

After grappling with a technical recession in the latter half of 2023, the UK economy is finally catching its breath. In the first quarter of 2024, GDP rebounded by 0.6%, signaling a positive shift. Business surveys—combining the Purchasing Managers' Index (PMI) and the Lloyds Business Barometer—echo this sentiment, pointing toward a re-acceleration of growth. The timing is interesting: the new Labour Government steps in just as the economic cycle swings favorably. The worst of the recent crisis appears to be behind us, allowing for cautious optimism.

Experts anticipate headline inflation to hover around the 2% target throughout the year as services inflation normalizes. The Bank of England is poised to begin rate cuts in the summer, which should further bolster the economic outlook. Second, external challenges persist—geopolitical tensions and supply chain vulnerabilities—but overall recovery is expected after last year's weakness. Third, a combination of tailwinds—such as falling inflation—and increased consumption should support modest positive growth for the remainder of 2024 and into 2025. Affirming.

**CREDIT POSITION**

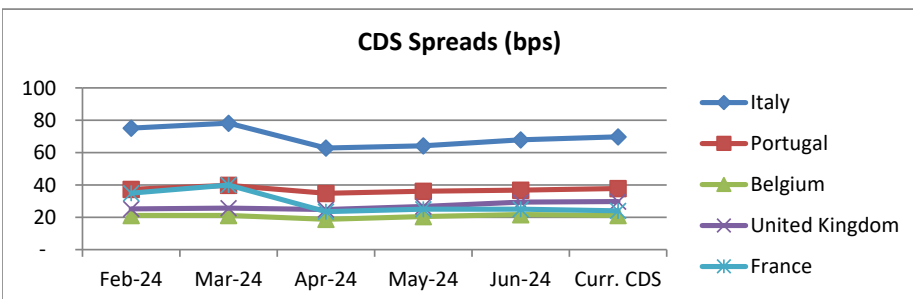
	Annual Ratios (source for past results: IMF)					
	2021	2022	2023	P2024	P2025	P2026
Debt/ GDP (%)	182.1	149.9	143.8	148.6	156.0	166.3
Govt. Sur/Def to GDP (%)	-6.7	-6.1	-6.2	-5.9	-8.6	-12.0
Adjusted Debt/GDP (%)	182.1	149.9	143.8	148.6	156.0	166.3
Interest Expense/ Taxes (%)	11.0	14.5	10.5	10.2	9.9	9.7
GDP Growth (%)	8.5	9.7	7.2	2.5	3.6	3.6
Foreign Reserves/Debt (%)	2.3	2.4	2.2	2.1	1.9	1.8
Implied Sen. Rating	BBB+	BBB+	A-	BBB+	BBB+	BBB

**INDICATIVE CREDIT RATIOS**

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

**PEER RATIOS**

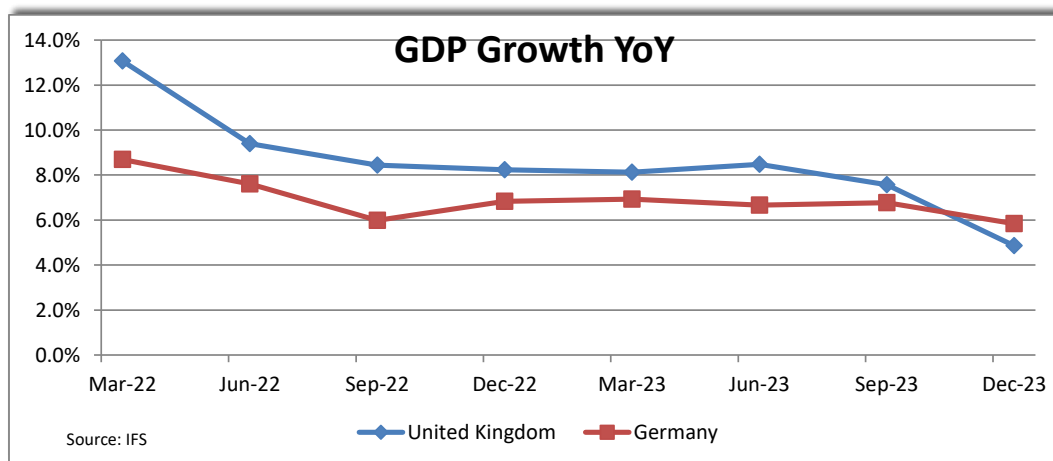
	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio- Implied Rating*
Federal Republic Of Germany	AAA	64.0	-2.6	64.0	3.8	6.3	AA
French Republic	AA	117.2	-4.8	117.2	5.9	6.2	A-
Kingdom Of Belgium	AA	108.6	-3.9	108.6	6.8	5.5	BBB
Republic Of Italy	BBB-	151.4	-6.8	151.4	12.7	6.2	BB+
Portugal Republic	BB+	105.8	1.1	105.8	8.6	9.6	BBB-



Country	EJR Rtg.	CDS
Italy	BBB-	70
Portugal	BBB-	38
Belgium	BBB	21
United Kingdom	A+	30
France	A+	24

**Economic Growth**

In the first quarter of 2024, the UK's Gross Domestic Product (GDP) experienced a notable rebound, rising by 0.6% sequentially. This growth followed a previous quarter's decline and marked the most substantial increase in over two years. The driving forces behind this recovery were stronger private consumption and fixed investment. However, exports continued to face challenges, falling for the fifth consecutive quarter due to decreased goods sales. Looking ahead, our consensus points toward ongoing economic growth in Q2. We anticipate this growth to be fueled by increased private and government spending, as well as a rebound in exports.



**Fiscal Policy**

The interplay of lower inflation and interest rates has significant implications for the UK Government's finances. On one hand, these factors reduce projected debt servicing and welfare costs—a welcome relief. However, they also lead to decreased revenues. The pre-measures forecast predicts a £20 billion fiscal improvement over the next two years. As the new government takes the reins, its first major challenge awaits: the spending review. Against a backdrop of limited fiscal space, this review will determine departmental budgets for 2025-26 and beyond.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
United Kingdom	-6.24	143.77	29.72
Germany	-2.55	64.01	11.51
France	-4.84	117.19	24.00
Belgium	-3.85	108.57	21.16
Italy	-6.85	151.35	69.77
Portugal	1.08	105.78	37.73

Sources: Thomson Reuters and IFS

**Unemployment**

The UK's unemployment rate for the period from March to May 2024 stands at 4.4%. This figure surpasses the estimates from a year ago (March to May 2023) and has increased in the most recent quarter. Let's rewind a bit: since early 2012, the employment rate had been on an upward trajectory, but the onset of the COVID-19 pandemic caused a dip. While there was a general increase since the end of 2020, the rate has been steadily declining since mid-2023. In the latest quarter, the employment rate took a hit and remains below pre-pandemic levels.

	Unemployment (%)	
	2022	2023
United Kingdom	3.90	3.80
Germany	3.07	3.03
France	7.32	7.34
Belgium	5.58	5.53
Italy	8.08	7.67
Portugal	6.16	6.58

Source: Intl. Finance Statistics

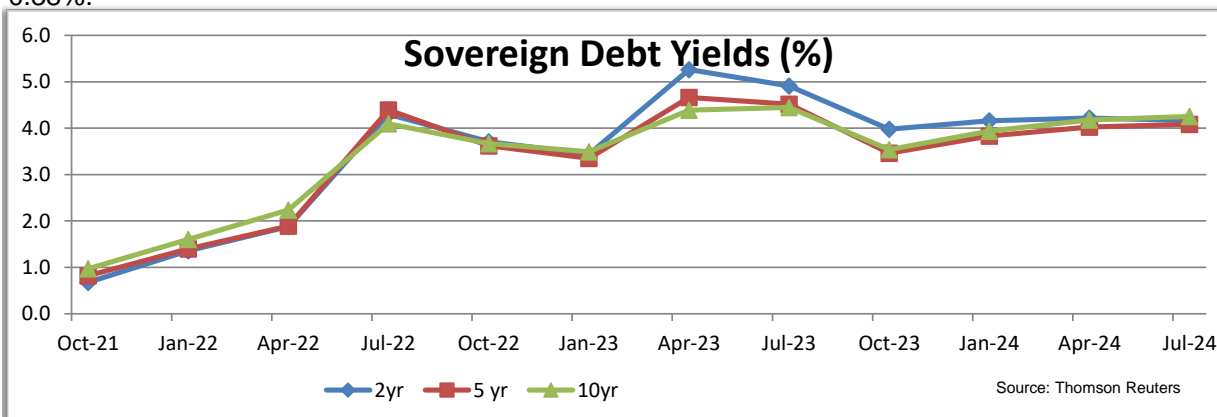
**Banking Sector**

The UK banking system stands on solid ground—it's well capitalized and boasts ample liquidity. Even in the face of adverse economic and financial conditions, it has the capacity to support households and businesses. Recently, major UK banks have witnessed a rise in their aggregate return on equity, hovering around their cost of equity. This positive trend has contributed to an increase in their valuations.

<b>Bank Assets (billions of local currency)</b>		
	Assets	Mkt Cap/ Assets %
HSBC HLDGS PLC	3,038.7	4.22
ROYAL BK SCOTLAN	782.0	3.03
BARCLAYS PLC	1,477.5	2.11
LLOYDS BANKING	881.5	3.90
STANDARD CHARTER	<u>822.8</u>	<u>2.21</u>
Total	7,002.5	
EJR's est. of cap shortfall at 10% of assets less market cap		464.5
United Kingdom's GDP		2,687.2

**Funding Costs**

At its June meeting, the Bank of England (BoE) opted to maintain interest rates—a move that aligned with market expectations. The backdrop for this decision was the recent easing of UK inflation, which settled neatly at the central bank's 2% target. The United Kingdom's 10-Year Government Bond currently offers a yield of 4.068%. The spread between the 10-Year and 2-Year government bonds stands at 12.7 basis points (bp). And the current quotation for the United Kingdom's 5-Year Credit Default Swap hovers at 22.78 basis points, corresponding to an implied probability of default at 0.38%.



**Ease of Doing Business**

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 8 (1 is best, 189 worst) is extremely strong.

<b>The World Bank's Doing Business Survey*</b>			
	2021 Rank	2020 Rank	Change in Rank
<b>Overall Country Rank:</b>	<b>8</b>	<b>8</b>	<b>0</b>
<b>Scores:</b>			
Starting a Business	18	18	0
Construction Permits	23	23	0
Getting Electricity	8	8	0
Registering Property	41	41	0
Getting Credit	37	37	0
Protecting Investors	7	7	0
Paying Taxes	27	27	0
Trading Across Borders	33	33	0
Enforcing Contracts	34	34	0
Resolving Insolvency	14	14	0

\* Based on a scale of 1 to 189 with 1 being the highest ranking.

**Economic Freedom**

As can be seen below, United Kingdom is above average in its overall rank of 68.6 for Economic Freedom with 100 being best.

<b>Heritage Foundation 2024 Index of Economic Freedom</b>				
<b>World Rank 68.6*</b>				
	<b>2024 Rank**</b>	<b>2023 Rank</b>	<b>Change in Rank</b>	<b>World Avg.</b>
<b>Property Rights</b>	<b>94.6</b>	<b>95.1</b>	<b>-0.5</b>	<b>53.4</b>
<b>Government Integrity</b>	<b>84.1</b>	<b>86.4</b>	<b>-2.3</b>	<b>43.7</b>
<b>Judicial Effectiveness</b>	<b>84.3</b>	<b>84.8</b>	<b>-0.5</b>	<b>48.8</b>
<b>Tax Burden</b>	<b>62.3</b>	<b>65.4</b>	<b>-3.1</b>	<b>78.1</b>
<b>Gov't Spending</b>	<b>34.3</b>	<b>41.9</b>	<b>-7.6</b>	<b>64.2</b>
<b>Fiscal Health</b>	<b>0.0</b>	<b>1.8</b>	<b>-1.8</b>	<b>52.1</b>
<b>Business Freedom</b>	<b>82.7</b>	<b>79.1</b>	<b>3.6</b>	<b>62.1</b>
<b>Labor Freedom</b>	<b>63.2</b>	<b>62.2</b>	<b>1.0</b>	<b>55.9</b>
<b>Monetary Freedom</b>	<b>73.6</b>	<b>80.8</b>	<b>-7.2</b>	<b>67.2</b>
<b>Trade Freedom</b>	<b>83.6</b>	<b>81.8</b>	<b>1.8</b>	<b>69.8</b>

\*Based on a scale of 1-100 with 100 being the highest ranking.  
 \*\*The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).  
 Source: The Heritage Foundation

**Credit Quality Driver: Taxes Growth:**

UNITED KINGDOM has grown its taxes of 5.2% per annum in the last fiscal year which is average. We expect tax revenues will grow approximately 5.2% per annum over the next couple of years and 4.7% per annum for the next couple of years thereafter.

**Credit Quality Driver: Total Revenue Growth:**

UNITED KINGDOM's total revenue growth has been less than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	5.4	5.2	5.2	4.7
Social Contributions Growth %	6.4	0.8	0.8	0.8
Grant Revenue Growth %	0.0	(32.4)	0.5	0.5
Other Revenue Growth %	0.0	(9.0)	4.7	4.7
Other Operating Income Growth%	0.0	(9.1)	(9.1)	(9.1)
Total Revenue Growth%	6.4	3.1	3.1	2.8
Compensation of Employees Growth%	6.3	6.1	6.1	6.1
Use of Goods & Services Growth%	5.0	5.1	5.1	5.1
Social Benefits Growth%	4.4	7.8	7.8	7.8
Subsidies Growth%	(2.5)	(9.9)		
Other Expenses Growth%	30.6	30.6	30.6	27.6
Interest Expense	1.8	2.1	2.1	
Currency and Deposits (asset) Growth%	(8.2)	0.0		
Securities other than Shares LT (asset) Growth%	12.0	0.0		
Loans (asset) Growth%	(57.9)	2.5	2.5	2.5
Shares and Other Equity (asset) Growth%	(74.8)	(43.9)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	8.3	(1.4)	2.0	2.0
Financial Derivatives (asset) Growth%	(18.0)	(0.6)	(0.6)	(0.6)
Other Accounts Receivable LT Growth%	(0.5)	2.3	2.3	2.3
Monetary Gold and SDR's Growth %	0.0	(58.3)	4.7	4.7
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.8	6.9	5.0	5.0
Currency & Deposits (liability) Growth%	(2.1)	6.5	6.5	6.5
Securities Other than Shares (liability) Growth%	9.1	3.8	2.7	2.7
Loans (liability) Growth%	(0.5)	(4.1)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	2.8	0.8	0.8	0.8
Financial Derivatives (liability) Growth%	0.0	(9.9)	(9.9)	(9.9)
Additional ST debt (1st year)(millions GBP)	0.0	0.0		

**ANNUAL INCOME STATEMENTS**

Below are UNITED KINGDOM's annual income statements with the projected years based on the assumptions listed on page 5.

	<b>ANNUAL REVENUE AND EXPENSE STATEMENT</b>					
	<b>(MILLIONS GBP)</b>					
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>P2024</b>	<b>P2025</b>
Taxes	561,919	668,088	745,897	784,697	825,501	868,427
Social Contributions	145,891	163,292	179,902	181,416	182,943	184,482
Grant Revenue	74	97	71	48	48	48
Other Revenue	73,281	79,973	91,476	83,213	87,107	91,184
Other Operating Income	73,355	80,070	91,547	83,261	83,261	83,261
Total Revenue	781,165	911,450	1,017,346	1,049,374	1,178,861	1,227,403
Compensation of Employees	218,073	223,467	241,898	256,539	272,066	288,533
Use of Goods & Services	207,338	218,120	215,153	226,181	237,774	249,962
Social Benefits	325,108	325,859	345,813	372,856	402,014	433,452
Subsidies	140,675	52,766	59,563	53,638	53,643	53,649
Other Expenses	118,950	107,504	129,074	168,629	220,306	287,819
Grant Expense	21,139	14,986	16,548	15,644	14,789	13,981
Depreciation	46,517	48,153	52,988	56,662	56,662	56,662
Total Expenses excluding interest	1,077,800	990,855	1,061,037	1,134,505	1,257,255	1,384,058
Operating Surplus/Shortfall	-296,635	-79,405	-43,691	-85,131	-78,394	-156,655
Interest Expense	<u>41,130</u>	<u>73,194</u>	<u>108,028</u>	<u>82,571</u>	<u>84,336</u>	<u>86,138</u>
Net Operating Balance	-337,765	-152,599	-151,719	-167,702	-162,730	-242,793

**ANNUAL BALANCE SHEETS**

Below are UNITED KINGDOM's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS GBP)					
	2020	2021	2022	2023	P2024	P2025
<b>ASSETS</b>						
Currency and Deposits (asset)	129,695	137,718	89,825	83,644	83,644	83,644
Securities other than Shares LT (asset)	108,276	96,170	92,879	95,526	95,526	95,526
Loans (asset)	11,223	12,375	15,544	15,939	16,344	16,759
Shares and Other Equity (asset)	-3,883	-3,248	-2,154	-1,208	-1,232	-1,257
Insurance Technical Reserves (asset)	1,214	1,043	1,041	1,026	1,047	1,067
Financial Derivatives (asset)	2,387	3,522	2,516	2,501	2,486	2,471
Other Accounts Receivable LT	114,356	115,130	118,503	121,189	123,936	126,745
Monetary Gold and SDR's	380	20,808	1,433	597	625	654
Other Assets					414,832	414,832
Additional Assets	<u>369,897</u>	<u>381,014</u>	<u>410,401</u>	<u>414,832</u>		
Total Financial Assets	<u>733,545</u>	<u>764,532</u>	<u>729,988</u>	<u>734,046</u>	<u>737,207</u>	<u>740,442</u>
<b>LIABILITIES</b>						
Other Accounts Payable	60,986	70,093	71,845	76,828	80,669	84,703
Currency & Deposits (liability)	228,524	250,938	238,756	254,386	254,386	254,386
Securities Other than Shares (liability)	2,504,562	2,517,015	2,072,564	2,152,124	2,209,954	2,269,338
Loans (liability)	96,409	86,522	80,934	77,605	240,335	483,128
Insurance Technical Reserves (liability)	1,219,363	1,202,622	1,261,422	1,271,214	1,281,082	1,291,027
Financial Derivatives (liability)	1,922	2,838	2,175	1,959	1,764	1,589
Other Liabilities	<u>10,434</u>	<u>31,019</u>	<u>32,015</u>	<u>31,093</u>	<u>31,093</u>	<u>31,093</u>
Liabilities	4,122,200	4,161,047	3,759,711	3,865,209	4,031,100	4,277,128
Net Financial Worth	<u>-3,388,655</u>	<u>-3,396,515</u>	<u>-3,029,723</u>	<u>-3,131,163</u>	<u>-3,293,893</u>	<u>-3,536,686</u>
Total Liabilities & Equity	<u>733,545</u>	<u>764,532</u>	<u>729,988</u>	<u>734,046</u>	<u>737,207</u>	<u>740,442</u>

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**Comments on the Difference between the Model and Assigned Rating**

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "A+" whereas the ratio-implied rating for the most recent period is "A-"; the median rating for the peers is significantly higher than the issuer's rating.

**Changes in Indicative Ratios**

We have not made any adjustment in the indicative ratios at this time.



**SEC Rule 17g-7(a) Disclosure**

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the issuer UNITED KINGDOM with the ticker of 6152Z LN we have assigned the senior unsecured rating of A+.

There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the methodology version #16 available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies".

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence services.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.****10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

**11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:**

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

**12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:**

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

**13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:**

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	5.2	9.2	1.2	BBB+	BBB+	BBB
Social Contributions Growth %	0.8	3.8	(2.2)	BBB+	BBB+	BBB
Other Revenue Growth %	4.7	7.7	1.7	BBB+	BBB+	BBB
Total Revenue Growth%	3.1	5.1	1.1	BBB+	BBB+	BBB+
Monetary Gold and SDR's Growth %	4.7	6.7	2.7	BBB+	BBB+	BBB+

**14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:**

This credit rating is not assigned to an asset-backed security.

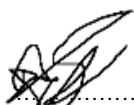
**ATTESTATION FORM**

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Analyst Signature:**

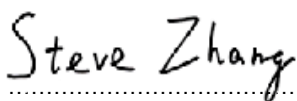
**Today's Date**

  
 .....  
 Supramanian NG  
 Senior Rating Analyst

Aug 16, 2024  
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**Reviewer Signature:**

**Today's Date**

  
 .....  
 Steve Zhang  
 Senior Rating Analyst

Aug 16, 2024  
 .....

## Sovereign Rating Methodology (Non-NRSRO)

**Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.**

**Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:**

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

*For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.*