Country outlook
United Kingdom

CaixaBank

Closing date of this issue: September 2019

United Kingdom

Form of Government: Parliamentary monarchy

Capital: London

Official language: English

Population: 66 million inhabitants (2018)

Currency: Pound sterling (GBP)

Exchange rate: 1 EUR = 0.90 GBP (30/08/2019)
1 USD = 0.82 GBP (30/08/2019)

GDP: $2,828 billion (2.2% of world GDP)

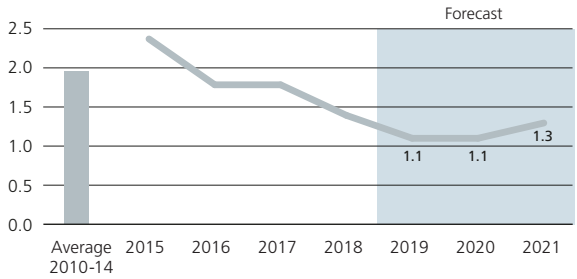
GDP per capita: $42,558 ($45,704 purchasing power parity)

Ease of doing business: 9th in the world out of 190 according to the World Bank (Doing Business)

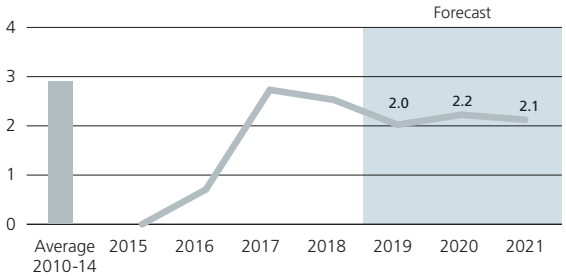
Religion: Christian: 59%

Economic forecast

GDP. Year-on-year change (%)



CPI. Year-on-year change (%)

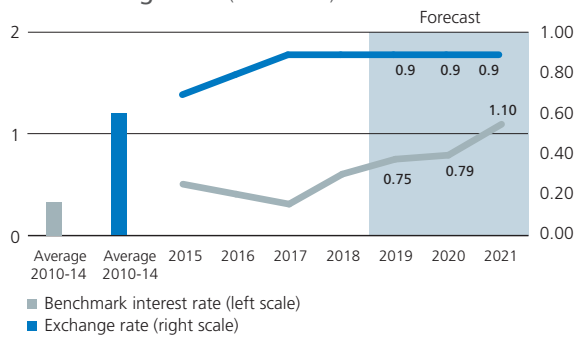


- Britain's economic growth slowed sharply in 2018 and continues to do so in 2019, in part due to the lower external dynamism, but also as a result of the uncertainty surrounding Brexit. Looking ahead, the outlook for the British economy will continue to depend, first, on the evolution of Brexit negotiations, and second, on the future relationship with the EU; and so the pace of economic activity will remain modest. However, a labour market in full employment and a monetary policy that is still accommodative provide the support needed to contain an eventual economic slowdown.

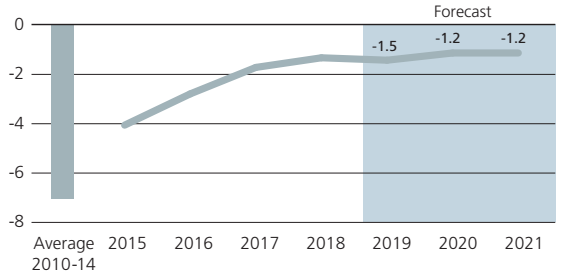
- Inflation will remain contained in 2019-2021 and near the Bank of England's 2% target. All in all, while falling oil prices will cause inflation to dip slightly in 2019, inflation will begin to gradually rise again in 2020 as the impact of lower energy prices disappears and as a result of somewhat more pronounced wage pressures.

Economic policy

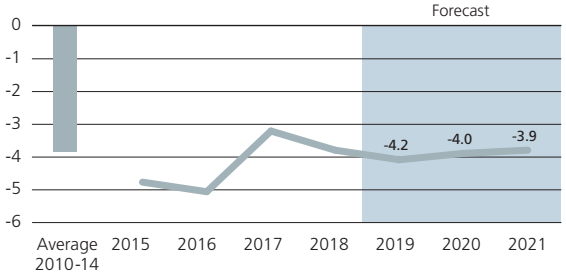
Benchmark interest rate (%) and exchange rate (GBP/USD)



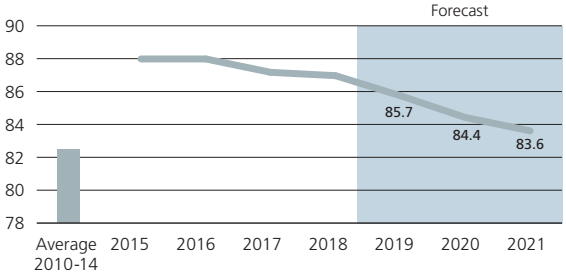
Fiscal balance (% GDP)



Current account (% GDP)



Public debt (% GDP)

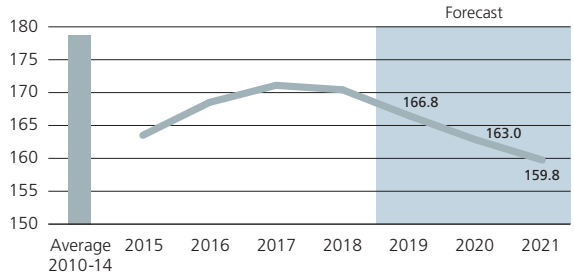


- After reacting to the Brexit referendum with a preventive shift towards a more expansive monetary policy, the Bank of England partially reversed its stance by raising interest rates in 2017 and 2018 as a result of rebounding inflation and labour market improvements. For the upcoming years, the bank is maintaining the perspective that, without any deep shocks to aggregated demand (like a disorderly exit from the EU), the situation of practically full employment will require a gradual and limited normalisation of the monetary policy. However, given the context of high uncertainty both domestically and abroad, and the accommodative tone of the Federal Reserve and the ECB, we except the bank to maintain a cautious stance and not raise interest rates until late 2020.

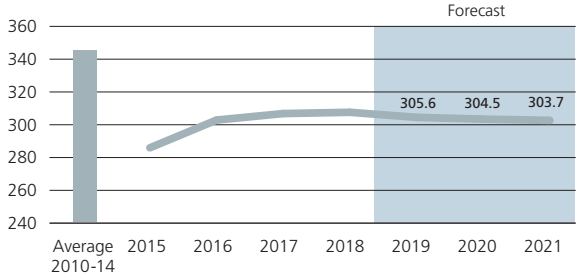
- Following several years of austerity, the British Treasury has abandoned its target of returning to surplus in 2020 in the interest of a plan that will provide it with the flexibility to implement a light short-term fiscal stimulus if necessary while preserving long-term fiscal sustainability. However, this will not prevent the public debt-to-GDP ratio from slowly declining in upcoming years.
- Despite the significant reduction of the current account deficit in recent years, it remains high and makes the United Kingdom's economy vulnerable to shifts in international investor sentiment.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



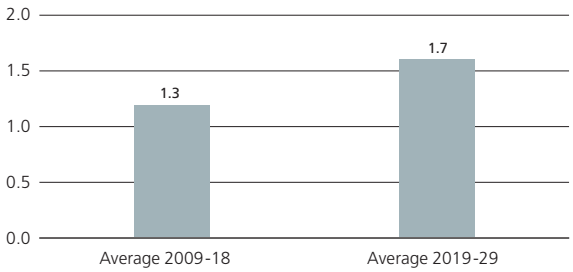
- Household indebtedness has fallen from the peaks reached in 2008, but remains at historically high levels (around 125% of household income). In recent years, the pace of credit growth has slowed due to the slight tightening of lending standards and the cooling of the real estate market (partially the result of the uncertainty surrounding Brexit). The banking sector is well capitalized (the CET1 capital ratio stood at 15.2% in late 2018) and strongly positioned to continue supporting the economic activity. In fact, the Bank of England's stress tests in 2018 demonstrated that British banks would be able to withstand more severe economic shocks than the 2008-2009 crisis, such as what we could expect to occur in the case of a no-deal Brexit.
- The United Kingdom's high level of foreign debt is largely due to its role as an international financial centre. However, a scenario in which the split with the EU is not entirely amicable, and in which there is no agreement for the services trade, would not only generate economic and political instability at home but could put the United Kingdom in a highly vulnerable position abroad.

Political situation

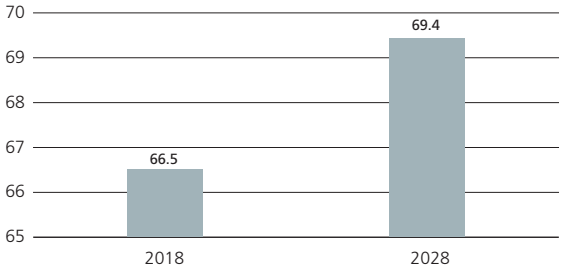
- The uncertainty around the process of exiting the EU has increased with Boris Johnson as Prime Minister, because his goal of executing Brexit adds to the existing difficulties of agreeing on a Brexit strategy in the House of Commons. Against this backdrop, Parliament quickly approved a law to block any attempt to leave the EU on 31 October (new Brexit date) without a deal. In particular, Parliament may force Prime Minister Johnson to request an extension of article 50 (and delay Brexit until January 2020) if an EU withdrawal agreement has not been approved by 19 October. Therefore, a hard Brexit should be blocked, at least in the short term. However, although attempts to call a snap elections were rejected, we expect elections to be called in the coming months. In this sense, a new Parliament with a pro-Brexit majority could support a no deal Brexit in the future.
- In this context, the EU is likely to grant the United Kingdom another extension to Article 50, which would open up a wide range of possible scenarios: early elections, a second referendum, or a compromise between the parties to ratify an exit deal. However, given the desire within the Conservative Party to execute the departure from the EU (with or without a deal), we cannot rule out a disorderly exit.
- In any case, once the terms of the exit have been agreed upon, it will still remain to negotiate and define the future relationship between the United Kingdom and the EU.

Long-term outlook

GDP growth (%)



Population (milions of inhabitants)



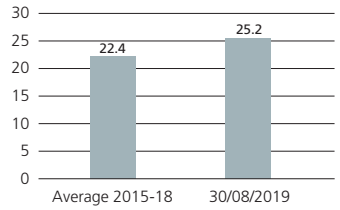
- The exit from the EU will entail economic costs for the United Kingdom, because it will inevitably reduce or eliminate some of the benefits of free trade (like trade links in value chains, financial benefits, and migratory flows). In the short term, the magnitude and depth of the impact will depend on how the exit occurs and whether or not a transition period is established during which the two sides can negotiate their future relationship. In the long term, the economic impact of Brexit will depend on how the new relationship with the EU is defined, particularly in terms of trade barriers and the free movement of people.
- Once the new relationship with the EU is established, the British economy should return to rates of growth similar to those of previous years. The government must pay special attention to existing imbalances, such as the high public debt and external debt. Moreover, addressing low productivity concerns will be key for making the economy more dynamic.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	AA	24/06/16	Negative
Moody's	Aa2	22/10/17	Stable
FitchRatings	AA	28/06/16	Negative

■ Indicates that the country has an "investment grade".
□ Indicates that the country does not have an "investment grade".

CDS* 5 years (basis points)



*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

SHORT-TERM

- Disorderly exit from the EU
- Larger foreign imbalance
- Heavy household borrowing
- Bubble in the real estate sector

LONG-TERM

- Unfavourable agreement with the EU
- Limited productivity gains
- Obsolete infrastructure
- Uncertainty about the model of state

Business environment

STRENGTHS

- Ease of doing business.
- Labour market flexibility.
- Efficiency of the goods market.

WEAKNESSES

- Political and institutional instability after Brexit.
- Loss of productivity.
- Low-quality infrastructure.

Main sectors

EXPORTS

- Machinery, vehicles, mineral fuels, precious metals and stones, and pharmaceutical products.

IMPORTS

- Machinery, vehicles, electronics, mineral fuels, and precious metals and stones.

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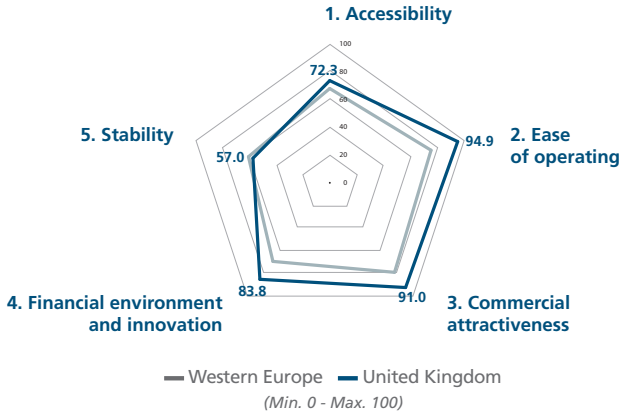
POSITION IN COUNTRY RANKING

2/67

PILLARS



SUBPILLARS

Top

Investment relations with Spain

Similar tastes to Spain

Easiness of operating a business

Bottom

Macroeconomic stability

Institutional stability

Distance, communications, and agreements with Spain

Source: CaixaBank Research, based on data from Bloomberg, IMF, OECD, Oxford Economics and Thomson Reuters Datastream.

Taxation

The United Kingdom is considered to be one of the countries in the world with the best tax breaks, both for individuals and for companies. Corporate tax is set at 20% for small enterprises with earnings of up to GBP 300,000, although the government has announced a cut in this tax below 15%. In the United Kingdom it is necessary to differentiate between resident companies, which are subject to corporate tax according to their overall earnings, and non-resident companies which only pay corporate tax on the income obtained in the UK, as well as on any taxable income from assets used in order to set up or become a permanent establishment. If a non-resident company carries out an investment related to a source of income in the United Kingdom, this will be subject to income tax. A resident company in the United Kingdom is subject to this country's taxes if it is founded in the United Kingdom or, otherwise, if its main place of management and control is located in the country. Value added tax has a general rate of 20% while some product groups are levied at 5% and 0%. The 5% rate is applied, for instance, to baby products such as car seats, prams, etc., materials related to energy saving in the home or residential buildings, hygiene products, etc. The products included in the 0% VAT category are basically foods, books, baby clothes, transport (caravans, boats, etc.), construction and residential properties. Financial services, insurance, etc. are exempt. Special taxes are levied on certain products, such as tobacco products, alcoholic drinks and oil.

Investment

In the United Kingdom, foreign direct investment for 2015 was 39.532 billion dollars, putting it in eighth place worldwide. Most investments are associated with the services sector (financial, professional and business). The main investing countries are: the US, the Netherlands and France.

Establishment

LOCAL COMPANY

The most popular option for foreign investors is to set up a limited liability company, either as an independent company or as a subsidiary of a foreign-owned company. The main advantage of a limited company is that shareholders are liable for the shares they hold. There are also companies limited by guarantee, where each member of the company undertakes to contribute with an amount of company assets (form used for clubs, associations or other non-profit organisations) and limited public companies, where the shares in the company are listed on a market, such as the London Stock Exchange. Another option is an unlimited company, where all shareholders have unlimited liability. Other forms of less common establishment are ordinary limited partnerships, which has two types of partners with different liabilities, or limited liability partnerships (LLP), which provide the advantages of limited liability but allow partners freedom in internal organisation and other arrangements typical of a conventional partnership.

UK ESTABLISHMENT

Term used to unify concepts such as "representative office" and "branch". A foreign firm that wishes to operate via these two forms must be registered as an "Establishment" in the company registry (Companies House). To do this, it must complete a form (OS IN01) with details of the company in the United Kingdom, of the director and secretary, as well as the names and addresses of the company's permanent representatives and/or the person resident in the United Kingdom authorised to represent the firm. The OS IN01 form must be accompanied by certified copies of the deed of incorporation and a copy of the most recent accounts.

Alliances strategic

FREE TRADE ZONE

There are five free trade zones in the United Kingdom: Liverpool Free Zone, Prestwick Airport Free Zone, Port of Sheerness Free Zone, Southampton Free Zone and Port of Tilbury Free Zone.

JOINT VENTURE

A company can enter the United Kingdom market via a joint venture; the most widely used forms for this type of establishment are limited companies or partnerships.

Customs conditions

FREE TRADE AGREEMENTS

The 27 European Union Member States form part of the same territory for customs purposes. The very definition of a customs union validates the inexistence of tariff barriers between Member States. A common tariff is applied for imported products; once effective, goods can circulate freely throughout all countries in the EU.

FREE TRADE ZONE

Goods are exempt from VAT and import duties and tariffs. In the free trade zones of the EU, goods can be processed under customs control prior to them entering EU territory or under the regime of inward processing prior to re-exportation. When goods leave a free trade zone, their final destination is not restricted. If the goods are re-exported, they will not pay any customs duties or internal indirect taxes. If, on the other hand, the goods are released for free circulation, the corresponding customs duties and taxes for importation from the destination territory will have to be paid.

GENERALISED SYSTEM OF PREFERENCES (GSP)

The United Kingdom is one of the countries that grants tariff preferences by applying zero duty or reduced tariffs to beneficiary countries (less developed countries).

Negotiations and protocol

BUSINESS CULTURE

A formal, professional approach is taken. UK businesspeople look for short-term results and only accept an appointment if they are really interested as they value their time highly. Courtesy and discipline must always be present. It is not essential to exchange business cards. It's also important to control effusive and excessive behaviour as they tend to be very reserved.

Top fairs

- Your Wedding Exhibition.
- Moving and Handling People.
- Surface Design Show.
- Olympia Beauty Show.
- The Franchise Show.

Websites of interest

- United Kingdom Tax Office (HM Revenue & Customs): https://www.gov.uk/government/organisations/hm-revenue-customs
- The London Chamber of Commerce: http://www.londonchamber.co.uk/
- Food Standards Agency: http://www.food.gov.uk/
- The Natural Environment Research Council (NERC): http://www.nerc.ac.uk/
- British Standards Institution: http://www.businesslink.gov.uk/
- HM Revenue & Customs: http://www.hmrc.gov.uk/
- Confederation of British Industries (CBI): http://news.cbi.org.uk/
- UK Trade & Investment | 1 More London Place | London SE1 2AF | Tel: +44 (0) 7880054760. http://www.gov.uk/government/organisations/uk-trade-investment

Payment and charging methods

MEANS OF COLLECTION

Payment is generally made by transfer, against invoice, within 30-45 days.
It is illegal for companies to withhold payments beyond the time agreed with suppliers, and therefore they are considered good payers. Another widely used measure is documentary credit, which can be used to provide the seller with more guarantees of collecting payment.

MEANS OF PAYMENT

Transfers are used in general, because it is a fast, effective method, in pounds sterling or in euros. Another option is documentary credit, especially when the customer is not known.

EXCHANGE RATE INSURANCE

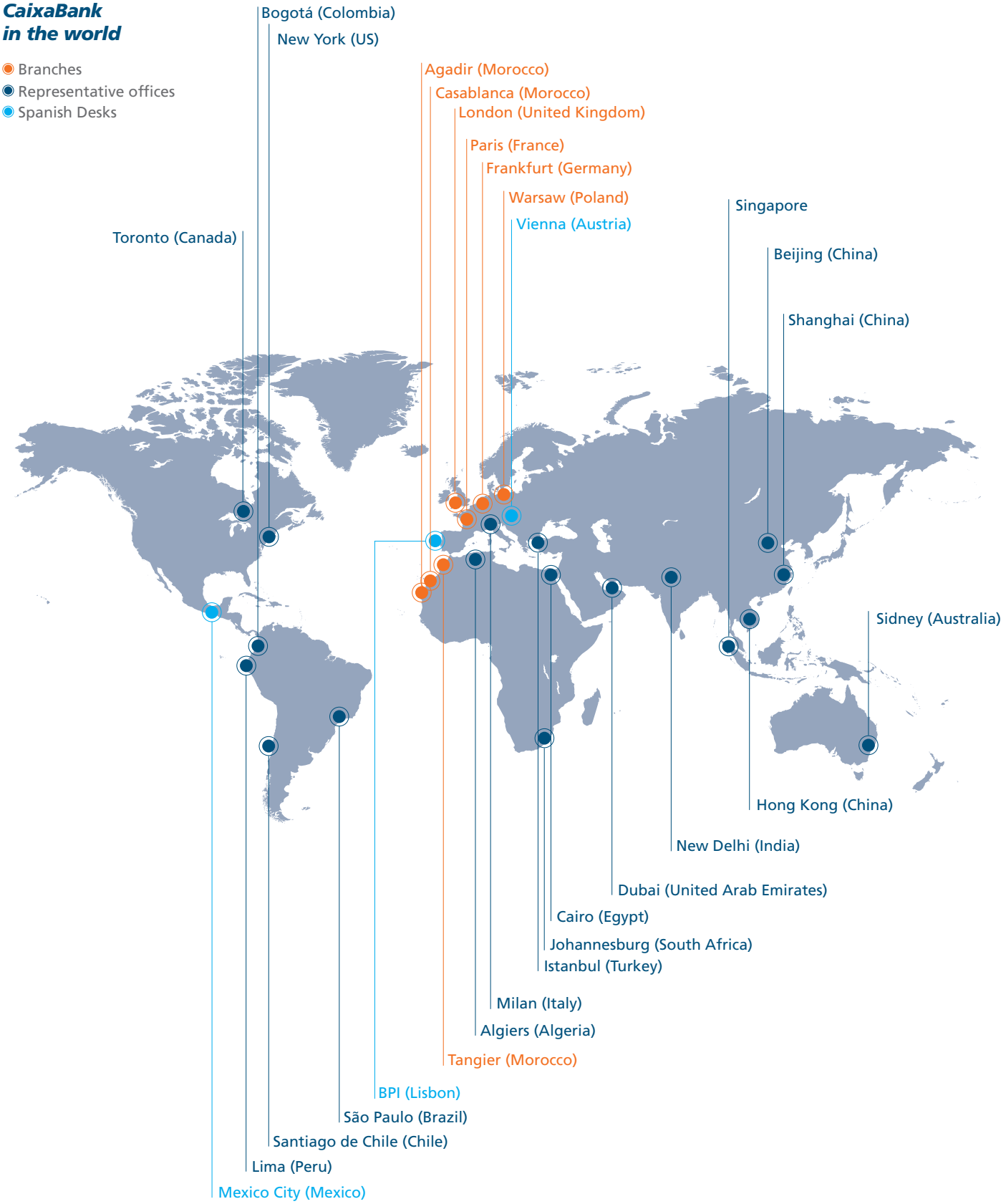
There are not usually large fluctuations with regard to the euro. Nonetheless, it is advisable to hedge against exchange rate risk for future transactions.

CaixaBank in the country

We offer financing and services for companies in the United Kingdom through the CaixaBank branch in London.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks



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