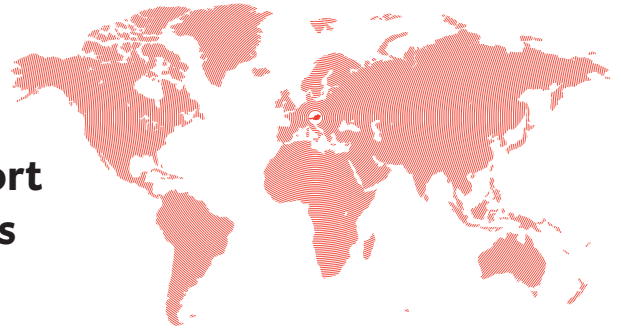


Oberbank

Economic and Banking Report

Global Financial Institutions



United Kingdom

Economic situation

> Historic economic slump

The United Kingdom is **Europe's third largest market in terms of population**. In addition to capital, the global metropolis of London continues to attract talent from all over the world and the entrepreneur-friendly business conditions attract many start-ups and FinTechs.

Covid-19-pandemic overshadows Brexit

However, the economic growth of the island state has already been quite low in recent years due to the Brexit and the uncertain future prospects. With

the final formal departure from the European Union on 31 January 2020, **economic growth** forecasts amounted to a plus of 1 %. However, in the meantime, Brexit has been **overshadowed by the global Covid-19-pandemic**.

The **UK's gross domestic product (GDP)** slumped by 9.9 % in 2020, according to the Office for National Statistics, the **biggest fall since records** began. According to the Bank of England, this economic slump even marks the biggest since 1709. The reasons for this are, on the one hand, the strong spread of the coronavirus on the island and, on the other hand, the delayed intervention of the government with

tougher measures. **The unemployment rate was kept at 4.5 %** in 2020 due to generous salary continuation payments and short-time work schemes. In addition to **billions in loan guarantees** and subsidies, the key interest rate was lowered from 0.25 % to **0.10 %**. The **budget deficit** for 2020/21 is over **19.6 % of GDP** due to expensive economic aid. The WKO's Foreign Trade Centre London forecasts „**subdued growth expectations**“ for 2021 and 2022. A 1,500-page **trade and cooperation agreement** with the EU entered into force on 01 May 2021.

After Brexit, off to new shores.

Since the formal departure from the EU, the first consequences of the Brexit have already become visible: The **transport of goods** to and from the UK is repeatedly subject to disruptions and there are increasing delivery bottlenecks. In the **financial sector**, many European banks brought their employees back to the EU. The **automotive industry** has been struggling with a decline in car production since Brexit and the corona pandemic. For the EU, the exit of the former third largest member state also means the loss of the second largest net contributor.

A **recent survey by the British Embassy in Vienna** highlights the challenges for Austrian companies with the United Kingdom due to Brexit and Covid-19. More than half of the respondents see **trade relations** as being associated with **increased costs** after the agreement. 83 % see **administrative hurdles** as the biggest operational challenge in trade. The majority of respondents stated that the **effects** of Brexit after 1 January 2021 were even more negative than expected. In contrast, almost half see new **opportunities** in the areas of digital technology

and healthcare. On a positive note, 87 % of the companies surveyed already fully understand the new rules for trade between Austria and the United Kingdom.

Summary:

- -9.9 % GDP deficit 2020
- Budget deficit: -19.6 % of GDP
- Biggest economic slump since 1709
- Brexit and Covid-19 as obstacles to foreign trade
- Digital technologies and infrastructure as promising sectors

Key economic figures	2018	2019	2020	2021*	2022*
Nominal GDP in USD bn	2,861	2,834	2,713	3,159	3,413
GDP/capita at purchasing power parity in USD	46,426	48,282	44,086	46,870	50,165
Population in millions	67.1	67.5	67.9	68.2	68.5
Real economic growth in %	1.3	1.4	-9.9	5.1	5.9
Inflation rate in %	2.3	1.7	1.0	1.7	1.9
Unemployment rate in %	4.1	3.8	4.5	5.6	4.9
Exchange rate GBP to EUR	1.13	1.14	1.12	1.17	1.19
Country's export of goods in USD bn	469	477	400	471	518
Country's imports of goods in USD bn	651	644	549	682	740

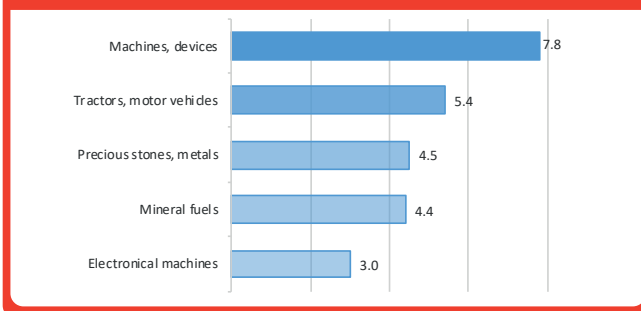
* Forecast

Source: WKO, Wirtschaftsbericht, April 2021

Exports/Imports

The pandemic hit United Kingdom with full force. **The slump in tourism, the disruption of supply chains and a drop in demand** had a major impact on the UK. In addition to the coronavirus, the Brexit also slowed down the UK's foreign trade. For example, there were drastic declines in foreign trade with Germany. Germany's exports fell by about a third in January 2021 compared to January 2020. The situation should improve again in 2021, but new tariffs and regulations will continue to make trade more cumbersome than before.

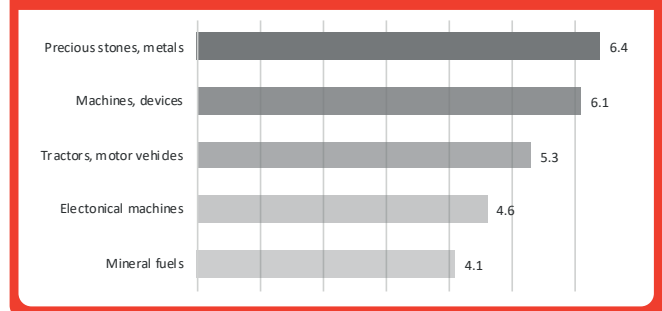
Top 5 Exported goods



2019, in %

Source: WKO, Länderprofil; April 2021

Top 5 Imported goods



Economic relations with Austria

In trade with the United Kingdom, Austria will again have a significant balance surplus in 2020. The already respectable previous years were exceeded once again. Only with the USA or France does Austria have a higher surplus in trade in goods than with the United Kingdom.

> Imports to Austria

After enormous growth in 2018, imports declined significantly in the last two years. The strongest decrease was recorded in the area of motor vehicles, but overall, there were declines in all sectors.

Imports of goods 2020: -24 %

> Exports from Austria

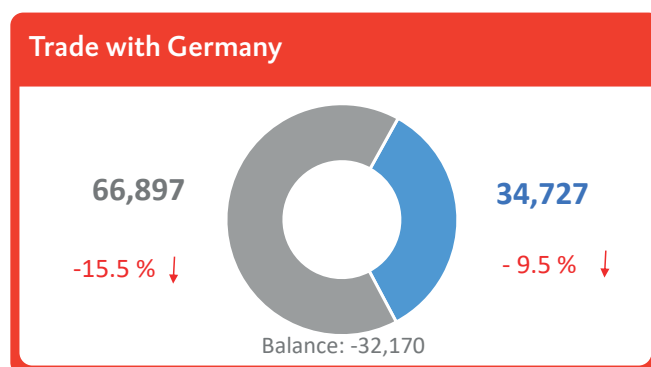
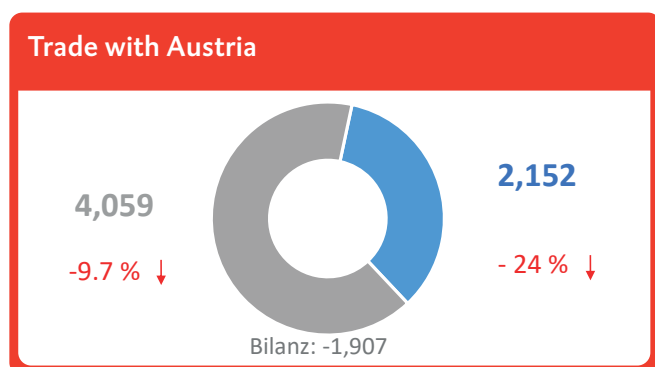
The export reductions reflect the fall in demand in the UK. This was the first downturn in Austrian exports in goods to the UK since the financial crisis in 2008.

Exports of goods 2020: -9.7 %

Economic relations between Austria and Germany	2020	2019	Change compared to previous year in %
Austrian goods exports in EUR million	4,059	4,496	-9.7 %
Austrian imports of goods in EUR million	2,152	2,831	-24.0 %
Austrian exports of services in EUR million	2,786	3,365	-17.2 %
Austrian imports of services in EUR million	2,762	3,018	-8.5 %
German imports in EUR million	34,727	38,396	-9.5 %
German exports in EUR million	66,897	79,166	-15.5 %

Source: Wirtschaftsbericht WKO and Statistisches Bundesamt

The foreign trade of the United Kingdom



2020, change YOY, in EUR million
Imports, exports and balance sheet from the perspective of the United Kingdom; own presentation

Assessment of the business environment

	United Kingdom
Ease of Doing Business 2020	Rank 8 out of 190 countries
Global Competitiveness Index 2019	Rank 9 out of 141 countries
Corruption Perceptions Index 2020	Rank 11 out of 198 countries
Rule of Law Index (World Justice Project) 2020	Rank 13 out of 126 countries
Most important export market for goods AT/DE 2020	Rank 9 / Rank 5

In the **Ease-of-Doing-Business** ranking the United Kingdom is top-ranked. As this index is also used for business decisions by large companies, some governments are promoting reforms to

improve this ranking. **The Global Competitiveness Index** will pause in 2020 due to the turbulence caused by the coronavirus.

Current rankings of Oberbank regions as trading partners of the United Kingdom:

Germany	2
Austria	28
Czech Republic	29
Hungary	37
Slovakia	44

Source: ITC, Exports 2020 from the perspective of the United Kingdom

The **Rule of Law Index** is designed to present a picture of the rule of law in countries based on 44 indicators and is published annually. The UK scores quite well here, similar to comparable European nations.

Rating United Kingdom

> Investment grade

Agency	Rating	Outlook	Date
Fitch	AA-	negative	27 March 2020
S&P	AA	stable	17 December 2019
Moody's	Aa3	stable	16 October 2020

The negative outlook on the Fitch rating reflects the impact of the coronavirus pandemic on the UK economy. A significant **deterioration in public finances** is expected as a result. Fitch expects government debt to rise to well over 120 % of GDP in the next few years.

In addition, possible **changes in trade relations** with the EU could limit the economic recovery after the crisis. The country's ratings are supported on the one hand by the pound sterling with its status as a **reserve currency** and on the other hand by the capital market.

Double A ratings with a stable or negative outlook for the country.

The extremely **long average maturity of government debt** and the fact that this is **almost exclusively in sterling** also minimise the UK's debt risks.

Banks

> Improved outlook in the banking sector

The banking sector in the UK faced a variety of **difficulties** with the outbreak of the Covid-19-pandemic. A sharp decline in demand for loans and a large drop in deposit volumes were some of the main problems faced by the banking sector in the early days of the still ongoing pandemic.

On the one hand, the progressing vaccination and opening steps are also having a positive impact on the banking sector. On the other hand, there are major implications for the financial sector due to Brexit. The fragmentation of the European capital market due to the Brexit has drastically increased the operating costs for banks.

Many banks that used London as their base have now opened **hubs within the EU**. The challenge for banks now is how to improve efficiency and achieve sustainable profitability in their European operations, balancing Europe with other global financial centres.

Largest Banks

Rank	Bank	Total Assets
1	Barclays Bank PLC, London	1,154,883*
2	HSBC Bank plc, London	838,481*
3	Lloyds Bank Plc, London	765,865*
4	Standard Chartered PLC, London	720,398*
5	Bank of Scotland plc, Edinburgh	495,026*
6	National Westminster Bank Plc, London	419,567*
7	Santander UK plc, London	371,100*
8	Natwest Markets Plc, London	350,594*
9	HSBC UK Bank Plc, Birmingham	338,693*
10	Credit Suisse International, London	233,678*

Total Assets as of 31.12.2019 in USD million* consolidated
Source: Bankers Almanac, download on 11.05.2021

Oberbank expertise

Banks shaded in grey:

Oberbank has an active relationship with these relationship banks (SWIFT/RMA) and can thus present documentary transactions for customers.

Payment transactions are also possible with all UK banks via our clearing partners.

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