dun & bradstreet

Country Insight Report

United Kingdom

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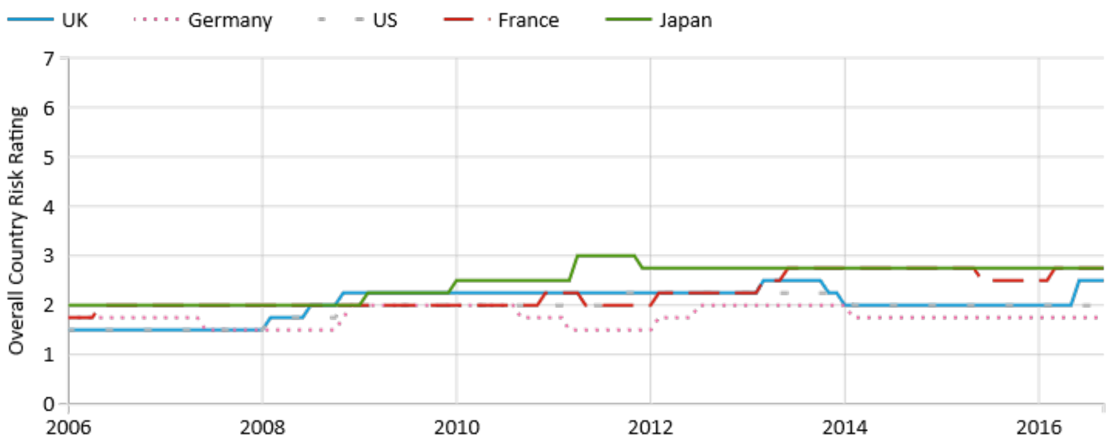
OVERALL COUNTRY RISK RATING: DB2c

G

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

Rating Outlook: Deteriorating

Rating History



Source : Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk.

KEY HEADLINES

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

- Proprietary data show that payments performance has improved in Q2, but the UK only ranks mid-table in a European comparison.
- Overall, 33.1% of all bills were settled on time in Q2, with the average payment delay at 15.8 days.
- With the pound sterling expected to stay weak for the foreseeable future, domestic companies could struggle to pay bills that are denominated in US dollars or euros.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

- The medium- to long-term impact of the Brexit vote on supply chains is still unquantifiable.
- Our baseline scenario foresees the UK giving up access to the EU's common market in order to scrap the freedom of movement for EU citizens.
- We expect, however, that certain sectors (for example manufacturing) will continue to be able to access the common market relatively easily.

MARKET ENVIRONMENT OUTLOOK

G

Trend:	Deteriorating ↘

- Recently released high frequency data indicate that the short-term impact of the Brexit vote is smaller than initially feared.
- However, we expect growth to be weak in 2017 before recovering towards the end of this decade.
- As a consequence of the weak pound, exporters to the UK will face lower demand in the foreseeable future.

POLITICAL ENVIRONMENT OUTLOOK

G

Trend:	Deteriorating ↘

- The new prime minister, Theresa May, has yet to lay out her government's priorities for the Brexit negotiations with the EU.
- Our baseline scenario foresees the invocation of Article 50 in early 2017, thereby leading to a UK departure from the EU in early 2019.
- With the oppositional Labour Party in some disarray, a change in government seems unlikely for the foreseeable future.

KEY RECOMMENDATIONS

- The UK's risk outlook is still 'deteriorating', hinting that further downgrades on top of the one made in late June are possible.
- Count on the economy growing by 0.7% only in 2017, down from our pre-referendum forecast of 2.0%.
- Expect the government to invoke Article 50 of the Treaty of the EU (the legal base for EU exit) in early 2017, setting the EU exit date for early 2019.
- In general we recommend that firms should adopt a wait-and-see approach as it will take many more quarters until the full impact of the Brexit vote is completely felt.
- Expect the UK to lose full access to the EU's common market, although certain sectors should be able to trade more easily than others.
- The costs of Brexit will outweigh the benefits for the UK economy, at least over the medium run, with exporters to the country being hit the hardest.

GLOBAL INSIGHT

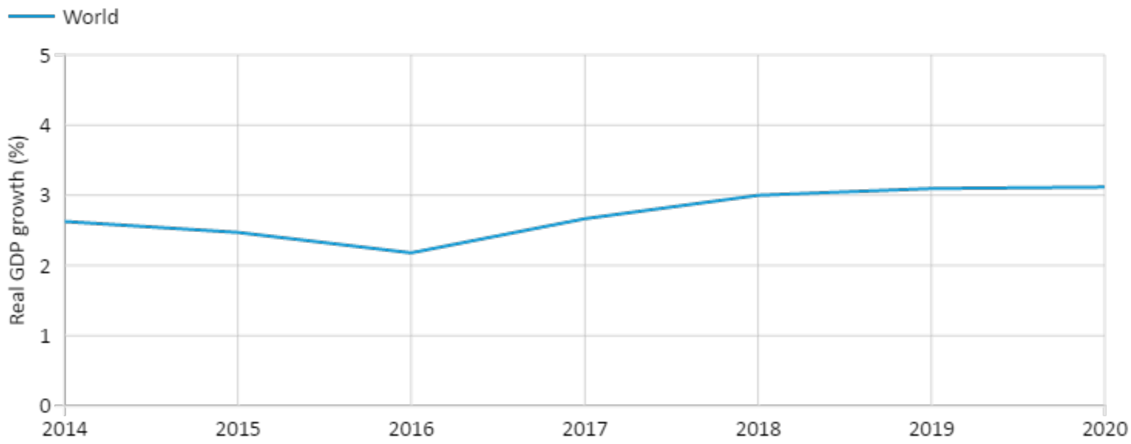
Trend:	Deteriorating

Headline Global Issues

- The financial market volatility of early Q3 had quietened by July and into August.
- Attention has refocused on the extent of US Federal Reserve rate rises due in 2016.
- Monetary policy is reaching its limits.
- Free movement of goods, capital and labour has become more politically questionable.

GLOBAL OUTLOOK

Global Growth Forecast



Source : Haver Analytics/Dun & Bradstreet

Global Economic Outlook: Brexit tantrum subsides

Markets and businesses have had time to consider the impact of the UK's vote to leave the EU. Although the timing of the exit and the nature of the future relationship between the EU and the UK remains unclear, the worst aspects of the initial Brexit tantrum have subsided as the world faces the new normal. The Vix volatility index has slipped to its lowest level since August 2014, while oil has rebounded to its pre-Brexit price of around USD50/b. Nevertheless, uncertainty continues to dominate the global economic outlook.

In this regard, attention is now turning to when the US Fed will raise interest rates. Our core scenario is that there will be one further interest rate rise before the end of 2016. The Fed is concerned about slowing the already anaemic recovery but is weighing this against the possibility of risky imbalances arising from the years of loose monetary policy by the world's leading central banks. Against this background, we are currently forecasting that global real GDP growth will slow to 2.2% in 2016, from 2.5% in 2015, with all regions performing more poorly than in 2015 – with the notable exception of Eastern Europe and Central Asia.

Commodity Prices

Commodity	May 2016	Jun 2016	Jul 2016	2015	2016	2017	2018	2019	2020
Aluminium (USD/tonne)	1,556	1,592	1,629	1,662	1,615	1,750	1,825	1,850	1,875
Copper (USD/tonne)	4,708	4,630	4,855	5,499	4,860	5,400	5,420	5,540	5,550
Gold (USD/ounce)	1,259	1,276	1,337	1,159	1,306	1,386	1,426	1,456	1,478
Oil (USD/barrel)	48	50	47	52	44	57	63	68	79
Cocoa (USD/tonne)	3,419	3,439	3,474	3,398	3,120	3,220	3,243	3,300	3,395
Coffee (US cents/lb)	145	156	164	152	180	220	235	241	241
Phosphate (USD/tonne)	115	115	115	117	121	118	116	115	112
Platinum (USD/ounce)	1,034	984	1,086	1,052	1,116	1,139	1,144	1,179	1,201
Soybeans (USD/tonne)	422	457	434	390	390	400	423	450	455

Source : World Bank/Dun & Bradstreet

Exchange and Interest Rates

Metric	May 2016	Jun 2016	Jul 2016	2016	2017	2018	2019	2020
EUR-USD	0.88	0.89	0.9	0.89	0.88	0.87	0.85	0.84
JPY-USD	108.85	105.35	104.19	107.0	103.0	102.0	105.0	105.0
GBP-USD	0.69	0.7	0.76	0.76	0.76	0.77	0.75	0.75
BRL-USD	3.54	3.42	3.28	3.7	3.8	3.9	4.0	4.0
CNY-USD	6.53	6.59	6.68	6.73	6.95	7.25	7.5	7.5
BOJ Interest Rate (EOP)	-0.05	-0.06	-0.05	-0.2	-0.3	-0.1	0.1	0.3
ECB Key Interest Rate (EOP)	0.0	0.0	0.0	0.0	0.0	0.1	0.25	0.75
US Federal Funds Rate (avg)	0.38	0.38	0.38	0.63	1.63	2.5	3.25	3.5

Source : Dun & Bradstreet, Haver Analytics, Federal Reserve Board, European Central Bank, Bank of Japan

Key Risk: Limits of policy co-ordination in view

Central banks have done much of the heavy lifting to mitigate the effects of the slump in investment and productivity since the 2008 financial crash and the early 2010s' euro-zone crisis. As a result, nearly all major central banks' policy rates are close to or even beyond the zero bound: if there is another negative shock, they might not be able to provide additional, significant monetary support. Meanwhile, the geopolitical contradictions in the zones of competition such as the South China Sea, Ukraine and Syria are becoming more strident. Although economic relationships are still for the most part successfully insulated from political dynamics, it is tougher for governments to co-ordinate policy. Even alliance politics within supranational bodies such as the EU and NATO are now more complex, and ambitious agreements such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership (and the EU itself), have gained powerful political detractors.

Indeed, the inability of governments to pacify angry populations who are not receiving the full benefits of growth will be a major risk factor. De-globalisation – the process of purposeful political disconnection from agreements that liberalise the flow of goods, labour and capital – could arrive when discontented populations take destabilising political actions, as seen with the UK referendum result in June.

Recommendations

- Be aware of global capital flow dynamics in dealings with customers in emerging markets; even if supportive since July, periodic reversals are due.
- Tailor your credit ceilings by sector as risks in manufacturing and services, and upstream versus downstream prospects, are diverging more than historical averages.
- Look for opportunities in markets with good country risk fundamentals that were left behind by the boom of 2010-15.
- Maintain underwriting standards and limit medium-term exposure, even if your sector has exhibited historically low volatility in recent quarters.
- Factor in USD strength to receivables management and assessment of customer cashflow.
- Do not expect financial markets to price risks efficiently and smoothly – 'crash' phases for markets will unwind faster than the 'bubble'.

REGIONAL INSIGHT

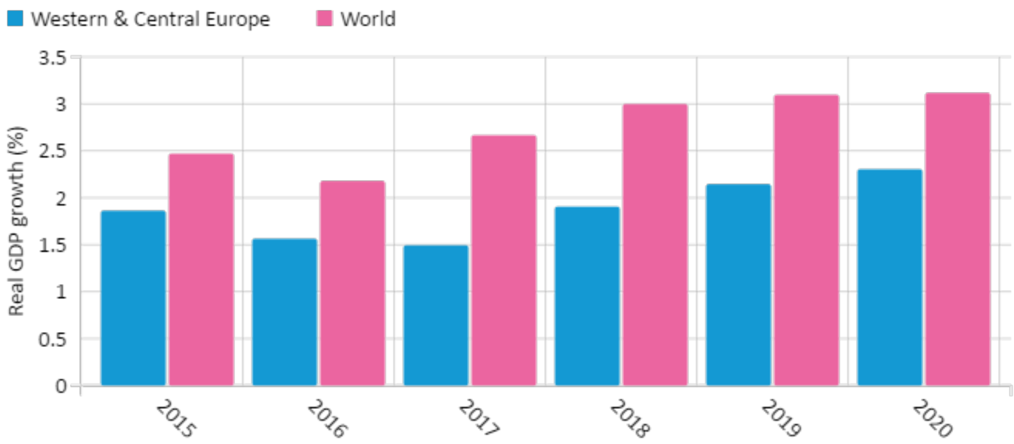
Trend:	Stable	

Headline Regional Issues

- Despite ongoing negotiations between the US and the EU, the likelihood of a successful completion of the TTIP talks is falling.
- Political risk is rising, highlighted by another hung parliament in Spain and upcoming elections in the Netherlands, France and Germany in 2017.
- Anti-immigration sentiment is growing, especially towards people from the Middle East and North Africa.
- It is too early to assess the long-term effects of the Brexit vote on the EU and the UK economies, but recent figures hint that the short-term impact might be smaller than initially feared.

REGIONAL OUTLOOK

Regional Growth Forecast



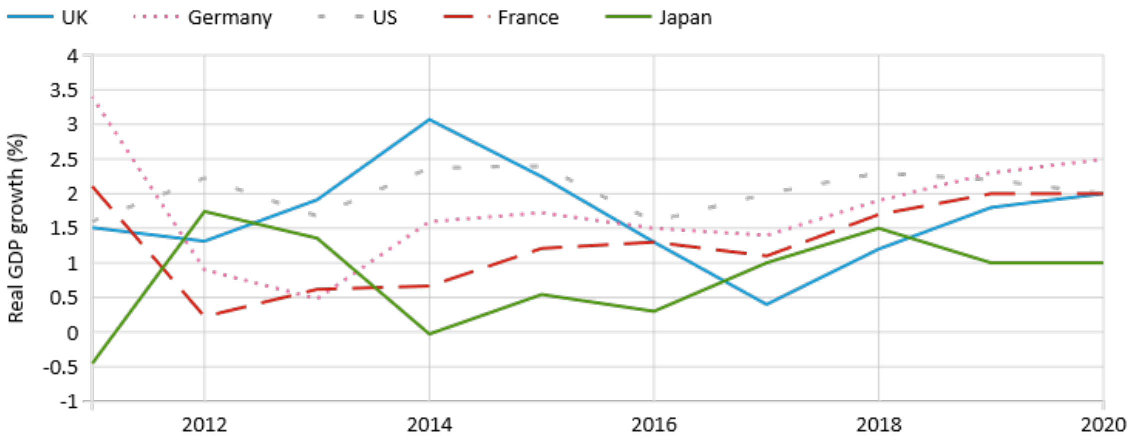
Source : Haver Analytics/Dun & Bradstreet

Real GDP figures for Q2 2016 from Eurostat, the EU's statistics office, show that economic growth took a hit in the euro zone in April-June. While the y/y growth rate (1.6%) was generally in line with the values seen in Q2 2015-Q1 2016, the q/q rate of expansion halved to just 0.3%, indicating that the economy is losing momentum. Indeed, high frequency indicators support this view: the manufacturing sector's Purchasing Managers' Index (PMI, compiled by Markit) for August came in at just 51.7 points. Although this is still above the neutral 50-points line that divides expansion in sectoral activity from contraction, it is down from the 52.0 recorded in the previous month, and is the lowest value in three months. The readings of the Italian and French PMIs are particularly worrisome (Italy's dropped to a 20-month low). Meanwhile, in the UK, the manufacturing PMI has rebounded strongly from its post-Brexit referendum low (48.3 points) to a ten-month high of 53.3. With the pound having weakened considerably against the euro (and even more against the US dollar) after the 'Leave' camp's surprising victory in the EU membership referendum in June (exacerbated by an interest rate cut by the Bank of England in early August), British exporters have benefited from increased price competitiveness on global markets, while euro-zone based companies are facing the opposite effect when exporting to the UK.

While we expect a gradual cooling of export activity in most euro-zone economies in H2 2016 and into 2017, domestic consumption should provide some support for growth. While inflation rates remain anemic, real wage growth is still robust and the labour market in the euro zone also continues to provide good news. Latest Eurostat figures for July show that the harmonised unemployment rate has fallen to its lowest value in five years.

However, this must not detract from the fact that at 10.1% (more than 16m people), unemployment in the euro zone is still elevated, and it will be many more years (with additional reforms required) before the Mediterranean countries in particular fully recover from the financial crisis and the euro-zone crisis. On the inflation front, our core scenario is for the ECB to undershoot its 2.0% target until the end of this decade. Positively, with monetary policy remaining ultra-supportive, there should be an uptick next year, with further monetary easing on the cards if this baseline scenario fails to materialise.

Outlook for Key Regional Countries



Source : Haver Analytics/Dun & Bradstreet

Although the Brexit vote has not yet caused too much economic turmoil in the UK (besides a weakened British pound), its long-term impact for both the UK and the EU is unclear. A hostile divorce would cause damage for the EU economy but would be even harder to digest for the UK, especially its sizeable financial industry, which relies on doing business with the continent. The UK government's priorities should become clearer towards the end of 2016/early 2017, and we recommend doing business as usual until then. Political risk is also elevated due to the strong showing of anti-EU and anti-immigration parties in polls in France, Germany and the Netherlands (which will all elect new parliaments in 2017). A third Spanish parliamentary election inside a year (in December 2016) and the prospect of the Italian government collapsing over the outcome of a referendum in November also add to the elevated level of regional political risk.

From a payments performance point of view, proprietary data from Dun & Bradstreet's World Wide Network for Q1 2016 shows that the share of payments made on time increased compared with Q4 2015. Overall, 42.8% of all bills in Europe were settled in a timely manner in January-March, with 9.2% having not been paid 30+ days after due date. In October-December, the respective values were 41.6% and 9.5%. However, significant differences at a country level are clearly visible: average payment delays in the region in Q1 2016 range from 6.6 days in Germany to 27.0 days in Portugal. While France is ranked mid-table (12.6 days), the UK (15.8 days) and Italy (19.4 days) compare more unfavourably.

Recommendations

- Remember that payments performance in the region differs significantly between states and even between sectors within one country.
- Assume that the EU will survive Brexit and that the euro zone will remain intact for the foreseeable future.
- Monitor the divorce proceedings between the UK and the EU closely, as the UK's economic well-being in particular will depend on the outcome.
- In this light, assume that the UK will invoke Article 50 of the Treaty of the EU in early 2017, leading to a British exit from the EU by early 2019.
- Base business decisions on the assumption of a moderate euro appreciation against the US dollar over the next few years.
- Do not expect any agreement on the Transatlantic Trade and Investment Partnership between the EU and the US in the foreseeable future.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

Current Issues

- Dun & Bradstreet has revised the Credit Environment Trend for the UK from 'deteriorating' to 'stable'.
- Latest proprietary data show that 33.1% of all bills were settled on time in the UK in Q2, marginally up from 32.8% in Q1.
- Worryingly, Dun & Bradstreet data show that the number of business failures is up 23% q/q in Q2 with machinery manufacturing (+48%) impacted in particular.

Risks and Opportunities

- The impact of the Brexit vote on the UK's sizeable financial sector is still unclear at this stage, but credit growth could slow over the next quarters.
- Although Q2 data showed an improvement in payments' performance, it seems plausible that weaker real GDP growth in 2017 will reverse this trend.
- Proprietary payments' performance data show that companies based in Greater Manchester and in the London region display the worst payments' performance.

Trade Terms

Description	
Minimum Terms	OA
Recommended Terms	OA
Usual Terms	30-60 days

Source : Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Source : Export Credit Agencies

Recommendations

- Expect credit risk to remain stable in 2016-18 but keep a close eye on firms that are sourcing from abroad to sell to the domestic market as the weak pound is undermining their profitability.
- Watch developments in the banking sector closely; support from the central bank will have a stabilising impact, but further turmoil cannot be ruled out.
- Payments performance in the UK is ranked mid-table in a European comparison; the average payment delay in Q2 stood at 15.8 days, compared with 6.6 days in Germany.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

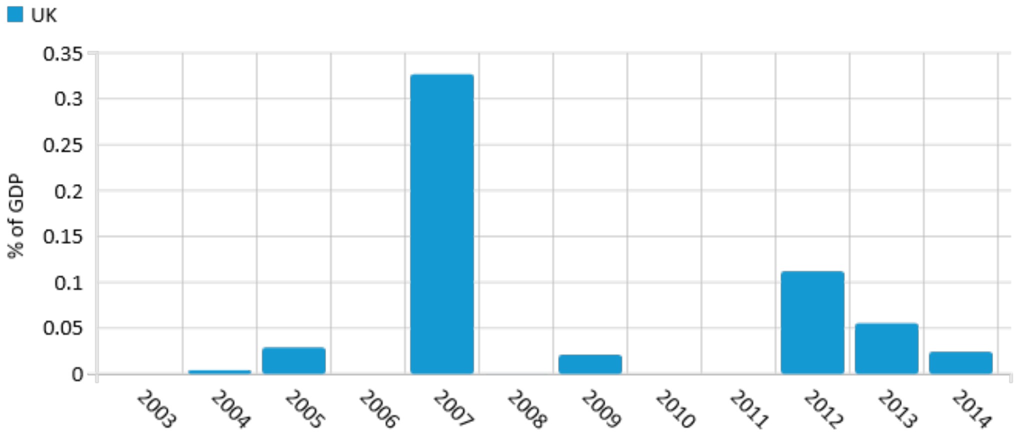
Current Issues

- Dun & Bradstreet has upgraded the Supply Environment Outlook trend for the UK from 'rapidly deteriorating' to 'deteriorating'.
- Recent comments made by senior government officials indicate that the UK will prioritise immigration control over EU market access.
- In early September, reports were leaked that the Conservative government intends to give its MPs a free vote on the expansion of Heathrow Airport.

Risks and Opportunities

- Over the short run, supply chain risk remains manageable.
- However, in the medium to long run, the possible loss of access to the EU's common market will have huge ramifications on cross border trade and investment.

Natural Disaster Impact



Source : D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: International Disaster Database – www.emdat.be – Université Catholique de Louvain

Recommendations

- Prepare for the invocation of Article 50 in early 2017, leading to the UK's exit from the EU in 2019.
- As the baseline scenario, expect that the UK will lose access to the EU's common market in some sectors while maintaining it in others.
- Count on major infrastructure investment decisions to be delayed as government resources will be stretched by negotiating the UK's exit from the EU.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

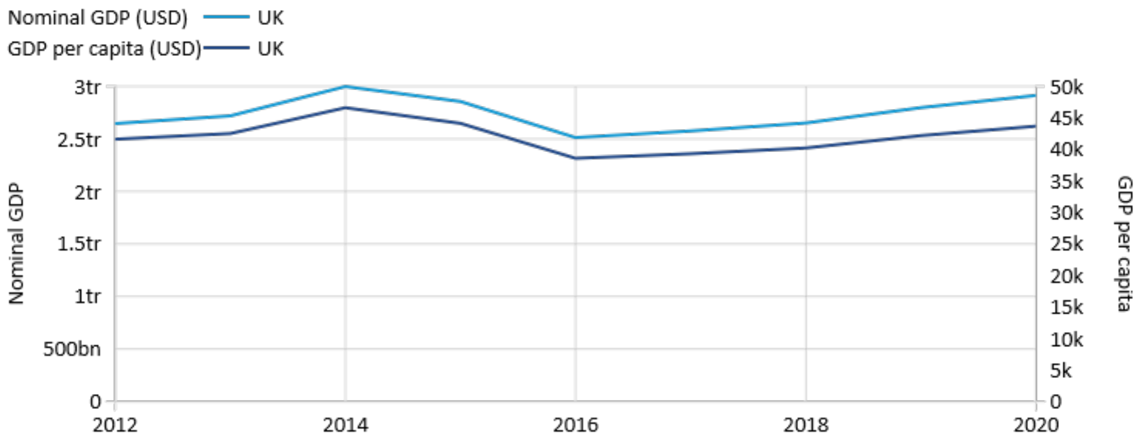
Current Issues

- Dun & Bradstreet has changed the Market Environment Outlook trend for the UK upwards from 'rapidly deteriorating' to 'deteriorating'.
- High-frequency indicators have recovered from their post-referendum multiyear lows and the FTSE100 and FTSE250 now stand above the values recorded at that time.
- The pound sterling continues to trade at around EUR1.17:GBP and USD1.30:GBP, significantly below post-referendum values.

Risks and Opportunities

- Although the short-term impact of the Brexit vote was less than initially feared, the medium to long term impact will still be sizeable.
- On the back of the weakened pound, export-orientated businesses are doing well, but a potential loss of market access post-Brexit could put an end to this positive development.
- Tourism and hospitality are also benefiting from the weaker pound at the moment, a trend likely to last.

Nominal GDP and GDP per capita



Source : Haver Analytics/Dun & Bradstreet

Recommendations

- Factor in that, should the UK invoke Article 50 in early 2017 (our core scenario), real GDP growth will drop to 0.7% in 2017 (from a previous forecast of 2.0%).
- Watch the autumn statement of the Chancellor of the Exchequer in November as a more expansive fiscal policy could make the expected downturn less pronounced than initially feared.
- Factor in that, over the medium to long term, tougher immigration regulation could lead to a shortage of labour, thereby pushing up wages.

POLITICAL ENVIRONMENT OUTLOOK

G

Trend: Deteriorating ↘

Current Issues

- Theresa May replaced David Cameron as prime minister after the Brexit vote.
- Dun & Bradstreet has upgraded the Political Environment Outlook trend for the UK from 'rapidly deteriorating' to 'deteriorating'.
- The oppositional Labour Party is currently in the middle of a leadership contest with incumbent far-left candidate Jeremy Corbyn likely to remain in office.

Risks and Opportunities

- The quicker than initially thought succession in the prime minister's office has had a positive impact on political risk as it has removed uncertainty.
- With the UK government yet to announce its priorities for the upcoming Brexit negotiations, political risk is higher than pre-referendum.
- The outcome of the vote poses a severe threat to the UK's structural integrity as Northern Ireland and Scotland might now want to break away from the central government.

Political Freedom

Location	Electoral Process	Pluralism and Particip.	Function'g of Govt.	Freedom of Express'n and Belief	Assoc. and Org. Rights	Rule of Law	Personal Autonomy and Individual Rights
UK	12	16	12	13	12	15	15
Western & Central Europe	11	15	10	15	11	13	14
OECD Average	12	15	11	15	11	14	14

Source : Freedom House

Higher score = greater degree of freedom.

Recommendations

- Expect the invocation of Article 50, the legal base for Brexit, to occur in early 2017, thereby leading to the UK's departure from the EU in early 2019.
- Currently it is impossible to predict what post-Brexit UK-EU relations will look like; monitor the news closely and frequently.
- This core scenario does not foresee Scotland's declaration of independence, given the severe economic problems associated with such a move.

DETAILED ANALYSIS

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

The core categories that we analyse as part of our broader risks and opportunities model are as follows:

- Short-Term Economic Outlook
- Long-Term Economic Potential
- Market Potential
- FX Risk
- Transfer Risk
- Business Regulatory Environment
- Business Continuity
- Political/Insecurity Risk
- Expropriation/Nationalisation Risk

Descriptions for each of these categories can be found in the User Guide section of this report.

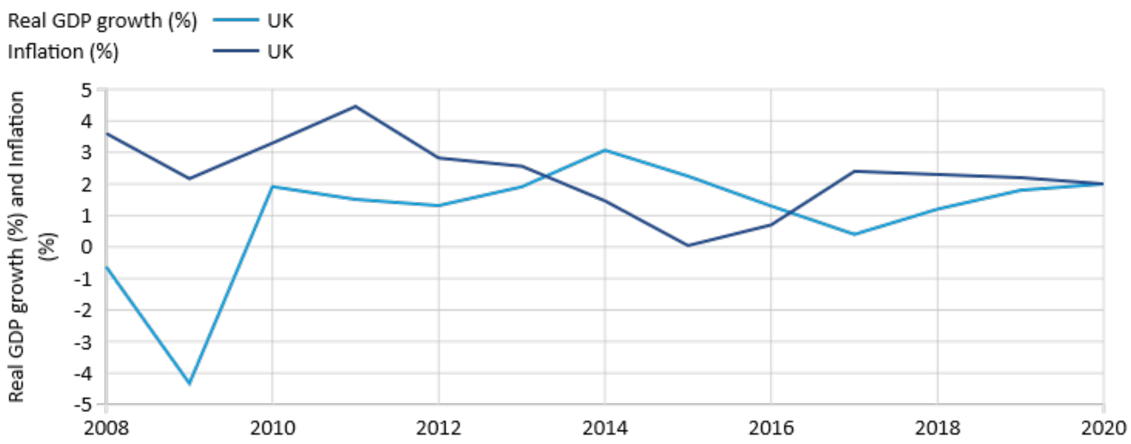
SHORT-TERM ECONOMIC OUTLOOK

High frequency data hint that the short-term economic impact of the Brexit vote is smaller than initially feared. In both the services and manufacturing sectors, the Purchasing Managers' Index (PMI, compiled by Markit) figures for August show a strong rebound from July's low readings. While this does not allow for a statement about the country's medium-term economic outlook, recent data releases mean the risk of the UK entering a recession in late 2016 or early 2017 has fallen considerably, helped by the Bank of England's monetary policy action in early August when rates were cut by 25 basis points to 0.25%. Positively, exports should perform well, helped by the ongoing weakness of the pound, while consumer spending power will be hit in the medium term by an increase in inflation (from 0.7% in 2016 to 2.4% in 2017), in addition to higher unemployment rates.

Risks and Opportunities

- Positively, the short-term impact of the Brexit vote is smaller than initially feared with confidence indicators and stock market indices having recovered from their sharp drops in July.
- Exporters and companies in the tourism sector are currently benefiting from the weak pound.
- Despite the economy continuing to produce positive news, Dun & Bradstreet's current forecasts for 2016-18 compare unfavourable against those before the referendum.

Real GDP Growth and Inflation

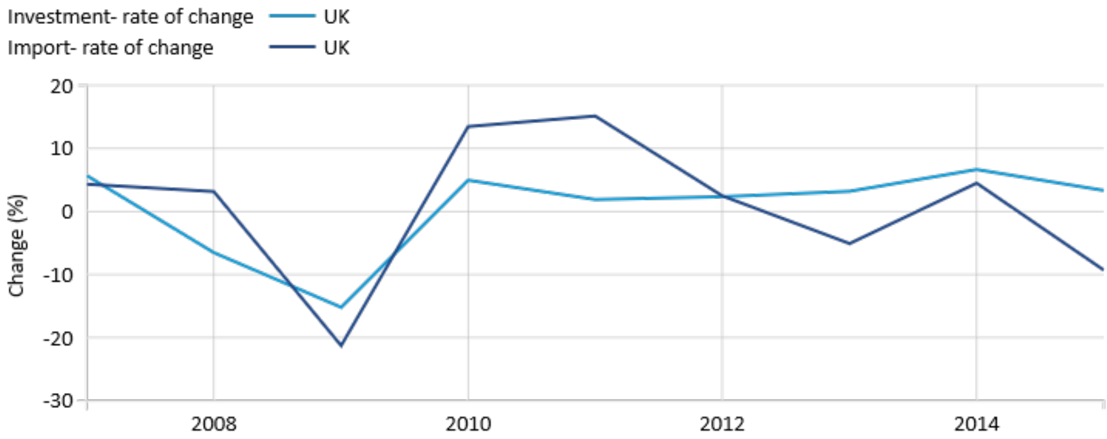


Source : Haver Analytics/Dun & Bradstreet

National statistics office figures for April-June show that the UK economy was growing at a healthy rate: real GDP growth came in at 2.2% year-on-year (y/y), the highest growth rate since Q2 2015 and up from the 2.0% seen in Q1. Although forward looking indicators have recovered from their post referendum multiyear lows, the August readings still point towards a gradual cooling of the economy over the next months, a trend that will likely see an acceleration in 2017 after the invocation of Article 50. Our current baseline scenario foresees the economy to grow by 1.5% in 2016 (down from the 2.2% recorded for 2015), followed by 0.7% in 2017 and 1.0% in 2018.

Similar to the development of several forward looking indicators such as PMIs, inflation rates failed to show a significant Brexit impact in August. With 0.6%, inflation was only marginally up from June and July's 0.5% (but still reached the highest value since November 2014), despite the pound having weakened by 9% against the euro, the currency of the UK's most important trading partner, since the referendum. Looking ahead, however, Dun & Bradstreet expects inflation rates to overshoot the Bank of England's 2.0% inflation target, coming in at 2.4% in 2017 and 2.3% in 2018.

Investment and Imports



Source : Dun & Bradstreet, Haver Analytics/Dun & Bradstreet

Pre-referendum data for Q2 indicate that uncertainty about the UK's future EU membership had already weighed on investment activity. The 1.0% y/y growth recorded in April-June was the second-lowest rate of expansion since Q1 2013, only above the 0.8% seen in Q1 2016. With levels of uncertainty about Britain's access to EU markets being elevated until negotiations with the EU are concluded, Dun & Bradstreet predicts investment activity, especially if financed from abroad, to remain weak until 2019 at best.

In terms of imports, Eurostat data for April-June show a strong increase. Overall, imports grew by 5.0% y/y, but while goods imports rose by 6.9%, the import of services fell by 1.1%. For the coming years, however, we expect that the strong growth seen in Q2 will not be repeated as the pound has lost considerably against both the US dollar and the euro since the referendum. Looking beyond early 2019 (the Brexit date, according to our baseline scenario), if the UK is unable to secure EU market access once it has exited the EU, import demand could be hit permanently.

Recommendations

- Keep in mind that our baseline scenario foresees a UK exit from the EU in Q1 2019.
- Despite the deterioration in the short-term growth outlook, compared with pre-referendum figures, assume the economy will not contract for the foreseeable future.
- Count on the economy to grow by 0.7% and 1.0% in 2017 and 2018.
- Expect inflation to rise above the 2.0% target in 2017 while unemployment will also start to increase, albeit modestly in 2017-18.

LONG-TERM ECONOMIC POTENTIAL

Before the Brexit referendum on 23 June, the UK's long-term economic potential was already facing three main challenges. The first is improving the quality of its human capital. Although its higher education is among the best in Europe, the country still lags behind its peers in terms of basic skills. Intermediate and vocational skills, where the UK still compares poorly with many of its peers, need to be strengthened. The second challenge is improving the infrastructure for land transport, which is congested and unreliable. The third challenge relates to a relaxation of the country's strict planning regulations (likely to face opposition from environmentalists) which have raised commercial rents, reduced competition and prevented firms (especially in retailing) from operating at their most efficient scale.

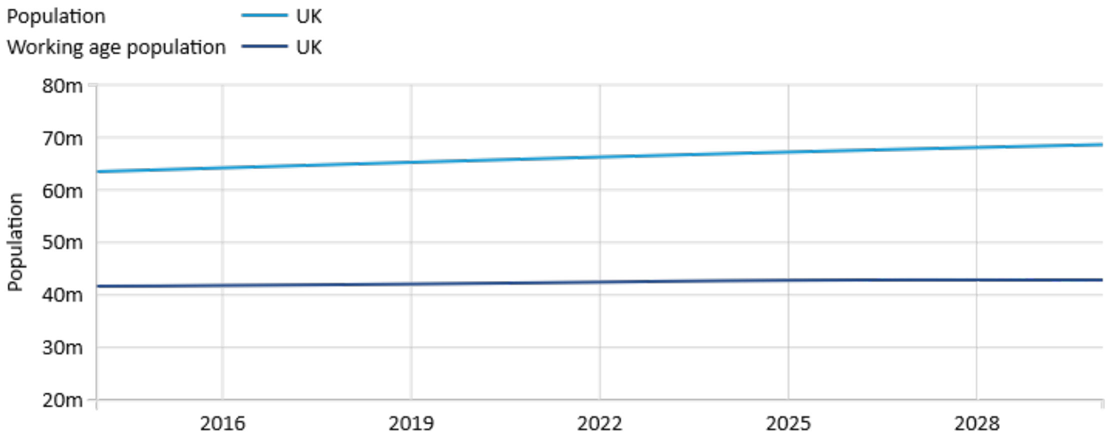
In addition to these problems, the Brexit vote has added a high degree of uncertainty, ranging from concerns about a deteriorating demographic structure to lower FDI inflows and tougher market access. The country's long-term growth potential will largely depend on what deal it is able to secure with the EU. For the time being, we calculate growth at around 2.0% per annum, but this may need to be adjusted once negotiations with the EU have delivered a result.

Risks and Opportunities

- The UK's exit from the EU after the referendum will shape the country's mid- to long-term outlook.
- The loss of EU market access in the manufacturing and financial sectors would hit the country's long-term economic potential.
- A renewed focus on overhauling the education system, particularly at secondary and vocational levels, augurs well for new entrants into the workforce in the medium term.

Human Capital

Population Dynamics



Source : UNPOP

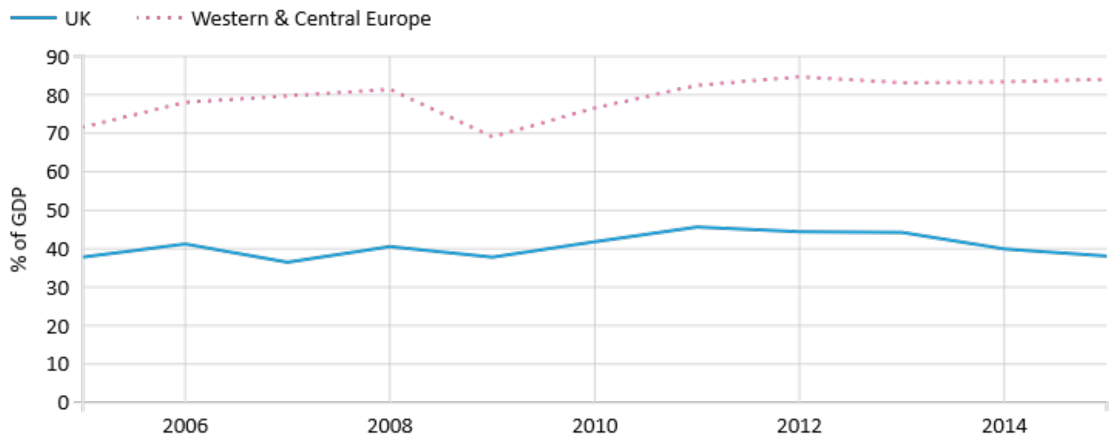
The UK has less scope for raising the labour-force participation rate than most other developed countries, meaning that longer-term prospects will depend on boosting investment and productivity. Encouraging recent developments include an improvement in educational performance as well as the rapid uptake of information and communications technology (ICT). There is strong evidence pointing to a lag between ICT investment and returns, and to ICT having a positive impact on growth once a certain threshold has been reached. Negatively, envisaged anti-immigration measures by the victorious Brexit camp could, if implemented, adversely affect the demographic structure over the medium to long term.

Physical Capital

Physical capital endowment in the UK is not as good as in neighbouring France and Germany. For example, in the World Economic Forum's 2015-16 *Global Competitiveness Report*, the UK is ranked a solid 9 (out of 140 countries surveyed) in terms of the quality of its infrastructure. However, the quality of the road infrastructure is ranked a mediocre 29 (behind Sri Lanka and Namibia) while its rail system is ranked 18. Although several high-profile infrastructure projects were in the pipeline (such as a high- speed train connection between London and the Midlands region and a new runway for either Gatwick or Heathrow airports), the Brexit debate has put these questions on the back-burner for the time being.

Openness

Exports and Imports



Source : IMFDOT/Haver

The combined share of exports and imports (as a percentage of nominal GDP) stood at 56.8% in 2015. This compares unfavourably with the EU average, which stood at 83.9%. While exporting to and importing from the EU is currently managed by EU law (even if doing so from outside the EU), the UK's departure from the EU could change this significantly, thereby leading to a less open economy.

Competitiveness/Institutional Strength

Regardless of whether the UK leaves the EU in the coming years, we expect that institutional strength will remain supportive for the country's long-term economic potential. In the 2015-16 *Global Competitiveness Report*, the UK is ranked 10 (out of 140 countries surveyed) in terms of the independence of its courts. Favouritism in decisions of government officials is also uncommon (17). The report assigns an overall rating of 5.5 (on a scale where of 1-7) for the UK's institutional strength, ranking the country 14.

Recommendations

- The UK is a stable democracy with liberalised markets and a relatively strict competition policy regime, which will remain regardless of the outcome of Brexit negotiations.
- Factor in possible shortages of labour (and rising wages) over the long run if the UK government tightens immigration rules.
- Keep in mind that physical infrastructure in the UK is poorer than in most other Western European economies.
- As the UK's long-term economic potential largely depends on maintaining access to the EU's common market, watch negotiations closely once Article 50 is invoked.

MARKET POTENTIAL

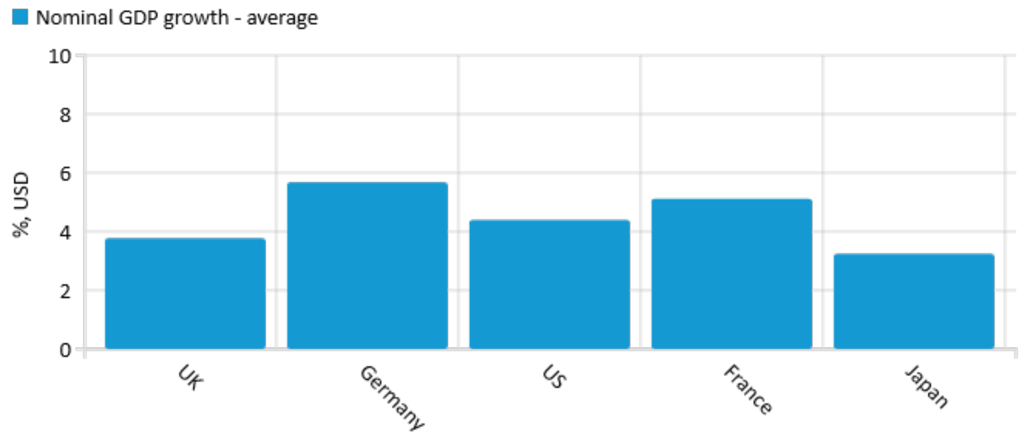
Worryingly for the country's market potential, Prime Minister Theresa May's government is yet to lay out a schedule for Brexit and, more importantly, its plans for post-Brexit EU-UK relations. After returning from summer vacations, the cabinet met at the prime minister's country house retreat in late August for a brainstorming session, during which Brexit options were discussed. Although most ministers, including the prime minister, had campaigned for the UK to remain in the EU, it has become increasingly clear that Brexit will happen over the medium term. Our baseline scenario foresees the invocation of Article 50 of the Treaty on the EU in Q1 2017, leading to Brexit in Q1 2019.

However, it is still unclear what preferences the prime minister has regarding future trade and investment regulations between the UK and the EU. While, in theory, the UK could end up with continued access to the EU's common market (thereby minimising the adverse economic impact of Brexit), Dun & Bradstreet currently expects the government to favour keeping control over immigration policies. This would almost certainly rule out membership of the European Economic Area and would raise serious concerns about the future of supply chains in the manufacturing sector (as well as passporting rights for the UK's sizeable financial sector).

Risks and Opportunities

- While the UK will remain an EU member for at least another two years, the Brexit vote has raised concerns regarding trade and investment regulations beyond early 2019.
- Import quotas are currently managed at the EU level, but administered nationally through the granting of import licences to qualified firms.
- The Brexit vote will cause some transitional pain for the UK economy; its duration and magnitude will depend on the outcome of negotiations between the UK and the EU.

Average Nominal GDP Expansion, 2016-20



Source : Dun & Bradstreet

The economic turmoil in the immediate aftermath of the unexpected leave-camp victory, which led to a sharp depreciation of the pound sterling against the dollar and other currencies, has cost the UK its spot as the world's fifth-largest economy (it was overtaken by France and is now ranked sixth). The uncertainty arising from the vote will negatively impact on the economy (investment in particular) and, together with the weaker pound, lead to a significant drop in nominal GDP in US dollar terms. We forecast nominal GDP per capita in 2016 to come in at around USD39,000, down from an earlier estimate of slightly above USD43,000.

Main Restrictions on Imports

Tariff Barriers	UK	Germany	US	France	Japan
Overall Weighted Mean Tariff	1.5	1.5	1.4	1.5	1.2
Manufactures Weighted Mean Tariff	2.1	2.1	1.5	2.1	1.2
Primary Products Weighted Mean Tariffs	0.7	0.7	1.4	0.7	1.2
Overall MFN Tariff	2.3	2.3	3.1	2.3	7.8
Manufactures MFN Tariff	0.2	0.2	3.1	0.2	3.0
Primary Products MFN Tariff	7.9	7.9	3.3	7.9	20.3
Services Restrictiveness Index	14.3	17.5	17.7	26.4	23.4

Source : Haver Analytics/World Bank

As a member of the EU, the UK still applies the EU's integrated tariff (TARIC) regime on imports from non-EU countries. The EU's Common Customs Tariff (CCT) rates, which differ by product and origin, depend on the economic sensitivity of products and are a means of protecting the EU's producers. Raw materials, as well as semi-manufactured goods not produced within the EU and needed for manufacturing, usually benefit from duty-free entry or low tariff rates. Duty suspensions may be made for imports needed to produce EU exports. When the UK government invokes Article 50 and leaves the EU, trade and investment regulations when doing business with the UK could change on a noteworthy scale, depending on the outcome of the negotiations.

Recommendations

- Do not expect any change to the UK's trade and investment regulations for the next two years.
- Monitor the negotiations between the EU and the UK, which will determine the UK's post-EU-departure trade regulations.
- Expect the UK to at least secure EU market access in some sectors (such as manufacturing), given the importance of such an agreement for both camps.
- Do not expect the ratification of CETA (an EU-Canada free-trade agreement) and TTIP (EU-US) in the next months; post exit, the UK would be outside CETA and TTIP.

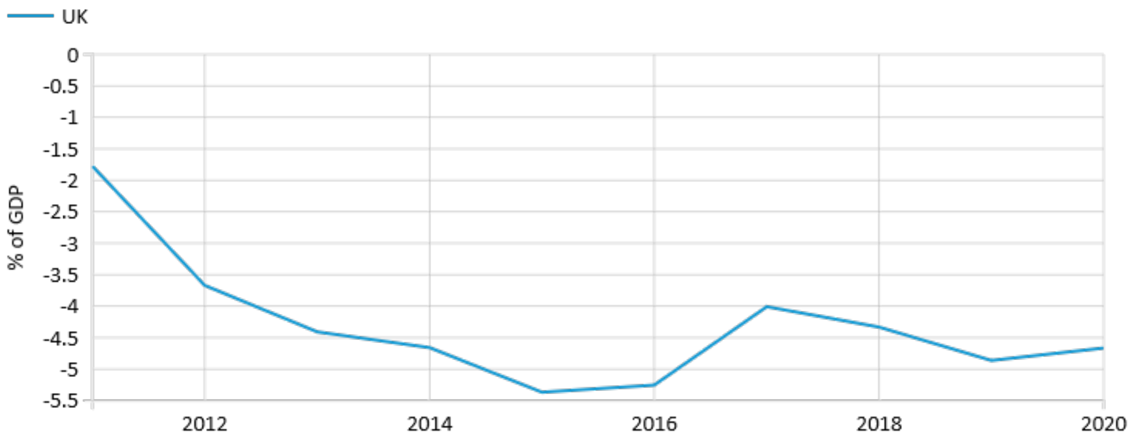
FX RISK

With most economic indicators either having recovered from the immediate shock after the Brexit vote (such as the PMIs or stock market indices) or not having shown any response yet (such as inflation rates), the exchange rate is the only visible damage of the referendum outcome at this stage. Between 23 June and mid-September, the pound sterling lost 14% against the US dollar and is currently trading at USD1.30:GBP. Against the euro, the currency of the UK's most important trading partner, the pound is down 11%, trading at EUR1.16:GBP on 19 September. Although the pound has recovered from even lower levels in mid-August on the back of encouraging PMI and retail sales figures, Dun & Bradstreet expects no return to the exchange rates seen before the referendum for the foreseeable future. On the downside, a further potential interest rate cut by the Bank of England should economic indicators deteriorate sharply in the wake of the Article 50 invocation (expected early 2017), as well as rising uncertainty about future UK-EU relations, have the potential to send the pound downwards again. For the time being, we continue to predict a very gradual appreciation of the pound against both the US dollar and the euro over the coming years (without coming close to the 2015 values), although currency volatility will remain an issue.

Risks and Opportunities

- Since the Brexit referendum, FX risk has risen sharply and the pound sterling is likely to remain weak (albeit recovering slightly) for the foreseeable future.
- The current account deficit is expected to shrink in 2016-17 on the back of the weak currency.
- Capital markets turmoil during the exit negotiations will lead to exchange rate volatility, especially if the euro zone is hit by another shock.

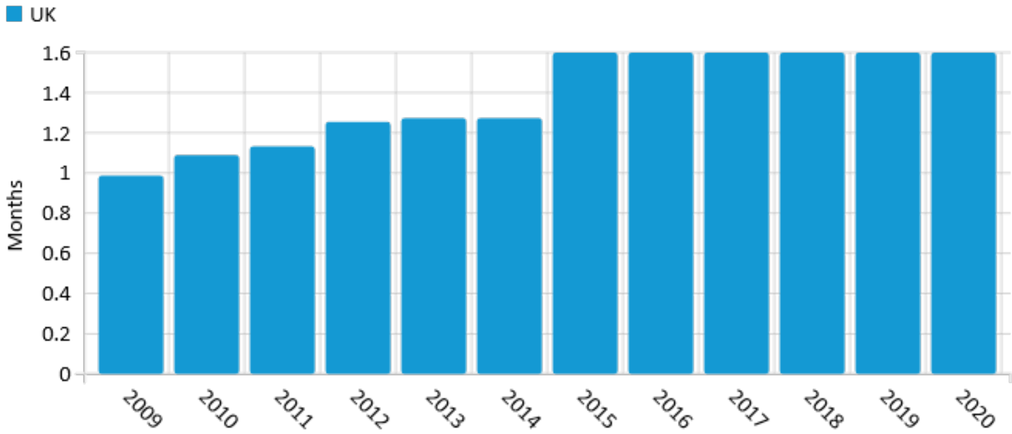
Current Account Balance



Source : Haver Analytics/Dun & Bradstreet

Having reached a very high current account deficit of 5.4% of GDP in 2015 (equivalent to USD153bn), Dun & Bradstreet forecasts a gradual improvement of the situation over the coming years. Worryingly, however, the fall in the current account deficit is caused by a weaker currency, which will lead to fewer imports (and more exports). With the economy likely to enter a phase of sluggish growth in 2017-18, exporters to the UK should expect fewer opportunities for doing business with the country. Overall, we forecast the current account deficit to drop to 5.2% in 2016 before falling to 4.0% in 2017, a level around which it will hover until 2021, according to our baseline forecast. Positively, the deficit will continue to be financed by surpluses on the capital account, thereby counterbalancing some of the risks.

Import Cover



Source : Haver Analytics/Dun & Bradstreet

In view of the UK’s free-floating currency, the country’s low level of import cover is not a particularly important risk, despite being significantly below the IMF's 3.0-month minimum recommendation. At USD119bn, FX reserves covered 1.7 months of imports in 2015. This level of reserves is sufficient to cover all obligations to foreign creditors; the UK also maintains adequate gold stocks and could gain access to alternative FX sources if necessary. While the negotiations around Brexit create some concerns, expect that import cover will remain sufficient for the foreseeable future.

Recommendations

- Expect that import cover will increase over the next quarters as import demand will fall and exports will accelerate on the back of the weaker pound sterling.
- Do not expect a balance of payments crisis to occur in the run-up to the UK's departure from the EU.
- We recommend monitoring financial markets closely as political events have the potential to derail the expected gradual (and very slow) recovery of the domestic currency.

TRANSFER RISK

Despite the Brexit turmoil, transfer risk remains low. The UK has accepted the obligations of Article VIII, Sections 2, 3 and 4 of the IMF's Articles of Association, to refrain from imposing restrictions on payments and transfers for current international transactions and from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. An efficient transfer of payment is assured by a well-functioning banking system. International transactions are cleared through the banking system via settlement systems such as SWIFT, CHAPS and BACS. Import cover in the UK is low by international standards but poses minimal risk due to the ease of access to FX.

Risks and Opportunities

- The shares of British (but also European) banks saw heavy losses in the days after the Brexit referendum, but have recovered since then.
- The Bank of England continues to provide assistance, maintaining stability in the sector.
- The future of the sizeable banking sector in the UK will largely depend on whether or not the EU will revoke the 'EU pass' after the UK has left the EU.

Transfer Situation

Type	Delay
FX/Bank Delays	0-1 month
Local Delays	0-1 month

Source : Dun & Bradstreet

Financial Sector/Capital Flows Provisions

Provision	Active
Restrictions on Inward Direct Investment	Yes
Special Treatment for Deposits held by Non-Residents	No
Special Treatment for Deposits in Foreign Currency	No
Special Treatment for Lending to Non-Residents	No

Source : International Monetary Fund

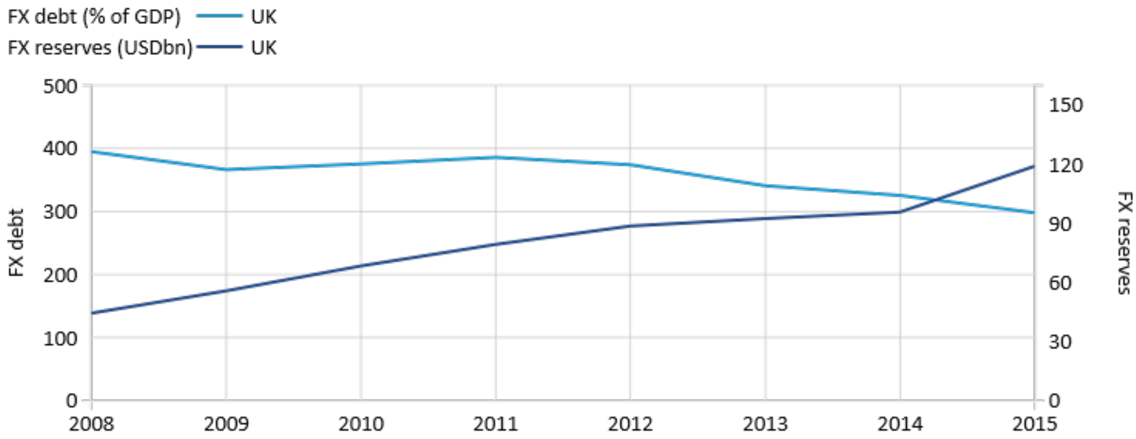
Trade Payment Restrictions

Trade Payment Restriction	UK	Western & Central Europe	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0.13	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.4	0.35

Source : International Monetary Fund

At present there are no foreign currency restrictions on inbound or outward investments in the UK. Moreover, firms can freely repatriate capital or income from the UK, while there is no special treatment for deposits in foreign currency or deposits held by non-residents. The settlement of cross-border trading transactions is also free of restrictions. We expect no changes in relation to restrictions during the outlook period, and this positive assessment will not change after the UK has left the EU.

Total Foreign Debt and Foreign Reserves



Source : Haver Analytics/Dun & Bradstreet

We do not expect the UK to experience the external debt problems that have afflicted some eurozone countries in recent years. The UK's underlying debt position was far stronger than its peers going into the financial crisis (with a debt maturity profile averaging 20 years or more). The government's programme to deal with the budget deficit and public debt should ensure good creditworthiness, despite the fact that the UK lost the prestigious Triple A credit rating from all major rating agencies in the aftermath of the Brexit referendum. With real GDP growth expected to slow and government deficit levels to rise in order to fight the economic slowdown, external debt levels could see an increase over the coming quarters without being a major source of concern.

Recommendations

- Institutional investors should expect a negligible level of transfer risks when conducting trade and investment transactions, despite the relatively low level of import cover.
- Even when the UK has left the EU towards the end of this decade, base business plans on the low level of transfer risk.
- Expect payment transfers to be very efficient, given the well-developed banking system.
- International transactions will continue to be facilitated by globally accepted electronic settlement systems.

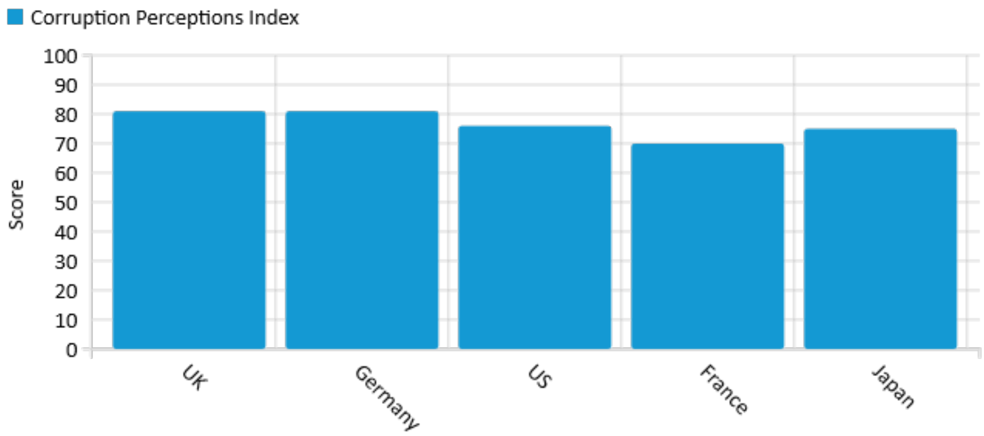
BUSINESS REGULATORY ENVIRONMENT

The UK provides one of the world's most favourable environments for private enterprise, having pioneered the liberalisation of product markets and the privatisation of state assets in the 1980s and early 1990s (and again under the Conservative-led governments from 2010 on). Moreover, contracts in the UK are enforced by an independent and reasonably efficient judicial system. Recent policies have focused on reducing the burden of regulation (identified as a major issue by firms) as well as relaxing planning laws and enforcing competition policy more rigorously. The government has signalled that this will continue, along with efforts to introduce tighter regulation of the financial system. In the World Economic Forum's 2015-16 *Global Competitiveness Report*, the UK is ranked 10, one position down from 2014-15.

Risks and Opportunities

- If the Conservative Party retains power after the EU exit, the business regulatory environment could improve further, thanks to less interference from the EU.
- The 2015-16 *Global Competitiveness Index* has identified access to financing, an inadequately educated workforce, tax rates and the complexity of tax regulations as the most problematic factors for business.
- Expect regulation and strict planning laws (especially when environmental issues are impacted) to present hurdles to some business activities in the near term.

Corruption Perceptions Index, 2015

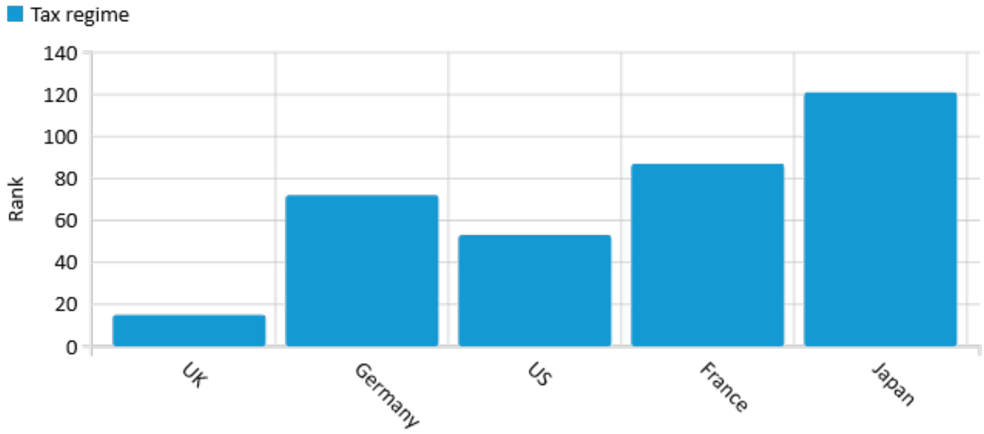


Source : Transparency International, 'Corruption Perceptions Index'

Note: 100 = least corrupt, 0 = most corrupt.

While the UK does not have a serious corruption problem, isolated instances of public official corruption do exist. The government has enacted the Prevention of Corruption Act, which makes bribery of domestic and foreign public officials a criminal offence. Transparency International ranked the UK the 10th-least corrupt country of the 167 listed in its 2015 *Corruption Perception Index*, in line with most other northern European countries and up four positions from 2014. Its overall score has improved consistently since 2012 despite criticism from the OECD that the UK authorities can sometimes fail to pursue allegations of bribe-paying by UK companies abroad.

Ease of Paying Taxes, 2016



Source : World Bank, 'Doing Business Report'

Ranking: Best = 1, Worst = 189.

There is uniform taxation of foreign and local businesses apart from the profits of oil and gas extraction (subject to a 30% rate). The UK's corporation tax was among the lowest in the world in 2015 as the government seeks to attract foreign investors. The main tax rate fell from 23% to 21% in April 2014 and to 20% on 1 April 2015, and a cut to business rates was also announced in the 2016 budget. Amid the economic slowdown in the aftermath of the Brexit vote and Chancellor of the Exchequer Philip Hammond replacing George Osborne, it seems likely that, in line with earlier plans, corporation tax will fall to 17% by 2020, although a further cut (to 15%) as promised by Osborne will not materialise.

Corporation tax rates have sparked public debates due to revelations that several large multinational corporations (such as Google) paid no (or extremely low) corporation tax in the last three years, the government has taken some action against this practice in the 2016 budget. Corporation tax is collected quarterly in advance and is calculated on the basis of forecast profit or loss.

Recommendations

- While foreign companies could legally reduce their tax burdens by engaging in tax arbitrage, there is reputational risk for doing so.
- Monitor the government's promised reform of business rates as it could be scrapped due to the economic slowdown.
- Expect the rule of law and corruption to be unproblematic when doing business in the UK, even after the UK has left the EU.
- Base business planning on the assumption of a slowly improving business environment.

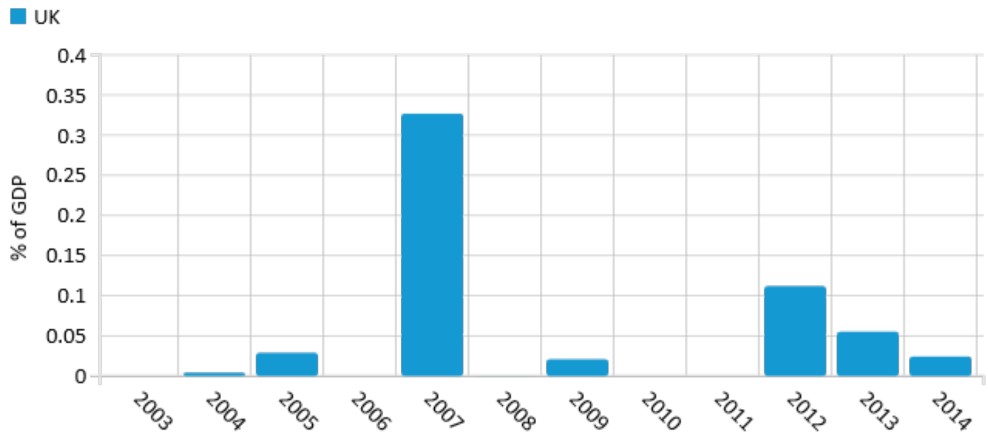
BUSINESS CONTINUITY

Despite an increase in government spending on infrastructure in the last decade, the UK transport system remains inadequate for the growing demands of consumers and businesses. The rail network, which is relatively extensive, continues to suffer from decades of neglect, resulting in congested, unreliable and expensive train services. In 2011, the government approved the HS2 rail project, which will link London to Birmingham. Completion of the high-speed track was initially forecast for 2026, but a recent report revealed that the project is already several years behind schedule (and significantly over budget). The second phase of the HS2 project (from the West Midlands to Leeds and Manchester) is even more uncertain, despite the backing of the new transport minister. Furthermore, the government is yet to decide about extending airport capacity in the London area. With the constituencies of several key ministers (including Prime Minister Theresa May) lying in Heathrow Airport's flight path, the topic is highly controversial and a quick decision seems unlikely.

Risks and Opportunities

- The UK's ageing transport infrastructure will continue to contribute to higher costs and lower worker productivity during the forecast period.
- In the unlikely event that a natural disaster disrupts business operations, the well-developed emergency response and recovery system is equipped to restore normality.
- The number of business failures increased by around 23% q/q in Q2, according to our proprietary data.
- Even before the Brexit vote, payments performance had been well below the European average, a trend that is likely to continue.

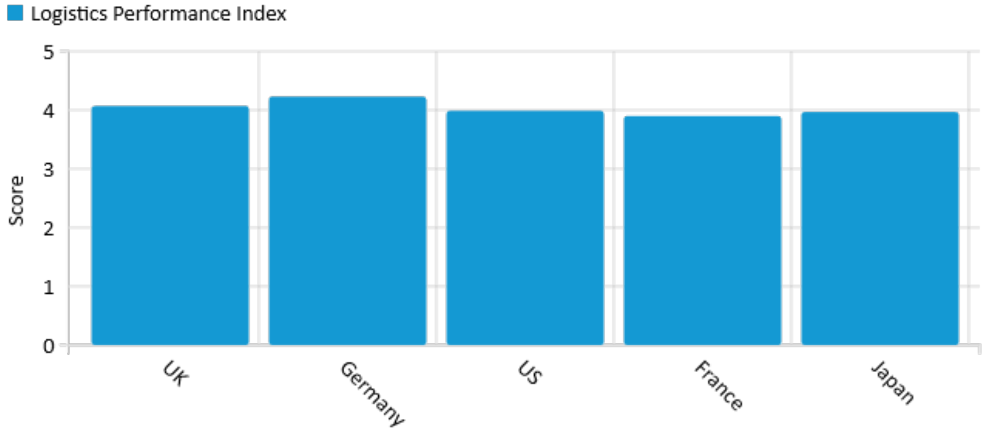
Natural Disaster Impact



Source : D. Guha-Sapir, R. Below, Ph. Hoyois - EM-DAT: International Disaster Database – www.emdat.be – Université Catholique de Louvain

Natural Disaster Risk: Droughts, floods (as in December 2015 in Cumbria) and heavy snowfall present the main risks to commercial operations in the UK. However, in total, costs of natural disasters are not high, except for the agricultural sector. While there is a very effective disaster recovery mechanism based on a partnership between relevant central government agencies and local emergency responders, the recent increase in the incidence of extreme weather is receiving the attention of the authorities. On balance, natural disaster risk is low and unlikely to affect business operations on a significant scale.

Logistics Performance Index, 2016



Source : World Bank

Note: 1 = worse performance, 5 = better performance.

Logistics and Infrastructure: Besides structural issues (such as relatively poor infrastructure, compared with other Western European countries, and an elevated level of business failures), there are two big risks for supply chains involving the UK. The first (a short-term risk) is the depreciation of the pound sterling against the euro and, to a greater extent, the US dollar. British companies that are sourcing from the US could struggle to pay their suppliers on time (US companies sourcing from the UK will benefit from lower input costs). Over the long-run, however, if Brexit ends with the loss of access to each other's markets, supply chains from and to the UK could change significantly. Positively, although our core scenario foresees the UK exiting the EU in early 2019, we expect that a new arrangement with the EU will eventually come into force, maintaining market access, at least in some sectors. However, this positive outcome is by no means certain and in a worst-case scenario, bilateral trade would be carried out under WTO rules (including tariffs).

Recommendations

- As highlighted by the floods in Cumbria in December 2015, seek insurance cover against natural disasters.
- The biggest risk for supply chains stems from the UK's potential loss of EU market access.
- Expect further delays in big infrastructure projects, such as HS2 and a new runway for one of the London airports.
- Watch the Chancellor of Exchequer's autumn statement in November, when increased spending on public infrastructure could be possible, in order to benefit from low interest rates.

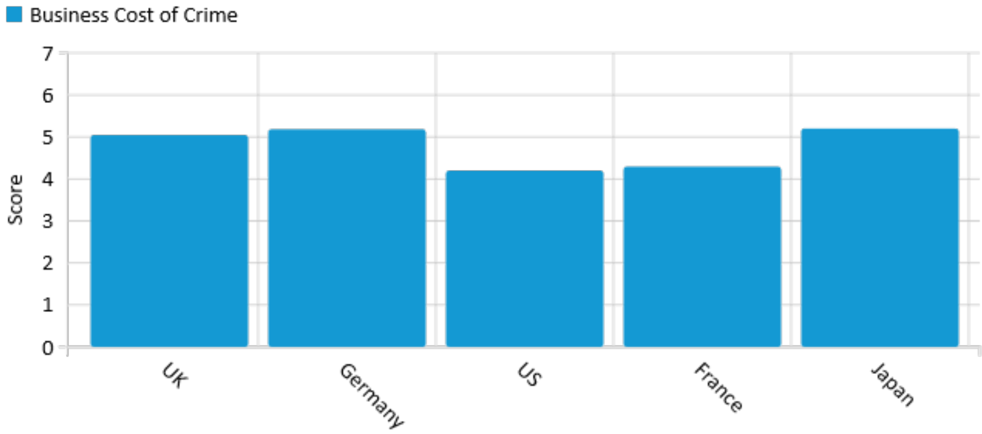
POLITICAL/INSECURITY RISK

After it had risen considerably in the immediate aftermath of the Brexit referendum on 23 June, political risk has fallen somewhat over the past weeks, thanks to the quick leadership succession in the Conservative Party. However, negatively in this respect, the new UK government led by new Prime Minister Theresa May has not laid out its post-Brexit plan. While it seems increasingly likely that the government will invoke Article 50 of the EU Treaty in early 2017, leading to an exit from the EU in early 2019, it is still unclear what will replace the current arrangement. Recent comments made by senior government officials hint that the UK will favour control over its borders rather than full EU market access. If such a scenario were to materialise, trading with the UK would become more complicated (as would FDI).

Risks and Opportunities

- Until the UK has exited the EU, political risk will remain a source of concern in the country.
- The country's integrity is at risk as pro-EU Scotland (and Northern Ireland) could try to break away from the central government over the medium to long run.
- Prime Minister Theresa May is facing the challenge of finding an impossible compromise between regaining control over migration from the EU while not losing EU market access.

Business Cost of Crime, 2015-16

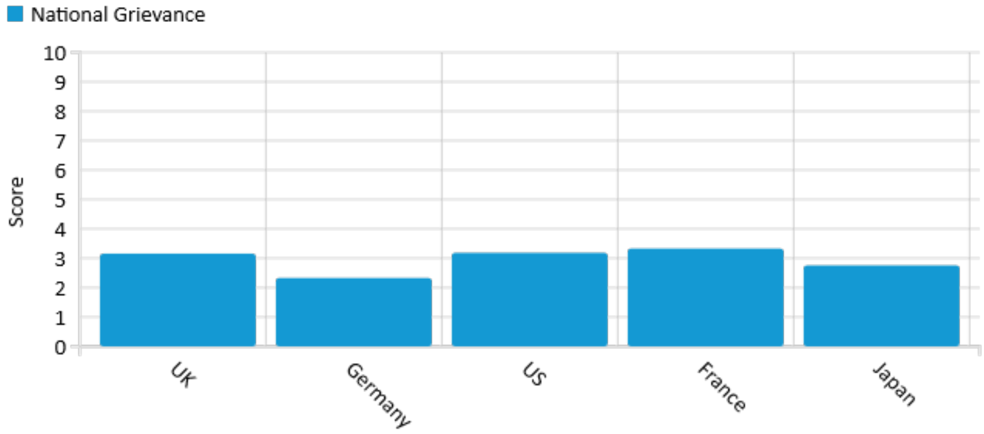


Source : World Economic Forum

Note: 1.0 = highest cost imposed, 7.0 = lowest cost imposed.

The World Economic Forum (WEF) surveys characterise the risk of terrorism as 'elevated' for UK businesses. The WEF's 2015-16 *Global Competitiveness Index* assigned the UK a score of 5.1 out of 7.0 (where 7.0 represents the lowest cost imposed) in terms of the business cost of terrorism, and a ranking of 83 out of 140. The UK is ranked on a par with Germany (82) and ahead of France (105), with the US ranked 114. Home-grown Islamist terrorism remains a threat, as shown by the slaying of a British soldier by two UK-born Muslim converts on the streets of Woolwich (London) in May 2013, and by an attempted murder at a London underground station in London only days after the UK had joined a bombing campaign against terror group Islamic State in Syria in 2015. While the risk of a domestic terrorist attack remains low (contributing to a relatively safe environment for firms operating in the UK), a terrorism event could have a significant impact on business continuity, particularly in London (which was hit by an Islamist attack in 2005 when four suicide bombers killed 52 people). Meanwhile, the looming Brexit negotiations casts shadows over the largely successful peace process in Northern Ireland.

Level of National Grievance, 2016



Source : Fund for Peace, 'Failed States Index'

Note: 1.0 = lowest grievance, 10.0 = highest grievance.

National grievance is on par with other Western European countries. Although the social welfare state is not as well developed as in most of its European peers (especially Germany and the Nordic countries), government policies over the past years have stressed the importance of improving the living conditions of the working class. Prime Minister Theresa May reiterated the importance of these policies in one of her first speeches and we believe that after years of austerity, government spending could increase in the next years in order to counterbalance some of the adverse effects Brexit has on the poorer parts of society.

Recommendations

- Expect insecurity risk to remain low, regardless of the rift in society between 'Remainers' and 'Brexiteers' over future UK-EU relations.
- Ensure that premises are adequately secure and company personnel follow sound security procedures, although the threat of social unrest or political violence is negligible.
- Keep in mind that there is a latent Islamist terror-related security risk, especially in the south-east of the UK and London in particular.
- Keep a close eye on developments in Northern Ireland and especially Scotland, as Brexit could lead to a renewed flaring of separatism.
- Unlike in the immediate aftermath of the referendum, it is certain that the government intends to invoke Article 50.

EXPROPRIATION/NATIONALISATION RISK

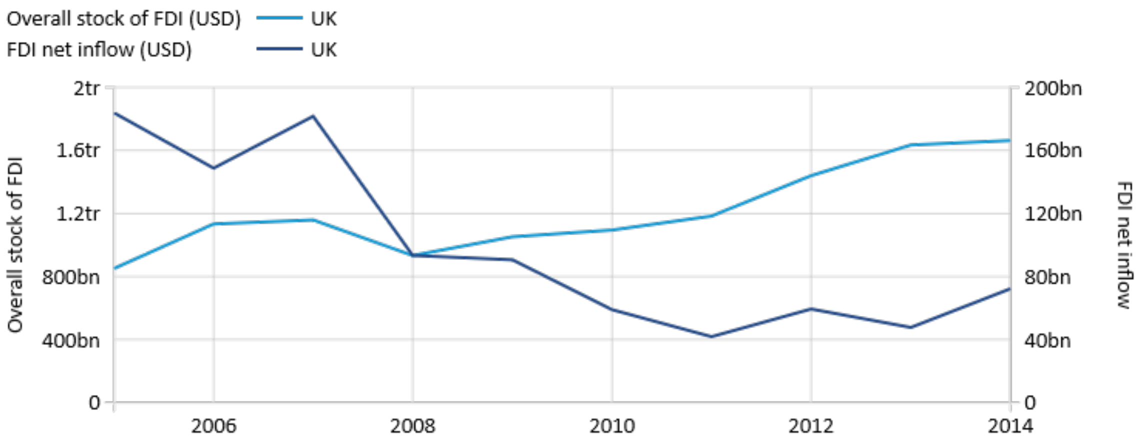
Foreign investment in the UK is largely unregulated, although approval must be obtained to invest in sensitive sectors such as national security. Moreover, investors wishing to acquire or establish companies in regulated industries (including financial services, public utilities, energy, and broadcasting) must comply with specific regulations. Regulated industries are governed by specific acts, such as the Financial Services and Markets Act (2000), and have independent bodies with oversight, such as the UK Office of Communications (Ofcom). Following the Second World War, between 1946 and 1950 Britain nationalised several strategic industries such as mining, public transportation and utilities, but by the end of the 1980s most state enterprises had been re-privatised in a bid to improve their efficiency.

The most recent case of nationalisation was confined to the financial sector and occurred during the 2008 financial crisis when the government acquired an 81% shareholding in the Royal Bank of Scotland (RBS) and a 39% stake in Lloyds Banking Group, at a cost of GBP66bn. The government is currently considering its exit strategy for most of its holdings in the financial sector (which also include other, smaller banks), to allow the re-privatisation of Lloyds (a 6.0% stake has already been sold), and it sold RBS shares in August 2015, reducing the taxpayers' shareholding to 73%. However, it is unlikely that further rounds of re-privatisation will occur any time soon.

Risks and Opportunities

- The risk of expropriation is negligible and only likely to occur in extreme cases; however, leaving the EU is removing one layer of protection against expropriation or nationalisation.
- Recent studies have shown that in 2015 the government sold its stake in train operator Eurostar significantly below market value, indicating good investment opportunities.
- In Scotland, the left-leaning government is still exploring the option of expropriating big country estates (against compensation).

Foreign Direct Investment

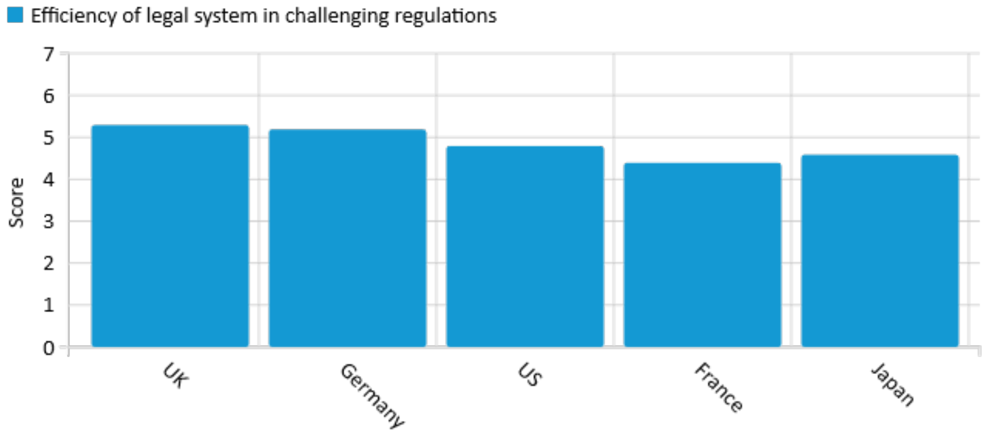


Source : UNCTAD

As a major destination for foreign investment, the attractiveness of the UK is shown by FDI inflows rising by between 3.5% and 28.6% in 2009-14, resulting in the UK having the second-highest level of FDI stocks globally (after the US). However, Q1-Q4 2015 saw falls of 2.2%-7.0% y/y, followed by a 9.8% y/y contraction in Q1 2016 (the sharpest fall in seven years). Brexit and the high level of economic uncertainty will almost certainly lead to a further drop in the quarters ahead. This, however, is unlikely to impact expropriation and nationalisation risk.

The government's main investment agency, UK Trade and Investment, provides assistance for foreign investors, supported by a network of regional agencies. Various schemes are in place to entice foreign investors, including government grants and other financial assistance. Although tax incentives for investors are less common than in other EU countries, the main corporate tax rate is relatively competitive and fell to 20% on 1 April 2015. The UK has an extensive network of double-taxation treaties that provide exemption or relief from UK holding tax on interest and royalties, and there is no withholding tax on dividends paid by UK resident companies. However, a British exit from the EU puts some of those deals in jeopardy.

Efficiency of Legal System in Challenging Government Regulations, 2015-16



Source : World Economic Forum, 'Global Competitiveness Report'

Note: 1 = Extremely inefficient, 7 = Highly efficient.

Foreign-owned companies are granted equal treatment under UK law, and the UK does not discriminate between UK and foreign nationals in the establishment of private firms. The UK's legal system follows international standards of protection for intellectual property rights including patents, copyrights, trademarks and trade secrets. This is unlikely to change post Brexit.

Recommendations

- Expropriation/nationalisation risk is virtually non-existent and does not need to be factored into planning, even if the UK leaves the EU in the medium term.
- For the extremely rare cases where assets are expropriated, expect fair compensation.
- Do not expect further privatisations to be high on the political agenda in 2016-18.

PERSPECTIVES

The following sections provide an overview of the broader/longer-term factors that influence the way that business is done in the United Kingdom. These factors provide the foundations upon which the economy is built and the frameworks within which business is done, and provide a richer insight into the background influences that lie beyond the raw data and focused insight that is supplied elsewhere in the report.

THE ECONOMY

Economic Overview

The UK is the world's sixth-largest economy and, after Germany and France, the third largest in Europe. Private consumption accounts for around 60-65% of GDP, a higher share than in most other EU countries. The share of GDP accounted for by gross fixed investment varies according to the UK’s position in the business cycle, but typically fluctuates in a range of 14-18% of GDP. This fairly low level of investment compared with other OECD countries is regularly cited as one of the factors behind the UK’s poor productivity performance. Overall, fixed capital formation in the UK has historically been depressed by low levels of public investment. Government consumption as a share of GDP declined for much of the 1990s, although it has since risen and currently stands at around 22% of GDP. A key goal of almost every Conservative administration is to reduce government spending and balance the fiscal deficit over the medium term. However, the looming Brexit will make this goal unachievable in the next few years and Prime Minister Theresa May has officially abandoned balancing the budget until the end of the decade.

Economic Framework

Industrial Relations and the Labour Market

The Trade Union and Labour Relations (Consolidation) Act 1992 governs work relations. Generally there is considerable freedom in hiring labour, including EU nationals and non-EU registered workers. However, this could change once the UK has left the EU. Employment protection legislation has been strengthened, with restrictions imposed on the ability to fire: employers can make staff redundant, but after a one-year period of employment it becomes more difficult to dismiss workers without considerable negotiation and trade union representation. Part-time workers have been given increased rights, and it is illegal to discriminate for reasons of sex, age or ethnicity; failure to comply often leads to litigation and large compensation awards.

Fiscal Framework

Fiscal policy is based on a framework implemented in 1997 that defined the objective of fiscal policy as balancing the budget over the medium term. The current government is broadly following this approach, although it has been careful not to define measures of success too tightly given the substantial budget deficit and the difficulties facing the global economy. This aside, the government has indicated that it plans to protect the most productive public investment projects, avoid punitive tax increases on capital and labour, and reform the welfare system to encourage more people back into the workforce. The transparency of the UK’s fiscal policy framework was enhanced by the establishment of the Office for Budget Responsibility (OBR) in May 2010, whose main function is to provide economic and fiscal forecasts and to use these to assess whether or not the government will fulfil its targets.

Monetary Regime

One of the most important macroeconomic policy innovations introduced by the 1997 Labour government was the decision to transfer responsibility for setting official interest rates from the Treasury to a newly constituted nine-member monetary policy committee (MPC) within the Bank of England (BoE, the central bank). However, the responsibility for setting the annual inflation target remains with the government (as does the appointment of four members of the MPC). The monetary policy framework, which continues under the current government, requires the MPC to keep inflation (as measured by the EU's harmonised index of consumer prices, HICP) within 1.0 percentage point either side of a central target of 2.0%.

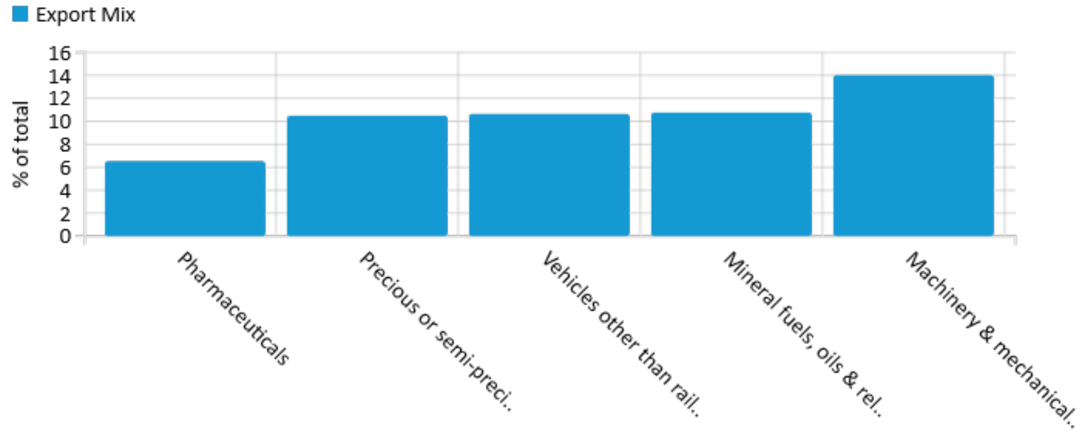
Exchange Rate Regime

The pound sterling is allowed to float freely on the international FX markets and there are no restrictions on trading in the currency. Monetary policy uses inflation-targeting and the central bank does not intervene to regulate the value of sterling. If the pound were to lose more ground against the US dollar (it hit a 31-year low in late-June and has only recovered modestly since), we could see some support from the BoE in order to limit inflationary pressures.

Export Profile

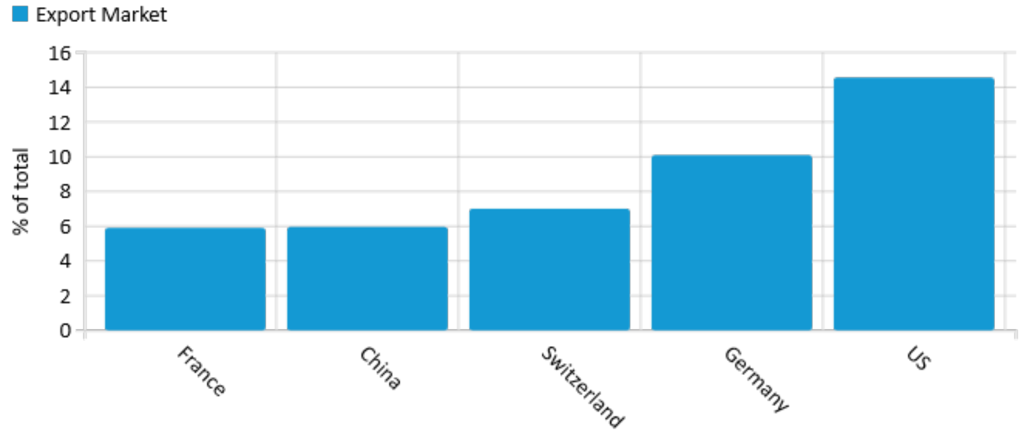
With certain rare exceptions (notably in 1980-82, when a rise in the price of oil resulted in a sharp increase in export earnings) the UK runs a deficit on visible trade. The UK is a net exporter of chemical products (particularly pharmaceuticals), beverages (notably whisky) and machinery. Manufactured goods accounted for the largest share of UK exports in 2014 (the latest available data on a yearly basis), representing almost half of the total. The UK's largest trading partner (by far) is the EU: EU member states accounted for 44.3% of the UK's export earnings in 2015. The UK's largest export markets within the EU are Germany, the Netherlands, France, Ireland and Belgium. However, after Germany, the UK's largest single country market is the US, which comprised roughly 10.5% of export earnings in 2015. Be aware of the fact that the country's export and import profiles risk significant changes if the UK loses access to the common market.

Export Mix (Top 5)



Source : Comtrade/Dun & Bradstreet

Export Markets (Top 5)



Source : IMF DOTS/Dun & Bradstreet

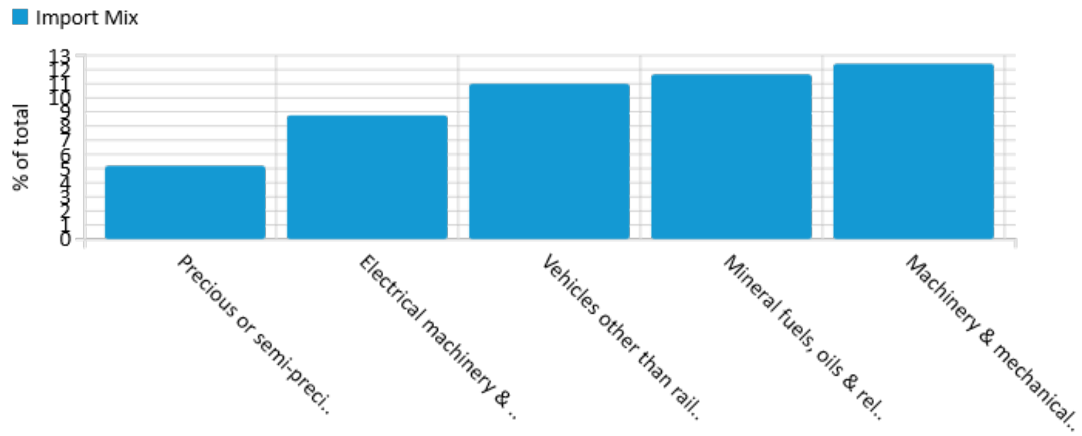
Import Profile

As with exports, machinery and manufactured goods account for the largest share of imports. Computers, electronics, electrical products, optical equipment and chemicals are important sub-categories of imports; the UK imports a wide range of goods as inputs into industrial processes, and to satisfy its food/fuel requirements and consumer demands. Many British-made goods comprise foreign parts that are manufactured or reprocessed for export.

The EU is the largest source of UK imports. The UK's single-largest supplier is Germany, followed by China (including Hong Kong). Imports from China have surged since 2001, when it was admitted to the WTO: from an almost standing start in 2001, China has rapidly become the UK's main non-EU supplier of goods (a position that the UK hopes will lead to new export opportunities in China).

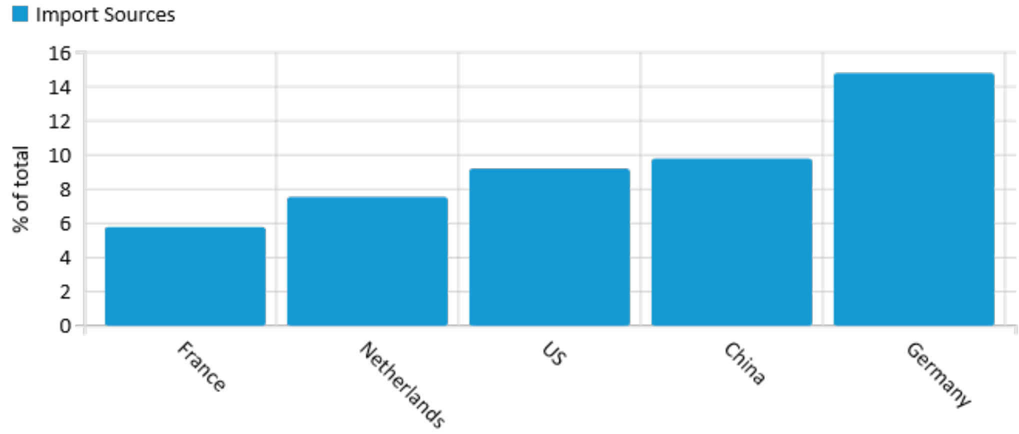
The UK's ties to former colonies and territories help to foster trade relations with emerging markets, which account for around one-quarter of the country's imports.

Import Mix (Top 5)



Source : Comtrade/Dun & Bradstreet

Import Sources (Top 5)



Source : IMF DOTS/Dun & Bradstreet

POLITICS

The Kingdom of Great Britain was created in 1707 by the political union of the Kingdom of England (which included Wales) and the Kingdom of Scotland. Subsequently, the Kingdom of Ireland merged with the Kingdom of Great Britain to form the United Kingdom (UK) in 1800. In 1922, the Irish Free State was created after the partition of Ireland, with Northern Ireland remaining within the UK. In 1927, the formal name of the UK was changed to its current form, the United Kingdom of Great Britain and Northern Ireland.

The UK is a stable parliamentary democracy. Previously, elections for the House of Commons (parliament’s directly-elected chamber) could be held at any time within five years of the previous vote. However, the Fixed-term Parliaments Act 2011 introduced fixed terms, whereby elections now have to be held five years after the last election.

Having been in government since May 1997, the centre-left Labour Party was replaced by a Conservative-Liberal Democrat coalition at the May 2010 general election. The new prime minister was David Cameron, leader of the Conservative Party, with the Liberal Democrat leader Nick Clegg as deputy prime minister. The number of cabinet positions heavily favoured the Conservatives, reflecting the two parties’ relative number of seats. The latest election took place in May 2015, and was won by the Conservatives and David Cameron with a small majority, bringing the UK's brief flirtation with coalition government to an end. On 24 June 2016, Cameron announced his resignation following the Brexit campaign's unexpected victory in the EU-membership referendum and was replaced as prime minister by Home Secretary Theresa May.

The current head of state is Queen Elizabeth II, who has reigned since 1952. The monarch plays a largely ceremonial role (such as opening parliamentary sessions) and takes care not to comment publicly on political matters.

Constitutional Arrangements

The end of the 20th century brought changes to the governance of the UK: devolved national administrations were established for Northern Ireland, Scotland and Wales. In addition, under the House of Lords Act 1999, the Labour government introduced reform to the House of Lords (the upper chamber of parliament) by removing the right of all but 92 hereditary peers to act as legislators. There are further reforms to the House that have yet to materialise. In early 2010, the House of Commons (the elected lower chamber) voted in favour of a referendum on change to the electoral system from ‘first-past-the-post’ to an ‘alternative vote’ system, but the proposal was defeated in a referendum held in May 2011.

Legislature

Parliament is divided into two houses: the appointed House of Lords and the elected House of Commons. The Lords is primarily comprised of hereditary and life peers, but most hereditary peers lost their seats following reforms implemented in 1999. Laws enacted by parliament require the assent of both houses and the monarch. The Lords' main role is to review and revise laws proposed in the House of Commons (although its recommended changes can be overruled by the Commons).

The main parliamentary chamber, the House of Commons, is elected by universal suffrage and consists of 650 members; there is one seat for each constituency, but the Speaker has no right to vote (except when there is a tie) and neither do members of the Sinn Fein party from Northern Ireland (the latter for refusing to take the oath of allegiance to the queen). Members must obtain a plurality of the votes cast in their constituency in order to be elected. In the absence of a written constitution, the House of Commons has largely unrestricted legislative powers. The country's electoral system compounds this concentration of power, often producing large parliamentary majorities for parties that do not have a majority of electoral support (thus reinforcing the traditional two-party dominance, with few hung parliaments).

Executive

Formally, executive authority is vested in the monarch and exercised through the ministers that form the Cabinet. Cabinet ministers are (by modern convention) drawn from the largest party in the House of Commons. The prime minister, who is usually the leader of the largest parliamentary party, is the effective head of government, although constitutionally the position is no more powerful than any other cabinet role. Day-to-day running of the government machinery is conducted by a non-political civil service.

Political Parties

The Government

Traditionally the Conservatives (Tories) have espoused right-of-centre policies and drawn much of their support from business interests and the relatively wealthy (including landowners). The party has limited representation in Scotland and Wales and is primarily an English party. Although the Conservatives were easily the most successful political party during the 20th century (in terms of general elections won), they suffered a heavy defeat in 1997 from which it took more than a decade to recover. Between 1997 and 2005 the party found it difficult to shake off its tired image with voters (Tory MPs were seen as out of touch with a modern Britain), and to overcome internal bitter divisions, particularly over Europe. David Cameron presided over an upturn in the party's fortunes, leading the party to victory in the May 2010 general election (after which he formed a coalition with the Liberal Democrats) and again in May 2015 (in which the Conservatives managed to secure an small majority). However, after his Remain campaign lost the EU referendum on 23 June, Cameron resigned and Theresa May took over as prime minister and party leader of the Conservatives.

Opposition Parties

Labour Party: Now the main party of opposition, Labour governed the country from 1945-51, 1964-70, 1974-79 and returned to power in 1997, after 18 years in opposition, first under Prime Minister Tony Blair and later under Gordon Brown, until it was ousted in May 2010. During its long period in opposition Labour was transformed: the party gradually moved back towards the political centre, weakening links with the trade union movement and downplaying its previous emphasis on the redistribution of wealth in an effort to widen its appeal to the middle classes. The 'new' Labour Party is centrist and pragmatic, but its traditional supporters regret the abandonment of key tenets of socialist doctrine and resent the tight control exercised by the party's leadership. After he lost the election in 2015, Ed Miliband stepped down as leader and Jeremy Corbyn, a left-leaning MP since 1983, was elected party leader in a popular vote. In late June, Corbyn lost a vote of confidence from Labour MPs and his party leadership is currently contested by fellow MP Owen Smith. Corbyn is widely expected to remain in office, which could lead to a split in the Labour Party.

Liberal Democrat Party: Having governed as junior coalition partner under Cameron in 2010-15, the Liberal Democrats lost 49 of their previous 57 seats in the 2015 election. As a result, leader (and former deputy prime minister) Nick Clegg resigned and MP Tim Farron replaced him.

A number of other parties are also represented in parliament, including special interest groups: the Green Party (its first MP, Caroline Lucas, was re-elected in 2015 to represent the Brighton Pavilion constituency); regional parties such as Plaid Cymru (Welsh nationalists); several small parties from Northern Ireland, and the Scottish National Party (which won 56 out of 59 Scottish seats in the 2015 election). Meanwhile, the UK Independence Party (UKIP) won the European Elections in 2014 but, due to the UK voting system in national elections, its relative success in the May 2015 election (the party won 12.6% of the votes) did not translate into a corresponding number of seats in the parliament (UKIP has only one MP).

Interest Groups

Confederation of British Industry (CBI)

The CBI is the business community's main pressure group. Its leadership lobbies for a pro-business policy stance, continued EU membership, promotion of the UK as an attractive location for private sector investment, and often supports the importance of a well-regulated but strong financial system. In its capacity as a business advocate, the CBI is highly effective; its policy recommendations are generally orthodox and influential.

Trade Unions

Union power has been affected by the legacy of anti-union legislation enacted by Margaret Thatcher's governments (1979-90), while the UK's shrinking industrial base has complicated the unions' recruitment process. The number of unionised workers has fallen from 13m in 1979 to about 6.4m currently (around 26% of all employees). At a sectoral level the degree of unionisation ranges from 56% in the public sector to 4.0% in hotels and restaurants. The Trades Union Congress is the main federation of unions, representing 6.5m workers. Unite is the largest individual union, with a membership of 1.5m. The Conservative Party has traditionally had an acrimonious relationship with leaders of the trade unions; the unions 'gave birth' to the Labour Party and are still its main financial backer. The prospect of increased militancy is rising as a result of the government spending cuts required to restore public finances. In response, the government could attempt to impose further union reforms.

Environmentalists

The 'green' agenda is becoming more prominent as concern over climate change increases. The government aims to position the UK as the most committed country in the world concerning this issue. Despite a reputation as an eccentric minority interest, the Green Party has fared well at local elections and gained its first parliamentary seat at the 2010 general election (and defended it in the 2015 poll). The Conservatives' rebranding involved highlighting the party's green credentials, but government support for large infrastructure projects (such as an additional runway for Heathrow Airport as well as the planned HS2 rail route between London and the Midlands) is creating conflict in the party's base.

Agriculture

Relations between the former Labour government and the rural community were frequently strained. The plight of rural communities was highlighted in 2001 by the foot-and-mouth disease epidemic and more recently in the 2007 outbreak, while the ban on fox hunting also caused sentiment to harden against the Labour government in many rural communities. The re-election of the Conservatives, traditionally a party favoured by the agricultural community, has helped to heal these divisions, but the looming Brexit negotiations is creating some financial concerns for farmers whose main income are subsidies from the EU.

International Environment

The UK's two most important international relationships are with the US and the EU; the need to balance the two can lead to tension.

Relations with the US

The relationship with the US is underpinned by a shared language, as well as a shared cultural view of democratic and market values. UK politicians have often subordinated relations with the EU if they have conflicted with the 'special relationship' with the US. An example of this is the extent to which former prime minister Tony Blair supported the US invasion of Iraq, while leaders elsewhere in Europe (especially France) counselled a more moderate approach. This willingness to act outside the core EU consensus has reinforced the philosophical, as well as physical, separation of the UK from mainland Europe.

Relations with the EU

The UK joined what was then the European Community in 1973, more than two decades after the formation of the European Coal and Steel Community that was its precursor. Parties with a euro-sceptic platform have done well electorally, as many voters view the EU as wasteful and corrupt, and its bureaucracy at the European Commission as encroaching on national sovereignty. The anti-EU UK Independence Party (UKIP) won 24 seats in the 2014 European Parliament elections (more than any other party). After the victory of the Brexit camp in an EU-membership referendum on 23 June, the UK's membership in the EU is severely at risk: we expect Article 50 (which manages an EU exit) to be invoked in early 2017, leading to an exit from the EU in early 2019. Until the UK has left the EU, the country's trade policy is shaped by the EU, a customs union with a common market.

Relations with the Rest of the World

The UK is a permanent member of the UN Security Council, a member of the G7, NATO, and a member state of the EU. Successive UK governments have sought to maintain the 'special relationship' with the US. The UK also has close allies among Commonwealth and other English-speaking countries.

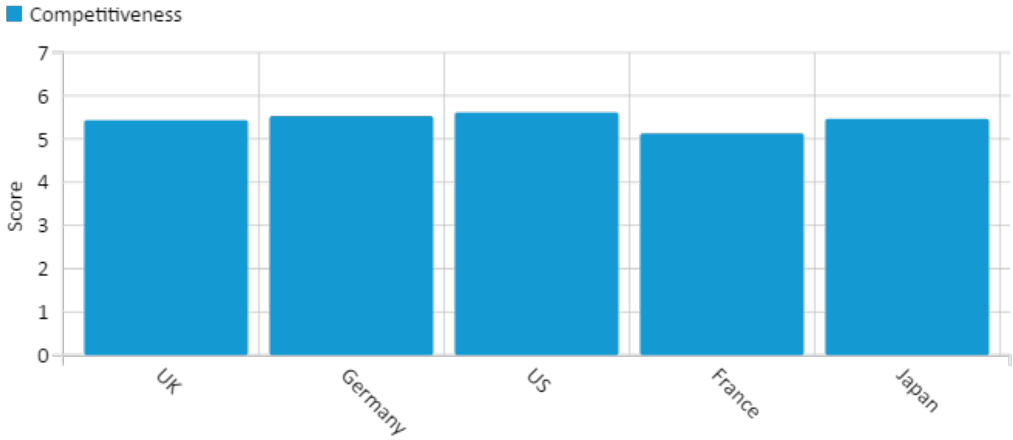
The UK's extensive trading relations and military installations/deployments around the globe boost its influence; the UK has contributed substantial armed forces to NATO-led actions in Afghanistan and Iraq, although these commitments have led to a severe strain on the UK's military resources and the current government intends to make cutbacks in military spending.

The UK is also a member of the WTO, but trade liberalisation negotiations under the WTO umbrella, as well as WTO dispute-resolution processes, are handled by the European Commission on behalf of all EU member states.

COMMERCIAL CULTURE

Despite the current uncertainty about Brexit, the UK is an established market-based economy in which contracts are enforced by an independent and reasonably efficient judicial system. The country has long provided one of the world's most favourable environments for private enterprise. For the most part, the primary focus of recent microeconomic policy has been on tackling complaints from the business sector about the growing burden of regulation, the country's restrictive planning laws, and making sure that competition policy is enforced rigorously. This will continue, along with efforts to introduce tighter regulation of the financial system. The World Economic Forum gave the UK a relatively strong score of 5.4 out of 7.0 in terms of competitiveness (ranking it as the world's 10th most competitive economy) in its 2015-16 *Global Competitiveness Report*.

Competitiveness, 2015-16



Source : World Economic Forum, 'Global Competitiveness Report'

Note: 0 = least competitive, 7 = most competitive.

Infrastructure

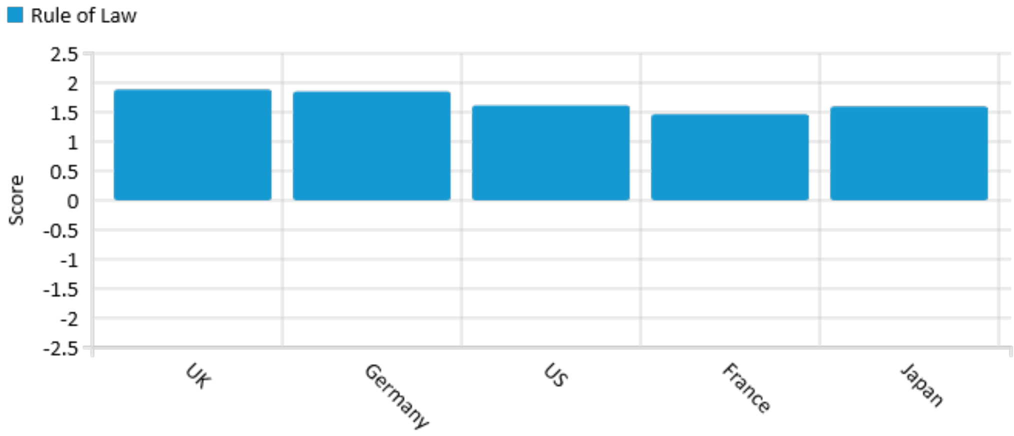
UK infrastructure is relatively old, resulting in higher costs and lower productivity per worker. The transport system is congested, inefficient and of variable quality, despite having been a higher government-spending priority in recent years. Between 2000 and 2010, spending on transport more than doubled from the GBP95bn in the previous decade. In part, this is due to a higher than planned share of total spending allocated to modernising and repairing existing infrastructure, rather than expanding capacity, and partly because the authorities underestimated the maintenance backlog that had built up in the rail network. The current decade will again see increased spending on infrastructure projects, but key projects are behind schedule.

Domestic air travel is not popular due to the short distances involved and the existence of intercity train services. However, some low-cost airlines provide point-to-point services from small regional airports between major cities such as London, Manchester, Glasgow and Edinburgh. The UK has several major international airports. Heathrow is the world's busiest airport for international travel, although it has suffered from delays, security lapses and other inefficiencies.

The UK was one of the first EU countries to liberalise telephone services and promote private sector cable telecoms. Since the former state monopoly was privatised in 1984, overall call charges have dropped by half in real terms, while call quality has improved. The UK also has one of the world's most competitive mobile telephony sectors and is home to the world's second-largest mobile operator, Vodafone. Access to broadband internet services is almost universal, but speeds and technologies lag behind those available in Continental Europe and Japan, in part due to the expense of private sector funding of fibre-optic connections.

Legal and Regulatory Environment

Rule of Law, 2014



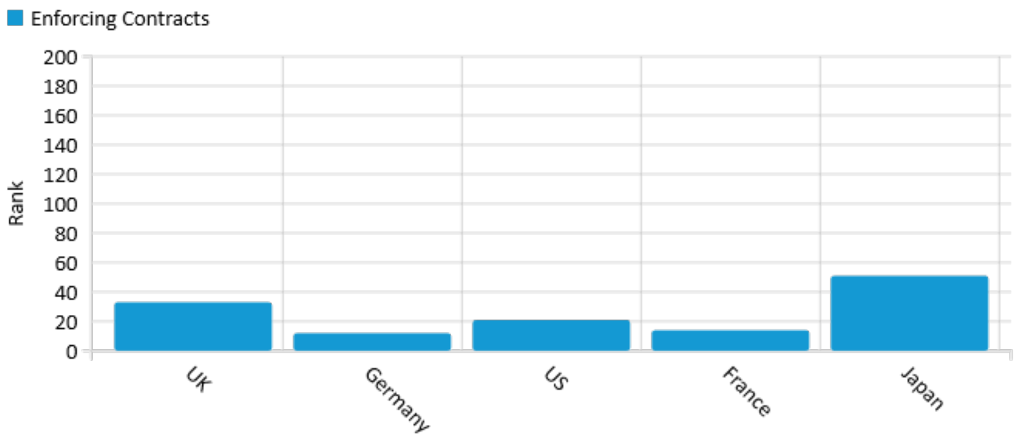
Source : World Governance Indicators/World Bank

Note: -2.5 = worse performance, +2.5 = better performance

Property rights are respected and enforced, and contracts are secure. The legal system also provides extensive protection for intellectual property rights. The courts do not discriminate against foreign companies and the judiciary is of high quality when dealing with commercial cases. Some foreign firms find the tradition of UK statute law unsettling since the acts tend to be vaguer than laws in the US or most Continental European countries, and leave more scope for judicial clarification. However, many statutes have become more prescriptive.

Enforcement of Contracts/Arbitration

Enforcing Contracts, 2016



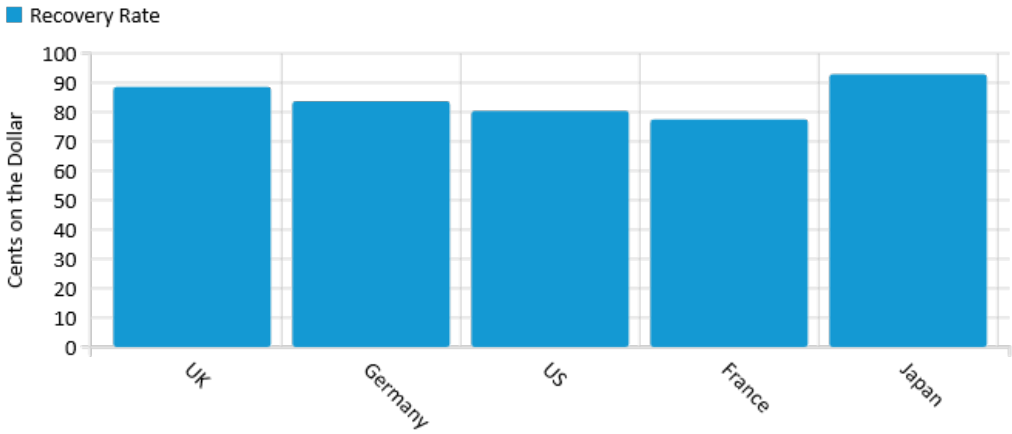
Source : World Bank 'Doing Business Report'

Ranking: Best = 1, Worst = 189

Enforcing a contract in the UK is less time consuming than in most other high-income OECD countries. The World Bank's *Doing Business 2016* report shows that it took 437 days in the UK, compared with the OECD average of 538. While the quality of judicial processes in the UK is higher than the OECD average, costs are also much higher (43.9% of the claim in the UK versus 21.1% in the OECD).

Bankruptcy and Insolvency

Recovery Rate, 2016



Source : World Bank, 'Doing Business Report'

Insolvency procedures are generally well developed. The same rules apply in England and Wales, whereas insolvency has separate legal definitions in Scotland and Northern Ireland. Insolvent companies in England and Wales are dealt with under the 1986 Insolvency Act (amended in 2000): companies can either be the subject of a compulsory liquidation order obtained from the courts by a creditor; or a member or director or the company itself can pass a resolution, subject to the approval of creditors, that the company be wound up voluntarily (creditor's voluntary liquidation). Company administration orders and company voluntary arrangements were also introduced by the 1986 Insolvency Act. Under the administration procedure, creditors are restrained from taking action for a period of time and a court-appointed administrator suggests proposals to deal with a company's financial difficulties. Under the company voluntary arrangement procedure, a business in financial difficulty can come to a binding agreement with its creditors. The 2002 Enterprise Act introduced additional entry routes into administration that do not require an administration order to be made, and offered a streamlined process for administrations whereby a company can (in some circumstances) be dissolved without recourse to liquidation. The primary objective of administration (and of company voluntary arrangements) is the rescue of a company as a going concern.

The World Bank's *Doing Business 2016* report ranks the UK 13 in terms of resolving insolvency; the average time to complete a bankruptcy procedure is 1.0 years (compared with an OECD average of 1.7 years); the cost of the bankruptcy proceedings is equal to 6.0% of the cost of the estate (9.0% for the OECD); and claimants on average recover a very high 88.6 cents per US dollar owed from an insolvent firm (compared with an OECD average of 72.3 cents).

Corporate Governance

Starting a business in the UK is very simple, with just four procedures taking an average of 4.5 days to complete (down from 12 days in 2013), compared with the OECD average of 8.3 days. Every new business should register its formation with the local tax office. Businesses are not required by law to join a chamber of commerce or trade association, although many do. All UK companies and UK branches of foreign companies must register with one of the registrars of companies. Various forms of business are permissible including public limited company (plc), private limited company (Ltd), partnership, joint venture, branch of a foreign company, place of business of a foreign company, and sole proprietorship.

Corruption

Like many western European countries the UK does not have a serious corruption problem, but isolated instances of public official corruption do exist. The government is working with other countries in the OECD to fight corruption and has enacted the Prevention of Corruption Act, which makes bribery of domestic and foreign public officials a criminal offence.

Transparency International's 2015 *Corruption Perceptions Index* ranks the UK as the 10th-least corrupt country of the 167 countries and territories surveyed. This is in line with most other northern European countries and southern European countries in the Mediterranean Basin such as Spain, Portugal and Italy (the latter is ranked 61). According to Transparency International's *Bribe Payers Index 2012* (latest available figure), UK firms have the eighth-lowest propensity to pay bribes abroad (out of 28 countries surveyed), although the OECD has accused the UK of failing to pursue allegations of bribe-paying by UK companies abroad.

Sanctions

There are currently no known international sanctions in place against the UK.

STATISTICAL REFERENCE

Key Indicators and Forecasts

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	1.5	1.3	1.9	3.1	2.2
Nominal GDP in USDbn	2,609	2,646	2,720	2,999	2,856
Nominal GDP in local currency (bn)	1,628	1,675	1,740	1,822	1,870
GDP per Capita in USD	41,302	41,621	42,522	46,616	44,136
Population (year-end, m)	63.2	63.6	64.0	64.3	64.7
Exchange rate (yr avge, USD-LCU)	0.62	0.63	0.64	0.61	0.65
Current Account in USDbn	-46.3	-97.1	-119.9	-139.7	-153.3
Current Account (% of GDP)	-1.8	-3.7	-4.4	-4.7	-5.4
FX reserves (year-end, USDbn)	79.3	88.6	92.4	95.7	119.0
Import Cover (months)	1.1	1.3	1.3	1.3	1.7
Inflation (annual avge, %)	4.5	2.8	2.6	1.5	0.0
Govt Balance (% GDP)	-7.6	-8.3	-5.7	-5.6	-4.2

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	1.5	0.7	1.0	1.5	1.7
Nominal GDP in USDbn	2,540	2,611	2,682	2,798	3,009
Nominal GDP in local currency (bn)	1,911	1,970	2,035	2,110	2,188
GDP per Capita in USD	39,012	39,860	40,696	42,193	45,111
Population (year-end, m)	65.1	65.5	65.9	66.3	66.7
Exchange rate (yr avge, USD-LCU)	0.75	0.75	0.76	0.75	0.73
Current Account in USDbn	-132.0	-103.2	-114.9	-136.0	-135.9
Current Account (% of GDP)	-5.2	-4.0	-4.3	-4.9	-4.5
FX reserves (year-end, USDbn)	121.4	123.8	126.3	128.8	131.4
Import Cover (months)	1.7	1.7	1.7	1.7	1.7
Inflation (annual avge, %)	0.7	2.4	2.3	2.2	2.0
Govt Balance (% GDP)	-4.3	-4.5	-4.2	-3.7	-3.2

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	UK	Germany	US	France	Japan
Income per Capita (USD)	44,136	41,665	55,326	37,579	32,487
Country Population (m)	64.7	80.7	321.8	64.4	127
Internet users (% of population)	91.6	86.2	87.4	83.8	90.6
Real GDP Growth (% p.a., 2016 - 2025)	1.8 - 3.5	1.8 - 3	1.8 - 2.5	1.3 - 2.5	-0.5 - 1.2

Source : Various sources/Dun & Bradstreet

USER GUIDE

Ratings and Indicators

Traffic Light System

The traffic light system used in this report gives you a speedy way of assessing the balance of risks and opportunities in a given country or category of analysis for that country. Three traffic lights are used:

G	Green: indicates that positive factors/influences dominate.
A	Amber: indicates that there is a balanced mixture of negative/positive factors/influences.
R	Red: indicates that negative factors/influences dominate.

The traffic light indicators act as a quick guide to the overall balance between the detailed analytical components covered elsewhere in the report. This allows you to rapidly identify areas of concern or promise, which you can then explore further, either elsewhere in the report or via the content of the other products in our portfolio. You should always use the more detailed analysis as the basis for any further investigation/assessment/decision-making.

Dun & Bradstreet Risk Indicator

Dun & Bradstreet's Country Risk Indicator provides a comparative, cross-border assessment of the risk of doing business in a country. The risk indicator is divided into seven bands, ranging from DB1 to DB7. Each band is subdivided into quartiles (a-d), with 'a' representing slightly less risk than 'b' (and so on). Only the DB7 indicator is not divided into quartiles.

The individual DB risk indicators denote the following degrees of risk:

DB1	Lowest Risk	Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing.
DB2	Low Risk	Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.
DB3	Slight Risk	Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.
DB4	Moderate Risk	Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.
DB5	High Risk	Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.
DB6	Very High Risk	Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.
DB7	Highest Risk	Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.

HEADLINE CATEGORY DESCRIPTIONS

These headline categories combine the analysis from a number of detailed categories in order to provide focused analysis of business-critical issues.

Credit Environment Outlook

This category assesses the factors that affect the country's credit environment, and helps cross-border traders and investors understand the level of risk related to non-payment or delayed payment.

Supply Environment Outlook

This category covers the factors that could disrupt supply chains associated with the country, thus allowing cross-border traders and investors to assess risks in this area.

Market Environment Outlook

This category provides an assessment of the factors affecting the market environment over the short- to long-term; this assessment will help businesses involved in cross-border trade and/or investment to make informed decisions about increasing, maintaining or decreasing business links in a country.

Political Environment Outlook

This category helps cross-border traders and investors to understand the risks associated with expropriation/nationalisation, and also takes account of intentional human actions that could affect the quality of the business environment.

DETAILED ANALYTICAL CATEGORY DESCRIPTIONS

These analytical categories provide our most detailed, in-depth coverage of the core components of risks and opportunities associated with a given country. Together, they embody our broadest, deepest assessment of a country's risk and opportunity environment.

Short-term Economic Outlook

Analyses the economy/business cycle over the next 2-8 quarters, identifying recession, recovery, growth or stagnation. Helps businesses anticipate the impact of short-term developments in the sphere of aggregate supply and demand.

Long-term Economic Potential

Assesses long-term economic prospects over the next 5-15 years on the basis of trends in the physical environment, natural and human capital, and demographics and labour supply. Helps businesses foresee the long-term impacts on market potential of factors such as ageing, resource depletion and innovation.

Market Potential

Covers the ability of foreign providers of goods and services to access a target country's markets. This helps businesses understand the practical and regulatory barriers, as well as incentives and opportunities.

FX Risk

Looks at the risk of lack of FX, significant devaluation or depreciation, or any instability of the exchange rate over the next 90-180 days. This helps businesses anticipate the pressures facing customers billed in foreign currency, or the risks if their receivables are in local currency.

Transfer Risk

Covers the risk of existing or new regulations, requirements or other government actions preventing, delaying or burdening cross-border transactions. This helps businesses to anticipate risks related to cross-border payments arising from the regulatory environment.

Business Regulatory Environment

Assesses the risks and opportunities in the business environment associated with regulations, institutions and business culture. This helps businesses assess how intangible aspects of the business environment can facilitate business operations or otherwise.

Business Continuity

This category looks at factors that could affect the physical supply chain due to the effects of natural phenomena or other unintended consequences. This helps businesses anticipate the likely/current impacts of extreme weather, seismic activity and inadequate/improved infrastructure.

Political / Insecurity Risk

This covers the risk of disruption of business operations and the services of a functioning economy due to the negative effects of intentional human action on civil peace and internal/cross-border security. This helps businesses to understand the context and risk spectrum for threats arising from social and political disturbances.

Expropriation / Nationalisation Risk

This category assesses the risk of forcible/compulsory, full/partial loss of control or ownership of assets at the hands of a sovereign government, and whether or not there is compensation or judicial redress. This helps businesses understand the country's track record in this respect and highlights the risks posed by acts of expropriation/nationalisation.

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