

# UK outlook report

## Third quarter of 2023



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The objective of UK's quarterly report is to provide a comprehensive and summarized overview of the main indicators of the country's banking sector, as well as the macroeconomic situation at the end of each quarter.

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# 1. International overview

***In Q3 23, the slowdown in the world's major economies intensified due to tighter financial conditions, weak trade growth and lower business and consumer confidence. The outlook is for lower growth in 2024 and inflation is expected to be on target by the end of 2025.***

## Macroeconomic outlook

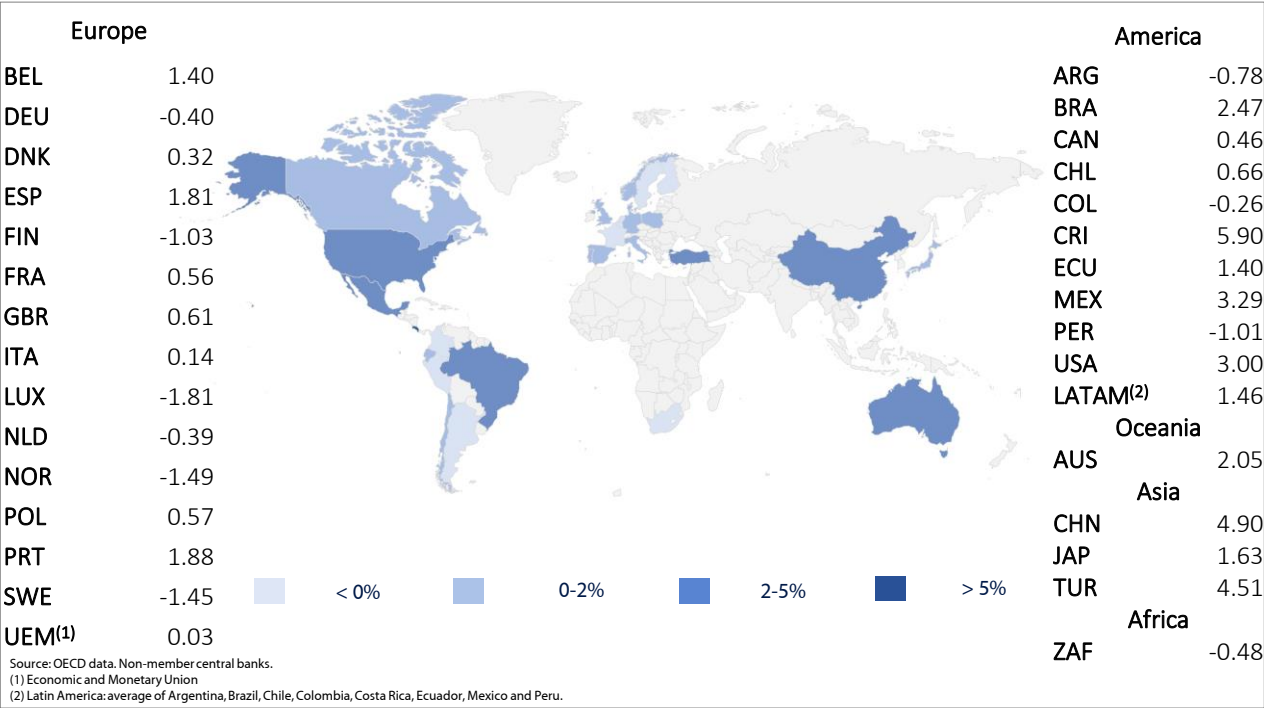
- ▶ During Q3 23, the Eurozone recorded a slight year-on-year growth of 0.03%, compared to the 0.47% recorded in Q2 23, consolidating the economic stagnation of the zone. Germany recorded its third consecutive quarter of decline, as did Finland and Luxembourg. The average CPI in the Eurozone decreased by 1.25 p.p. compared to Q2 23 to 4.95%, also highlighting the fall in core inflation, while the average unemployment rate remained constant at 6.4%.
- ▶ Regarding the American region, the slight economic growth of the Latam<sup>1</sup> region with respect to the previous quarter (1.46% versus 1.22%) was noteworthy, partly due to the recovery of the growth rate of some countries such as Argentina by 2.25 p.p. and Chile by 1.75 p.p. As for the US, growth continued to consolidate at a rate of 2.93% (2.56% in Q2 23). As for inflation, in the US it fell to 3.51%, while the Latam<sup>1</sup> average stood at 20.88% (excluding Argentina (125.89%) the average stood at 5.88%, down from Q2 23 (7.07%)). Unemployment rates on the continent were generally stable compared to the previous quarter's baseline.
- ▶ In the Asian region, China continued to post strong growth, but lower than the previous quarter, at 4.90% (6.30% in Q2 23), as did Japan, which reached 1.63% (1.73% in Q2 23).
- ▶ For its part, Australia recorded year-on-year growth of 2.05% (2.07% in Q2 23), continuing its economic slowdown, with a relatively stable unemployment rate of around 3.66% and falling but still high inflation, which closed the third quarter of the year at 5.37%.
- ▶ South Africa, on the other hand, recorded a negative growth rate of -0.48% (compared to 1.68% in the previous quarter), albeit with a declining inflation rate of 5.02% and a high unemployment rate of almost 33%.
- ▶ The IMF expects global growth to decline 3.5% from that recorded in 2022 to an estimated 3.0% in 2023 and to 2.9% in 2024, in the face of the continuing economic drag from rising interest rates as part of central banks' monetary policy to combat inflation. Meanwhile, global inflation is forecast to fall from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, while core inflation is expected to decline more gradually. Inflation is expected to reach the target levels of individual central banks by the end of 2025.
- ▶ ECLAC forecasts that the economies of the Latin American region will maintain low levels of growth during this and next year, affected by a negative global and very complex regional economic outlook, estimating an average regional GDP growth of 1.7% in 2023, while for 2024 it projects a slight decline to 1.5%. By sub-regions, South America is estimated to grow by 1.2%, Central America and Mexico by 3% and the Caribbean by 4.2%.

## Other indicators and main risks

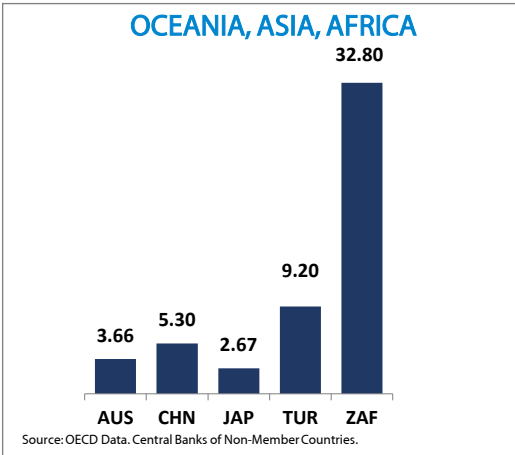
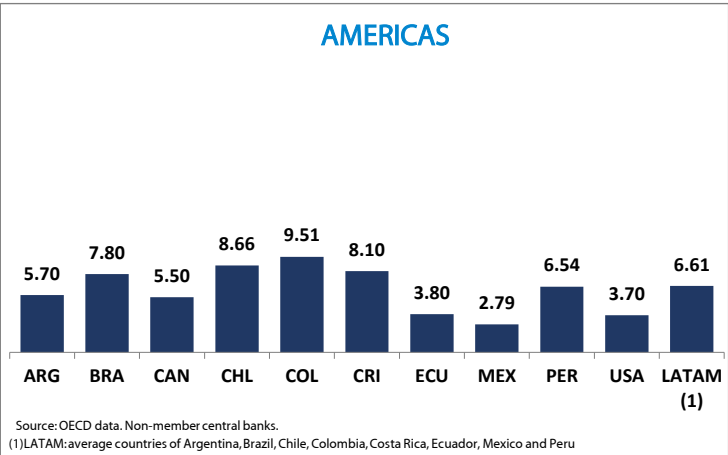
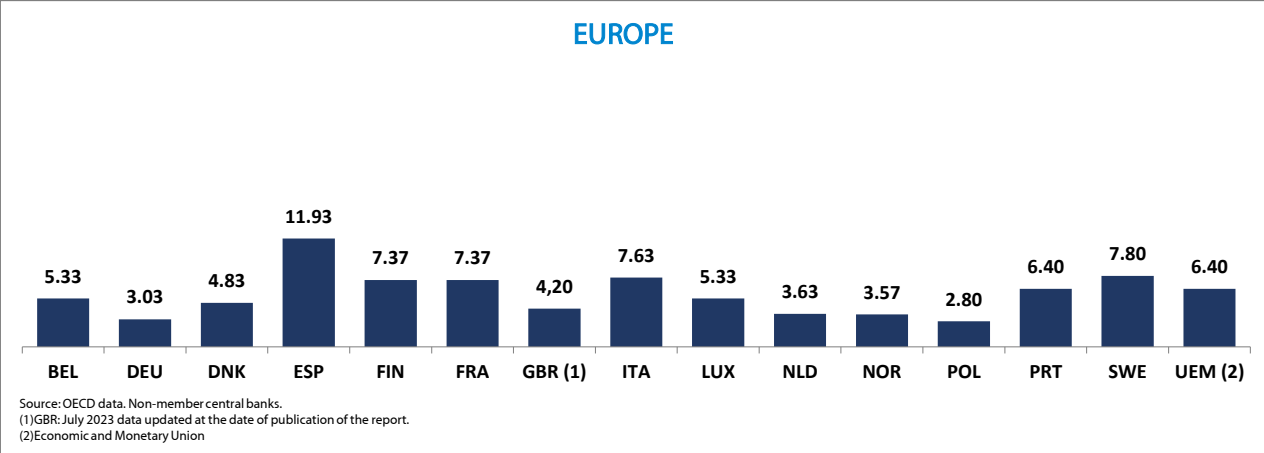
- ▶ The euro has depreciated very slightly against the dollar in the last quarter, although it has remained strong, standing at €0.92 per dollar in the third quarter. The OECD expects the US dollar to appreciate against most currencies in the last six months of 2023, aided by the safe-haven effect amid rising geopolitical tensions. Significant currency depreciations have also occurred in some emerging market economies with relatively high or rising inflation.
- ▶ However, the main Latin American currencies appreciated slightly against the dollar in Q3 23, with the exception of the Chilean peso and the Argentine peso, whose exchange rate increased compared to Q2 23, to 839.20 Chilean pesos per dollar and 334.66 Argentine pesos per dollar.
- ▶ The IMF expects overall debt to increase.

<sup>1</sup> The average for Latam countries is based on macroeconomic data for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

## GDP (% , year-on-year growth)



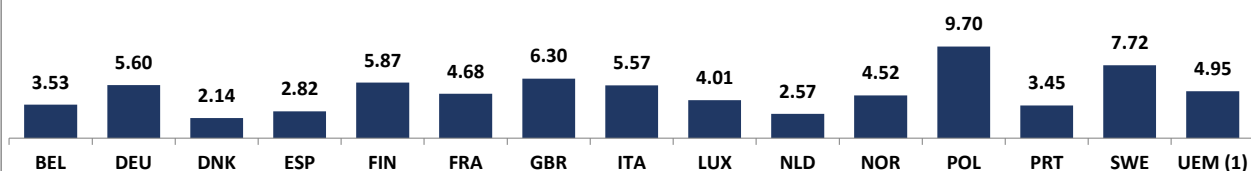
## Unemployment rate (%)





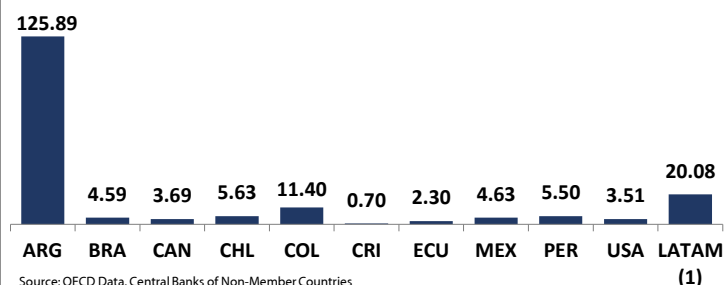
## Inflation rate (%)

## EUROPE



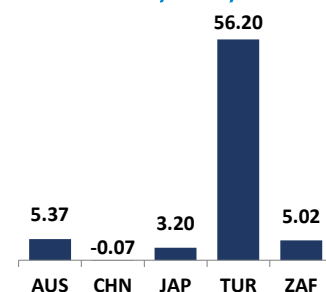
Source: OECD Data. Central Banks of Non-Member Countries.  
(1) Monetary and Economic Union

## AMERICAS



Source: OECD Data. Central Banks of Non-Member Countries  
(1) LATAM: average of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

## OCEANIA, ASIA, AFRICA



Source: OECD Data. Central Banks of Non-Member Countries

## Global Ratings and Exchange Rates

## LONG-TERM RATES Q3 23

	MOODY'S	S&P	Fitch
<b>EUROPE</b>			
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3▲	BBB+	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
<b>AFRICA</b>			
ZAF	Ba2	BB-	BB-
<b>OCEANIA</b>			
AUS	Aaa	AAA	AAA
<b>ASIA</b>			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B3	B	B
<b>AMERICAS</b>			
ARG	Ca	CCC-	C
BRA	Ba2	BB-	BB-
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	B1▲	BB-▲	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB	BBB
USA	Aaa	AA+	AAA

▲ Increased from Q2 23

▼ Decreased from Q2 23

Source: Investing

EXCHANGE RATES Q3 23 (\$<sup>(1)</sup>)

EUROPE	3Q22	4Q22	1Q23	2Q23	3Q23	2023
EUR	1.00	0.97	0.93	0.92	0.92	0.92
DKK	7.59	6.95	6.91	6.85	6.85	6.86
NOK	10.91	9.80	10.27	10.81	10.48	10.56
SEK	11.09	10.45	9.58	10.63	10.81	10.35
GBP	1.12	1.21	0.82	0.80	0.79	0.81
PLN	4.96	4.38	4.36	4.15	4.14	4.23
AMERICAS	3Q22	4Q22	1Q23	2Q23	3Q23	2023
ARG	135.79	176.71	197.70	239.22	334.66	219.09
BRL	5.41	5.29	5.10	4.94	4.89	5.00
CLP	965.90	849.41	805.80	805.20	839.20	796.01
COP	4,597.52	4,849.39	4,725.30	4,438.83	4,043.78	4,611.09
PER	3.99	3.80	3.79	3.66	3.66	3.71
MXN	20.10	19.50	18.38	17.59	17.06	17.88
AFRICA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
ZAR	18.15	17.00	17.76	18.94	18.64	18.82
OCEANIA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
AUS	1.56	1.47	1.47	1.51	1.53	1.49
ASIA	3Q22	4Q22	1Q23	2Q23	3Q23	2023
RMB	7.11	6.90	6.85	7.09	7.24	6.93
TRY	18.21	18.62	18.94	22.09	26.81	19.40

Source: Investing, OECD projections, November 2023.

(1) The base currency used is the US dollar against each local currency quoted

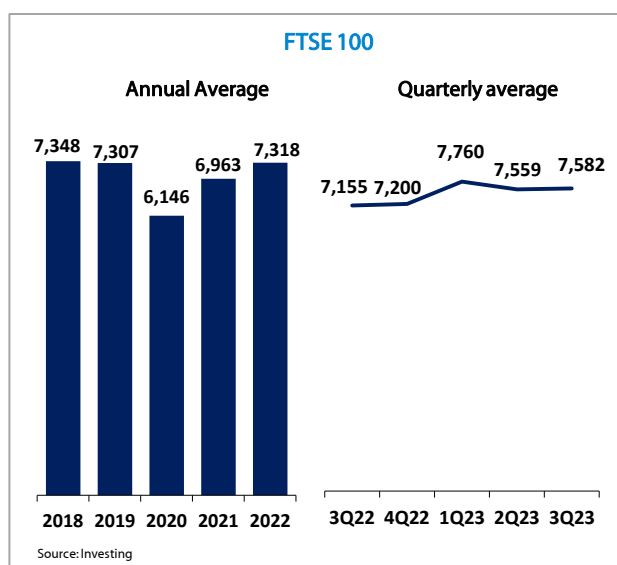
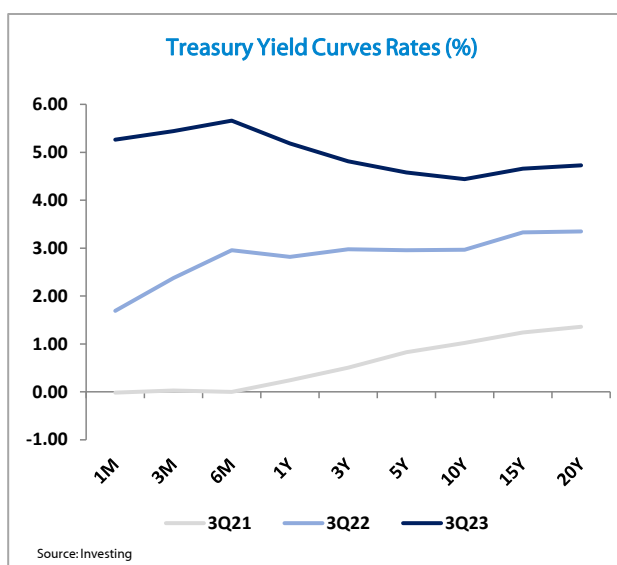
## 2. Macroeconomic view

**The UK's economic outlook for 2023 is for growth of 0.53%, in line with projections at the start of the year. While inflation has eased, it remains high and continues to weigh on economic performance.**

Main Macroeconomic Indicators (%)									
ACTIVITY	3Q22	4Q22	1Q23	2Q23	3Q23	Var. p.p.2Q23	Var. p.p.3Q22	2023	2024
<b>GDP</b>	<b>1.98</b>	<b>0.57</b>	<b>0.21</b>	<b>0.38</b>	<b>0.61</b>	<b>0.23</b>	<b>-1.37</b>	<b>0.53</b>	<b>0.68</b>
DOMESTIC DEMAND	1.22	1.04	-0.46	1.03	0.81	-0.22	-0.41	0.17	0.70
HOUSEHOLD CONSUMPTION	1.63	1.65	0.32	0.54	0.58	0.04	-1.05	0.51	1.37
PUBLIC CONSUMPTION	-0.06	-0.79	-2.88	2.57	0.10	-2.47	0.16	-0.41	-0.05
CAPITAL FORMATION	-15.08	-6.39	-20.54	-10.80	17.66	28.46	32.74	2.66	-1.77
EXTERNAL DEMAND									
EXPORTS	21.46	6.18	5.22	-1.10	-6.59	-5.49	-28.05	-0.43	1.47
IMPORTS	9.71	5.19	-9.81	-6.00	0.07	6.07	-9.64	-1.25	1.50
<b>INFLATION</b>									
<b>CPI</b>	<b>8.70</b>	<b>9.40</b>	<b>9.00</b>	<b>7.70</b>	<b>6.30</b>	<b>-1.40</b>	<b>-2.40</b>	<b>7.30</b>	<b>2.87</b>
<b>LABOUR MARKET</b>									
<b>UNEMPLOYMENT RATE</b>	<b>3.60</b>	<b>3.70</b>	<b>3.90</b>	<b>4.20</b>	<b>4.20</b>	<b>0.00</b>	<b>0.60</b>	<b>4.29</b>	<b>4.74</b>
<b>EMPLOYMENT<sup>(1)</sup></b>	<b>0.45</b>	<b>0.76</b>	<b>1.11</b>	<b>0.42</b>	<b>1.05</b>	<b>0.63</b>	<b>0.60</b>		

(1) The employment variable represents the year-on-year change in employment growth.  
Source: Organisation for Economic Co-operation and Development (OECD). OECD projections September 2023.  
July 2023 data updated for unemployment rate and employment.

- ▶ In the third quarter, UK GDP improved slightly compared to the previous quarter. However, there was a slowdown in domestic demand, marked by stagnant household consumption and a significant reduction in government spending.
- ▶ Despite the economic challenges, the UK achieved a remarkably high level of capital formation. This signals a positive outlook for the potential growth of the economy's aggregate income.
- ▶ CPI inflation fell to 6.3% in Q3 23, below expectations. As a result, the Bank of England voted, by a 6-3 majority, to keep the Bank Rate at 5.25% (3 votes in favor of an increase to 5.5%).
- ▶ Rates on the UK Treasury yield curve continued to rise, maintaining the inversion pattern seen in previous quarters. This persistent trend signals market concerns about a potential recession and the ongoing challenges in short-term government financing conditions.



### 3. Banking sector

**The UK Banking sector showed a decrease in both loans and deposits growth rate, with respect to Q3 22. While its efficiency ratio worsened in comparison to Q3 22. Nevertheless, solvency ratios improved the values when compared to Q3 22. In addition, Bank of England (BoE) raised interest rates, reaching 5.25% during Q3 23.**

BANKING SECTOR CONTEXT Q3 23 (%)							
BUSINESS	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23	Var p.p. Q2 23	Var p.p. Q3 22
TOTAL LOANS <sup>(1)</sup>	15.93	7.10	2.29	-4.17	-6.62	-2.45	-22.55
TOTAL DEPOSITS <sup>(1)</sup>	13.04	5.65	0.81	-4.30	-5.86	-1.56	-18.90
LTD RATIO	89.71	88.52	89.26	88.52	88.99	0.47	-0.72
EFFICIENCY							
COST-TO-INCOME <sup>(2)</sup>	73.11	72.26	81.51	83.21	78.93	-4.28	5.82
TOTAL INCOME / TOTAL LOANS	1.63	1.76	1.67	1.68	1.53	-0.15	-0.10
OPERATING EXPENSES / TOTAL LOANS <sup>(2)</sup>	1.19	1.27	1.36	1.39	1.21	-0.18	0.02
SOLVENCY							
TOTAL CAPITAL	20.60	21.40	22.40	21.10	21.10	0.00	0.50
TIER 1	17.80	18.40	19.40	18.20	18.20	0.00	0.40
CET1 <sup>(3)</sup>	15.70	16.10	17.10	15.80	15.90	0.10	0.20
BANK OF ENGLAND INTEREST RATES							
INTEREST RATES	2.25	3.50	4.25	5.00	5.25	0.25	3.00

Source: Bank of England (BoE).

(1) The values for loans and deposits reflect their year-on-year growth rates.

(2) The Bank of England (BoE) publishes operating expenses data annually (most recently updated in December 2022). These data are then annualized for the quarters of 2023.

(3) CET1 ratio measured as fully-loaded.

- ▶ Total loans annual growth rate of the UK banking sector experienced a decline of 22.55 p.p. during the third quarter of the year, in comparison to the third quarter of 2022. Moreover, total deposits growth rate also decreased by 18.90 p.p. with respect to the same quarter of the previous year and by 1.56 p.p. compared to the previous quarter.
- ▶ During the third quarter of 2023, the LTD ratio reached a rate of 88.99%, increasing by 0.47 p.p. in comparison to Q2 23, but decreasing by 0.72 p.p. with respect to the same quarter of the previous year.
- ▶ Regarding the efficiency ratio, it worsened by 5.82 p.p. compared to Q3 22 reaching a rate of 78.93%. Although, it improved by 4.28 p.p. in comparison to the previous quarter of the same year. The total income/total loans ratio of financial institutions during Q3 23 decreased by 0.10 p.p. and 0.15 p.p. with respect to Q3 22 and Q2 23, respectively.
- ▶ Solvency ratios increased in general terms with respect to Q3 22. Regarding total capital ratio, during Q3 23 it increased by 0.50 p.p. compared to Q3 22, amounting to 21.10%. However, it remained the same compared to Q2 23, while Tier 1 increased by 0.40 p.p. with respect to Q3 22. In addition, the Common Equity Tier 1 (CET1) capital ratio for the UK banking sector increased by 0.20 p.p. on the third quarter with respect to Q3 22, reaching 15.90%.
- ▶ Bank of England stated the continued raising of interest rates during Q3 23, with the purpose of maintaining the inflation low and stable. Therefore, interest rates increased by 0.25 p.p. and 3.00 p.p. when compared to Q2 23 and Q3 22, respectively, reaching a value of 5.25%.



## 4. Glossary

- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **COST TO INCOME RATIO:** It is a ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and total income. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its Cost to Income ratio.
- ▶ **CPI:** The consumer price index is an indicator that measures the variation of prices of a basket of goods and services in a specific location during a certain period.
- ▶ **GDP:** Gross Domestic Product (GDP) is an economic indicator that reflects the monetary value of all final goods and services produced by a territory in a certain period of time. It is used to measure the wealth generated by a country.
- ▶ **LTD RATIO:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- ▶ **OECD:** Organization for Economic Cooperation and Development.
- ▶ **p.p.:** percentage points.
- ▶ **TIER 1:** Tier 1 capital refers to the core capital held in a bank's reserves and is used to fund business activities for the bank's clients. It includes common stock, as well as disclosed reserves and certain other assets
- ▶ **TOTAL CAPITAL:** total regulatory capital divided by total risk-weighted assets

## 5. Appendix

### MACROECONOMIC OVERVIEW

- ▶ OECD Projections:  
<https://data.oecd.org/>
- ▶ Office for National Statistics (ONS):  
<http://www.ons.gov.uk>
- ▶ Yahoo Finance: <http://es.finance.yahoo.com/>
- ▶ World Government Bonds:  
<http://www.worldgovernmentbonds.com/>

### FINANCIAL SECTOR

- ▶ Santander:  
<http://www.santander.co.uk>
- ▶ HSBC:  
<http://www.hsbc.co.uk>
- ▶ Lloyd's:  
<http://www.lloydstsb.com>
- ▶ Barclays:  
<http://group.barclays.com>
- ▶ RBS:  
<http://www.investors.rbs.com>
- ▶ Standard Chartered:  
<http://www.standardchartered.com/uk>
- ▶ Nationwide:  
<http://www.nationwide.co.uk>
- ▶ Co-operative Banking Group:  
<http://www.co-operativebankinggroup.co.uk>
- ▶ Virgin Money  
<https://www.virginmoneyukplc.com>
- ▶ Tesco Bank:  
<http://www.tescopl.com>

### ACRONYMS

▶ DEU - Germany	▶ LUX - Luxembourg	▶ TUR - Turkey	▶ ECU - Ecuador	▶ ZAF - South Africa
▶ BEL - Belgium	▶ NLD - Netherlands	▶ ARG - Argentina	▶ MEX - Mexico	▶ UEM- European Monetary Union
▶ DIN - Denmark	▶ NOR - Norway	▶ BRA - Brazil	▶ PER - Peru	
▶ ESP - Spain	▶ POL - Poland	▶ CAN - Canada	▶ USA- United States	
▶ FIN - Finland	▶ PRT - Portugal	▶ CHL - Chile	▶ AUS - Australia	
▶ FRA - France	▶ GBR- United Kingdom	▶ COL - Colombia	▶ CHN - China	
▶ ITA - Italy	▶ SUE - Sweden	▶ CRI - Costa Rica	▶ JAP - Japan	

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