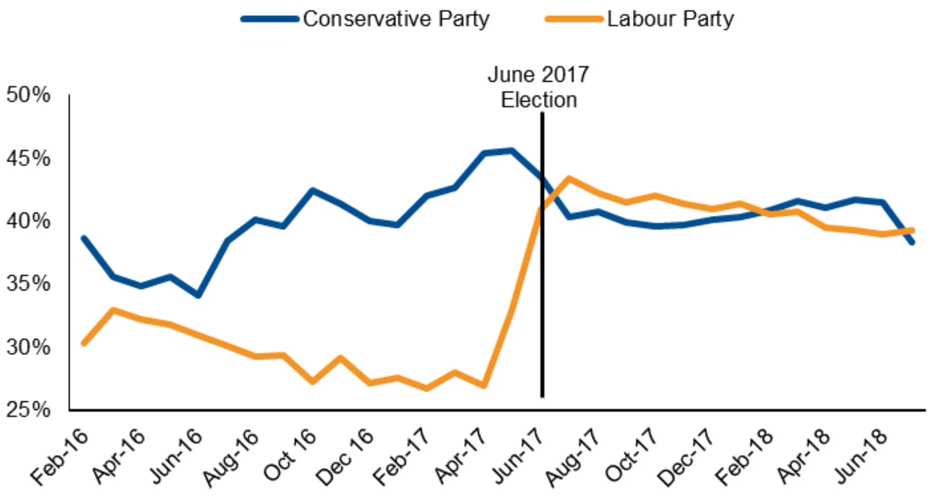
[6] To resolve the Irish border issue, the UK government proposed in June 2018 a time-limited customs backstop, through December 2021 at the latest. This proposal was not agreed on due to its temporary nature. https://ec.europa.eu/commission/sites/beta-political/files/slides_on_uk_technical_note_on_temporary_customs_arrangements.pdf
[7] For example, UK officials are developing a proposal that increases regulatory checks between Northern Ireland and Britain, but without customs checks. https://www.bloomberg.com/news/articles/2018-08-02/may-meets-macron-as-she-charts-an-11-week-path-to-a-brexit-deal
[8] https://www.businessinsider.nl/yougov-poll-voters-would-rather-remain-in-eu-than-accept-a-no-deal-brexit-2018-7/?international=true&r=UK

driving the Brexit process should politicians extend the time spent within the EU. In addition, the narrow lead that Labour has recently regained in some polls (**Figure 3**) places additional pressure on Mrs May and the Conservative Party to deliver Brexit next March as scheduled.

Figure 3: Labour versus Conservative Party voting intentions, poll of polls



Source: Various polling companies, Scope Ratings GmbH calculations

Rating implications of the EU exit depend on uncertainty generated and policy regression in addition to the end-state

In Scope's view, the rating implications under each of the three core scenarios – soft Brexit, no Brexit and hard Brexit – depend on the final outcome of Brexit negotiations, but also on how much uncertainty is generated prior to any end-state being determined (which impacts the economy), and how much adverse policy change there is in other areas during demanding exit negotiations. Soft and no-Brexit scenarios might be the most conducive to a stabilisation of the UK's rating outlook. However, Scope has noted that in each of the three scenarios, the possibility of a rating downgrade remains if the terms of an exit or a deterioration in macroeconomic conditions or public finances materially weaken the UK's sovereign credit profile.

Significant institutional strengths, but weakened policy framework

While the decision to leave the EU presents obvious challenges, the UK's AA rating is safeguarded by the nation's historical institutional strengths. These include a highly advanced economy (with per capita income of USD 39,735 in 2017), the rule of law under the nation's parliamentary democracy, a strong fiscal framework bolstered by the Office for Budget Responsibility (OBR) – the UK's independent fiscal watchdog since 2010, a highly credible central bank and strong financial supervision framework, reserve currency in sterling, and elevated human development.

Nevertheless, the deep divisions which the debate on Europe has opened up within both of the major parties and society at large may prove difficult to heal, and, combined with the demands of the Brexit agenda and the government's weakened state after the 2017 general election, may further impede government stability and weaken the quality of economic policy making over a longer-term horizon. This, in turn, weakens Scope's institutional assessment, informing the Negative Outlook.

Domestic economic risk

Growth potential of the economy, economic policy framework, and macro-economic stability and sustainability

Large, diversified and competitive economy

The UK holds a large (nominal GDP of USD 2.6tn in 2017), diversified and competitive economy (ranked eighth out of 137 countries in the 2017-18 Global Competitiveness Index[9]), with flexible labour and product markets.

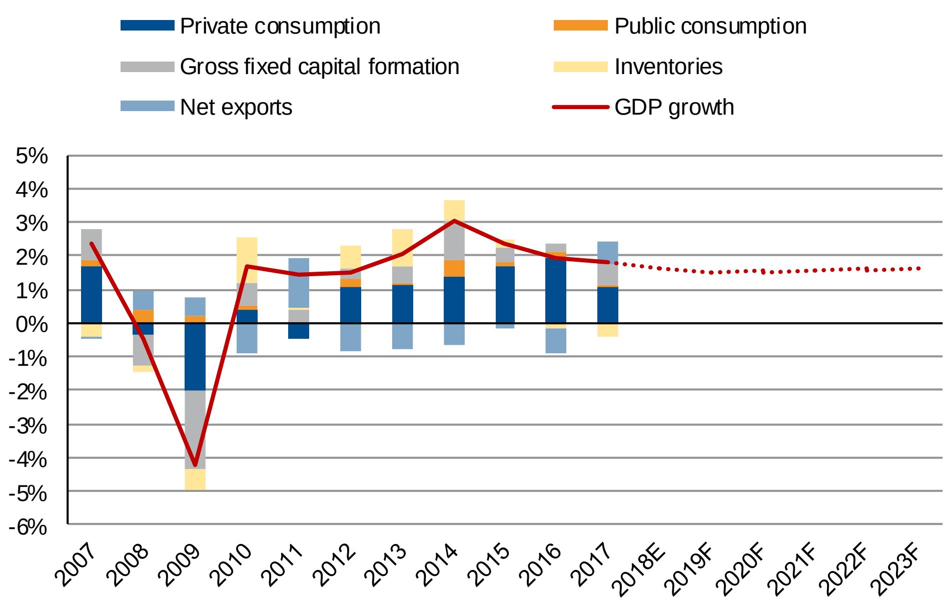
The UK economy has shown resilience, but continued gradual slowdown expected

Uncertainty around the conclusion of Brexit has and will continue to weigh on the UK economy, though the effects are more complex and gradual than many forecasters originally anticipated. Compared with expectations for a sharp correction in growth around the referendum (the Bank of England (BoE) and professional economists[10] warned of an impending recession, for example), the UK economy has to date shown some resilience.

Scope noted its view this March, however, that a continued gradual slowdown is anticipated in 2018, as some factors supporting UK resilience in recent years against a more rapid slowdown wane. This includes: i) greater constraints on consumers, as savings rates have been exceptionally low (4.3% in Q1 2018 seasonally adjusted) and due to revert higher while consumer credit (8.8% YoY in June 2018, down from 10.0% YoY a year earlier) may ease further; ii) Brexit could bring an acceleration in banking sector migrations and softness in investment; and iii) the export sector's impetus to the economy since the referendum could moderate, in the environment of a slowdown in the euro area – the UK's largest trading partner, alongside ongoing risks to global growth from trade conflicts. However, net exports will remain nonetheless an important automatic stabiliser, in Scope's view.

In 2017, the UK grew 1.7%, the slowest rate since 2012 though only a modest slowdown from 1.8% in 2016. Q1 and Q2 2018 GDP grew 0.2% and 0.4% QoQ respectively – the Q2 bounce-back reflected an element of unwinding of an adverse weather impact in Q1, though manufacturing fell 0.9% QoQ. Fiscal support may be just a partial offset to slowing growth, with additional economy-boosting measures delayed until the Autumn Budget.

Figure 4: Percentage point contribution to annual real GDP growth, %, with IMF forecasts



Source: IMF, Scope Ratings GmbH calculations

[9] World Economic Forum. (2017) "The Global Competitiveness Report 2017-2018".
[10] https://www.bloomberg.com/news/articles/2016-07-21/brexit-to-halt-u-k-s-growth-streak-with-mild-recession-forecast

High frequency data have shown mixed signals. Surveys show that consumer confidence has remained near recent lows in July but nonetheless not far from a long-run average. Meanwhile, industrial confidence (a component of the European Commission's Economic Sentiment Indicator) is at strong levels. Industrial production fell in April and May but rebounded in June. Unemployment has been stable at 4.2% in the three months to May – the lowest rate since 1975. Unemployment is low even with labour force participation at an elevated 79.0%.

Inflation risks will continue to affect private consumption

Private consumption is likely to have been supported by a degree of moderation in annual inflation, as earlier sterling devaluation dropped out of base effects, which stood at 2.4% in June – exceeding the BoE's 2.0% target but lower than peaks of 3.1% as of November 2017. Core inflation was 1.9% YoY in June 2018. Along with average weekly earnings growth ex-bonuses of 2.7% year on year in the three months to May, this has meant that the annual rate of real earnings growth turned modestly positive in 2018. However, given the drop in sterling since April, somewhat higher oil prices alongside domestic cost pressures, inflation risks could rise moving ahead. The Bank of England expects inflation to remain slightly above its 2% target until Q4 2020.

Investments on hold, as exits in financial sector to hit economy

The costs of heightened uncertainty on delayed or cancelled investment and movement of some existing operations out of the UK could exacerbate. In a 2017 report, Bruegel concluded that about 35% of London wholesale banking is related to EU27-based clients.[11] Extrapolating this, they estimated that EUR 1.8tn of banking assets (or 17% of the total) could be relocated to Europe in the scenario of no access to the single market, placing as many as 30,000 domestic jobs at risk. Oliver Wyman has estimated that up to 75,000 financial services jobs could be lost in a hard Brexit.[12] Even if such scenarios are not realised, a Financial Times analysis (based on public statements and interviews of bank executives) points to about 4,600 jobs[13] that could be moved by April 2019.

Scope considers estimates around the FT's to be more realistic in the short term under the scenario that hard Brexit is avoided – consistent with a modest negative growth impact due to contingency-related exits. However, given the likelihood that the Brexit end-state will *not* be decided by March 2019 (under prolonged negotiations), a state of extended uncertainty may facilitate additional relocations after April 2019. More significant downside would clearly be seen should financial services' access to the single market (per 'passporting' rights) be more overtly suspended.

Recently, for example, Deutsche Bank announced moving almost half its euro clearing activities from London to Frankfurt.[14] As finance and related professional services contributed GBP 206bn in the four quarters to Q2 2018 (about 11% of the UK economy), the continued uncertainty affecting the sector dampens the UK's economic outlook, questions external sector vulnerabilities (given the importance of EU inflows to the UK's financial sector in the funding of the UK's current account deficit), and weakens the City of London as one of the world's preeminent financial hubs, a pillar moreover in the pound sterling's status as a leading global reserve currency.

Monetary and financial conditions to remain accommodative

Monetary and financial conditions remain accommodative, acknowledging the weaker sterling and still gradual and limited Bank Rate increases, even after last week's 25bp hike to 0.75%. Loans continue expanding to households (3.9% year on year in June 2018), though lending to nonfinancial businesses has softened (1.0% YoY in June 2018).

[11] Sapir, André, Dirk Schoenmaker and Nicolas Véron. (2017) "Making the best of Brexit for the EU27 financial system", Bruegel Policy Brief, Issue 1, February 2017.
[12] Oliver Wyman. (2016) "The impact of the UK's exit from the EU on the UK-based financial services sector", October 2016.
[13] https://www.ft.com/content/931b1b1a-df49-11e7-a8a4-0a1e63a52f9c
[14] https://www.theguardian.com/business/2018/jul/30/deutsche-bank-moves-euro-clearing-from-london-to-frankfurt

Medium-term growth of 1.5% to 2.0%

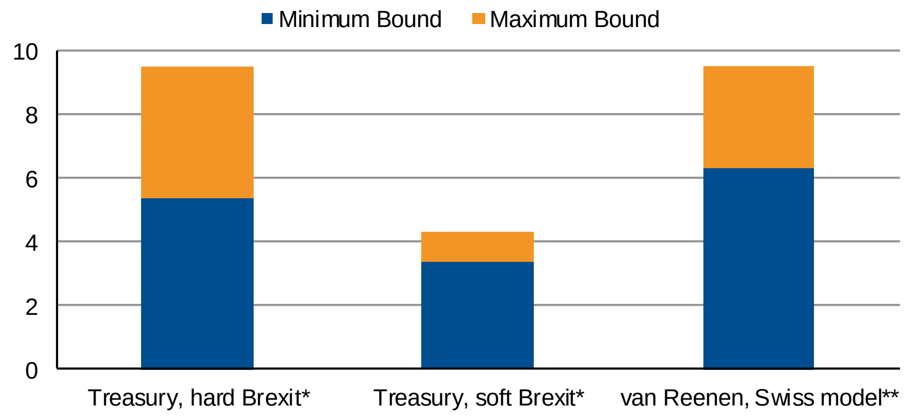
Over the medium term, Scope assumes a baseline UK growth estimate of 1.5% to 2.0% (with the lower bound indicative of soft Brexit and upper bound more aligned with no Brexit). This compares with 1.9% average growth rates from 2010-2017 post-crisis, a long-run estimate from the BoE of 1.5%[15] and a medium-term growth forecast from the IMF of 1.6%[16]. Scope's medium-term baseline acknowledges annual working-age population growth of around 0.2% per UN forecasts for 2018-2023. In addition, we assume small contributions from rising labour force participation and employment. Implicitly, we assume labour productivity growth of around 0.5%-1.0% (compared with 0.7% over 2010-17).

Implicitly, Scope acknowledges *significant* uncertainty around this medium-run growth estimate due to the inherent dependence on the end-outcome of Brexit, what trade agreement the UK reaches with the EU and other trading partners, and the nation's overall policy framework. Owing to the heavy demands of Brexit on the government's policy focus, Scope has highlighted the potential adverse impact of the exit process vis-à-vis other significant policy areas, including long-run growth and the consolidation of public finances. The strength of the Labour Party and party leader Jeremy Corbyn's anti-market policy prescriptions add to economic uncertainty in the medium term.

Brexit weakens the medium-term economic outlook

Though the economic impact of a softer exit could be more tenable in the long run, the implications of a hard Brexit are more severe. In a 2016 analysis, the UK Treasury concluded that trading on WTO terms could reduce UK GDP by 5.4% to 9.5% after 15 years relative to a baseline of remaining in the EU (**Figure 5**).[17] At the same time, Treasury concluded that a Norwegian model in which the UK exits the EU but remains in the European Economic Area (EEA) would reduce GDP by 3.4% to 4.3% after 15 years relative to the baseline of remaining in the EU. MIT's John Van Reenen has noted that a Swiss model, in which the UK joins the European Free Trade Association post-exit, would reduce UK incomes by between 6.3% and 9.5% based on a dynamic model.[18]

Figure 5: Aggregate impact of Brexit on UK GDP/Income, HM Treasury and MIT research, %



* Impact of Brexit on UK GDP after 15 years relative to baseline of remaining in the EU. Hard Brexit represents scenario of WTO membership without an agreement with the EU. Soft Brexit represents a Norwegian model post-exit.
**Impact of Brexit with Swiss model post-exit on UK incomes

Source: HM Treasury, Brookings Institution

[15] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2018/august-2018
[16] IMF World Economic Outlook, April 2018, projection for UK growth in 2023
[17] HM Treasury. (2016) "HM Treasury Analysis: the long-term economic impact of EU membership and the alternatives", Cm 9250, April 2016.
[18] John Van Reenen. (2016) "Brexit's Long-Run Effects on the U.K. Economy", Brookings Institution.

Public finance risk

Fiscal policy framework

Recent fiscal outperformance

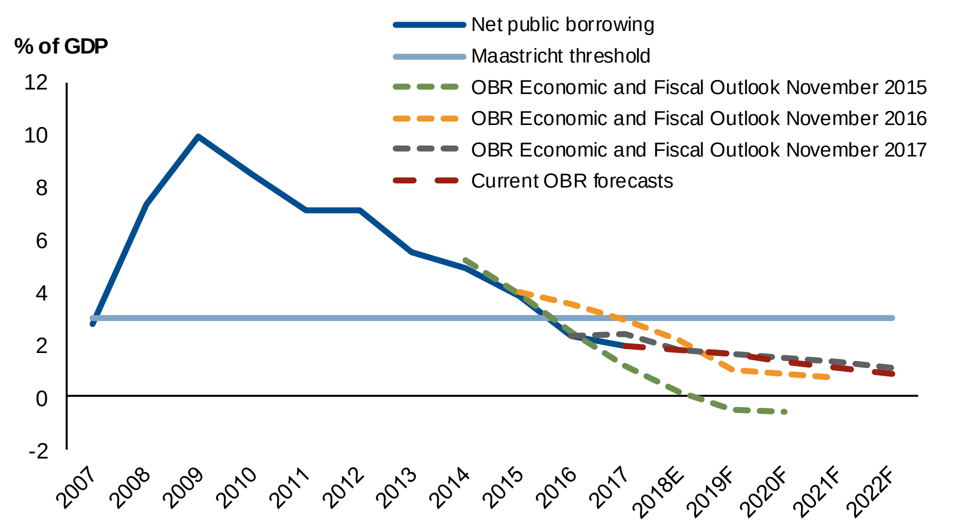
The government deficit declined in 2017-18 to 1.9% of GDP, down from 2.3% of GDP in 2016-17 (and a peak of 9.9% of GDP in 2009-10). The 2017-18 figure was 0.5% of GDP under the OBR's forecast as of November 2017. This recent fiscal outperformance owed to better-than-expected revenue performance, ONS accounting/classification changes and expenditure-based fiscal consolidation, with the expenditure to GDP ratio lower than anticipated despite an increase in interest expenditures from inflation-linked debt.

More gradualised consolidation

Despite recent outperformance, however, the overall budgetary adjustment has been substantively gradualised (**Figure 6**). Notably, there was a major shift in general government balance targets between 2015-16 and 2016-17 – after the EU referendum.

The headline deficit should fall to 1.8% of GDP in 2018-19 with a primary deficit of 0.1% of GDP – with countervailing effects from spending measures, including those from the 2017 Autumn Budget (including new NHS funding, support for house building, transport and the devolved administrations, and Brexit contingency planning monies), and an overall slower speed of fiscal consolidation. The headline deficit is, however, expected still to improve to 0.9% of GDP by 2022-23. Anticipated improvements in the structural balance are gradual, and largely reflect reductions to the budgets of some government departments and to working age welfare spending. Scope notes, nonetheless, that some of the recent expansionary fiscal programmes – including the GBP 31bn National Productivity Investment Fund, increases in tax rate thresholds and cuts to the corporate tax rate (to 17% by 2020) – will have positive impacts on economic growth and address some societal bottlenecks.

Figure 6: Net public borrowing, latest OBR forecasts vs. earlier expectations, by fiscal year



Source: Office for Budget Responsibility

Fiscal framework supported by near- and medium-term targets

The UK's revised medium-term fiscal objective seeks to "return the public finances to balance at the earliest possible date in the next Parliament", interpreted to mean by the mid-2020s. This represents a gradualisation from an earlier objective for a budget surplus by 2019-20. The new medium-term objective is complemented by three near-term targets: i) a 2% structural deficit by 2020-21 (the structural deficit stood at an estimated 2.1% of GDP already in 2017-18); ii) a fall in net debt-to-GDP by fiscal year 2020-21; and iii) a supplementary goal of keeping total spending on some welfare benefits below a target nominal level (a 'welfare cap') by 2021-22. These complementary objectives are on track to be met, though further spending making use of available fiscal space – including additional annual NHS spending of GBP 20.5bn by 2023-24 to be formalised in the Autumn Budget – may challenge this if it goes partly unfunded. Projections indicate material risk to the medium-term objective for a balanced budget.

The UK exited the EU's Excessive Deficit Procedure in 2017. However, as debt exceeds the 60% Maastricht threshold, the United Kingdom is currently subject to a transitional debt rule emphasising brakes during the three years following exit from the Excessive Deficit Procedure. In Scope's view, the divorce from the EU will reduce the resilience of the UK's fiscal framework due to the removal of such EU fiscal oversight institutions.

Risks to fiscal outlook

The government's need to sustain public support for tough Brexit negotiations poses risks to fiscal consolidation plans slated for 2019 and beyond, in Scope's view, and, as such, there are material risks to medium-term fiscal targets. This is credit negative. Fiscal risks are also reinforced by pressure against public spending cuts from the opposition Labour Party alongside general 'austerity fatigue'. But, given economic bottlenecks and the present risks to long-term growth, a fiscal programme that emphasises public investment, e.g. in infrastructure, research and housing, should be advocated within an overall framework of fiscal prudence.

UK maintains strong historical record

The UK maintains a strong record of prudent fiscal policy and has paid all debts in full and on time in the post-war era. Since 2008, fiscal consolidation has been substantial, primarily consisting of cuts to expenditure. The affirmation of the AA rating reflects these institutional strengths.

Debt sustainability

Debt ratios remain high, though declining

Government debt stood at 85.8% of GDP as of Q1 2018, down from 86.5% of GDP a year before. The annual decline in gross government debt-to-GDP in 2017 represented the first such drop since 2001 – an indication of the scale of challenges to debt sustainability given the UK economy grew in all but two years since 2001. Under an IMF baseline, a very gradual decline in the debt-to-GDP ratio should resume, reaching 82.5% of GDP by 2023. This is driven by an anticipated small primary surplus by 2019, to be sustained going forward, as well as favourable debt dynamics (with a weighted average interest rate on outstanding debt of 3%). The ongoing sale of government holdings in financial institutions is also expected to reduce public debt. In Scope's view, the UK's high stock of public debt remains a material credit weakness.

Brexit challenges outlook

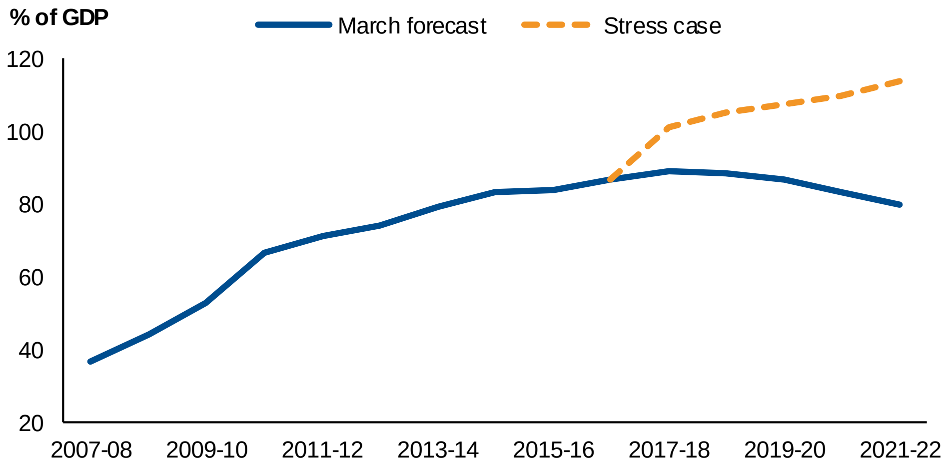
Brexit presents material challenges to public finances. The 'Brexit Bill' presents a net payment of EUR 41.4bn (with EUR 31.2bn of this falling due between 2019-20 and 2022-23). This could be counterbalanced by any reduction/cessation of annual payments to the EU budget after Brexit (GBP 17-18bn gross per year[19]), though exact savings from this depend on which payments are required to be retained to maintain single market access and cooperation with the EU in specific areas, such as science and innovation.

In OBR's July 2017 report[20], it noted that the greatest risk to the long-term fiscal outlook would stem from an economic shock, including any impacts of Brexit on long-run growth. The report pointed out the weakened state of Britain's public-sector balance sheet, making the UK more vulnerable to adverse shocks than in 2007, before the global financial crisis. To illustrate this, the authors implemented a stress case akin in severity to the financial crisis: in the scenario, public sector net debt ended the forecast horizon

[19] Keep, Matthew. (2018) "The UK's contribution to the EU budget", House of Commons Library, Briefing Paper, Number CBP 7886, 23 March 2018. Gross contributions to the EU/EC budget, after rebate and refunds, 2019-2021 forecasts.
[20] Office for Budget Responsibility. (2017) "Fiscal risks report", Cm 9459, July 2017.

(2021-22) at 114% of GDP, compared with 80% by 2021-22 in a baseline (**Figure 7**). While the scenario of a sudden economic shock of the scale in OBR's stress case (involving two years of deep economic recession) does not represent a Scope baseline, it does speak to the scale of risks should long-run growth meet material tribulations.

Figure 7: Net public debt, OBR baseline versus stress case



Source: Office for Budget Responsibility

Long-term sustainability risks

The UK's ageing population poses challenges to fiscal sustainability. Based on the Ageing Report 2018, the European Commission noted that an adjustment effort equal to 3.5 percentage points of GDP[21] would be needed to place debt on a sustainable path – corresponding with 'medium' fiscal sustainability risks, mainly relating to risks stemming from pension, health care and long-term care costs.

Market access and funding sources

Inflation risks prevail in the context of index-linked debt

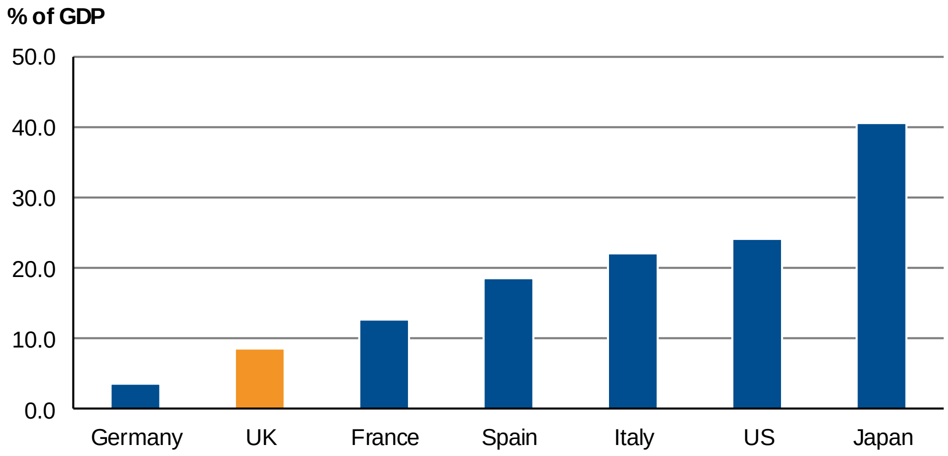
The UK's Debt Management Office seeks to minimise, over the long term, the costs of government borrowing, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy[22]. From 2013-14 to 2017-18, the issuance of gilts linked to the Retail Prices Index increased, with the stock reaching 26% of the government's total debt portfolio at end-2017 – considerably higher than that in peer countries, from just over 20% as of 2009. The long-term inflation risks have been highlighted, and the government has announced a reduction in the proportion of inflation-linked debt that will be issued.

The UK's debt portfolio benefits from a long average maturity and funding resilience

The UK's debt portfolio benefits from a very long average maturity of 15.2 years at end-2017. This includes an average of 13.8 years on the stock of conventional gilts as well as over 20 years on inflation linkers. The average maturity of UK debt is notably longer than that of AA-rated sovereign peers, and the UK's annual gross financing requirements as such compares well against that of peers (**Figure 8**). This is a meaningful credit strength.

[21] European Commission. (2018) "Assessment of the 2017-18 convergence programme for the United Kingdom", Directorate General, Economic and Financial Affairs, 23 May 2018.
[22] HM Treasury. (2018) "Debt management report 2018-19", March 2018.

Figure 8: Annual gross financing requirements, 2018, % of GDP



Source: IMF Fiscal Monitor April 2018, Bloomberg Finance L.P.

The sterling denomination of UK debt and low interest rates (UK 10-year gilts yielded 1.25% at the time of this writing, not distant from all-time lows) support the debt structure and funding resilience. In addition, the budget deficit has been increasingly funded by the local financial sector, and the Bank of England holds around a quarter of outstanding gilts via the Asset Purchase Facility – meaning a significant share of government debt is owed back to the UK public sector.

External economic risk

Current account vulnerability

Reductions in the current account deficit

The UK has posted an annual current account deficit since 1984, and currently holds the world's second largest deficit in absolute terms. A gradual process of correction has begun: in the April World Economic Outlook, the IMF forecasted an improved current account balance of -3.7% of GDP in 2018, from a trough of -5.8% of GDP in 2016. The IMF projects the current account balance to reach -2.9% of GDP by 2023. This correction will come, in part, due to a reversion in the investment income balance, which turned negative and recorded deficits of over 1% of GDP since 2012 owing largely to lower returns on UK overseas investments. Scope expects the trade balance to improve furthermore thanks to higher exports and import substitution after sterling devaluation, alongside lower domestic demand.

Risks to FDI and portfolio flows

The UK's credit strength has been supported by the strong composition of the financing of its external deficit through net foreign direct investment (FDI). Annual net FDI flows averaged GBP 113bn in 2014-16, more than compensating for the deficit in the current account. However, there have been challenges to these flows since 2017. The financial sector attracts more FDI to the UK than any other sector – with London as the financial gateway to Europe – and 45.2% of the FDI stock in the UK originated from the EU (as of 2016). Consequently, a downturn in EU/foreign inflows due to uncertainty and flux in the European financial industry could materially lessen this resilience. In addition, other important sources of external financing could be placed at risk, including the wholesale funding of the UK's commercial banks, half of which is denominated in foreign currency.

Monetary and FX (foreign exchange) regime is a major strength

In Scope's view, the flexibility of the UK's monetary and exchange rate regime is a major strength, acting as an automatic stabiliser during crises. The pound's more than 11% trade-weighted depreciation since the referendum has reversed some of the earlier strengthening from 2013-2015, helping support the competitiveness of UK exports.

External debt sustainability and vulnerability to short-term external shocks

The UK's net international investment position amounted to -13% of GDP as of Q1 2018. While the EU divorce process may dampen FDI inflows, the existing stock of FDI will remain more durable and less prone to reversal relative to other types of financing.

Pound's reserve currency status an area of monitoring

As noted, Scope views the pound's status as an important global reserve currency as a major credit strength – preventing risks of 'sudden stop' balance of payment crises and bolstering sterling markets including government debt during global shocks. This status is supported by the UK's EU membership and London's status as one of the world's premier financial centres. 4.7% of global reserves were held in sterling as of Q1 2018 – fairly unchanged compared with the level pre-EU referendum per Q4 2015 (based on IMF data) though this share of global reserves may edge lower in future updates owing to pound depreciation since Q1. In the highly adverse scenario that sterling's global reserve status is challenged in the long run, Scope would consider this to be a material credit negative development. Without this status, the UK's high external deficits would represent a significant vulnerability, with gross external financing needs as a share of current account receipts and official FX reserves among the highest in the advanced world.

Financial stability risk

Banking sector performance and banking sector oversight/governance

Major banks are well capitalised

The soundness of the UK's financial system is supported by the nation's sophisticated financial regulation network – including the Bank of England, its Financial Policy Committee (FPC), the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). In Scope's view, this financial regulatory and supervisory strength of the UK framework would remain in place across scenarios relating to the EU exit process.

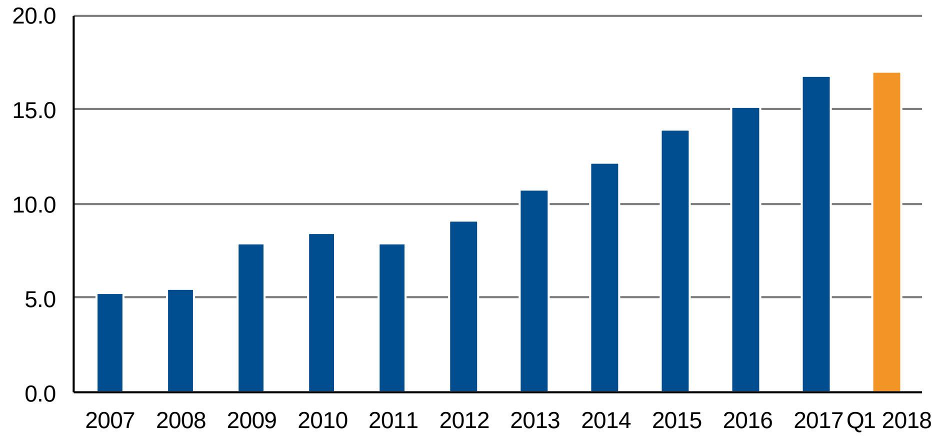
In its June Financial Policy Committee meeting, the FPC maintained the counter-cyclical capital buffer (CCyB) at 1.0%, effective from 28 November 2018. The alignment of the CCyB at 1.0% in a standard environment is higher than that of international peers and provides flexibility for counter-cyclical economic support in a downturn. Major UK banks' aggregate tier 1 capital ratio stood at 17% as of Q1, much higher than in 2007 (**Figure 9**).

BoE's 2017 stress tests showed significant banking system resilience

The Bank of England's 2017 stress test showed that the UK banking system is now able to bridge a deep recession in the UK and global economies, significant decline in asset prices as well as higher misconduct costs. In the scenario (more severe than the global financial crisis), banks see losses of around GBP 50bn in the first two years of the stress but are able to absorb the losses. Despite the severity, "for the first time since the Bank of England launched its stress tests in 2014, no bank needs to strengthen its capital position as a result of the stress test."[23] The test's severity meant also that it implicitly encapsulated many risks that could tie to a hard Brexit. As such, the FPC concluded that the UK banking system could continue to support the economy in a disorderly Brexit. The Bank will conduct an updated assessment of the resilience of the UK banking system in its 2018 stress test.

[23] Bank of England. (2017) "Stress testing the UK banking system: 2017 results", November 2017.

Figure 9: Major banks' Basel III tier 1 capital ratios, % of risk-weighted assets



Source: Bank of England

Financial imbalances and financial fragility

Deep capital markets a plus

The United Kingdom benefits from deep capital markets and its position as one of the world's leading financial centres. UK financial system assets amount to around four times GDP and foreign banks make up half of UK banking assets on a residency basis.

Pockets of risk in the domestic sector

The level of private sector indebtedness remains a concern (though nonfinancial private sector debt has been roughly flat to GDP at about the 185% level per Q1 2018), though private sector debt-servicing costs have declined due to low interest rates. Consumer credit has increased rapidly. The short maturity of consumer credit is worrying as the credit quality of such loans could deteriorate sharply in a downturn. In July 2017, the PRA and FCA published opinions on the consumer credit market, responding to perceived weaknesses in some aspects of underwriting.

Measures of market uncertainty remain low, implying potential for some future repricing of risk. This could affect markets including corporate bonds and UK commercial real estate – in which the FPC noted valuations do not appear to fully reflect downside risks. Increases in the outstanding stock of LIBOR-linked sterling contracts represents an additional medium-term risk. Next, the residential housing market has entered a slowdown – the Nationwide house price index stood at 2.5% Y/Y in July 2018, held down by an ongoing correction in the London housing market.

Contingency planning in progress on Brexit

The effect of Brexit on financial stability could be very significant. However, Scope believes that the UK financial system is presently well positioned to deal with a shock, based on the results of the 2017 stress test, continued improvements in capital adequacy, and stronger asset quality. Nevertheless, the form Brexit takes may present unexpected challenges. Around GBP 40bn of UK financial service revenues relate to EU clients and markets[24], underscoring the potential for disruption in a hard Brexit.

In a report, Oliver Wyman concluded that banks operating from the UK may need USD 30bn to USD 50bn in new capital to support European units after a hard Brexit, and operating costs could rise by USD 1bn as functions are duplicated.[25] The effect could be most pronounced in markets that have recently had greater reliance on access to overseas capital, such as commercial real estate. Since 2015, about half of investment in

[24] Oliver Wyman. (2016) "The impact of the UK's exit from the EU on the UK-based financial services sector".
[25] Austen, Matt, Lindsey Naylor, James Davis, Nick Darbyshire, Chris Allchin and Patrick Hunt. (2017) "One year on from the Brexit vote: a briefing for wholesale banks", Oliver Wyman.

UK commercial real estate has been financed by overseas investors. Moreover, banking and insurance services provided to UK-based clients by firms in the EEA could be adversely impacted.

The BoE, FCA and PRA are working with regulated institutions to ensure that comprehensive contingency plans are made. Treasury announced legislation that would allow EEA entities to temporarily continue operating in the UK post-Brexit while they seek new permissions. A Brexit technical working group, chaired by the European Central Bank and Bank of England, on risk management in the area of financial services has moreover been set up. Any shock to the UK's financial sector would be highly significant, owing to the sector's intrinsic importance to employment and public receipts, and connectivity to the real economy.

Methodology

The methodology applicable for this rating and/or rating outlook "Public Finance Sovereign Ratings" is available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration.
Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's definition of default, definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative "AA" ("aa") rating range for the United Kingdom. Scope affirms the indicative rating of "aa" for the United Kingdom. This indicative rating range can be adjusted by the Qualitative Scorecard (QS) by up to three notches depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the United Kingdom, the following relative credit strengths were identified: i) market access and funding sources; ii) external debt sustainability; iii) vulnerability to short-term external shocks; and iv) banking sector oversight and governance. Relative credit weaknesses were signalled for: i) macro-economic stability and sustainability; ii) fiscal policy framework; and iii) recent events and policy decisions. Combined relative credit strengths and weaknesses generate no adjustment and signal a sovereign rating of AA for the UK. A rating committee discussed and confirmed these results.

Rating overview	
CVS category rating range	aa
QS adjustment	AA
Final rating	AA

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower-case.

Within the QS assessment, the analyst conducts a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, review of fiscal and financial performance, and policy implementation assessments.

There are three assessments per category for a total of fifteen. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analyst recommendation to the rating committee.

Foreign- versus local-currency ratings

The UK's debt is predominantly issued in local currency. Because of its history of repayment, reserve currency status and material institutional strengths, Scope sees no evidence that the UK would differentiate among any of its contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS results

CVS: Rating indicator	Category weight	QS (*Maximum adjustment = 3 notches*)	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Domestic economic risk	**35%**	Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	● Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential we under trend or negative
Economic growth Real GDP growth Real GDP volatility GDP per capita Inflation rate		Economic policy framework	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Labour & population Unemployment rate Population growth		Macro-economic stability and sustainability	○ Excellent	○ Good	○ Neutral	● Poor	○ Inadequate
Public finance risk Fiscal balance GG public balance GG primary balance GG gross financing needs	**30%**	Fiscal policy framework	○ Exceptionally strong performance	○ Strong performance	○ Neutral	● Weak performance	○ Problematic performance
Public debt GG net debt		Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	● Neutral	○ Weak sustainability	○ Not sustainable
Interest payments		Market access and funding sources	● Excellent access	○ Very good access	○ Neutral	○ Poor access	○ Very weak access
External economic risk International position International investment position Importance of currency	**15%**	Current account vulnerability	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Current-account financing Current-account balance		External debt sustainability	○ Excellent	● Good	○ Neutral	○ Poor	○ Inadequate
T-W effective exchange rate Total external debt		Vulnerability to short-term external shocks	○ Excellent resilience	● Good resilience	○ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Institutional and political risk Control of corruption	**10%**	Perceived willingness to pay	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Voice & accountability		Recent events and policy decisions	○ Excellent	○ Good	○ Neutral	○ Poor	● Inadequate
Rule of law		Geopolitical risk	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Financial risk Non-performing loans	**10%**	Banking sector performance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Liquid assets		Banking sector oversight and governance	● Excellent	○ Good	○ Neutral	○ Poor	○ Inadequate
Credit-to-GDP gap		Financial imbalances and financial fragility	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate

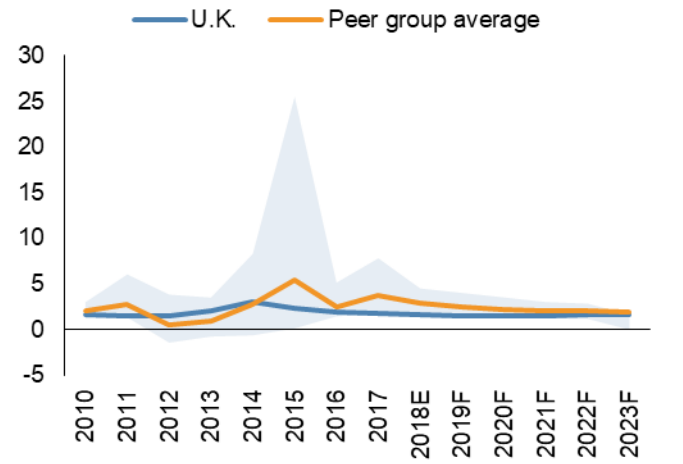
Indicative rating range	**aa**
QS adjustment	**AA**
Final rating	**AA**

*** Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10**

Source: Scope Ratings GmbH

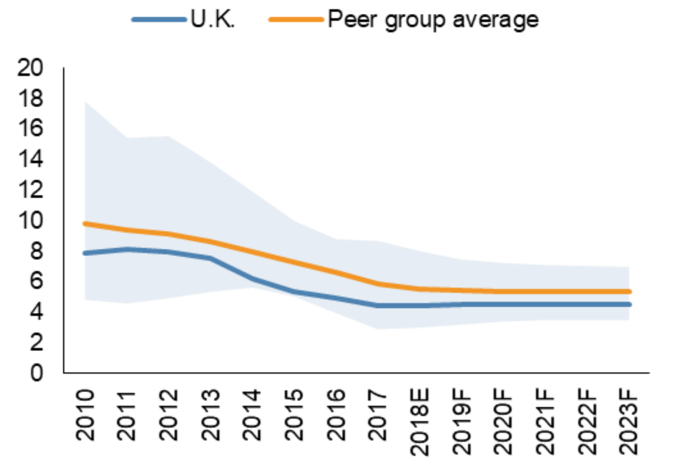
III. Appendix: Peer comparison

Figure 10: Real GDP growth, %



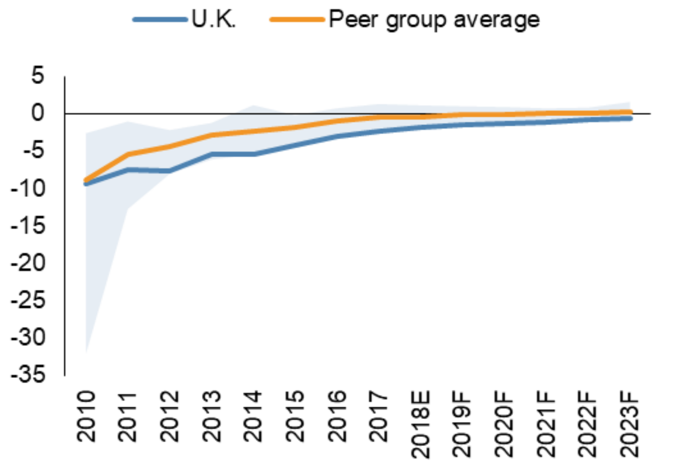
Source: IMF, Calculations Scope Ratings GmbH

Figure 11: Unemployment rate, % of total labour force



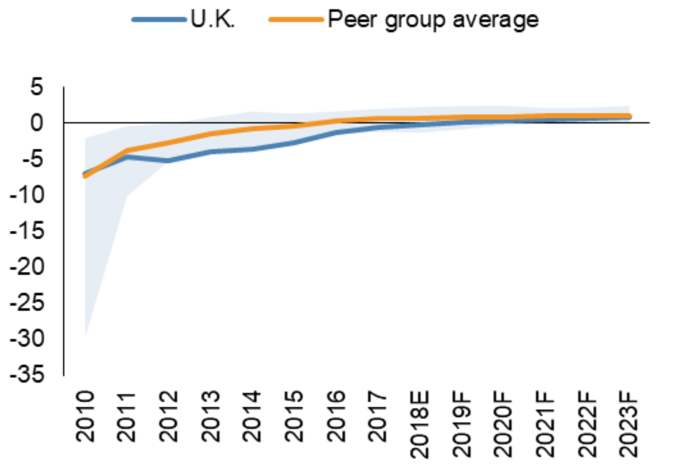
Source: IMF, Calculations Scope Ratings GmbH

Figure 12: General government balance, % of GDP



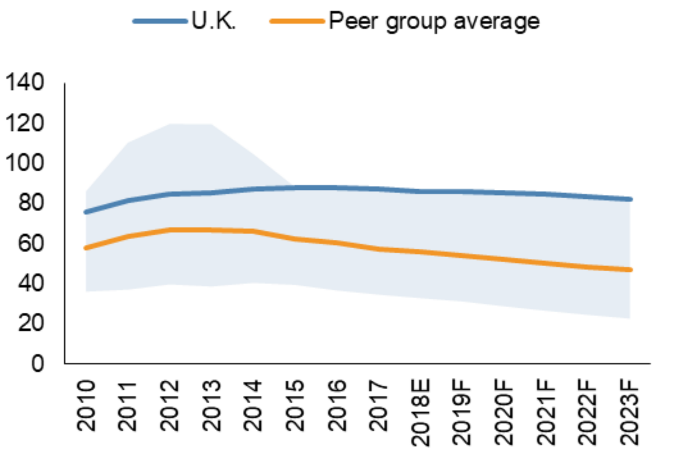
Source: IMF, Calculations Scope Ratings GmbH

Figure 13: General government primary balance, % of GDP



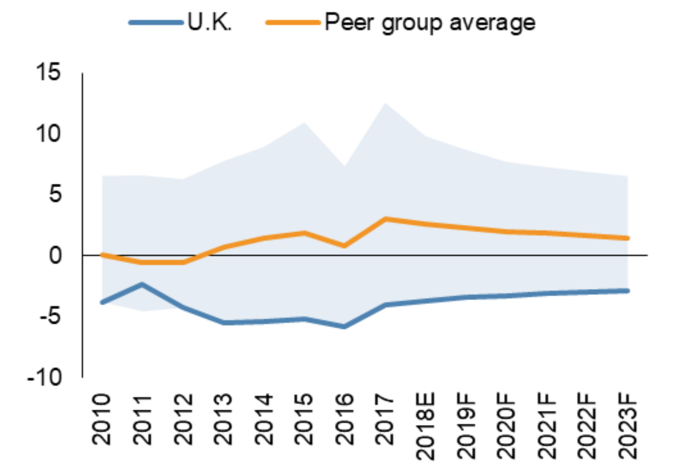
Source: IMF, Calculations Scope Ratings GmbH

Figure 14: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 15: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2013	2014	2015	2016	2017	2018E	2019F
Economic performance							
Nominal GDP (GBP bn)	1,752.6	1,837.1	1,888.7	1,963.3	2,037.6	2,105.7	2,170.8
Population ('000s)	64,106.0	64,597.0	65,110.0	65,648.0	66,051.0	66,466.0	66,845.0
GDP per capita PPP (USD)	39,308.1	40,707.2	41,579.9	42,656.2	43,876.6	-	-
GDP per capita (GBP)	27,338.4	28,438.8	29,008.4	29,906.6	30,849.2	31,680.5	32,475.5
Real GDP, % change	2.1	3.1	2.3	1.9	1.8	1.6	1.5
GDP growth volatility (10-year rolling SD)	2.1	2.2	2.1	2.1	2.1	2.0	0.5
CPI, % change	2.6	1.5	0.0	0.7	2.7	2.7	2.2
Unemployment rate (%)	7.6	6.2	5.4	4.9	4.4	4.4	4.5
Investment (% of GDP)	16.1	17.1	17.0	16.9	16.9	17.0	17.1
Gross national savings (% of GDP)	10.5	11.8	11.8	11.1	12.8	13.3	13.7
Public finances							
Net lending/borrowing (% of GDP)	-5.4	-5.4	-4.3	-3.0	-2.3	-1.8	-1.5
Primary net lending/borrowing (% of GDP)	-4.1	-3.6	-2.8	-1.4	-0.6	-0.2	0.0
Revenue (% of GDP)	36.3	35.3	35.6	36.0	36.4	36.7	36.7
Expenditure (% of GDP)	41.7	40.8	39.8	39.0	38.7	38.5	38.3
Net interest payments (% of GDP)	1.3	1.8	1.5	1.6	1.7	1.6	1.6
Net interest payments (% of revenue)	3.7	5.1	4.1	4.3	4.8	4.5	4.2
Gross debt (% of GDP)	85.6	87.4	88.2	88.2	87.0	86.3	85.9
Net debt (% of GDP)	77.2	79.1	79.6	79.1	78.2	77.4	77.0
Gross debt (% of revenue)	236.0	247.4	247.9	244.8	239.1	235.3	233.9
External vulnerability							
Gross external debt (% of GDP)	318.4	310.6	288.7	309.2	-	-	-
Net external debt (% of GDP)	-	-	-	-	-	-	-
Current-account balance (% of GDP)	-5.5	-5.3	-5.2	-5.8	-4.1	-3.7	-3.4
Trade balance [FOB] (% of GDP)	-	-6.7	-6.3	-6.9	-6.7	-6.3	-6.0
Net direct investment (% of GDP)	-0.4	-4.3	-4.6	-8.7	3.1	-	-
Official forex reserves (EOP, USD bn)	66.2	72.1	95.3	100.6	114.4	-	-
REER, % change	0.0	0.1	0.1	-0.1	-0.1	-	-
Nominal exchange rate (EOP, USD/GBP)	1.65	1.56	1.48	1.23	1.35	-	-
Financial stability							
Non-performing loans (% of total loans)	1.8	-	2.1	1.6	1.3	-	-
Tier 1 ratio (%)	14.4	-	15.6	16.9	17.1	-	-
Consolidated private debt (% of GDP)	172.8	166.0	164.8	170.0	169.4	-	-
Domestic credit-to-GDP gap (%)	-31.6	-22.2	-26.2	-17.0	-19.0	-	-

Source: IMF, European Commission, European Central Bank, Bank of England, ONS, World Bank, Haver Analytics, Scope Ratings GmbH

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH.

Rating prepared by Dennis Shen, Associate Director

Person responsible for approval of the rating: Karlo Stefan Fuchs, Executive Director

The ratings/outlook were first assigned by Scope as a subscription rating in January 2003. The ratings/outlooks were last updated on 18.08.2017.

The senior unsecured debt ratings as well as the short-term issuer ratings were last updated by Scope on 18.08.2017.

Rating Committee: i) technical aspects of changes in the CVS; ii) rating drivers from the previous rating report; iii) productivity developments and systemic weaknesses of the UK economy; iv) Brexit scenarios, hard Brexit risks, Article 50 extension possibility; v) debt sustainability analysis; vi) political uncertainty; vii) QS positioning of the UK; and viii) peers comparison.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: (UK) Office for National Statistics, Bank of England, Office for Budget Responsibility, Her Majesty's Treasury, European Commission, Statistical Office of the European Union, IMF, OECD, and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings 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.

Prior to the issuance of the rating, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

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