

# United Kingdom – 3Q21

## Macroeconomic Outlook Report



Design and Layout:

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Photographs:

Management Solutions' picture library,  
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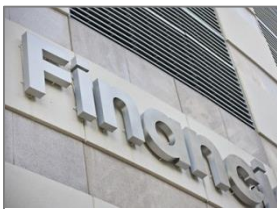
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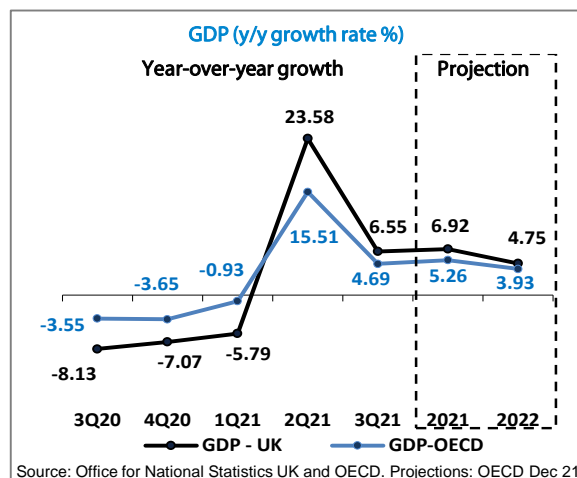
# 1. General Outlook

## UK Macroeconomic Overview

**During the third quarter of 2021, the UK recorded lower growth than in the previous quarter, reaching a year-on-year GDP growth rate of 6.55%. In turn, the average quarterly CPI remained above the 2% target of the Bank of England for the second consecutive quarter. The labour market continued to recover from the economic effects of the COVID-19 pandemic, resulting in an acceleration in the employment growth rate, reaching positive figures of 0.53%. The sterling pound recorded a depreciation against the dollar during this third quarter of 2021, standing at 1.38 \$/£.**

### Macroeconomic Situation in UK

- ▶ In 3Q21, the y/y growth rate of GDP in the UK registered a correction to 6.55%. It recorded a 17.03 p.p. decline in comparison with the previous quarter. However, it obtained a y/y growth rate of 1.86 p.p. above the OECD average, which stood at a 4.69% rate.
- ▶ This decline in the year-on-year rate of economic GDP was driven by a marked fall in domestic demand, as the growth rate of all its components declined in comparison with the previous quarter. The explanation for this decline was the low comparative rate of the previous quarter with the same quarter of the previous year. This factor aside, the UK's economic recovery continues as more people are vaccinated and restrictions are lifted.



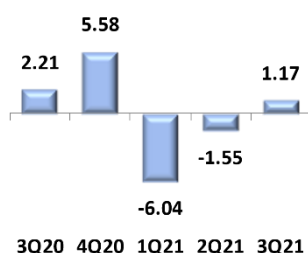
- ▶ In the third quarter of 2021, the Consumer Price Index grew 0.73 p.p. compared to the previous quarter, standing at 2.77%. This result means that inflation remained above Bank's of England 2% objective for the second consecutive quarter. Higher energy and goods prices seems to be the main reason for this increase.
- ▶ The labour market showed continued improvement with an unemployment rate of 4.30% down 0.40 p.p. with respect to the second quarter of the year, although this fall in unemployment remained above its pre-Covid rate. Despite recruitment difficulties being elevated in many sectors, the number of advertised job vacancies rose to over one million in the three months to September. The employment year-on-year growth rate recorded an increase of 1.54 p.p. when compared to 2Q21, registering a 0.53% growth rate.
- ▶ The pound sterling registered a depreciation with respect to the US dollar in the third quarter, standing at an exchange rate of 1.38\$/£, 0.02\$ lower than in the previous quarter.
- ▶ The FTSE 100 index increased for the fourth consecutive quarter, up to 7,079 points, 0.99% above the last quarter. In 3Q21 the index registered a 1,171 points increase with respect to the same quarter last year.

## Banking Sector

**In the third quarter of 2021, the y/y growth rate of total loans granted by the UK financial system improved with respect to last quarter, reaching a 1.17% rate. During this period, the y/y growth rate of total customer deposits also increased when compared to 2Q21, up to a 3.85% rate. The efficiency ratio improved, decreasing from 84.22% in 2Q20 to 76.61% in 2Q21\*.**

### Banking Sector

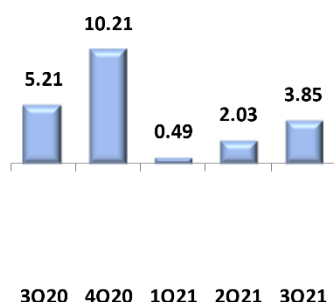
Loans (year-over-year, %)



Source: Bank of England.

Note: Considers both sterling and foreign currency loans/deposits.

DEPOSITS (year-over-year, %)



Source: Bank of England.

Note: Considers both sterling and foreign currency loans/deposits.

- ▶ In the third quarter of 2021, the y/y growth rate of total loans granted by the UK financial system improved on the last quarter by 2.72 p.p. up to a 1.17% rate.
- ▶ The main driver of the increase in total loans was the quarterly acceleration in loans to non residents, which grew by 3.66 p.p., reaching 1.59%, relative to 2Q21. Loans to non residents represented 53.80% of total loans during the third quarter of 2021. Loans to the private sector (45.98% of the total) also increased their growth rate up to 1.00%, 1.21 p.p. higher than the second quarter.
- ▶ Also worth noting is that loans granted to the public sector (0.22% of total loans) increased by 21.41 p.p. when compared to 2Q21, recording a -38.74% y/y growth rate.
- ▶ The y/y growth rate of total customer deposits increased by 1.82 p.p. when compared to the previous quarter, reaching a 3.85% rate. This result was driven by the increase in non resident deposits (representing 51.13% of deposits) which grew by 2.34 p.p., up to 1.44%.
- ▶ Public sector deposits decelerated, by 4.23 p.p. in contrast with private sector ones, which accelerated by 1.28 p.p., when compared to the previous quarter. However, the large fall in public sector deposits is not as significant as it only represents 0.71% of total customer deposits.
- ▶ The efficiency ratio decreased from 84.22% in 2Q20 to 76.61% in 2Q21\*. This behaviour was mainly driven by the y/y increase in gross margin (5.36%) and the decline in operating expenses (-4.15%).



## 2. International Overview

### LatAm

***During the third quarter of 2021, all the countries analysed continued with their economic recovery after the acceleration experienced in the second quarter of the year. This was mainly due to the progress in vaccination, although growth rates were reduced compared to the previous quarter. The unemployment rates registered a decrease compared to the previous quarter, although they remained above the levels before the pandemic, and inflation rates increased in most countries.***


#### **Macroeconomic Overview**

- ▶ During the third quarter of 2021, the economic recovery was consolidated in the countries studied, all of which achieved a positive year-on-year GDP growth rate. However, all reduced their year-on-year growth rate compared to the previous quarter. Peru was the country whose year-on-year growth rate decreased the most, declining by 30.43 p.p., although it should be noted that its growth in the second quarter had been the most pronounced (41.88%). Chile was the country that reduced its rate the least compared to the previous quarter, falling by only 0.16 p.p. to 17.34%, which was the highest rate of the group.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) has improved its forecasts for the Latin American economy in 2021, placing the region's growth at 5.90%. In addition, growth of 2.90% is expected for 2022. This is mainly due to the progress in global immunization that has been developing during the third quarter of 2021. However, according to the IFM, this expansion will not be enough to return to pre-covid levels in the medium term since the persistent social impacts and the damaged labour market after the crisis will continue to hamper the recovery. In its December update, the OECD improved its forecasts from September for Argentina and lowered them for Brazil and Mexico for 2021. In addition, it placed the year-on-year GDP growth of these three countries for 2022 below the OECD average.
- ▶ As for inflation, all the countries studied registered increases in their inflation rate compared to the previous quarter except Mexico, which lowered its index to 5.80%. Colombia was the country with the lowest inflation rate, at 4.31%. Meanwhile, Argentina was the country that experienced the highest growth in its inflation rate compared to 2Q21, increasing by 2.33 p.p. up to a rate of 50.73%, registering the highest inflation rate of this group of countries again.
- ▶ During the third quarter of 2021, the labour market continued to recover from the economic consequences of the pandemic. Most countries recorded falls in their unemployment rate compared to 2Q21, although they are still far from their pre-covid levels. In this context, Brazil was positioned as the country with the highest unemployment rate, with a figure of 13.13%. On the other hand, Mexico recorded the lowest unemployment rate of the countries studied, at 4.02%.

#### **Financial Sector**

- ▶ With regards to their rating, all Latin American countries maintained their ratings constant in the third quarter of the year except for Peru, which fell from a Fitch rating of BBB+ to BBB during this period. This rating considers that, despite the country having a good credit quality and an adequate capacity to meet its financial obligations, this capacity could be affected by exposure to adverse economic conditions.
- ▶ With regard to economic policies, the introduction of additional stimulus is more limited than during the previous year, facing tightening global financial conditions and rising inflation. Thus, despite the effectiveness of the policies already promoted, the public accounts of these countries have deteriorated, leading to public debt increases of up to 75.4% of regional GDP at the end of the third quarter. According to the World Bank, Latin America has been the hardest hit region by the pandemic, most countries in the region will not be able to fully reverse the 6.7% contraction of their GDP in 2020 in the near future.
- ▶ All the countries analysed, except Argentina and Brazil, increased their pace of lending compared to the previous quarter. Mexico continued to register the lowest year-on-year growth, with a contraction of -1.94%. Regarding deposits, all countries stood at a positive year-on-year growth during the period, although half of them, Argentina, Brazil and Peru, decreased their rate compared to the previous quarter. Chile showed the largest increase in its rate, after an acceleration of 6.48 p.p. compared to 2Q21.

 **Argentina**  
11.87%

 **Brazil**  
4.03%

 **Chile**  
17.34%

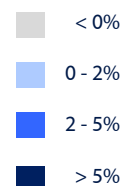
 **Colombia**  
12.93%

 **Mexico**  
5.22%

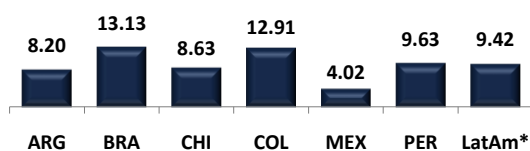
 **Peru**  
11.45%

 **LatAm\***  
10.47%

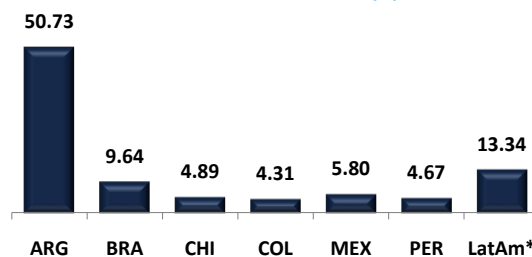
### GDP 3Q21 (% year-on-year growth rate)



### UNEMPLOYMENT RATE 3Q21 (%)

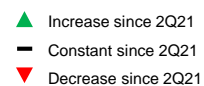


### INFLATION RATE 3Q21 (%)

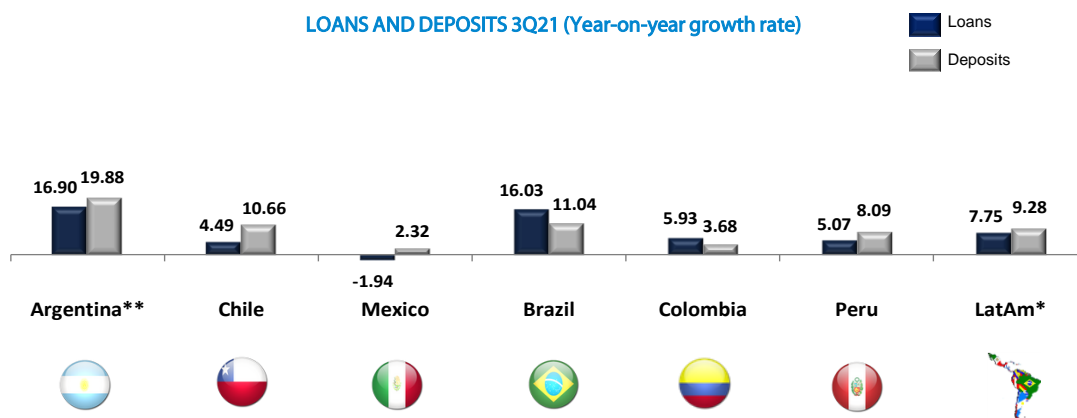


### LONG TERM RATINGS 3Q21

	MOODY'S		S&P		FITCH	
Argentina	Ca	—	CCC+	—	CCC	—
Brazil	Ba2	—	BB-	—	BB-	—
Chile	A1	—	A	—	A-	—
Colombia	Baa2	—	BB+	—	BB+	—
Mexico	Baa1	—	BBB	—	BBB-	—
Peru	Baa1	—	BBB+	—	BBB	▼



### LOANS AND DEPOSITS 3Q21 (Year-on-year growth rate)



\*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 2Q21.

## 2. International Overview

### OECD & China

***The recovery of economic activity in OECD countries continued in the third quarter of 2021. Advances in the vaccination process meant that the GDP growth rate of these countries remained in positive values. However, a downward revision of the OECD's future growth forecasts was carried out, especially for 2022, due to the increase in COVID-19 cases.***

#### ***Macroeconomic Overview***

- ▶ In the third quarter of 2021, the Eurozone continued to recover with a positive year-on-year GDP growth rate (3.85%), although lower than that of the last quarter, which registered a more pronounced year-on-year acceleration (14.38%). Consequently, the OECD December forecasts have announced expected year-on-year GDP growth for 2021 and 2022 to be of 5.17% and 4.32%, respectively, slightly lowered from its September forecasts. However, the European Commission expects a positive evolution of the economy marked by an effective strategy of containment of the virus and progress with vaccines, with most member states reaching pre-pandemic GDP levels by the end of 2021. Among the countries analysed in the region, all registered positive year-on-year GDP growth rates during the third quarter of the year, highlighting those of France and Italy which were the highest (3.27% and 3.95%, respectively).
- ▶ The United States consolidated its recovery of economic activity in this period with another positive year-on-year GDP growth rate of 4.90%, although it also experienced a decrease of 7.30 p.p. compared to 2Q21. The OECD reduced its forecasts in its December publication, expecting a growth of the US economy of 5.56% in 2021 and 3.73% in 2022. Meanwhile, the United Kingdom recorded the largest decline in GDP during this period compared to the previous quarter, although it remained at a positive rate of 6.55%. Consequently, the OECD estimates growth of 6.92% by 2021 and 4.75% by 2022. These forecasts were also lower than those of September, especially that of 2022, which stood at 5.22%.
- ▶ China also recorded a lower GDP growth rate during the third quarter compared to 2Q21, declining by 12.13 p.p. to a rate of 4.90%, the same as the one obtained in 3Q20. In its December forecasts, the OECD estimates growth of 8.15% and 5.06% for 2021 and 2022, respectively. Japan recorded the only increase in the GDP rate compared to 2Q21, which rose by 0.65 p.p. to 1.15%. In turn, the OECD estimates a growth of its GDP of 1.84% and 3.41% for 2021 and 2022.
- ▶ Regarding international trade, the G20 recorded a stagnation in merchandise trade, although it remained at high levels due to rising commodity prices. High shipping costs coupled with increased international mobility have meant faster growth in international trade of services, where exports approached pre-covid levels. The Regional Comprehensive Economic Partnership (RCEP), which will enter into force on January 1, 2022, will have the potential to spur investment and boost economic recovery among the countries of the Association of Southeast Asian Nations (ASEAN). On the other hand, the ratification of the CAI agreement between the EU and China remains paralyzed since May 2021 due to lack of consensus and recent political tensions.
- ▶ Year-on-year inflation growth in 3Q21 increased in all economies studied in the report compared to 3Q20 except for China, which was also the only country that decreased its rate compared to 2Q21. The EMU registered an acceleration of 3.70 p.p. compared to the same period last year. On the other hand, the labour market continued to improve during this period, with all the countries analysed, except for China, registering lower unemployment rates than in the same quarter of the previous year. Compared to 2Q21, all countries except France and Canada experienced falls in their unemployment rates.

#### ***Financial Sector***

- ▶ The only country analysed to change any of its ratings was Italy, which went up from a Fitch BBB- rating to BBB.
- ▶ Regarding the economic policies of the different countries, it seems that the shared objective of the Fed and the ECB to keep interest rates close to 0.00% will not be maintained in the coming months. While the ECB has reiterated its intention to keep interest rates stable and continue with the PEPP, the Fed expects interest rates to rise up to three times during 2022.
- ▶ During this period, year-on-year credit growth compared to 3Q20 decelerated in all countries except Germany and Canada, with China being the country with the highest growth rate (11.44%). As for deposits, they decreased for all countries compared to 3Q20. France recorded the second highest year-on-year growth rate (6.25%) behind China (8.65%).



**Germany**

2.57%

**Canada**

1.34%

**China**

4.90%

**France**

3.27%

**Spain**

2.67%

**Italy**

3.95%

**Japan**

1.15%

**EMU**

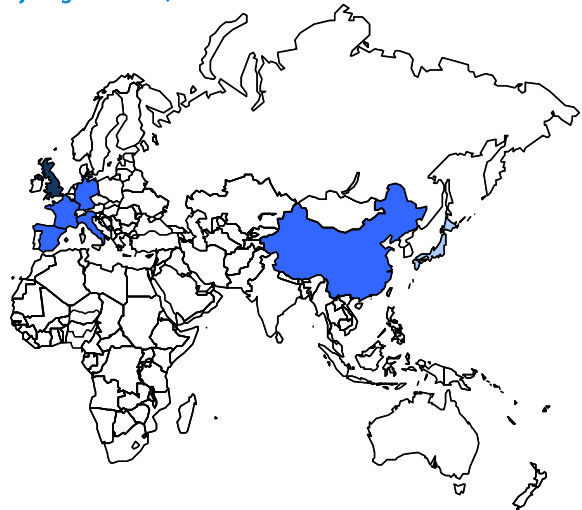
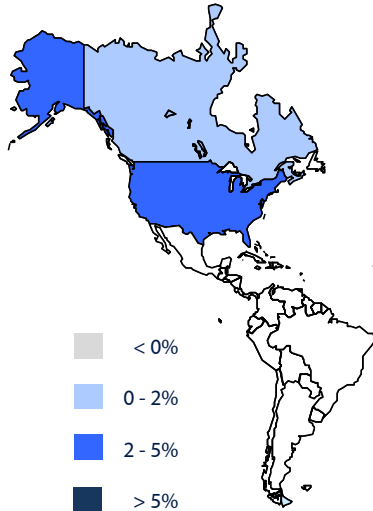
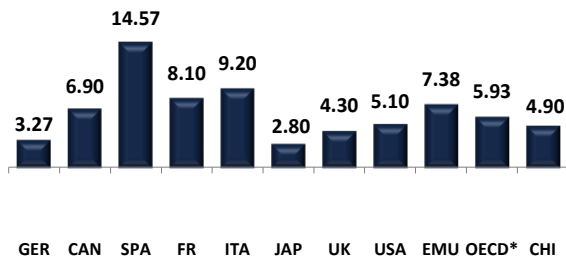
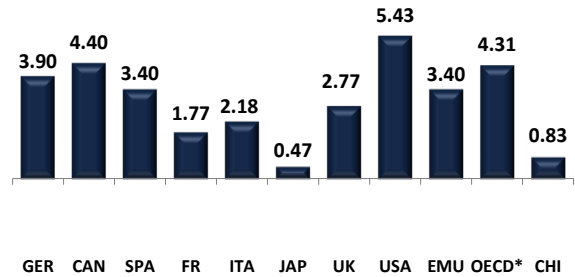
3.85%

**UK**

6.55%

**USA**

4.90%

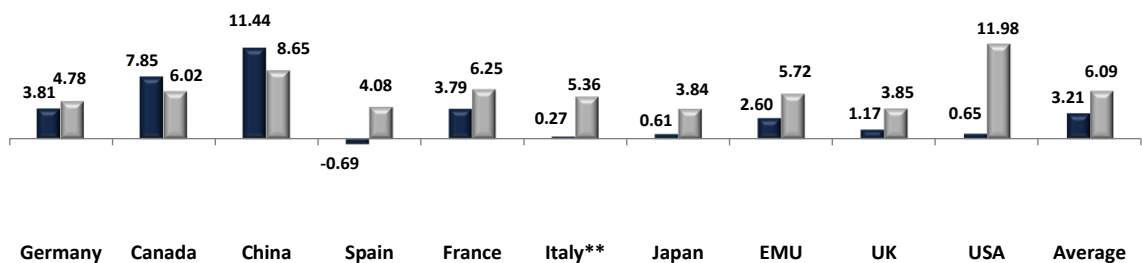
**GDP 3Q21 (% year-on-year growth rate)****UNEMPLOYMENT RATE 3Q21 (%)****INFLATION RATE 3Q21 (%)****LONG TERM RATINGS 3Q21**

	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 2Q21  
 — Constant since 2Q21  
 ▼ Decrease since 2Q21

**LOANS AND DEPOSITS 3Q21 (year-on-year growth rate)**

Loans  
 Deposits



\*OECD aggregate data for 3Q21

\*\*Latest available data at publication date corresponds to 2Q21

### 3. UK Macroeconomic overview

*In the third quarter of 2021, the UK economy continued its recovery due to the gradual easing of restrictions and progress in vaccination. However, inflation continued to rise above 2% levels for the second consecutive quarter.*

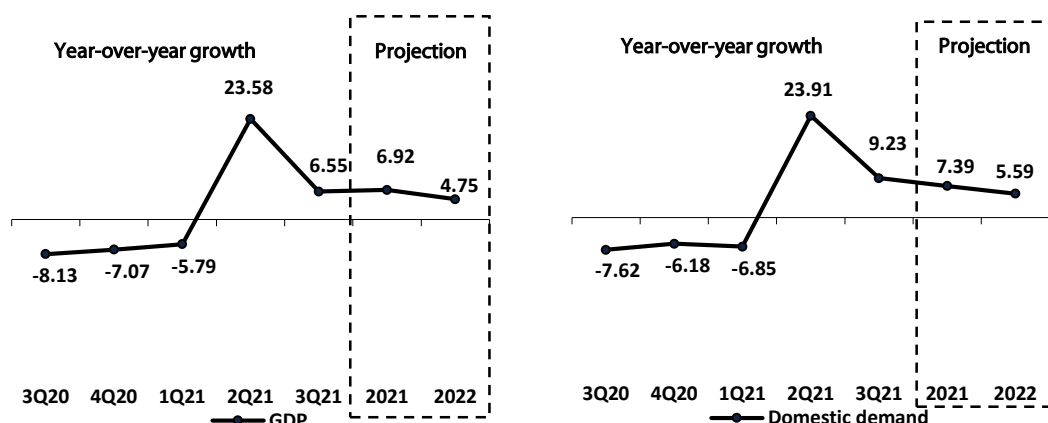
#### MAIN MACROECONOMIC INDICATORS (Interannual growth %)

INDICATOR	3Q20	4Q20	1Q21	2Q21	3Q21	2021	2022
<b>GDP</b>	<b>-8.13</b>	<b>-7.07</b>	<b>-5.79</b>	<b>23.58</b>	<b>6.55</b>	<b>6.92</b>	<b>4.75</b>
DOMESTIC DEMAND	-7.62	-6.18	-6.85	23.91	9.23	7.39	5.59
HOUSEHOLD CONSUMPTION	-7.95	-9.19	-11.03	20.50	6.52	3.68	6.61
GOVERNMENT CONSUMPTION	-5.99	0.27	3.71	32.94	20.47	15.84	3.87
GROSS FIXED CAPITAL FORMATION	-8.19	-2.59	-3.71	25.58	6.39	4.57	4.24
EXTERNAL DEMAND							
EXPORTS	-19.37	-17.33	-11.31	8.00	5.83	-2.47	5.13
IMPORTS	-19.26	-4.04	-8.32	22.85	11.19	1.57	8.04
<b>INFLATION</b>							
<b>CPI</b>	<b>0.57</b>	<b>0.53</b>	<b>0.60</b>	<b>2.03</b>	<b>2.77</b>	<b>2.40</b>	<b>4.39</b>
<b>LABOUR MARKET</b>							
<b>UNEMPLOYMENT</b>	<b>4.80</b>	<b>5.20</b>	<b>4.90</b>	<b>4.70</b>	<b>4.30</b>	<b>4.54</b>	<b>4.26</b>
<b>EMPLOYMENT</b>	<b>-1.23</b>	<b>-2.38</b>	<b>-2.52</b>	<b>-1.01</b>	<b>0.53</b>	<b>-0.43</b>	<b>1.06</b>

Source: Office for National Statistics UK. Projections: OECD December 21.

- During the third quarter of the year the interannual GDP rate of the UK achieved positive figures for the second consecutive quarter reaching a 6.55% rate, however there was a correction when compared to the previous quarter due to the higher comparatively rate that 3Q21 had to face.
- The UK economy, for the third quarter of 2021, was marked by the ease of containment measures and an increment of the fully vaccinated population. Nevertheless, growth was somewhat restrained by disruption to supply chains
- As regards domestic demand, a similar pattern can also be identified. It grew rapidly in the second quarter of the year due to the recovery but also because of the low comparatively rate. Domestic demand growth slowed down by 14.68 p.p. compared to the previous quarter but continued to show strong growth of 9.23% in 3Q21.
- In terms of external demand, there was a significant increase both in exports and imports. However, exports remained below pre-pandemic levels, these have been affected by pandemic-related issues, wider supply chain disruption and the new trading arrangements with the EU. Furthermore, imports with the EU remained weak, despite the UK delayed the implementation of some new border checks.

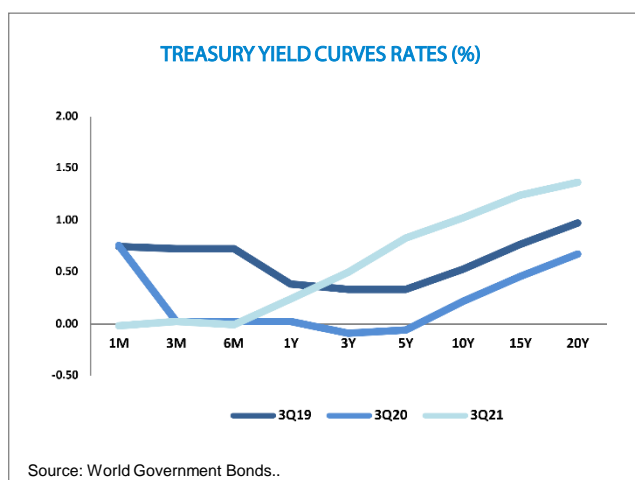
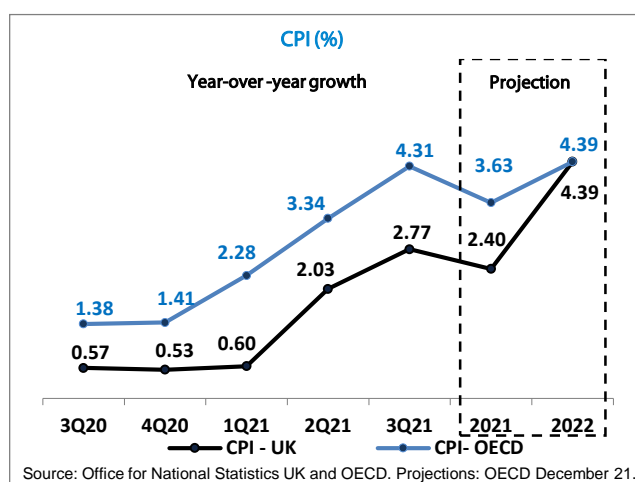
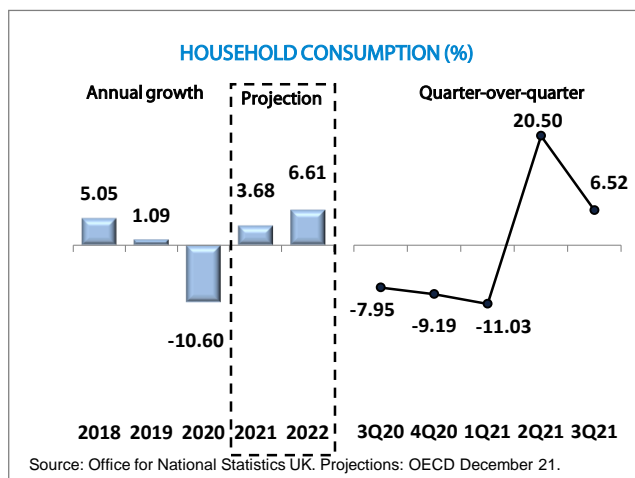
#### GDP and domestic demand interannual growth (%)



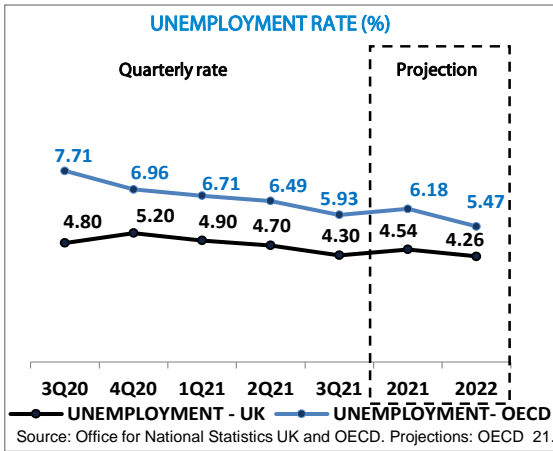
Source: Office for National Statistics UK Projections from the OECD December 2021

**During the third quarter of the year, household consumption recorded a correction in its y/y growth rate of 13.97 p.p. compared to the previous quarter, to 6.52%. Moreover, inflation increased by 0.73 p.p. and registered a 2.77% rate, standing above the 2% target of the Bank of England for the second consecutive quarter.**

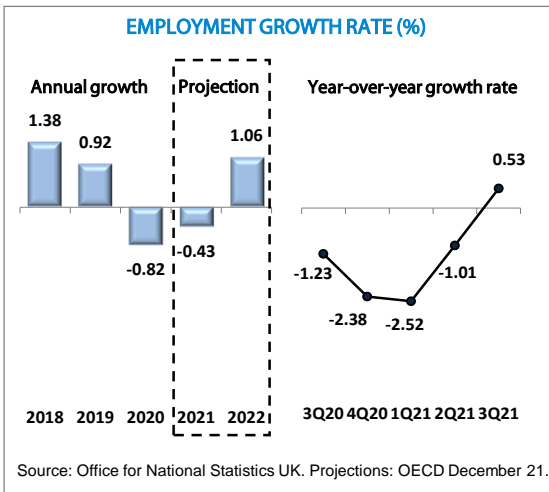
- ▶ Household consumption growth decreased 13.97 p.p., remaining in positive figures for the second consecutive quarter. Despite this decrease, the household consumption show good results if we take into account that 2Q21 faced a lower comparatively rate. Regarding the Bank of England households spent 10% of the savings accumulated during the pandemic-period.
- ▶ The OECD points out that the recovery will be much slower than that predicted before, with a y/y growth rate of 3.68% for 2021 and 6.61% in 2022.
- ▶ The CPI year over year growth increased 0.73 p.p. reaching 2.77%. This means a second consecutive quarter of levels above the 2% objective for UK's inflation.
- ▶ The UK CPI was below the OECD average inflation rate in the third quarter of 2021 (4.31%).
- ▶ CPI's growth was driven by disruption of supply chains. This disruption alongside the rapid pace at which global demand for goods had risen, has led to bottlenecks, which have made pressure on inflation globally, including the UK. Inflation has also been boosted by higher energy prices, which have been risen significantly further during 3Q21.
- ▶ According to the Bank of England projections, inflation is expected to rise even further, reaching 5% in April 2022.
- ▶ The OECD also projects increasing inflation for the coming months, projecting 4.39% for 2022.
- ▶ In 3Q21, bond yields showed maturities between -0.02% to 0.03% for maturities between 1 and 6 months, from 0.24% to 1.02% for maturities between 1 to 10 years. For 15 years maturities bond yields showed a 1.24% rate and 1.36% for 20 years maturities.
- ▶ Moreover, there has been a strong increase in long term maturities yields in comparison with 2019 and 2020 rates, however short-term maturities remained stable.
- ▶ This increase in long term yields reflects a rise in inflation compensation according to the Bank of England.



**During 3Q21, the labour market continued showing signs of recovery from the effects of the pandemic. The unemployment rate decreased when compared to the second quarter of the year, down to a rate of 4.30%. Employment recorded a year-on-year growth rate of 0.53% during the third quarter of the year, reaching positive figures for the first time since 1Q20.**



- During the third quarter of 2021, the unemployment rate decreased by 0.40 p.p. when compared to the previous quarter, down to a rate of 4.30%. It has continued to decrease from 5.20% in 4Q20, the highest rate since 2016 according to the ONS. Also, unemployment is 0.50 p.p. below the one of the same quarter last year. Unemployment was 1.63 p.p. below the OECD average (5.93%).
- Forecasts from the OECD for 2021 and 2022 place the unemployment rate of the UK at 4.54% and 4.26%, respectively. One of the reasons for this is the end of the furlough scheme by September 2021, which may leave employers unable to keep some of their workers on the payroll.
- According to the Bank of England, job vacancies rose to over one million in the three months to September even though recruitment difficulties are elevated in certain sectors.
- The employment year-over-year growth rate recorded an increase of 1.54 p.p. when compared to 2Q21, registering a 0.53% growth rate. The OECD forecasts for 2021 and 2022 place the employment rate at -0.43% and 1.06%, respectively.
- BoE authorities estimates that annual growth in underlying pay has picked up to a little over 4%, with surveys and the information gathered by the Bank suggesting that labour market frictions such as skill shortages are adding to pay pressures.

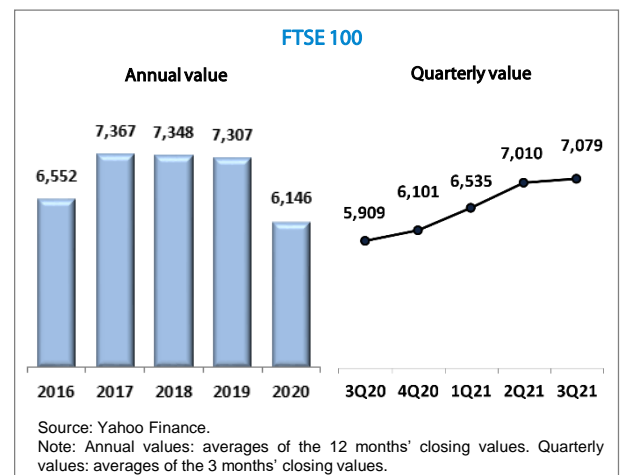
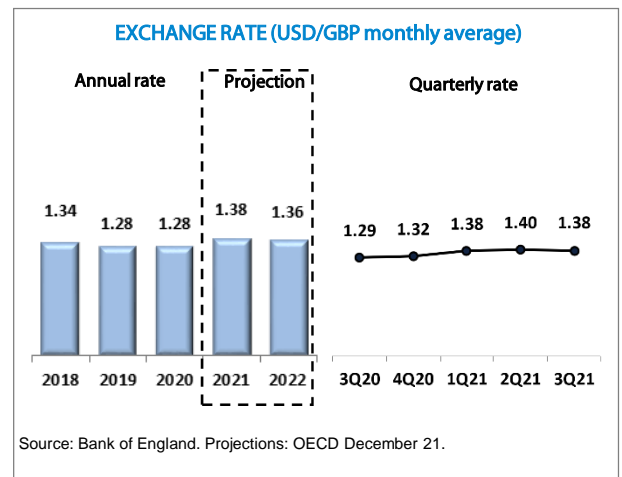


- According to the Bank of England, there is a high level of uncertainty around UK's labour market, projections expect unemployment to grow on 4Q21, as furlough scheme ends. Nevertheless, it seems that this rise will be small as most employees on the scheme are assumed to return to work.





- During 3Q21, the sterling pound registered a depreciation against the dollar in the third quarter of 2021. The exchange rate stood at 1.38 \$/£, after a decrease of 0.02 dollars per pound when compared to 2Q21.
- The first quarter of the year recorded a more pronounced rise of the pound against the dollar due to the early benefits of the UK's vaccination programme and the reduced uncertainty regarding Brexit. However, this effect started to fade in the second and third quarter. However, the OECD expects the pound to stand at an annual average daily rate 1.38 \$/£ for 2021 and 1.36\$/£ for 2022.
- During the third quarter of the year, the quarterly average of the FTSE 100 Index increased by 0.99% when compared with the previous quarter and stood at 7,079 points. The index registered a 1,171 point increase with respect to the same quarter last year.
- Despite this quarterly increase, there was a correction during September on the FTSE 100 following the trend of other important index like S&P 500, Euro Stoxx and Shanghai Composite. This decline occurred in response to concerns over inflationary pressures and the associated rise in risk-free interest rates.





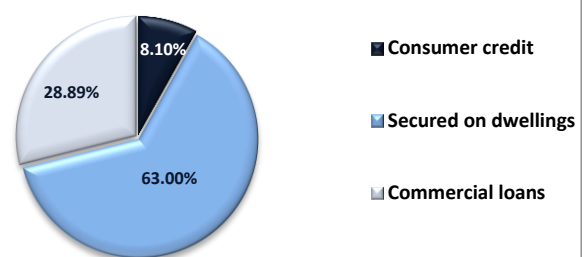
# 4. Banking Sector: Overview

## Loans

***In the third quarter of 2021, the y/y growth rate of total loans granted by the UK financial system accelerated with respect to the previous quarter, up to 1.17%. This behaviour was motivated by an increase in the y/y growth rate recorded by loans granted to non resident and loans to the private and public sector. Regarding the distribution of loans in the private sector, 63.00% of total loans granted in the UK were loans secured on dwellings.***

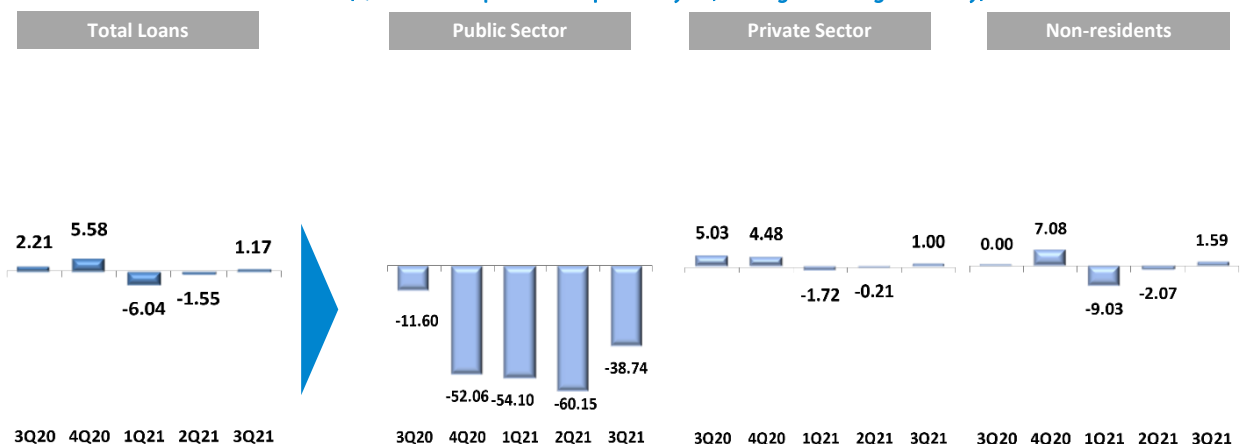
- During 3Q21, still following a positive trend, total loans granted by the UK financial system registered a 2.72 p.p. acceleration in their y/y growth rate when compared to the previous quarter (-1.55%), up to a rate of 1.17%.
- The increase in the y/y growth rate of total loans was driven by an acceleration in loans to non-residents compared to the second quarter. In the third quarter it registered a rate of 1.59%, 3.66 p.p. above that of the second quarter (-2.07%). Loans to non residents represented 53.80% of total loans during the third quarter of 2021.

Loans distribution in private sector 3Q21 (%)



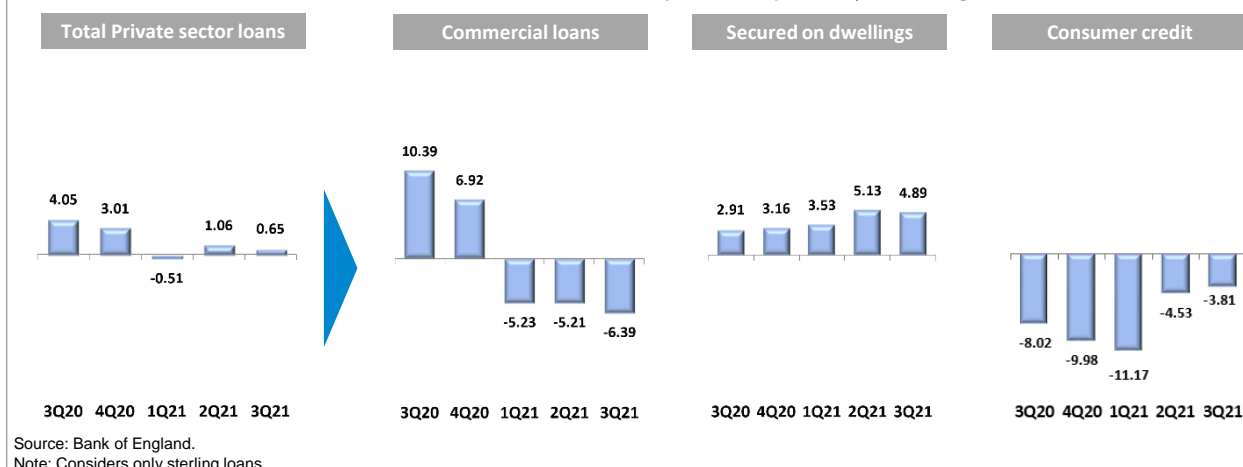
- Loans granted to the public sector also boost by 21.41 p.p. when compared to 2Q21, recording a -38.74% y/y growth rate. However, this change was not significant to the performance of total loans, since it only accounted for 0.22% of total loans in 3Q21.
- Loans to the private sector rose in their y/y growth rate to 1.00%, a 1.21 p.p. increase when compared to the previous quarter. This segment represented 45.98% of total loans.
- The distribution of loans in the private sector did not see any notable changes during 3Q21. The proportion of loans secured on dwellings to total loans increased by 0.50 p.p. compared to the previous quarter, up to 63.00%. In turn, commercial loans accounted for 28.89%, after decreasing by 0.58 p.p., while consumer credit loans stood at 8.10% of total loans, following an increase of 0.09 p.p. with respect to 2Q21.

LOANS (Quarter-over-quarter from previous year, sterling and foreign currency)



***In the third quarter of 2021, the y/y growth rate of total private sector loans decelerated down to 0.65%. This decrease was caused by the slow-down in growth registered on commercial loans and loans secured on dwellings when compared to the second quarter of 2021.***

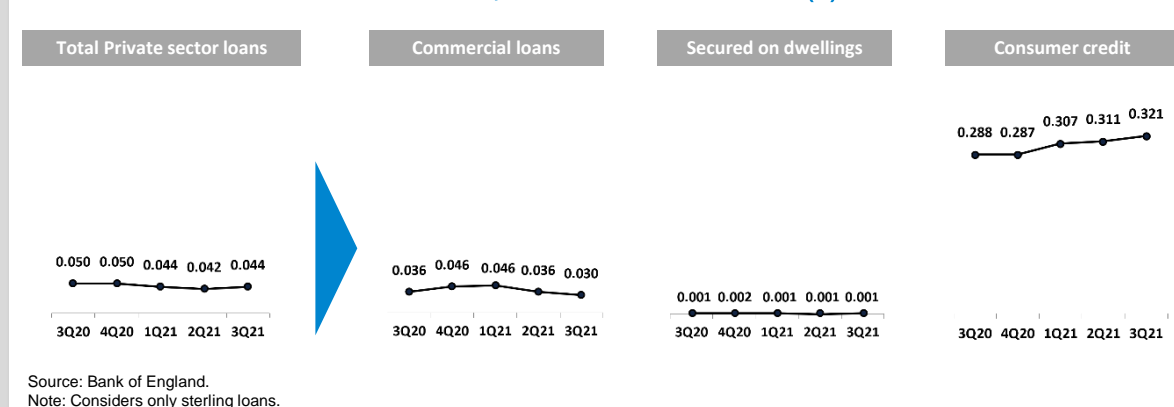
#### PRIVATE SECTOR LOANS (Quarter-over-quarter from previous year, sterling)



- ▶ Total loans granted to the private sector registered a 0.65% y/y growth rate in the third quarter of 2021, after a 0.41 p.p. deceleration in their growth when compared to the previous quarter.
- ▶ This result was driven by the decrease of commercial loans and loans secured on dwellings when compared to the second quarter of 2021. The first decreased by 1.18 p.p., down to a growth rate of -6.39%. The second slowed down by 0.24 p.p., reaching a growth rate of 4.89%. In turn, consumer credit loans accelerated by 0.72 p.p. with respect to 2Q21, up to a y/y growth rate of -3.81%.

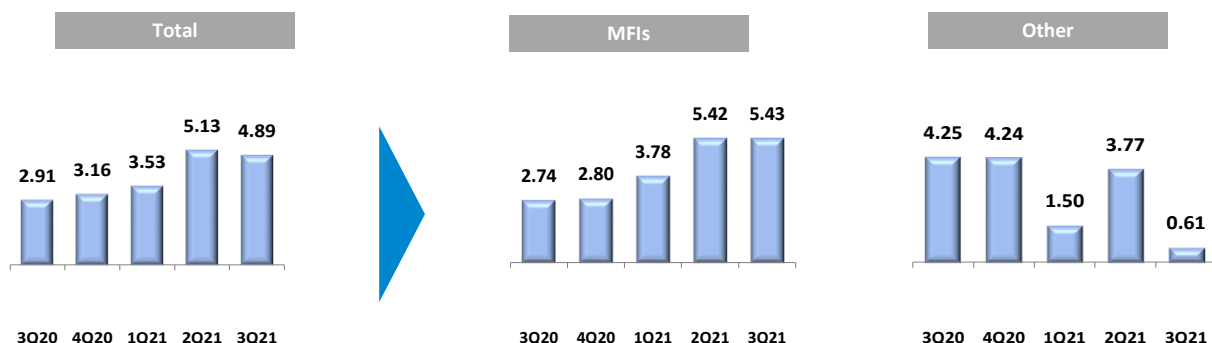
- ▶ Within the private sector, in the third quarter of 2021, write-offs over total lending slightly increased to a rate of 0.044%. Notwithstanding, this value decreased when compared to the one registered in the same quarter of 2020, with a decrease of 0.006 p.p..
- ▶ Write-offs over total loans ratio of commercial loans experienced a decrease of 0.006 p.p. when compared to the previous quarter. Loans secured on dwellings saw no variation. Write-offs over total loans ratio of consumer credit loans were the only ones to experience a slight acceleration with a growth of 0.010 p.p. with respect to the previous quarter.

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



**The y/y growth rate of loans secured on dwellings decelerated down to 4.89% in the third quarter of 2021 due to the decrease in loans granted by other agents. The growth rate of consumer credit also increased when compared to 2Q21 because of the rise in consumer credit granted by MFIs.**

#### LOANS SECURED ON DWELLINGS (Quarter-on-quarter from previous year)

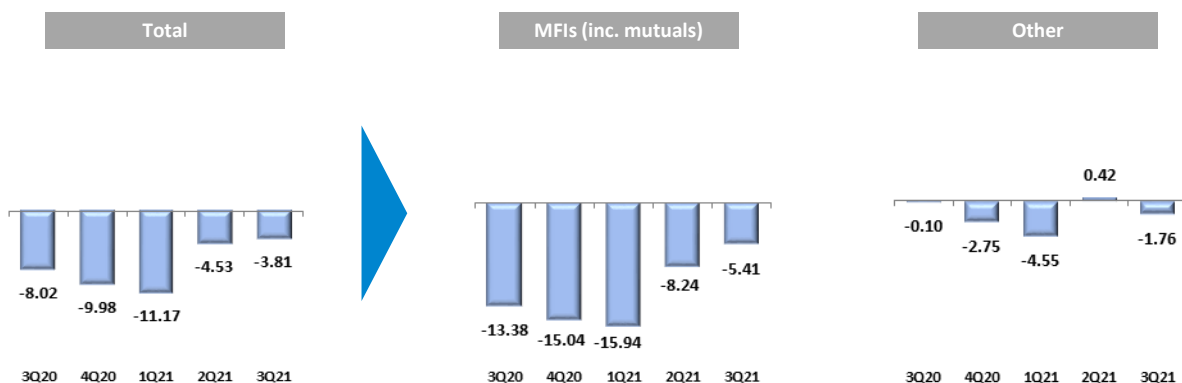


Source: Bank of England.

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.

- ▶ In 3Q21, loans secured on dwellings recorded a y/y growth rate of 4.89%, after a decrease of 0.24 p.p. with respect to the previous quarter. Secured loans on dwellings granted by MFIs recorded a y/y growth rate of 5.43%, 0.01 p.p. above that of 2Q21. Loans granted by other agents registered a 3.16 p.p. deceleration in their y/y growth rate, which stood at 0.61%.
- ▶ Consumer credit increased its y/y growth rate by 0.72 p.p. when compared to 2Q21, however, at -3.81%, it remained standing in negative values for the sixth consecutive quarter. This rise is explained by growth in credit issued by MFIs.
- ▶ Credit issued by MFIs saw an increase of 2.83 p.p., rising to a y/y growth rate of -5.41%. In addition, consumer credit issued by other entities recorded a 2.18 p.p. deceleration in its y/y growth rate, down to a negative rate of -1.76%.

#### CONSUMER CREDIT (Quarter-on-quarter from previous year)



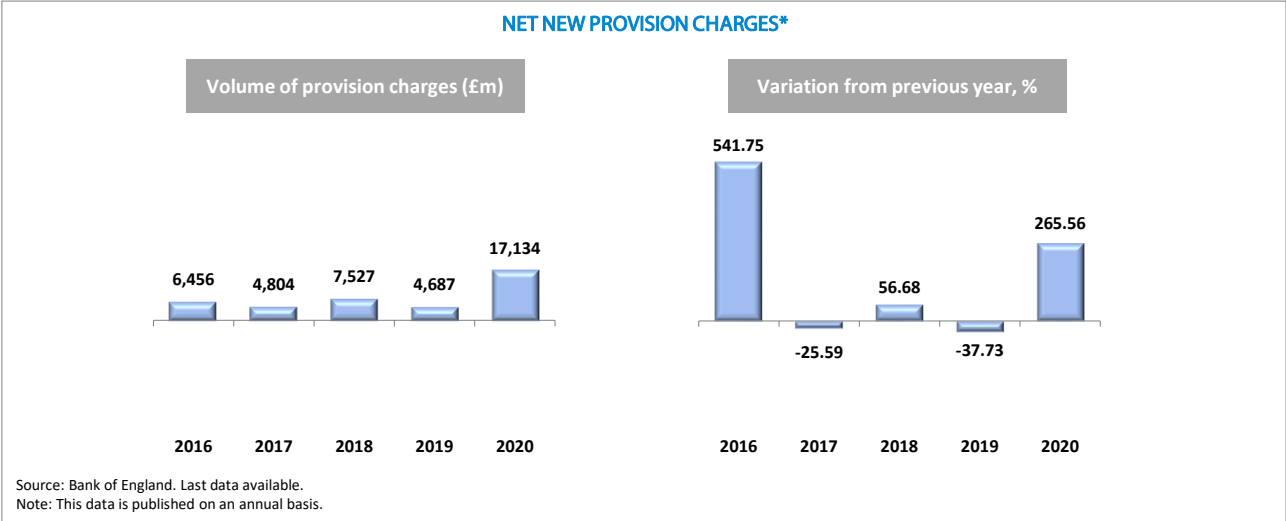
Source: Bank of England.

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.

# Provision charges

**During 2020\*, the amount of provision charges increased compared to the amount registered in 2019. On a year-over-year basis, in 2020 the provision charges increased up to 265.56% from £4,687 million in 2019 to £17,134 million in 2020.**

- ▶ Since 2010, provision charges had registered a downward trend. However, in 2016 and 2020, this trend was halted. In 2016 the value increased by 541.75% to £6,456 million. In 2020 the provision increased by 265.56% to £17,134 million.
- ▶ In 2017, provision charges dropped again by 25.59%, down to £4,804 million, but, in 2018, the growth registered an increase up to £7,527 million. In 2019, provision charges dropped again by 37.73%, down to £4,687 million.

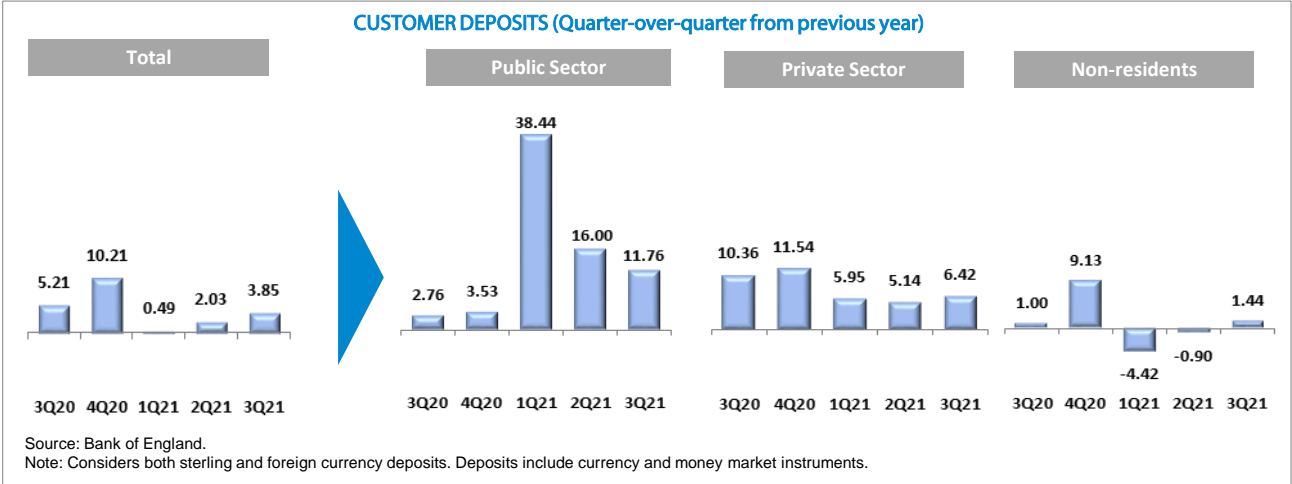


\*This data is published on annual basis by the Bank of England. 2021 data not available yet.

# Customer Deposits

*During the third quarter of the year, total customer deposits y/y growth rate experienced a 1.82 p.p. acceleration when compared to 2Q21, up to 3.85%. This change has been mainly due to the increase in non-residents' deposits.*

- ▶ The y/y growth rate of total customer deposits rose by 1.82 p.p., up to a 3.85% rate during the third quarter of 2021. This increase was driven by the growth acceleration registered by non resident deposits, even though the growth rate on deposits for the public sector fell.
- ▶ Non resident deposits incremented their growth rate by 2.34 p.p. compared to the second quarter, up to a positive rate of 1.44%. The acceleration in this section is significant to explain the behaviour of customer deposits since it represents 51.13% of them.
- ▶ Public sector deposits experienced a reduction of 4.23 p.p. on their y/y growth rate compared to the previous quarter, dropping to 11.76%. Although this decrease, this section only explains 0.71% of the variation of customer deposits.
- ▶ Private sector deposits y/y growth rate also accelerated compared to 2Q21 in 1.28 p.p., standing at a 6.42% rate.

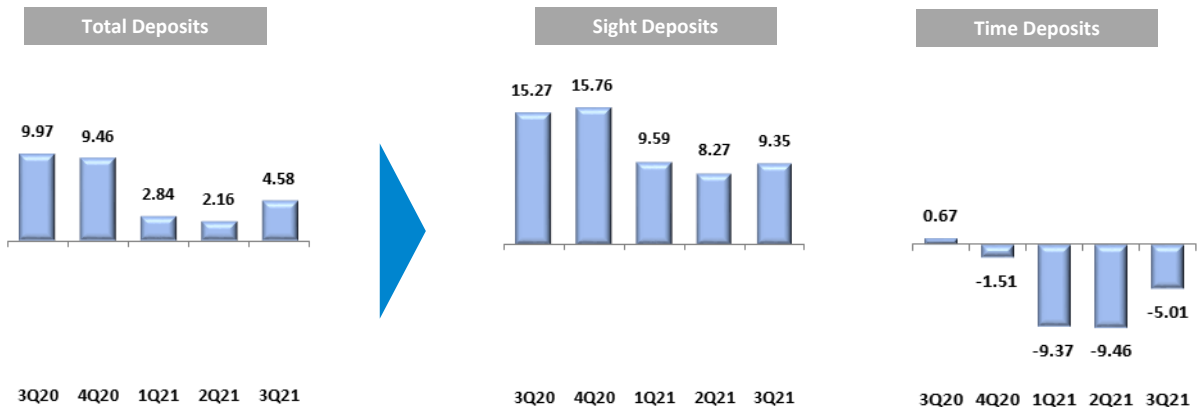






- ▶ The y/y growth rate in total sterling customer deposits recorded a 2.41 p.p. increase in 3Q21 when compared to the previous quarter, standing at a rate of 4.58%.
- ▶ The behaviour of total sterling deposits was mainly explained by the acceleration registered in the y/y growth rate of sight deposits, which increased by 1.08 p.p., up to a rate of 9.35%. The y/y growth rate of time deposits also increased by 4.45 p.p., up to -5.01%.
- ▶ Regarding the structure of customer deposits, in the third quarter of 2021, sight deposits represented 69.80% of total sterling customer deposits, whereas time deposits accounted for the remaining 30.19% of total sterling deposits.

#### CUSTOMER DEPOSITS (Quarter-over-quarter from previous year, Sterling)



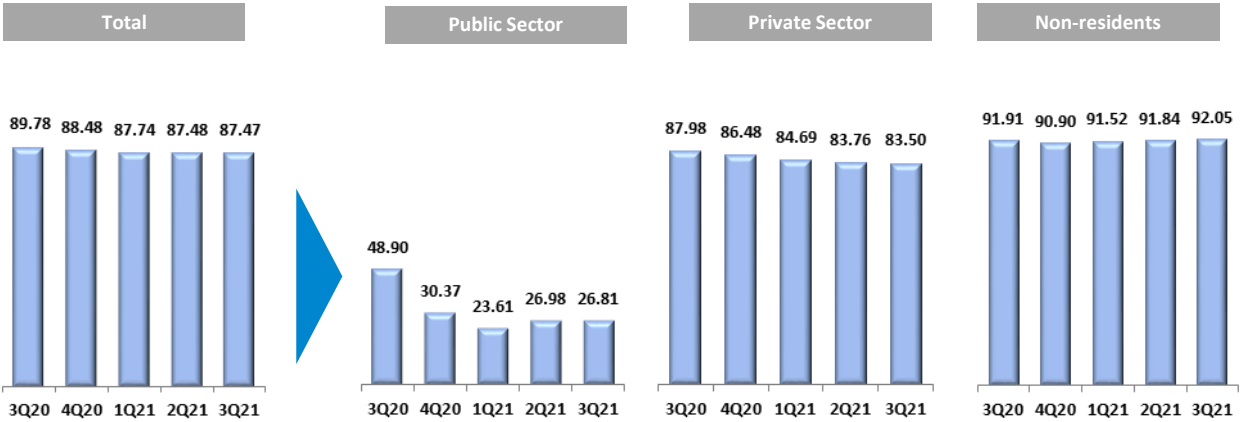
Source: Bank of England. Considers only sterling deposits.

# LTD Ratio

*During 3Q21, the overall loan-to-deposits (LTD) ratio for the whole financial system registered a 2.31 p.p. year-on-year decrease when compared to 3Q20, down to a 87.47% ratio. This decline was motivated by an annual increase registered in total deposits (3.85%) higher than the one registered on total loans (1.17%). In addition, all sectors, except non residents, registered decreases in their LTD ratio during this period, compared to 3Q20.*

- ▶ In the third quarter of the year, the overall LTD ratio decreased by 2.31 p.p. when compared to the same quarter of 2020, standing at a 87.47%. This behaviour was driven by an annual increase registered in total deposits (3.85%) higher than the one in total loans (1.17%), when compared to 3Q20.
- ▶ During this period, private and deposits recorded a decline in their LTD ratio when compared to the previous quarter, meanwhile non resident deposits registered an increase.
- ▶ The ratio for the public sector declined by 22.10 p.p. with respect to the same quarter of the previous year, down to a rate of 26.81%, as loans decreased significantly (-38.74%) and deposits increased (11.76%).
- ▶ Regarding the LTD ratio recorded by the private sector, it decreased by 4.48 p.p. when compared to 3Q20, standing at a rate of 83.50%.
- ▶ Furthermore, the ratio for the non residents sector increased by 0.14 p.p., up to a rate of 92.05%.
- ▶ All sectors maintained their ratios below 100%, which contributed to the whole financial system, preserving its net borrower status during this period.

TOTAL LOANS / TOTAL DEPOSITS



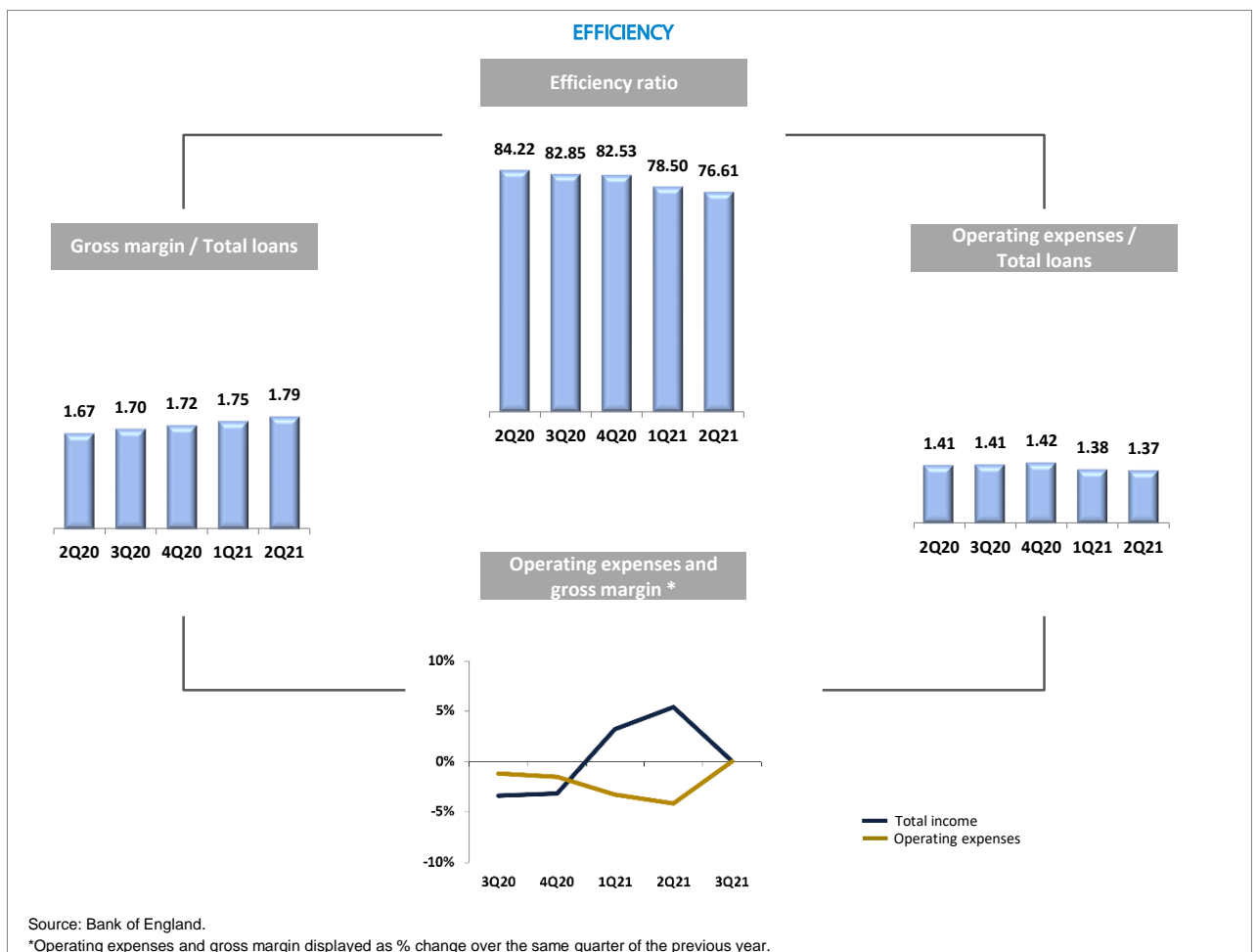
Source: Bank of England.  
Note: Considers both sterling and foreign currency deposits. Deposits include currency and money market instruments.



## Efficiency\*

**The efficiency ratio decreased from 84.22% in 3Q20 to 76.61% in 2Q21. This behaviour was mainly driven by the y/y increase in gross margin (5.36%) and the decline in operating expenses (-4.15%).**

- ▶ The efficiency ratio decreased by 7.61 p.p. when compared to 2Q20, reaching a ratio of 76.61% during the second quarter of 2021. This decline was mainly driven by the y/y increment in gross margin (5.36%) and the decrease in operating expenses (-4.15%).
- ▶ The ratio of gross margin to total loans stood at 1.79% in 2Q21, registering an increase of 0.12 p.p. with respect to the one registered in the same quarter of 2020. This growth was caused by the increase of gross margin (5.36%) combined with the deceleration experienced by total loans (-1.55%) when compared to 2Q20.
- ▶ As for the ratio of operating expenses to total loans, it registered a decline of 0.04 p.p. with respect to 2Q20, down to a 1.37% ratio. This behaviour is explained by the decrease in operating expenses (-4.15%) being greater than that in total loans when compared to 2Q20.
- ▶ According to the latest Risk Dashboard of the EBA, corresponding to the second quarter of 2021, the efficiency ratio of the financial system of the UK stood above the average ratio of the European Union 64.02%



# 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.bbalibor.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](http://www.bcra.gov.ar)
- ▶ Central Bank of Chile:  
[www.bcentral.cl](http://www.bcentral.cl)
- ▶ Bank of Mexico:  
[www.banxico.org.mx](http://www.banxico.org.mx)
- ▶ Central Bank of Brazil:  
[www.bcb.gov.br](http://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](http://www.bcv.org.ve)
- ▶ Central Reserve Bank of Peru:  
[www.bcrp.gob.pe](http://www.bcrp.gob.pe)
- ▶ BBVA Research:  
[www.bbvarresearch.com/](http://www.bbvarresearch.com/)
- ▶ World Bank:  
[www.worldbank.org/](http://www.worldbank.org/)

### FINANCIAL SECTOR

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

### GLOSSARY

- ▶ **Efficiency Ratio:** Operating expenses / Total income.
- ▶ **Return On Equity (ROE):** Net profit after tax / total equity.
- ▶ **Return On Assets (ROA):** Net profit after tax / total assets.









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