

Economic Alert iQ



Monday 27th June 2016 – 2:40 pm

International

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S&P lowers United Kingdom's Credit Rating To "AA" On Brexit Vote, Maintains Outlook at "Negative"

- On 27th June 2016, S&P lowered its long-term foreign and local currency sovereign credit ratings on the United Kingdom to 'AA' from 'AAA'. The credit outlook on the long-term rating remains *negative*. The agency also affirmed the short-term foreign and local currency sovereign credit ratings on the U.K. at 'A-1+'.
- This move follows Britain's EU referendum, which saw voters choose to quit the bloc by 52% to 48% as the government's pro-EU campaign lost by more than 1 million ballots. Global markets reacted, impacting every asset class, sending the pound plunging the most on record.
- The downgrade also reflects according to the credit rating agency, enhanced risks of a clear deterioration of external financing conditions in light of the U.K.'s extremely elevated level of gross external financing requirements (as a share of current account receipts and usable reserves).
- The Brexit result could lead to a deterioration of the U.K.'s economic performance, including its large financial services sector, which is a major contributor to employment and public receipts.
- The negative outlook reflects the risk to economic prospects, fiscal and external performance, and the role of sterling as a reserve currency, as well as risks to the constitutional and economic integrity of the U.K. if there is another referendum on Scottish independence.
- S&P also notes that the result could also trigger a constitutional crisis if it leads to a second referendum on Scottish independence from the U.K.
- Conclusively, the agency notes that despite the uncertainty around Brexit, it is expected that the U.K. will continue to benefit from its large, diversified, and open economy, which reflects high labor- and product-market flexibility, and possesses a strong monetary policy framework.
- United Kingdom is rated Aa1 (Negative) by Moody and AA+ (Stable) by Fitch.

Selected Indicators	2014	2015	2016F	2017F
Real GDP growth (%)	2.9	2.3	1.5	0.9
General government balance/GDP (%)	-5.1	-5.2	-4.7	-3.4
Net general government debt/GDP (%)	88.2	89.2	90.2	90.7
Unemployment Rate	6.2	5.4	5.1	5.7
CPI growth (%)	1.5	0.0	0.9	2.2
Current account balance/CARs (%)	-13.7	-14.5	-12.4	-8.8

Source: Standard & Poor's



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