

UK outlook report

Third quarter of 2024



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Marketing and Communication Department
Management Solutions

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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

Global growth remains stable, driven by recovery in both advanced and emerging economies, with moderating inflation supporting real income growth. Labour market pressures continue to ease, while unemployment remains mostly stable, majorly at or near historical lows.

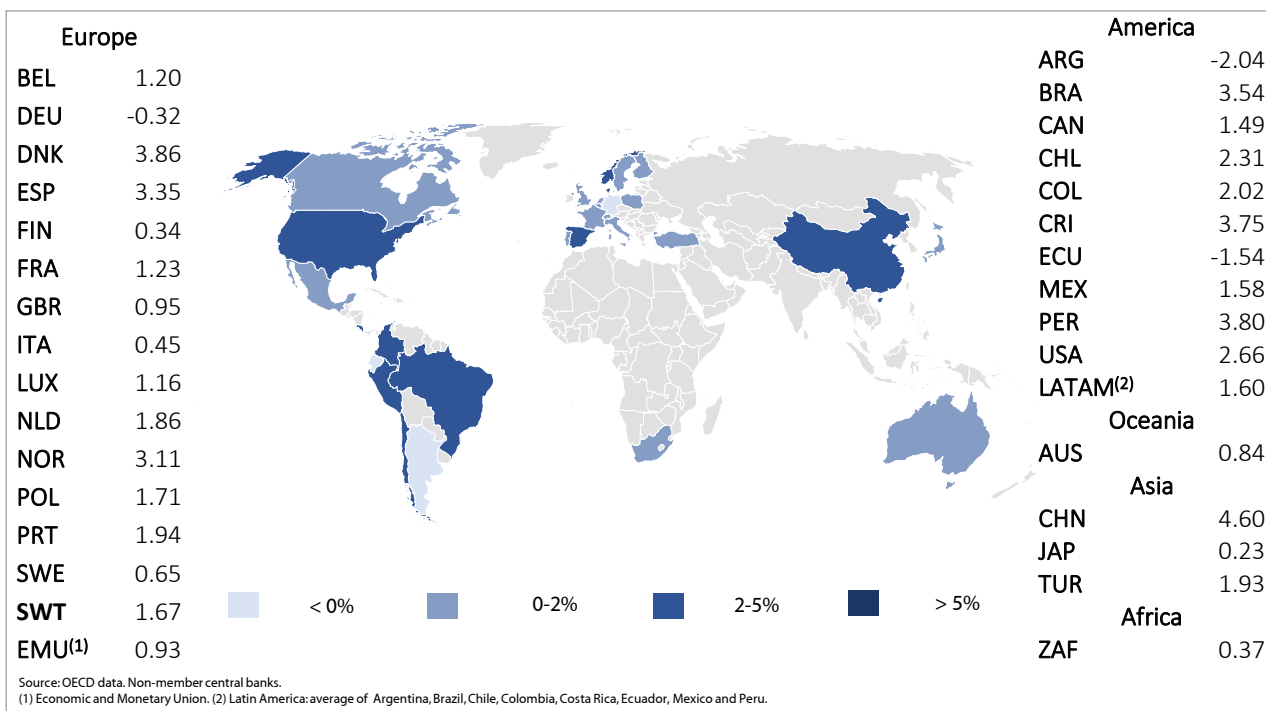
Macroeconomic outlook

- ▶ In the third quarter, GDP in the eurozone grew by 0.93% year-on-year, continuing its upward trend. However, Germany continued its negative trend, recording negative growth of -0.32%. The average CPI in the eurozone continued to fall for another quarter, reflecting the effectiveness of the EU's current monetary policy. Only the Netherlands recorded an increase in its CPI compared to Q3 23. The average unemployment rate in the eurozone was 6.33%, down slightly from 6.40% in the previous quarter.
- ▶ In the third quarter of 2024, U.S. GDP grew by 2.66%, while Canada's year-over-year growth was 1.49%, still slightly up from the second quarter. Latin America's growth rate rose to 1.87%. Inflation in the U.S. decreased to 2.62% and in Canada to 2.04%. The average inflation rate in Latin America was 2.57%, excluding Argentina's high rate of 234.24%. Also in Latin America, the average unemployment rate was 5.88%, with a slowdown observed in Brazil (6.40%) and Peru (5.99%), both of which declined on a quarterly and annual basis. On the other hand, the unemployment rate increased in the United States and Canada, reaching 4.20% and 6.50%, respectively.
- ▶ In the Asia region, China recorded growth of 4.60% in the quarter, down from 4.90% in Q3 23. Japan recorded a GDP increase of 0.23% after two consecutive quarters of negative growth. Turkey's growth slowed down to 1.93%, continuing a downward trend since 1Q24 (6.70%). China's inflation rose to 0.48%, an increase both year-on-year and quarter-on-quarter. Turkey ended its upward trend, with inflation dropping by 18.18 p.p. quarter-on-quarter and by 2.11 p.p. Y-o-Y. Unemployment rates in China and Japan remained relatively stable compared to the previous quarter. In Turkey, however, the unemployment rate decreased by 0.53 p.p. compared to Q3 23.
- ▶ In the third quarter of 2024, South Africa's GDP growth rate increased by 0.87 p.p. compared to Q3 23, reaching a growth rate of 0.37%. Inflation continued to decline, falling by 0.78 p.p. year-on-year. The unemployment rate remained high at 32.10%. In Australia, GDP slowed down with a decline of 1.28 p.p. compared to Q3 23. The CPI continued its downward trend and stood at 2.81%, 2.56 p.p. lower than in Q3 23. Unemployment worsened significantly by 4.62 p.p. compared to Q3 23.
- ▶ According to the OECD, indicators point to a gradual moderation in the second half of the year after the strong growth in the first half. The services sector slowed down in July and August but recovered in September. Similarly, retail trade grew by 5.1% in the first half of 2024, remained flat in July and August, and then picked up again in September. Industrial production followed a similar trend, showing robust growth in early 2024, but losing momentum in July and August.
- ▶ The IMF's growth projections show that emerging economies will remain stable, similar to advanced economies, which slowed in 2023. Global inflation is expected to decline, although disinflation will be faster in advanced economies than in developing ones.

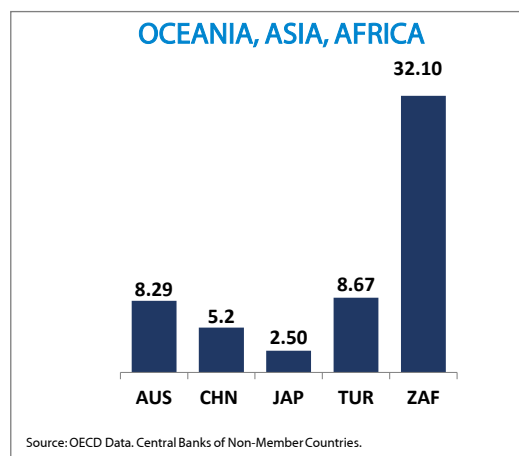
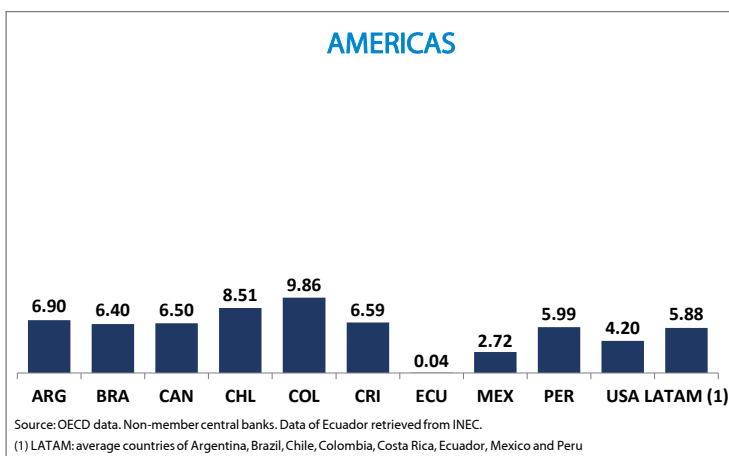
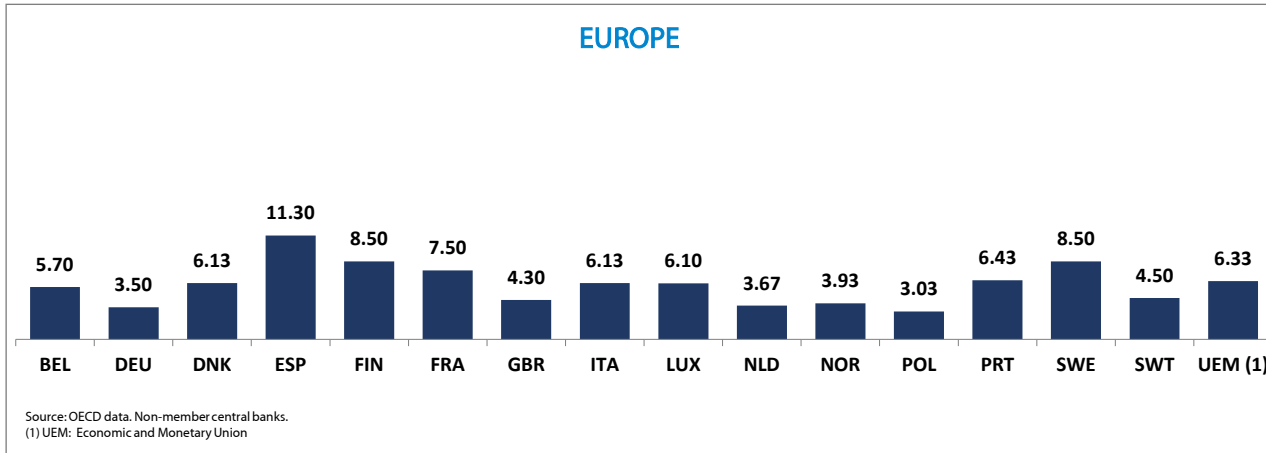
Other indicators and key risks

- ▶ The IMF highlights the importance of mitigating the disruption caused by exchange rate volatility. Differences in disinflation across countries lead to desynchronization of central bank policies, which may result in increased capital flows. The appreciation of the US dollar on the back of high-interest rate expectations could push up domestic prices in economies with higher import dependence and a larger share of dollar-denominated imports, potentially putting pressure on their financial sectors.
- ▶ OECD notes that global risks include geopolitical tensions, trade issues, and slower growth, but a recovery in real incomes could boost consumer confidence. Fiscal measures and structural reforms are crucial to ensuring sustainability and long-term growth.
- ▶ The OECD also warns that financial risks remain due to elevated debt levels, overvalued assets, and the deteriorating creditworthiness of some borrowers, particularly in the commercial real estate sector. In addition, the growing scope and interconnectedness of less regulated non-bank financial institutions increase the likelihood of adverse shocks spreading rapidly across different market segments.

GDP (% , year-on-year growth)

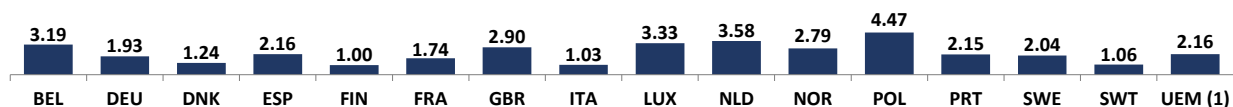


Unemployment rate (%)



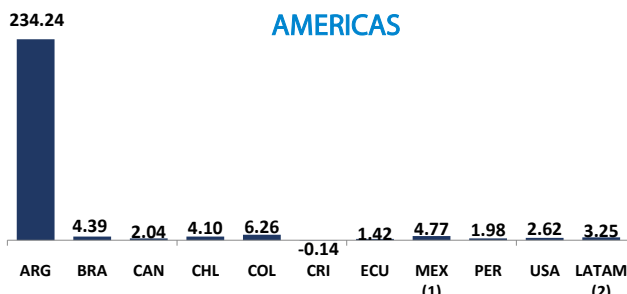
Inflation rate (%)

EUROPE



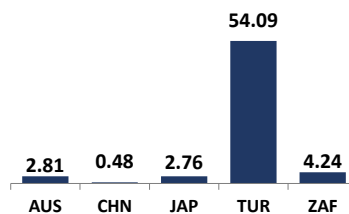
Source: OECD Data, Central Banks of Non-Member Countries.
(1) Monetary and Economic Union

AMERICAS



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.
(1) Data from Q2 24. Q3 24 data not available.
(2) LATAM: average of Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

OCEANIA, ASIA, AFRICA



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries

Global Ratings and Exchange Rates

LONG-TERM RATES Q3 24

	MOODY'S	S&P	Fitch
EUROPE			
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	A-	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
SWT	Aaa	AAA	AAA
AFRICA			
ZAF	Ba2	BB-	BB-
OCEANIA			
AUS	Aaa	AAA	AAA
ASIA			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B1	BB- ▲	B
AMERICAS			
ARG	Ca	CCC	C
BRA	Ba1 ▲	BB	BB ▲
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	Ba3 ▲	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB-	BBB
USA	Aaa	AA+	AAA

▲ Increased from Q2 24

▼ Decreased from Q2 24

Source: Investing

EXCHANGE RATES Q3 24 (\$¹)

EUROPE	3Q23	4Q23	1Q24	2Q24	3Q24	2024
EUR	0.92	0.93	0.92	0.93	0.91	0.92
CHF	1.13	1.13	1.14	0.90	0.87	0.88
DKK	6.85	6.93	6.87	6.93	6.79	6.90
NOK	10.48	10.81	10.51	10.75	10.70	10.75
SEK	10.81	10.65	10.39	10.68	10.42	10.58
GBP	0.79	0.81	0.79	0.79	0.77	0.78
PLN	4.14	4.10	3.99	3.99	3.90	3.99
AMERICAS	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ARG	334.66	443.71	833.91	885.25	940.59	913.54
BRL	4.89	4.96	4.95	5.21	5.55	5.36
CLP	839.20	895.36	945.96	933.72	903.11	943.76
COP	4,043.78	4,064.32	3,913.15	3,923.29	4,904.54	4,090.76
PER	3.66	3.77	3.74	3.73	3.47	3.76
MXN	17.06	17.54	16.97	17.23	18.93	18.30
AFRICA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ZAR	18.64	18.73	18.87	18.56	17.97	18.36
OCEANIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
AUS	1.53	1.54	1.52	1.52	1.49	1.51
ASIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
RMB	7.24	7.22	7.19	7.24	7.16	7.20
TRY	26.81	28.55	30.90	32.35	33.50	32.77

Source: Investing, OECD projections, December 2024.

(1) The base currency used is the U.S. dollar against each local currency quoted

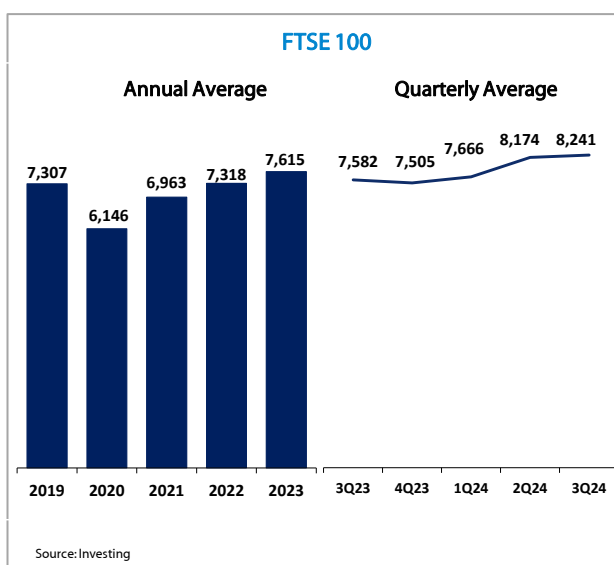
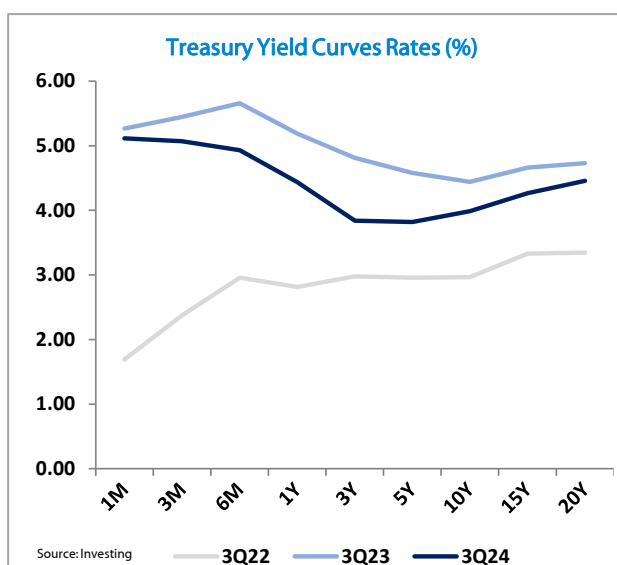
2. Macroeconomic view

In the third quarter of 2024, the UK economy showed moderate growth, characterized by GDP expansion and inflation and unemployment remaining stable. These trends reflect a mix of domestic adjustments and global economic influences that the Bank of England will likely weigh in its upcoming interest rate decisions.

Main Macroeconomic Indicators (%)									
ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	0.31	-0.35	0.25	0.70	0.95	0.25	0.64	0.91	1.69
DOMESTIC DEMAND	2.18	1.71	0.33	2.53	2.69	0.16	0.51	2.20	1.83
HOUSEHOLD CONSUMPTION	0.06	-0.60	0.32	0.02	1.12	1.10	1.06	0.73	1.20
PUBLIC CONSUMPTION	1.50	1.74	2.72	2.08	1.79	-0.29	0.29	2.24	2.95
CAPITAL FORMATION	-1.93	0.05	-1.44	0.73	3.60	2.87	5.53	1.49	2.26
EXTERNAL DEMAND									
EXPORTS	-8.54	-9.16	-2.58	-2.87	-1.35	1.52	7.19	-2.08	0.24
IMPORTS	-2.93	-2.75	-1.51	3.33	4.33	1.00	7.26	2.26	0.69
INFLATION									
CPI	6.30	4.40	3.90	2.90	2.90	0.00	-3.40	2.62	2.65
LABOUR MARKET									
UNEMPLOYMENT RATE	4.10	3.80	4.30	4.20	4.30	0.10	0.20	4.24	4.03
EMPLOYMENT ⁽¹⁾	1.28	0.79	0.03	0.42	1.27	0.85	-0.01	0.11	1.21

(1) The employment variable represents the year-on-year change in employment growth.
Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of December 9th, 2024. The series for the other quarters have also been updated to the database as of December 9th, 2024, to gain consistency. Projections OECD December 2024.

- ▶ The UK's real GDP increased by 0.95% in Q3 2024. This growth reflects resilience in the face of ongoing global economic uncertainties, supported primarily by strong performance in household consumption and capital formation, which offset some of the contractions seen in public consumption.
- ▶ Inflation remains stable this third quarter, staying at 2.9%, down from the levels in same quarter a year ago and also at the beginning of 2024. This is largely due to stabilizing energy prices and lower food costs, relieving some pressure on household budgets.
- ▶ The job market held steady, with similar performance across sectors than last quarter. Unemployment rates suggest a continued demand for labour in growth sectors despite some sectoral slowdowns.
- ▶ The FTSE 100 is experiencing a strong performance in 2024, reaching record highs in May amid a favorable corporate earnings season and improved investor confidence. The index's rise is supported by easing inflation, and positive performance across major sectors, particularly in energy, finance, and consumer goods.



3. Banking sector

The UK banking sector experienced an increase in loans and deposits growth rates compared to Q3 23, and a decrease compared to Q2 24. The cost-to-income ratio worsened with respect to Q3 23, while solvency ratios improved in the same comparison. Additionally, the Bank of England (BoE) lowered interest rates at 5.00% during the third quarter of 2024.

BANKING SECTOR CONTEXT Q3 24 (%)							
BUSINESS	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Var p.p. Q2 24	Var p.p. Q3 23
TOTAL LOANS ⁽¹⁾	-6.62	-2.13	0.21	2.09	-0.92	-3.01	5.70
TOTAL DEPOSITS ⁽¹⁾	-5.86	-2.13	1.43	2.60	0.25	-2.35	6.11
LTD RATIO	88.99	88.52	88.18	88.08	87.95	-0.13	-1.04
EFFICIENCY							
COST-TO-INCOME	90.76	92.81	106.46	97.93	94.54	-3.39	3.78
TOTAL INCOME / TOTAL LOANS	1.53	1.54	1.67	1.44	1.49	0.05	-0.04
OPERATING EXPENSES / TOTAL LOANS ⁽²⁾	1.39	1.42	1.38	1.41	1.41	0.03	0.02
SOLVENCY							
TOTAL CAPITAL	21.20	21.20	21.00	21.20	21.20	0.00	0.00
TIER 1	18.20	18.30	18.10	18.30	18.40	0.10	0.20
CET1 ⁽³⁾	15.90	16.00	15.70	15.90	16.00	0.10	0.10
BANK OF ENGLAND INTEREST RATES							
INTEREST RATES	5.25	5.25	5.25	5.25	5.00	-0.25	-0.25

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 2023). These data are then annualized for the quarters of 2024.

(3) CET1 ratio measured as fully-loaded.

- During the third quarter of 2024, total loans annual growth rate of the UK banking sector experienced a rise of 5.70 p.p., in comparison to the same quarter of 2023. However, compared to the previous quarter, loans growth rate decreased by 3.01 p.p. As for the total deposits growth rate, it increased by 6.11 p.p. with respect to the same quarter of the previous year, but it decreased by 2.35 p.p. compared to Q2 24, reaching £7,744,537 million.
- The LTD ratio reached a rate of 87.95%, which meant a decrease of 1.04 p.p. in comparison to Q3 23, and 0.13 p.p. compared to the previous quarter.
- Regarding the cost-to-income ratio, it worsened compared to the same quarter last year by 3.78 p.p., reaching a rate of 94.54%. In comparison to the previous quarter, the ratio improved by 3.39 p.p. Furthermore, during Q3 24, the total income/total loans ratio of financial institutions decreased by 0.04 p.p. with respect to Q3 23, although it increased by 0.05 p.p. with respect to Q2 24. For its part, the operating expenses/total loans ratio amounted to 1.41%, worsening by 0.02 p.p. and 0.03 p.p., in comparison to the same quarter last year and the previous quarter, respectively.
- Solvency ratios increased in general terms. Regarding total capital ratio, during Q3 24 it maintained its level both compared to Q3 23 and Q2 24, at 21.20%. In contrast, Tier 1 and CET 1 increased by 0.20 p.p. and 0.10 p.p., compared to the same quarter last year, amounting to 18.40% and 16.00%, respectively. In comparison to the previous quarter, they both increased by 0.10 p.p.
- BoE decided to establish interest rates at 5.00% in the third quarter of 2024, lowering by 0.25 p.p. compared to both the previous quarter and the same quarter of the last year. This decision was made in response to easing inflationary pressures and a slowing economy. Lowering rates aims to stimulate growth by encouraging borrowing and investment. This move aligns with the goal of maintaining price stability while supporting economic recovery.

4. Glossary

- ▶ **BUSINESS VOLUME:** The business volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- ▶ **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.
- ▶ **COVERAGE RATIO:** This is a ratio that informs us about the protection that financial institutions have against their customers' bad loans. It is represented as the total provisions for doubtful loans that the entity has over total doubtful loans. For the banking system, in the case of European Union countries, the information provided by the EBA for each country is used. For individual institutions, the ratios correspond to those provided by each bank that meet the EBA definition of coverage 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.
- ▶ **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- ▶ **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- ▶ **LCR (Liquidity Coverage Ratio):** this ratio measures a bank's liquidity. It is calculated as the institution total liquid assets divided by its short-term obligations.
- ▶ **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.
- ▶ **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- ▶ **OECD:** Organization for Economic Cooperation and Development.
- ▶ **p.p.:** percentage points.
- ▶ **ROA:** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests.
- ▶ **ROE:** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources.
- ▶ **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

- ▶ Bank of England:
<http://www.bankofengland.co.uk>
- ▶ 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

- ▶ Bank of England:
<http://www.bankofengland.co.uk>

ACRONYMS

- | | | | | |
|-----------------|------------------------|--------------------|-----------------------|---------------------------------|
| ▶ DEU - Germany | ▶ LUX - Luxembourg | ▶ TUR - Turkey | ▶ ECU - Ecuador | ▶ ZAF - South Africa |
| ▶ BEL - Belgium | ▶ NLD - Netherlands | ▶ ARG - Argentina | ▶ MEX - Mexico | ▶ EMU - 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 | |
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Rubén García Moral

Partner at Management Solutions

ruben.moral@msunitedkingdom.com

Juan Francisco García Cascales

Partner at Management Solutions

juan.garcia.cascales@msunitedkingdom.com

Marta Hierro Triviño

Partner at Management Solutions

marta.hierro@managementsolutions.com

Management Solutions

Tel. + (44) 20 74 69 68 00

www.managementsolutions.com

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