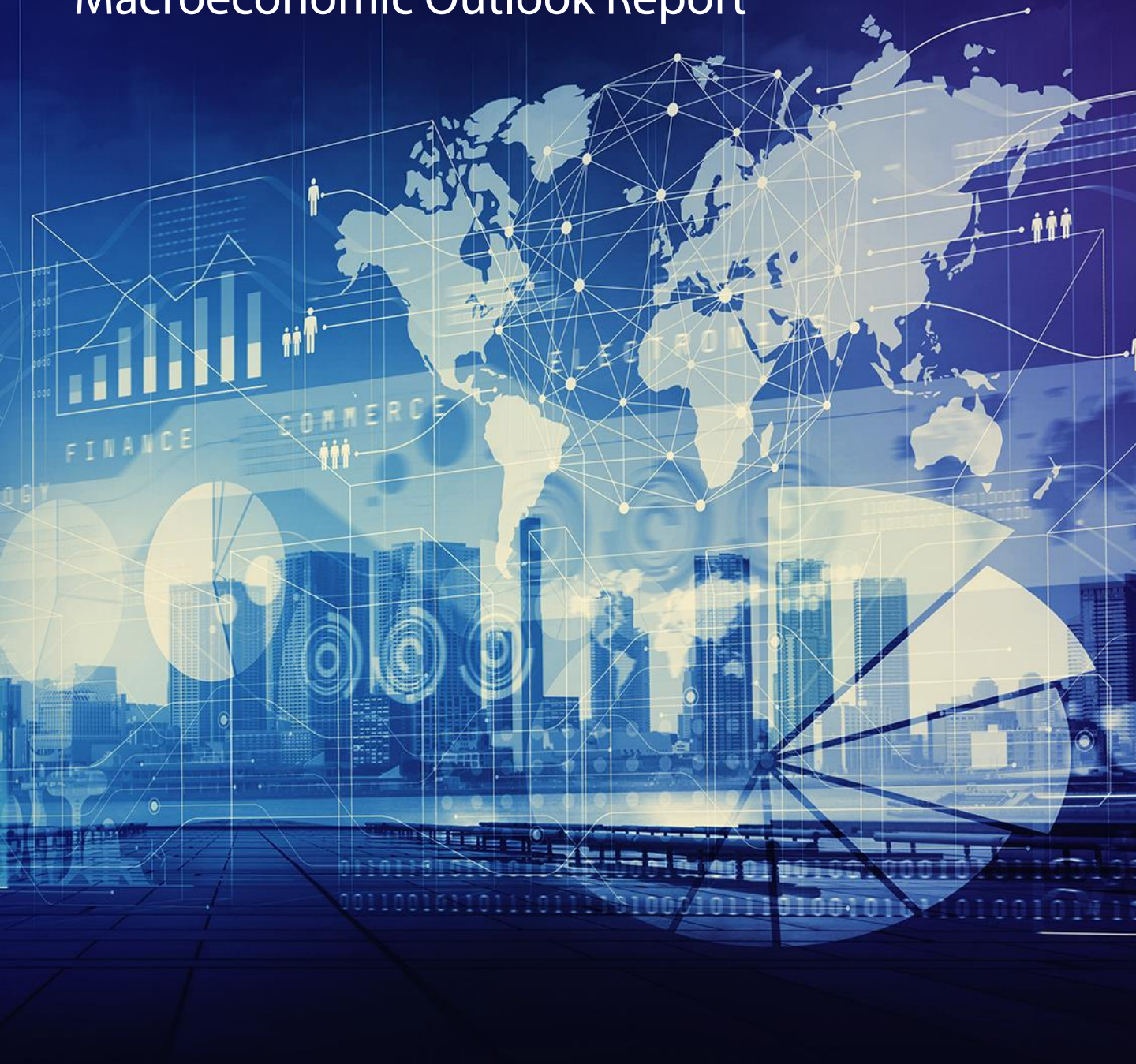


United Kingdom – 2Q22

Macroeconomic Outlook Report



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Marketing and Communication Department
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1. British macroeconomic view

In the second quarter of 2022, the British GDP experienced a slowdown in the growth rate of the economy driven by a decline in consumption. In addition, CPI continued to rise, driven by increases in energy and a tight monetary policy. Regarding the labor market, the unemployment rate decreased whereas the employment YOY growth level stood at a 1.04% rate this quarter, 0.17 p.p. less than last quarter.

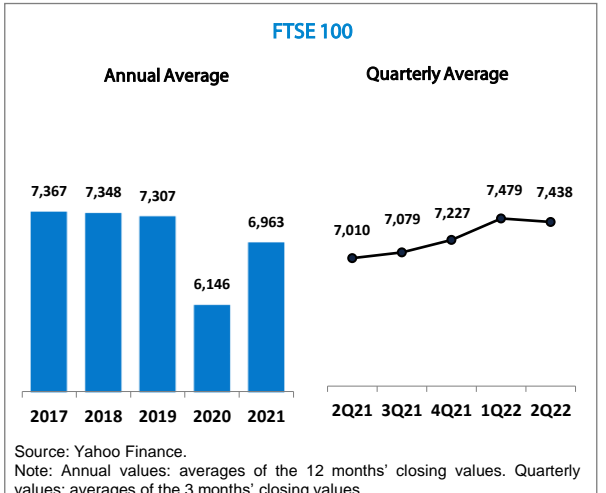
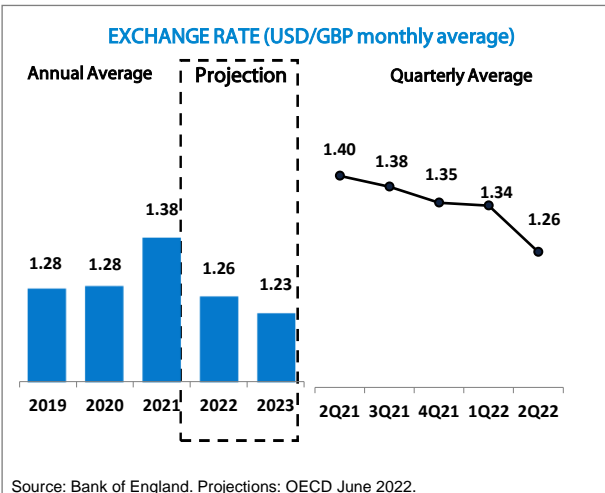
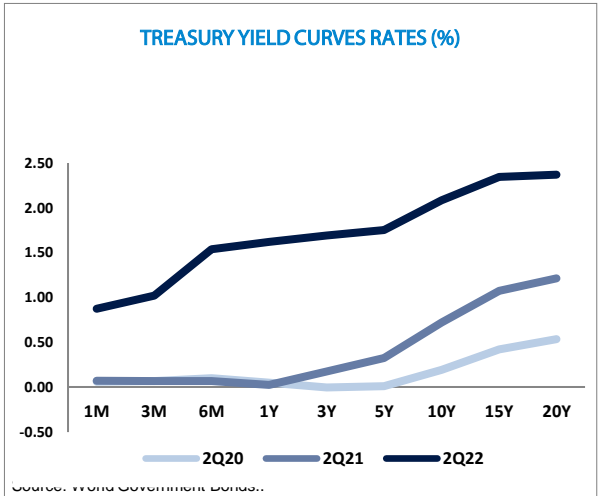
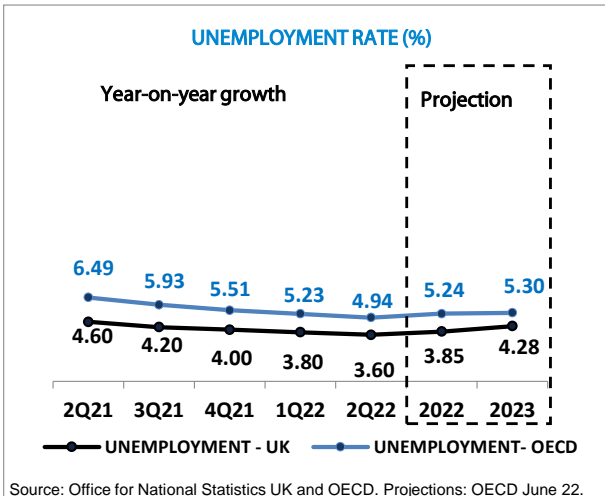
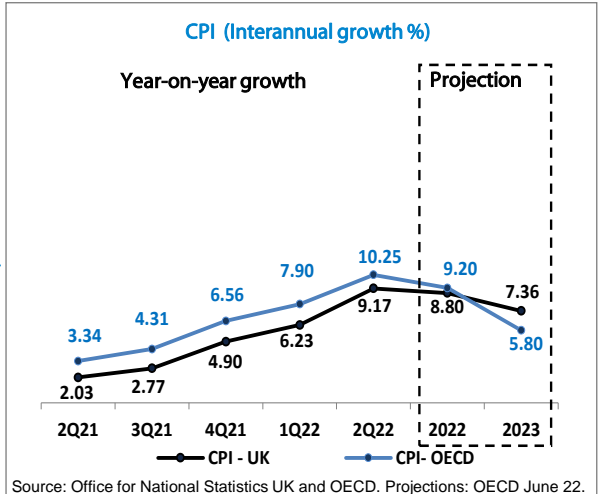
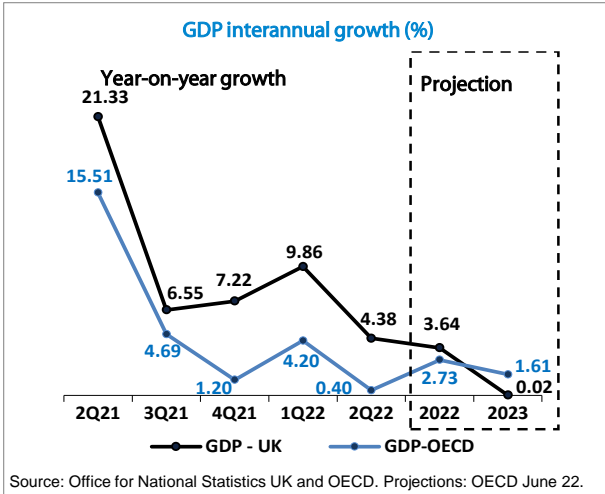
MAIN MACROECONOMICS INDICATORS (YOY %)

INDICATOR	2Q21	3Q21	4Q21	1Q22	2Q22	2022	2023
GDP	21.33	6.55	7.22	9.86	4.38	3.64	0.02
DOMESTIC DEMAND	26.30	9.23	11.46	15.10	3.25	7.97	0.95
HOUSEHOLD CONSUMPTION	24.17	6.52	12.87	18.22	4.30	4.55	0.74
GOVERNMENT CONSUMPTION	33.54	20.47	14.04	9.10	-1.04	1.35	0.82
GROSS FIXED CAPITAL FORMATION	25.58	6.39	3.97	12.05	4.74	8.02	2.09
EXTERNAL DEMAND							
EXPORTS	11.34	8.09	14.76	21.45	19.72	0.86	1.52
IMPORTS	25.37	17.13	6.63	39.85	38.31	15.67	3.57
INFLATION							
CPI*	2.03	2.77	4.90	6.23	9.17	8.80	7.36
LABOUR MARKET							
UNEMPLOYMENT	4.60	4.20	4.00	3.80	3.60	3.85	4.28
EMPLOYMENT	-0.60	0.53	1.05	1.21	1.04	0.86	0.48

Source: Office for National Statistics UK. Projections: OECD June 2022.
*BoE Inflation objective: 2%

- ▶ In comparison to first quarter of 2022, during the second quarter, the British GDP growth stood at 4.38%, therefore it dropped by more than 5% within 3 months. Domestic demand decreased during this quarter to a 3.25% rate.
- ▶ When it comes to the trade balance, during 2Q22 exports decreased compared to the previous quarter down to a 19.72% rate. At the same time, the total imports level decreased by 1.54 p.p. down to a 38.31% rate.
- ▶ According to the labor market, the unemployment rate decreased during this quarter to a 3.60% rate in comparison to the last 4 quarters. On the other hand, the employment year-on-year growth fluctuated over that timeframe and finally decreased to a 1.04%.
- ▶ During 2Q22, inflation growth significantly rose to a 9.17% rate due to the increase in the food and energy costs according to the worldwide inflation pressures.
- ▶ Regarding the exchange rate, the sterling pound registered another depreciation against the dollar compared with the first quarter of 2022, decreasing the average exchange rate in the second quarter to a rate of 1.26 dollars per sterling pound.







2. International overview

LatAm, OECD and China

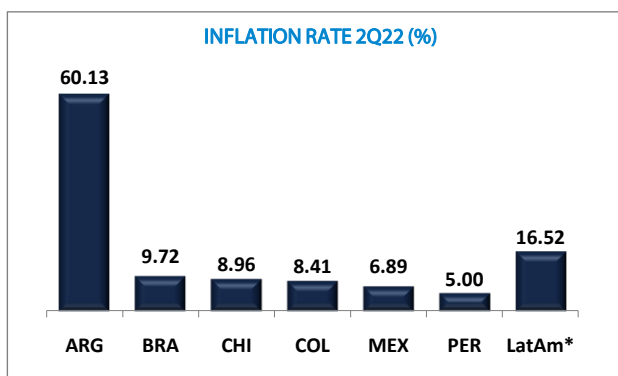
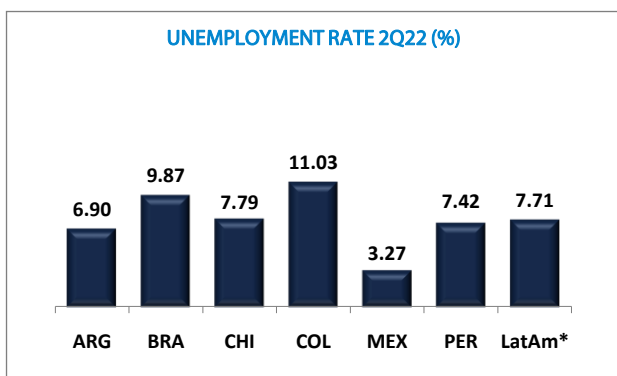
The upward inflationary trend has determined the monetary policies of major central banks and the stagnation of economic growth during 2Q22.

Macroeconomic outlook

- ▶ During the quarter, the global economic recovery continued after the most acute phase of the pandemic, albeit in a very uncertain environment. The main constraints on economic developments were the unfolding war in Ukraine, the slowdown in China, and the intensification of inflationary pressures in the short term, which affected the conduct of monetary policies at the global level. All this dampened households' purchasing power and increased firms' production costs.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) revised in October its forecast for the Latin American economy for 2022, raising the region's growth by 3.2% and cutting it to 1.4% for 2023. World trade dynamics are expected to be negatively affected by the war, which would lead to a decrease in Latin America's external demand. For its part, the European Commission has acknowledged a slower than expected economic recovery, affected by the outbreak of the war in Ukraine. Likewise, the Fed modified its previous projections for the US, predicting lower GDP growth of 2.3% in 2022 and 1% in 2023.
- ▶ During the second quarter of 2022, the labor market continued to recover from the economic consequences of the pandemic to near pre-pandemic levels. Most countries recorded declines in their unemployment rate compared to 1Q22. Mexico ranked as the country with the lowest unemployment rate (3.27%) while Colombia had the highest rate (11.03%) for Latam. Moreover, Spain reached a 12.48% unemployment rate during this quarter.
- ▶ In 2Q22, inflation increased in all the economies analyzed when compared to the previous quarter. The highest rates were in Argentina (60.13%), Brazil (9.72%), the United Kingdom (9.17%), and Spain (9.07%). The EMU registered an increase of 6.70 p.p. compared to 2Q21, reaching a rate of 8.60%. The average for Latam was 16.52%. China registered the smallest year-on-year increase, with inflation of 2.23%. Inflation grew at a very high rate due to the energy component. On the other hand, all economies contracted their labor markets, except Canada and China, which recorded slight year-on-year increases.
- ▶ Foreign trade in the G20 countries continued to grow in monetary terms on the back of higher commodity prices and inflation. Exports of the group of the world's 20 largest economies increased by 2.1% from the previous quarter, while imports rose by 2.6 %. Exports of the European Union as a whole rose by 2 %, Latin America by 2.8 %, and North America by 1.5 % in the quarter.

Financial sector

- ▶ In response to rising inflation, central banks' monetary policy became more restrictive, and most central banks have raised interest rates significantly, reaching levels like those observed in 2017.
- ▶ On the fiscal side, public debt levels remained high in many countries. In the context of high public spending demands, measures were required to strengthen fiscal sustainability by increasing government revenues.
- ▶ In terms of the countries' credit ratings, all OECD, China, and Latin American countries kept their credit ratings constant in the second quarter of the year, except for Chile, which moved from a Moody's rating of A1 to A2, and Mexico, which moved from a Moody's rating of Baa1 to Baa2 during this period.



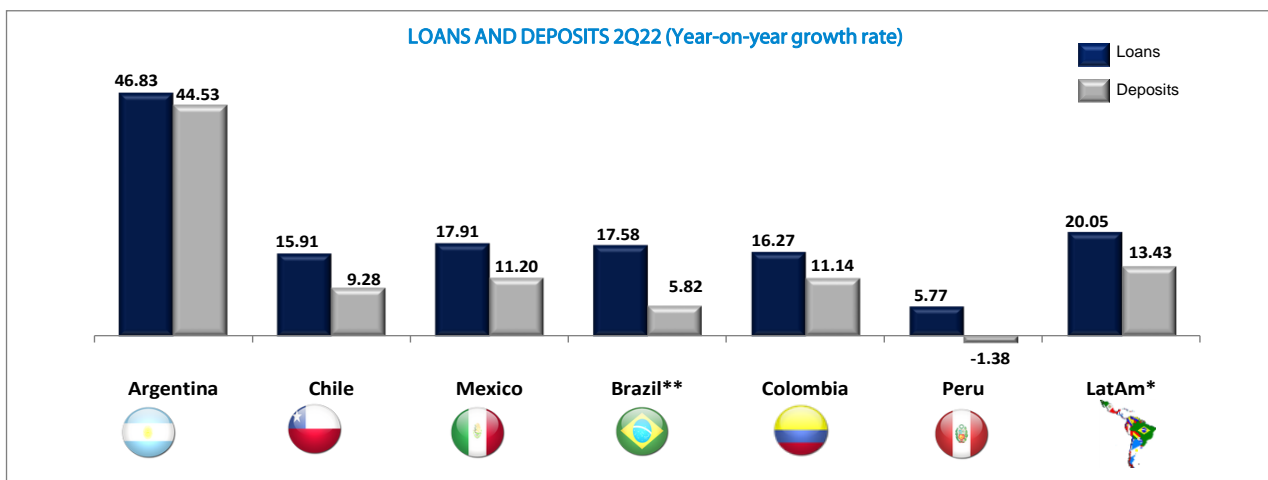
LONG TERM RATES 2Q22

	MOODY'S		S&P		FITCH	
Argentina	Ca	—	CCC+	—	CCC	—
Brazil	Ba2	—	BB-	—	BB-	—
Chile	A2	▲	A	—	A-	—
Colombia	Baa2	—	BB+	—	BB+	—
Mexico	Baa2	▲	BBB	—	BBB-	—
Peru	Baa1	—	BBB	—	BBB	—

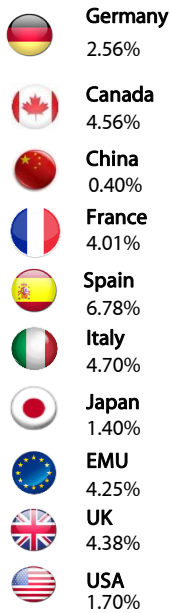
▲ Increase since 1Q22

— Constant since 1Q22

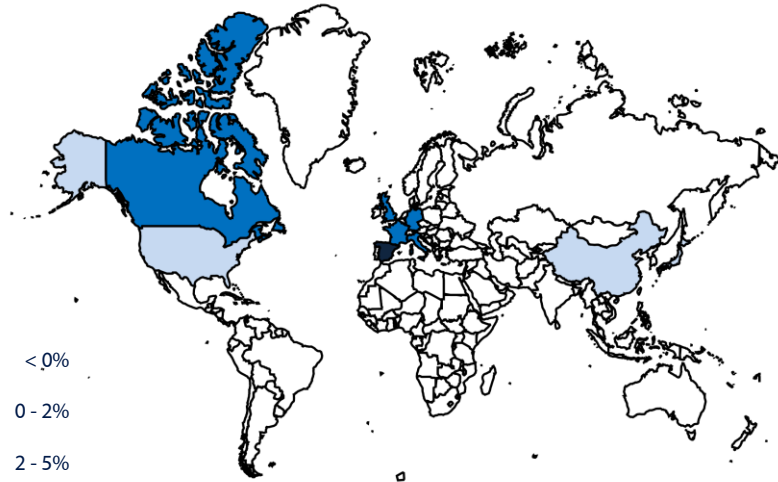
▼ Decrease since 1Q22



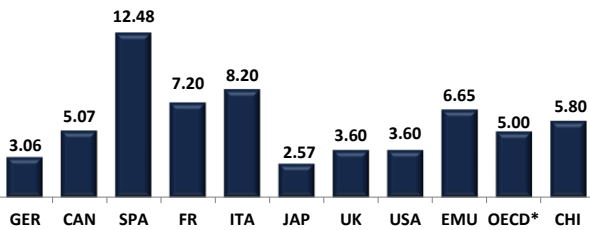
*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.
 **Most updated figures available at the date of the release correspond to 2Q22, except for Brazil's deposits (1Q22)



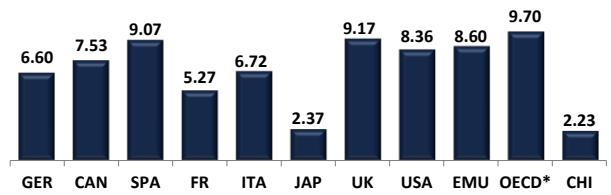
GDP 2022 (% year-on-year growth rate)



UNEMPLOYMENT RATE 2022 (%)



INFLATION RATE 2022 (%)

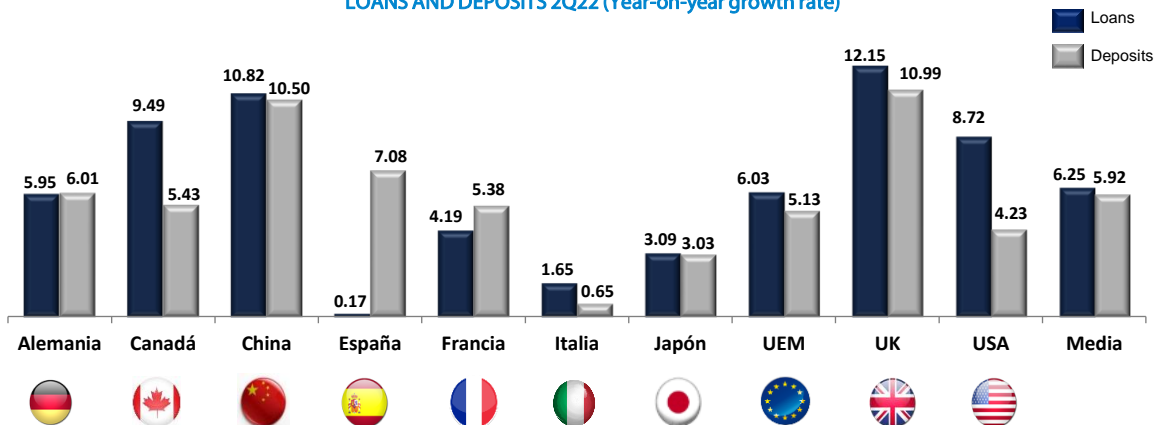


LONG TERM RATES 2022

	MOODY'S	S&P	Fitch
Germany	Aaa -	AAA -	AAA -
Canada	Aaa -	AAA -	AA+ -
China	A1 -	A+ -	A+ -
Spain	Baa1 -	A -	A- -
France	Aa2 -	AA -	AA -
Italy	Baa3 -	BBB -	BBB -
Japan	A1 -	A+ -	A -
UK	Aa3 -	AA -	AA- -
USA	Aaa -	AA+ -	AAA -

- ▲ Increase since 1Q22
- Constant since 1Q22
- ▼ Decrease since 1Q22

LOANS AND DEPOSITS 2022 (Year-on-year growth rate)

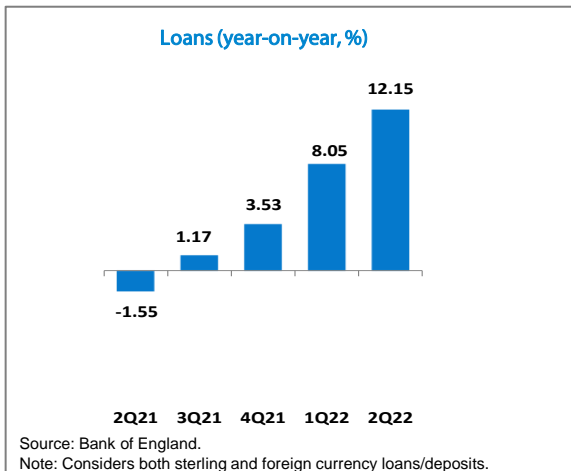




3. Banking sector: general overview

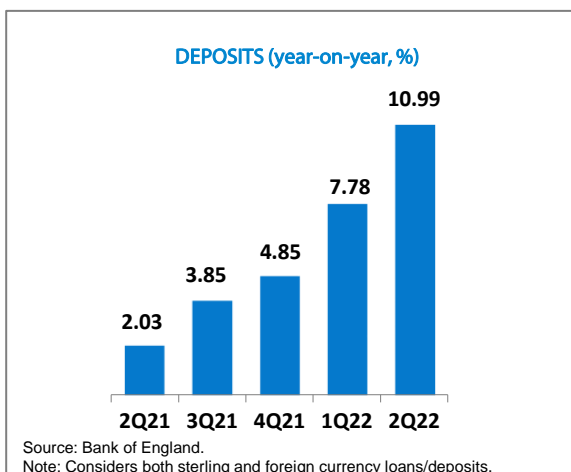
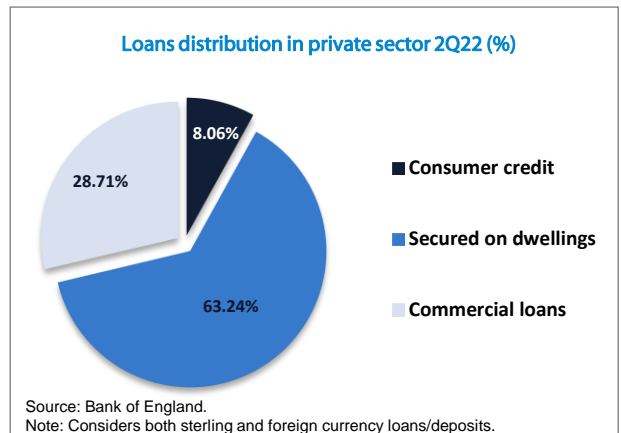
During the second quarter of 2022, the Total Loans YOY rate experienced an increase to a 12.15% rate due to the increase in loans to non-residents, and public and private sectors compared to 1Q22. Regarding customer deposits, the total deposits YOY rate rose to 10.99%, despite the decrease in private sector deposits, thanks to the increase in public sector and non-resident deposits. The total loans to total deposits ratio extended to 88.40%, 0,43 p.p. higher than 1Q22. Regarding the efficiency ratio, it increased to 82.45%.

British banking sector



- ▶ During the second quarter of 2022, the growth rate of the total amount of loans increased, compared to the previous quarter, by 4.10 p.p. up to 12.15%.
- ▶ Total loan volume amounted to GBP 6,902,760 million during the second quarter, after increasing by 4.05% with respect to the previous quarter.

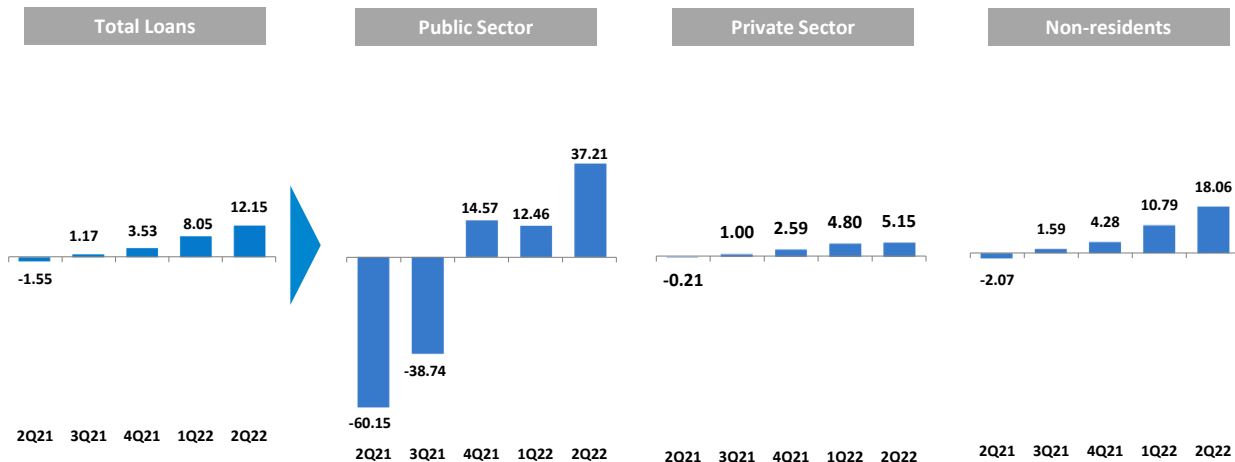
- ▶ In terms of market share by type of lending institution, the share of loans conceded for secured on dwellings represented 63.24% of total loans in 2Q22. The number of loans granted to commercial loans accounted for 28.71%. Lastly, the number of loans granted to consumer credit stood at 8.06% of total loans.



- ▶ In 2Q22, the deposits sector increased their YOY growth rate, up to 10.99%, 3.21 p.p. above the rate reached in the previous quarter.
- ▶ This acceleration was driven by the increase in the deposits of the public sector (23.61 p.p.) as well as non-residents (7.29 p.p.) despite the decrease in the private sector (1.44 p.p.).
- ▶ The efficiency ratio of the total financial sector increased by 0.61 p.p. compared to the first quarter, standing at 82.45%. The decline in efficiency was due to a quarterly increase in operating expenses (2.69%) and a quarterly decrease in gross income (-4.59%).

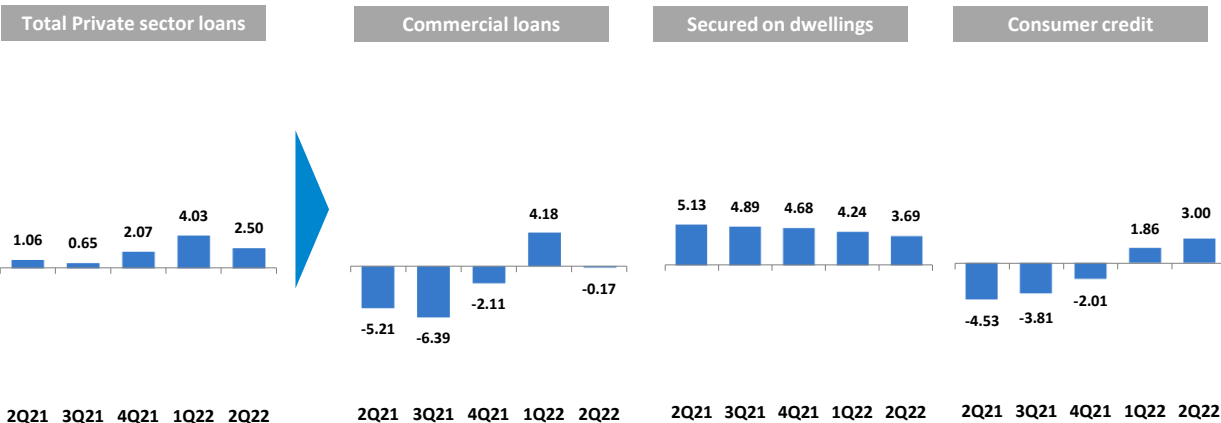
Loans

LOANS (Year-on-year, sterling and foreign currency)



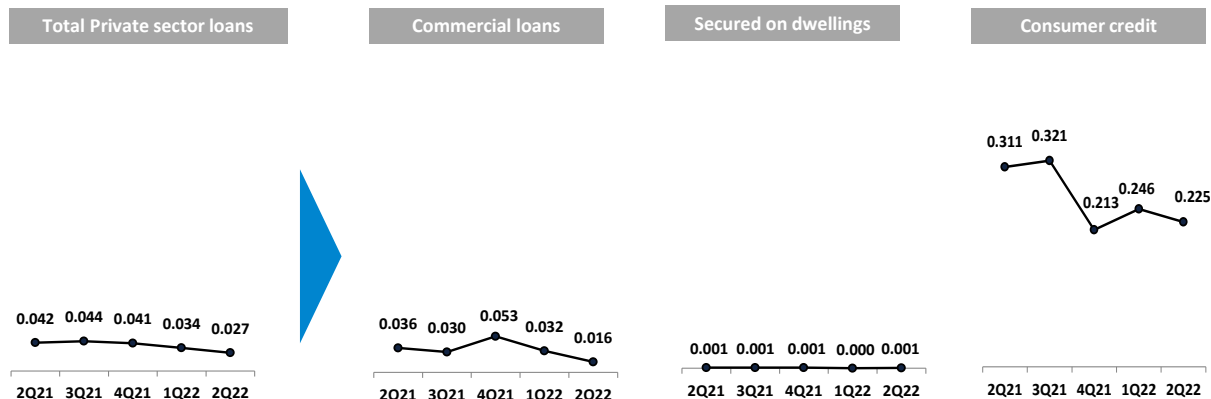
Source: Bank of England. Note: Considers both sterling and foreign currency loans.

PRIVATE SECTOR LOANS (Year-on-year, sterling)



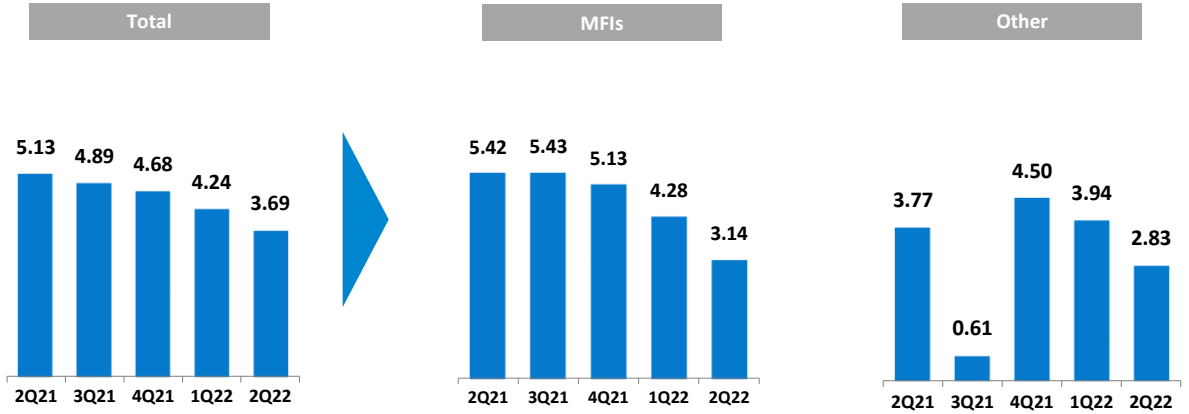
Source: Bank of England.
Note: Considers only sterling loans.

WRITE-OFFS / LOANS – TOTAL PRIVATE SECTOR (%)



Source: Bank of England.
Note: Considers only sterling loans.

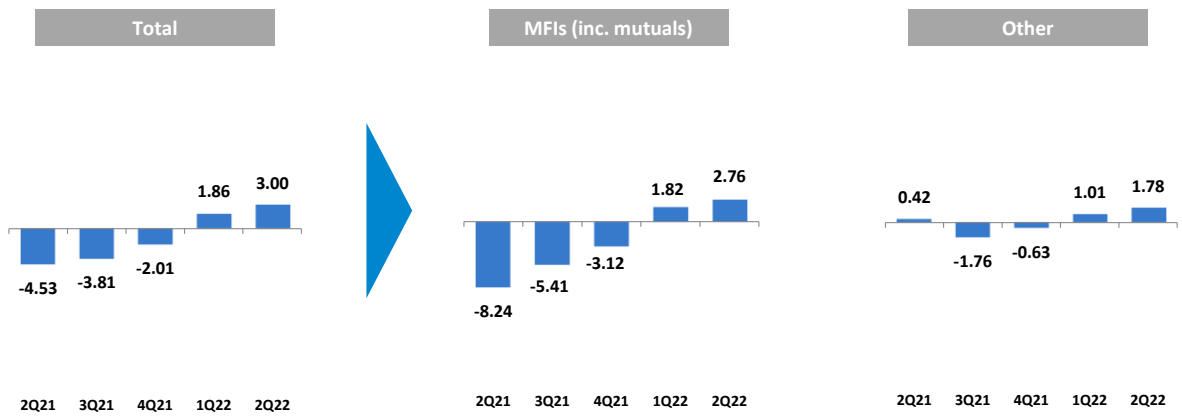
LOANS SECURED ON DWELLINGS (Year-on-year)



Source: Bank of England.

Note: Considers only sterling loans. MFIs include UK-resident banks and UK-resident building societies; Other includes non bank and non building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations including the Student Loans Company, insurance companies and pension funds.

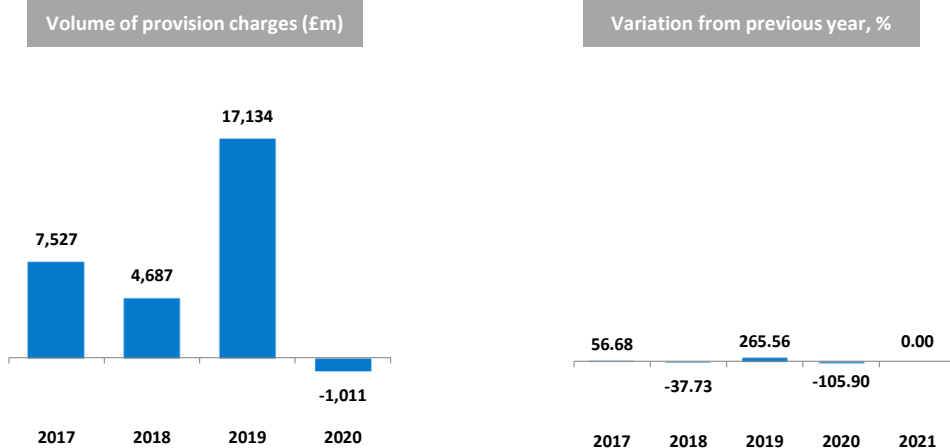
CONSUMER CREDIT (Year-on-year)



Source: Bank of England.

Note: Considers only sterling loans. MFIs include UK-resident banks and UK-resident building societies; Other includes non bank and non building society UK credit grantors, specialist mortgage lenders, retailers, central and local government, public corporations including the Student Loans Company, insurance companies and pension funds.

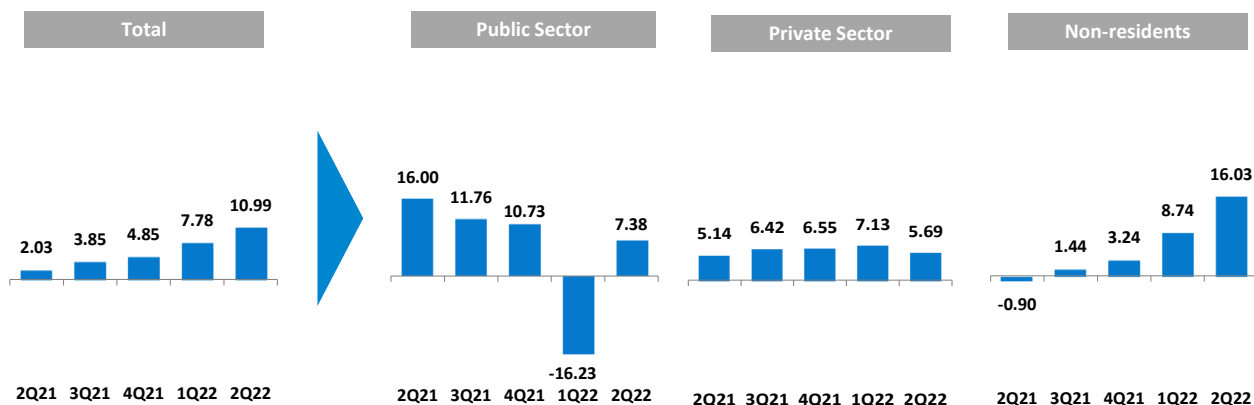
NET NEW PROVISION CHARGES



Source: Bank of England. Last data available.

Note: This data is published on an annual basis.

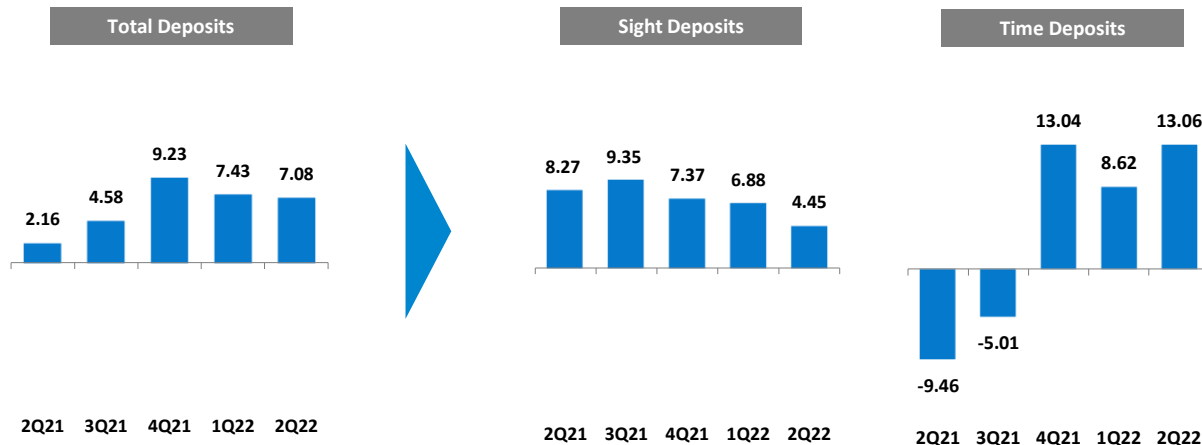
CUSTOMER DEPOSITS (Year-on-year)



Source: Bank of England.

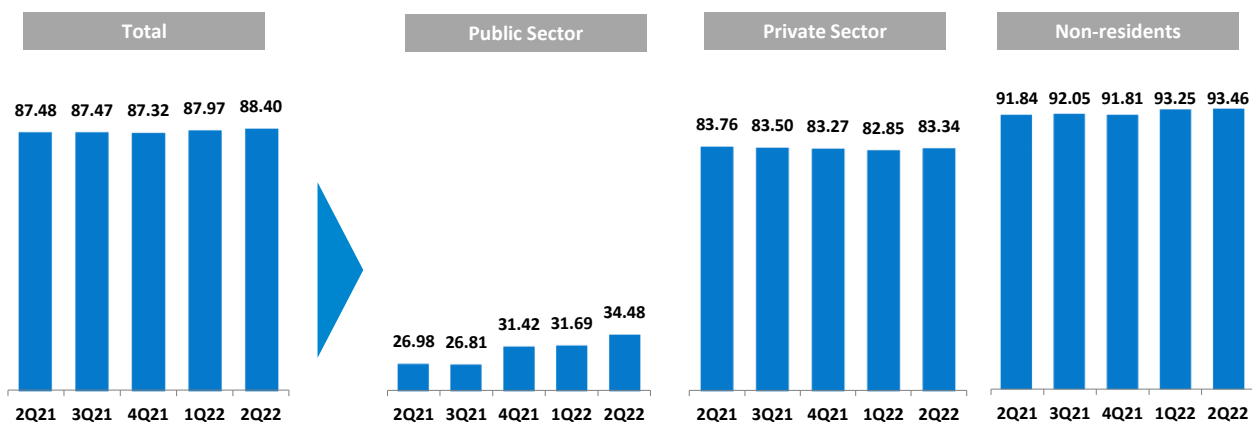
Note: Considers both sterling and foreign currency deposits. Deposits include currency and money market instruments.

CUSTOMER DEPOSITS (Year-on-year, Sterling)



Source: Bank of England. Considers only sterling deposits.

TOTAL LOANS / TOTAL DEPOSITS

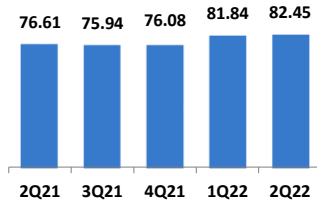


Source: Bank of England.

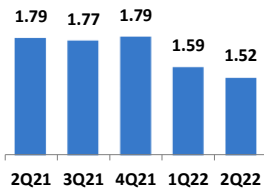
Note: Considers both sterling and foreign currency deposits. Deposits include currency and money market instruments.

EFFICIENCY

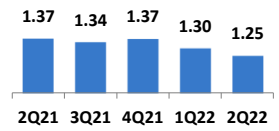
Efficiency ratio



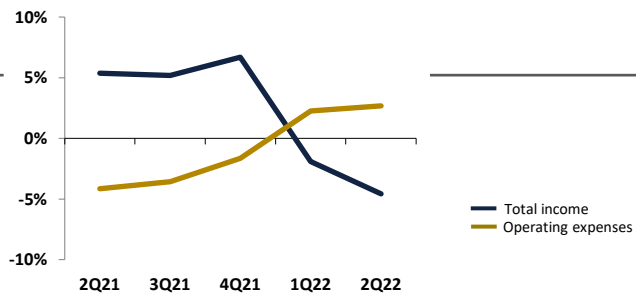
Gross margin / Total loans



Operating expenses / Total loans



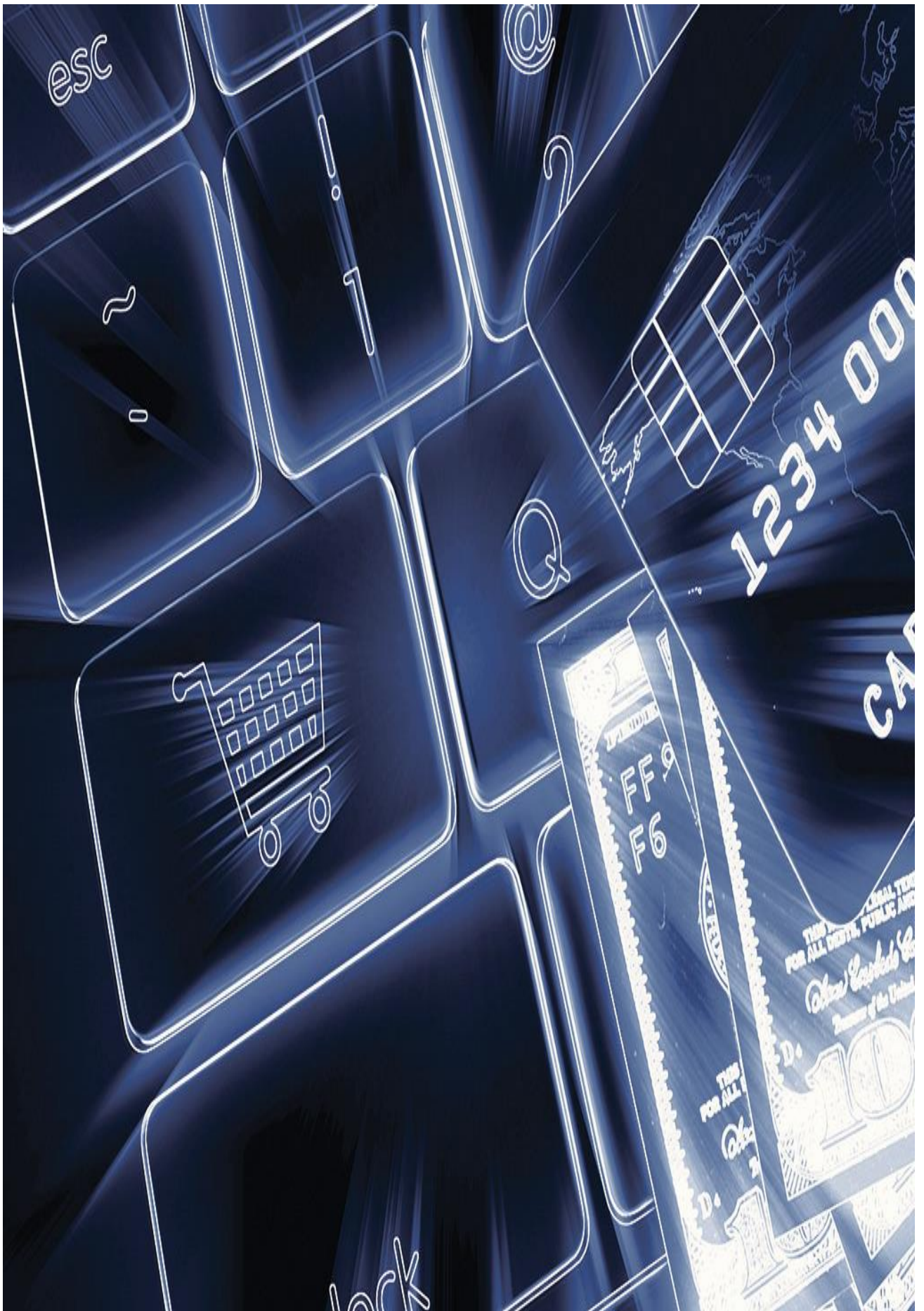
Operating expenses and gross margin *



Source: Bank of England.

*Operating expenses and gross margin displayed as % change over the same quarter of the previous year.





5. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- ▶ Office for National Statistics (ONS):
<http://www.ons.gov.uk>
- ▶ IMF:
<http://www.imf.org/external/index.htm>
- ▶ HM Treasury:
<http://www.hm-treasury.gov.uk/>
- ▶ BBA Libor:
<http://www.bbabilbor.com>
- ▶ Bank of England:
<http://www.bankofengland.co.uk>
- ▶ Yahoo Finance:
<http://es.finance.yahoo.com/>
- ▶ European Central Bank:
<http://www.ecb.int/ecb/html/index.es.html>
- ▶ Central Bank of the Republic of Argentina:
www.bcra.gov.ar
- ▶ Central Bank of Chile:
www.bcentral.cl
- ▶ Bank of Mexico:
www.banxico.org.mx
- ▶ Central Bank of Brazil:
www.bcb.gov.br
- ▶ National Administrative Department of Statistics of Colombia (DANE):
<http://www.dane.gov.co/>
- ▶ Bank of the Republic of Colombia:
<http://www.banrep.gov.co/>
- ▶ Central Bank of Venezuela:
www.bcv.org.ve
- ▶ Central Reserve Bank of Peru:
www.bcrp.gob.pe
- ▶ BBVA Research:
www.bbvarsearch.com/
- ▶ World Bank:
www.worldbank.org/

GLOSSARY

- ▶ **Cost / income ratio:** Operating expenses / operating income.
- ▶ **Efficiency Ratio:** Operating expenses / Total income.
- ▶ **Gross margin:** Net interest income + Net fee and commission income + Dividend income + Net trading income and revaluation + Gains (losses) from other financial securities + Other operating income (expenses).
- ▶ **Ratio of impaired loans:** Impaired claims / Total loans.



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