United Kingdom

December 2019

Country Report

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Birmingham
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WALES
Felixstowe
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United Kingdom
Country Forecast
Highlights

MOST LIKELY REGIMES AND THEIR PROBABILITIES	
18-Month:	Conservative 75% (55%)
Five-Year:	Conservative 45%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	Turmoil	**Financial Transfer**	**Direct Investment**	**Export Market**
18-Month:	Low	B+	A-	B+
Five-Year:	Low	B+	A-	B- (B)

( ) Indicates change in rating. * Indicates forecast of a new regime.

KEY ECONOMIC FORECASTS			
Years	**Real GDP Growth %**	**Inflation %**	**Current Account ($bn)**
2014-2018(AVG)	2.0	1.5	-125.59
2019(F)	1.2	1.9	-111.50
2020-2024(F)	1.6	2.0	-136.40

No Turning Back on Brexit
Key Points To Watch…

- ✓ When Boris Johnson, an outspoken Brexit hardliner, replaced Theresa May as prime minister in July, he declared that he would die in a ditch by the side of the road before delaying Brexit beyond the extended deadline of October 31, even if that meant departing the EU without first defining the terms of the post-Brexit relationship. However, Johnson retreated from his ultimatum when he failed to obtain majority support for a Withdrawal Agreement Bill (WAB), and the deadline has been extended to January 31, 2020…
- ✓ Refusing to accept defeat, Johnson called a snap election with the aim of achieving a clear popular mandate to proceed with Brexit on his terms. In the event, the incumbent made a net gain of 48 seats, boosting its total to 365—an 80-seat majority, clearing the way for the lower house to pass a revised WAB on December 20…
- ✓ Royal assent will be a formality, and the combination of the government's commanding majority and Johnson's determination to fulfil his party's pledge to "get Brexit done" will limit the danger that the final version of the WAB might contain revisions that delay ratification by the European Parliament. All of which suggests that Brexit will become official at midnight on January 31, 2020, a full 10 months later than originally scheduled…
- ✓ Key provisions of the WAB authorize the temporary continued application of the EU's rules during an 11-month transition period during which the two sides will negotiate the

terms of their relationship from 2021 onward. If a new framework for trade is not in place by January 1, 2021, commerce between the UK and the EU would by default become subject to WTO rules, meaning that British goods destined for the continent would be subject to tariffs, quotas, and other barriers to trade…

- ✓ The UK's negotiators will need to strike a balance between ensuring access for British goods on the continent and safeguarding national control over policy in areas that the most zealous supporters of Brexit consider to be crucial to British sovereignty, and hardliners are likely to adopt a rigid position on such matters. As such, it is far from certain that the UK will have an agreement in hand when the transition period expires at the end of 2020…
- ✓ Although the Political Declaration grants the London government until July to seek an extension of the transition period, the revised WAB recently approved by the British Parliament creates a legal impediment to doing so. That decision may come back to bite Johnson and the hardliners if negotiations run into obstacles…

Brexit Costs Likely to Include Sharp Increase in Public Debt

- ✓ A government report issued last year forecast that a Brexit arrangement similar to that envisioned under the WAB would reduce GDP by 6.7% over a period of 15 years, and the losses would be significantly larger (up to 9.3% of GDP) under a no-deal scenario. As such, it did not come as a surprise when Chancellor of the Exchequer Sajid Javid confirmed plans to loosen near-term fiscal constrains in early November…
- ✓ Javid had previously revealed plans to boost spending on public services by some $17.2 billion in 2020/2021, which did not square with a fiscal rule requiring structural borrowing to be held to no more than 2% of GDP in the coming fiscal year. He has reconciled the discrepancy by increasing the limit on borrowing for investment to 3% of GDP…
- ✓ The lingering possibility that the UK will fail to seal a trade deal with the EU by the end-of-year deadline will have a negative impact on business confidence in 2020. Whether and to what degree the shift in fiscal policy compounds the damage will be influenced by a number of factors, including the extent to which the full budget (to be unveiled in the first quarter of next year) and the course of negotiations with the EU bolster or undermine the credibility of Johnson's assurances that the public-sector debt burden will have been set on a sustained downward path by the end of the current term in 2024…
- ✓ Given the near-term outlook for economic growth and the trajectory of public debt, pressure for fiscal restraint will intensify beyond 2020, limiting the potential for a strong economic rebound during the five-year forecast period. Real GDP growth is forecast to average just 1.6% through 2024, and maintaining even that pace of expansion will depend on securing enhanced access to non-EU export markets and the avoidance of any shocks that necessitate aggressive monetary tightening by the BoE.

Economic Forecasts for the Three Alternative Regimes

	Conservative			Labour Coalition			Minority Conservative		
	Growth (%)	Inflation (%)	CACC ($bn)	Growth (%)	Inflation (%)	CACC ($bn)	Growth (%)	Inflation (%)	CACC ($bn)
2019	1.2	1.9	-111.50	1.0	2.0	-106.40	0.7	2.1	-124.30
2020-2024	1.6	2.0	-136.40	1.0	2.6	-126.30	1.3	2.4	-146.70

Political Fact Sheet

CAPITAL:
London

CONSTITUTION:
Unwritten

ADMINISTRATIVE SUBDIVISIONS:
47 counties, 7 metropolitan counties, 26 districts, 9 regions, and 3 islands areas

POPULATION:
2018: 66.58 million

AREA:
244,755 sq. km.

OFFICIAL LANGUAGE:
English

STATUS OF PRESS:
free

SECTORS OF GOVERNMENT PARTICIPATION:
transportation and medicine

CURRENCY EXCHANGE SYSTEM:
free-floating

EXCHANGE RATE:
11/27/2019 $1=0.78 pounds

ELECTIONS:
House of Commons members are elected for a maximum five year term; last, December 12, 2019; next, scheduled, May 2, 2024.

HEAD OF STATE:
Queen Elizabeth II (1952)

HEAD OF GOVERNMENT:
Prime Minister Boris Johnson (2019)

OFFICIALS:
Andrea Leadsom, Business, Energy & Indiustrial Strategy
Oliver Dowden, Cabinet Office
Sajid David, Chancellor of the Exchequer
Ben Wallace, Defense
Gavin Williamson, Education
Theresa Villiers, Environment, Food & Rural Affairs
Stephen Barclay, Exiting the EU
Dominic Raab, Foreign & Commonwealth Affairs
Matt Hancock, Health & Social Care
Priti Patel, Home Department
Robert Jenrick, Housing, Communities & Local Government
Alok Sharma, International Development
Elizabeth Truss, International Trade
Robert Buckland, Justice & Lord Chancellor
Julian Smith, Northern Ireland
Alister Jack, Scotland
Grant Shapps, Transport
Thérèse Coffey, Work & Pensions

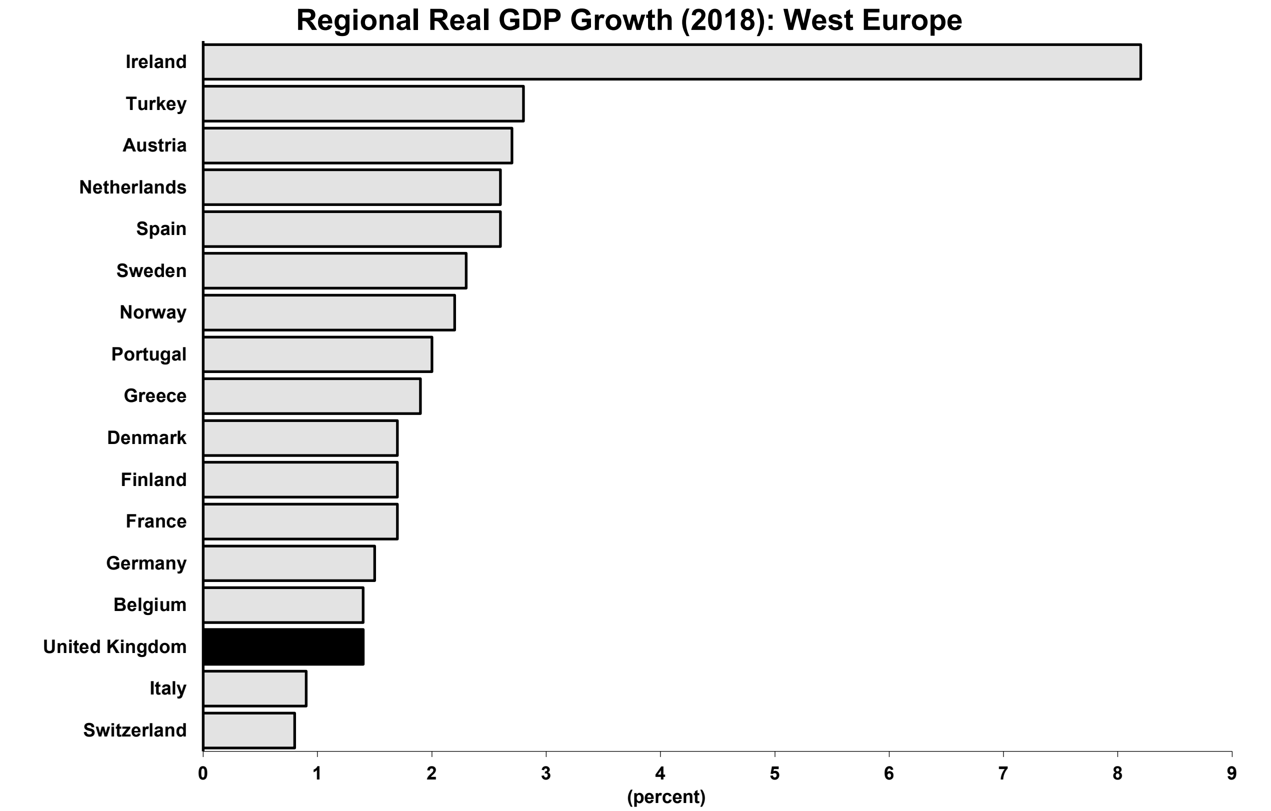
LEGISLATURE:
Bicameral; House of Lords and 650-member House of Commons. Seat distribution in the House of Commons: Conservative (Tory) Party, 365 Labour Party, 202; Scottish National Party (SNP), 48; Liberal Democrats (Lib Dems), 11; Democratic Unionist Party (DUP), 8, Sinn Féin, 7; other, 9.

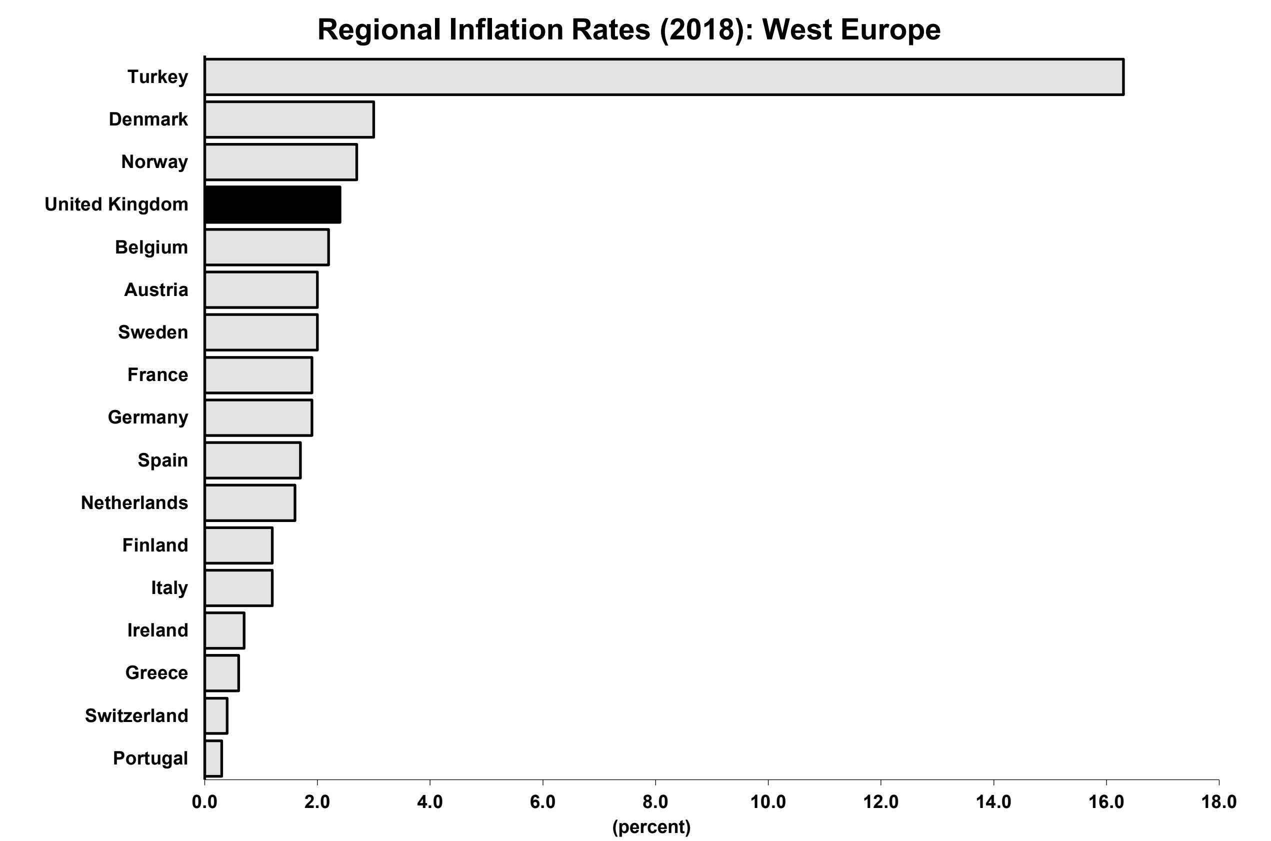
United Kingdom
Databank

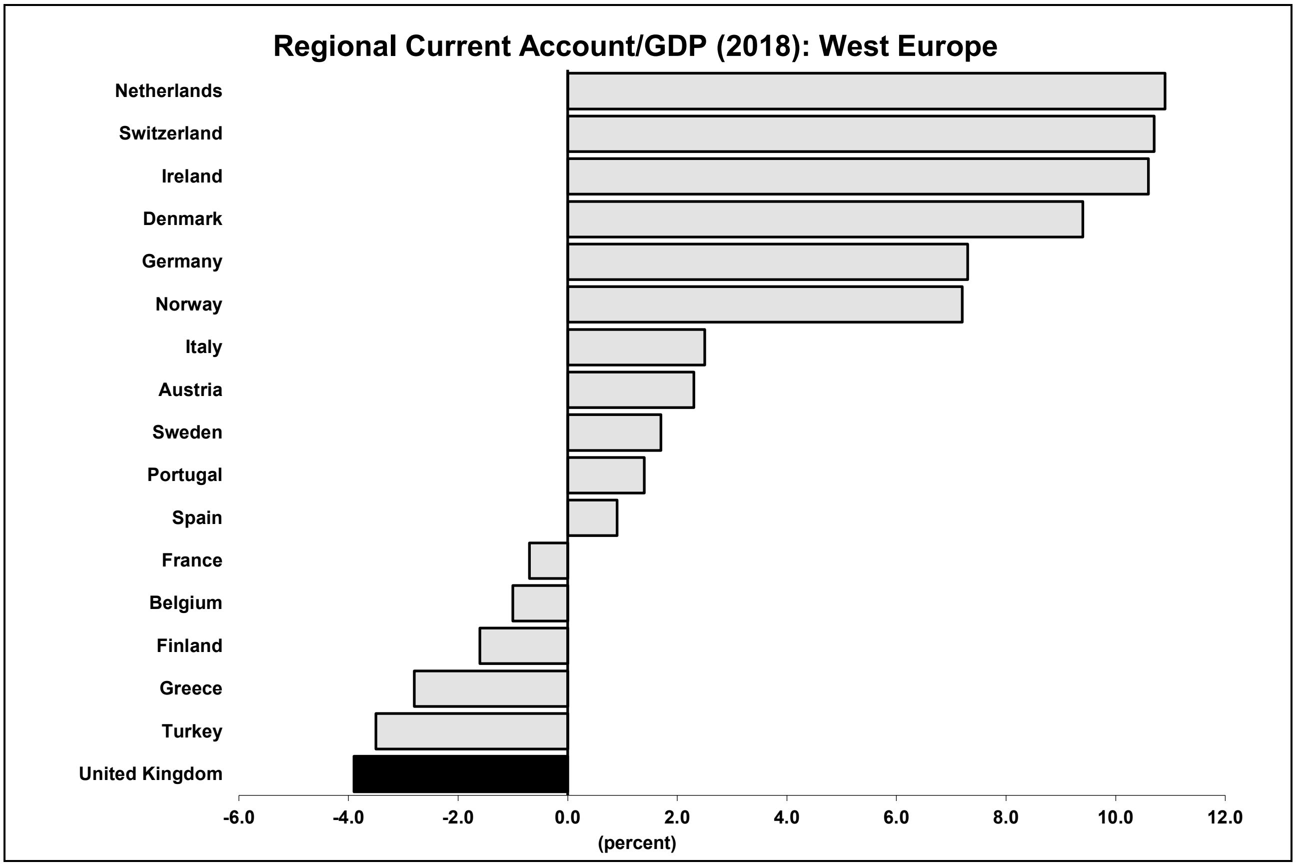
	2009-2013 Average	2014-2018 Average	2009	2010	2011	2012	2013
Domestic Economic Indicators							
GDP (Nominal, $bn)	2586.42	2812.05	2405.65	2453.58	2635.49	2685.29	2752.10
Per Capita GDP ($)	40556	42756	38355	38755	41302	41794	42576
Real GDP Growth Rate (%)	0.5	2.0	-4.2	1.7	1.6	1.4	2.0
Inflation Rate (%)	3.1	1.5	2.1	3.3	4.5	2.8	2.6
Capital Investment ($bn)	404.50	474.23	371.18	379.11	409.31	423.19	439.70
Capital Investment/GDP (%)	15.6	16.9	15.4	15.5	15.5	15.8	16.0
Budget Revenues ($bn)	747.24	848.90	661.69	697.34	773.13	767.73	836.30
Budget Revenues/GDP (%)	28.8	30.1	27.5	28.4	29.3	28.6	30.4
Budget Expenditures ($bn)	951.20	947.84	970.14	932.96	963.81	937.51	951.58
Budget Expenditures/GDP (%)	36.9	33.6	40.3	38.0	36.6	34.9	34.6
Budget Balance ($bn)	-203.96	-98.94	-308.45	-235.62	-190.68	-169.78	-115.28
Budget Balance/GDP (%)	-8.0	-3.5	-12.8	-9.6	-7.2	-6.3	-4.2
Money Supply (M1, $bn)	2022.07	2321.63	1857.74	1900.46	2027.47	2126.02	2198.65
Change in Real Wages (%)	1.5	0.6	-0.1	2.3	2.5	1.4	1.2
Unemployment Rate (%)	7.8	5.0	7.7	7.8	8.1	7.9	7.6
International Economic Indicators							
Foreign Direct Investment ($bn)	40.93	111.08	9.73	65.39	26.66	47.00	55.89
Forex Reserves ($bn)	55.62	108.07	38.03	49.33	56.24	64.95	69.55
Gross Reserves (ex gold, $bn)	76.86	126.24	55.70	68.34	79.27	88.60	92.40
Gold Reserves ($bn)	13.78	11.84	11.01	14.07	15.27	16.53	12.02
Gross reserves (inc gold, $bn)	90.64	138.08	66.71	82.41	94.54	105.13	104.42
Total Foreign Debt ($bn)	9285.90	8597.54	8927.51	9174.28	9906.33	9650.90	8770.46
Total Foreign Debt/GDP (%)	359.8	305.9	371.1	373.9	375.9	359.4	318.7
Debt Service ($bn)	51.32	59.45	38.19	45.45	57.53	58.33	57.10
Debt Service/XGS (%)	4.8	5.6	4.1	4.6	5.0	5.3	5.2
Current Account ($bn)	-92.57	-125.59	-85.49	-82.87	-51.61	-101.18	-141.71
Current Account/GDP (%)	-3.6	-4.4	-3.6	-3.4	-2.0	-3.8	-5.2
Current Account/XGS (%)	-8.8	-11.9	-9.2	-8.4	-4.5	-9.2	-12.9
Exports ($bn)	439.85	445.80	355.81	412.73	486.87	474.47	469.36
Imports ($bn)	597.36	630.00	489.31	560.51	638.09	643.59	655.28
Trade Balance ($bn)	-157.51	-184.20	-133.50	-147.78	-151.22	-169.12	-185.92
Exports of Services ($bn)	308.23	363.10	273.33	278.28	315.47	325.44	348.65
Income, credit ($bn)	283.25	232.67	282.67	276.13	328.23	277.17	252.05
Transfers, credit ($bn)	22.42	25.63	19.61	20.96	20.02	23.47	28.05
Exports G&S ($bn)	1053.75	1067.20	931.42	988.10	1150.59	1100.55	1098.11
Liabilities ($bn)	35.32	34.38	25.70	30.94	34.73	55.06	30.19
Net Reserves ($bn)	55.32	103.70	41.01	51.47	59.81	50.07	74.23
Liquidity (months import cover)	1.1	2.0	1.0	1.1	1.1	0.9	1.4
Currency Exchange Rate	0.636	0.706	0.639	0.647	0.624	0.631	0.640
Currency Change (%)	-3.7	-3.4	-18.3	-1.3	3.6	-1.1	-1.4
Social Indicators							
Population (million)	63.75	65.79	62.72	63.31	63.81	64.25	64.64
Population Growth (%)	0.8	0.6	1.0	0.9	0.8	0.7	0.6
Infant Deaths/1000	5	4	5	5	5	5	5
Persons under Age 15 (%)	17	17	17	17	17	17	17
Urban Population (%)	82	83	83	83	81	81	81
Urban Growth (%)	0.1	1.1	-0.2	0.9	-1.6	0.7	0.6
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	1	1	1	1	1	1	1
Industry-Commerce Work Force (%)	18	16	18	18	18	18	18
Services Work Force (%)	81	83	81	81	81	81	81
Unionized Work Force (%)	26	24	27	27	26	26	26
Energy - total consumption (10^{15} Btu)	8.68	8.15	8.77	8.96	8.49	8.70	8.46
Energy - consumption/head (10^{9} Btu)	0.14	0.12	0.14	0.14	0.13	0.14	0.13

United Kingdom Databank

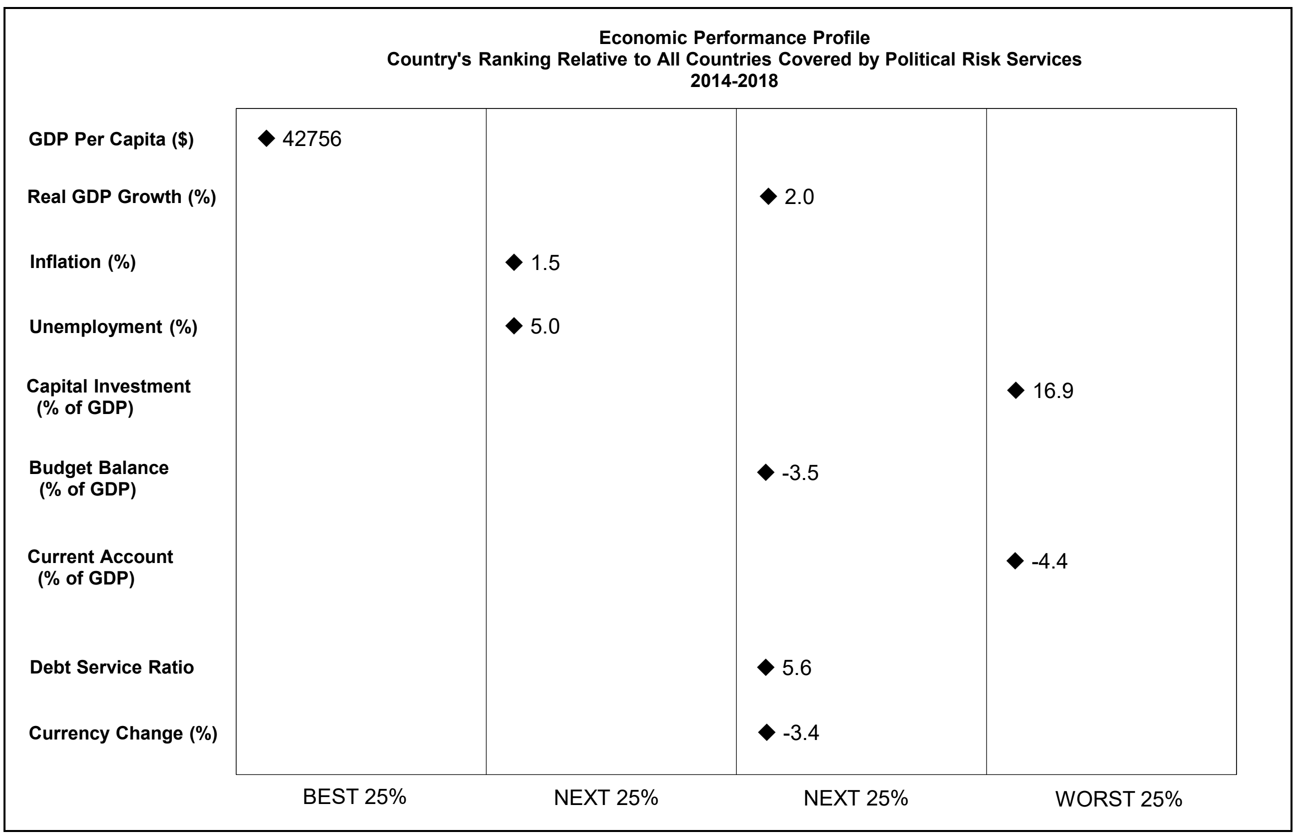
	2009-2013 Average	2014-2018 Average	2014	2015	2016	2017	2018
Domestic Economic Indicators							
GDP (Nominal, $bn)	2586.42	2812.05	3038.38	2898.84	2661.52	2637.88	2823.63
Per Capita GDP ($)	40556	42756	46730	44325	40455	39859	42410
Real GDP Growth Rate (%)	0.5	2.0	2.9	2.3	1.8	1.8	1.4
Inflation Rate (%)	3.1	1.5	1.5	0.1	0.7	2.7	2.4
Capital Investment ($bn)	404.50	474.23	503.70	488.43	447.89	452.11	479.03
Capital Investment/GDP (%)	15.6	16.9	16.6	16.9	16.8	17.1	17.0
Budget Revenues ($bn)	747.24	848.90	949.32	869.03	769.82	788.27	868.05
Budget Revenues/GDP (%)	28.8	30.1	31.2	30.0	28.9	29.9	30.7
Budget Expenditures ($bn)	951.20	947.84	1106.64	1003.81	881.01	835.86	911.89
Budget Expenditures/GDP (%)	36.9	33.6	36.4	34.6	33.1	31.7	32.3
Budget Balance ($bn)	-203.96	-98.94	-157.32	-134.78	-111.19	-47.59	-43.84
Budget Balance/GDP (%)	-8.0	-3.5	-5.2	-4.7	-4.2	-1.8	-1.6
Money Supply (M1, $bn)	2022.07	2321.63	2462.92	2431.14	2202.95	2175.04	2336.09
Change in Real Wages (%)	1.5	0.6	0.3	1.6	1.8	-0.8	0.1
Unemployment Rate (%)	7.8	5.0	6.2	5.4	4.9	4.4	4.2
International Economic Indicators							
Foreign Direct Investment ($bn)	40.93	111.08	60.01	46.00	268.92	121.53	58.93
Forex Reserves ($bn)	55.62	108.07	76.40	101.59	106.54	120.44	135.37
Gross Reserves (ex gold, $bn)	76.86	126.24	95.70	119.03	123.50	137.92	155.06
Gold Reserves ($bn)	13.78	11.84	12.03	10.59	11.54	12.88	12.16
Gross reserves (inc gold, $bn)	90.64	138.08	107.73	129.62	135.04	150.80	167.22
Total Foreign Debt ($bn)	9285.90	8597.54	9446.16	8341.93	8160.00	8210.94	8828.67
Total Foreign Debt/GDP (%)	359.8	305.9	310.9	287.8	306.6	311.3	312.7
Debt Service ($bn)	51.32	59.45	58.49	59.60	55.87	58.33	64.94
Debt Service/XGS (%)	4.8	5.6	5.2	5.8	5.8	5.5	5.6
Current Account ($bn)	-92.57	-125.59	-149.75	-142.45	-138.91	-87.99	-108.86
Current Account/GDP (%)	-3.6	-4.4	-4.9	-4.9	-5.2	-3.3	-3.9
Current Account/XGS (%)	-8.8	-11.9	-13.3	-13.9	-14.4	-8.3	-9.4
Exports ($bn)	439.85	445.80	482.89	438.46	404.15	435.96	467.53
Imports ($bn)	597.36	630.00	684.00	618.60	583.41	612.32	651.66
Trade Balance ($bn)	-157.51	-184.20	-201.11	-180.14	-179.26	-176.36	-184.13
Exports of Services ($bn)	308.23	363.10	374.26	356.05	348.50	358.82	377.88
Income, credit ($bn)	283.25	232.67	240.18	207.25	186.15	240.93	288.82
Transfers, credit ($bn)	22.42	25.63	27.57	25.81	24.55	24.81	25.41
Exports G&S ($bn)	1053.75	1067.20	1124.90	1027.57	963.35	1060.52	1159.64
Liabilities ($bn)	35.32	34.38	35.54	39.04	35.01	33.08	29.23
Net Reserves ($bn)	55.32	103.70	72.19	90.58	100.03	117.72	137.99
Liquidity (months import cover)	1.1	2.0	1.3	1.8	2.1	2.3	2.5
Currency Exchange Rate	0.636	0.706	0.607	0.654	0.740	0.777	0.750
Currency Change (%)	-3.7	-3.4	5.2	-7.7	-13.1	-5.0	3.5
Social Indicators							
Population (million)	63.75	65.79	65.02	65.40	65.79	66.18	66.58
Population Growth (%)	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Infant Deaths/1000	5	4	4	4	4	4	4
Persons under Age 15 (%)	17	17	17	17	17	18	18
Urban Population (%)	82	83	82	83	83	83	83
Urban Growth (%)	0.1	1.1	1.9	1.8	0.6	0.6	0.6
Literacy % pop.	99	99	99	99	99	99	99
Agricultural Work Force (%)	1	1	1	1	1	1	1
Industry-Commerce Work Force (%)	18	16	18	15	15	15	18
Services Work Force (%)	81	83	81	84	84	84	81
Unionized Work Force (%)	26	24	25	25	24	24	24
Energy - total consumption (10^{15} Btu)	8.68	8.15	8.00	8.11	8.18	8.21	8.23
Energy - consumption/head (10^{9} Btu)	0.14	0.12	0.12	0.12	0.12	0.12	0.12


Regional Real GDP Growth (2018): West Europe
Ireland
Turkey
Austria
Netherlands
Spain
Sweden
Norway
Portugal
Greece
Denmark
Finland
France
Germany
Belgium
United Kingdom
Italy
Switzerland
0
1
2
3
4
5
6
7
8
9
(percent)


Regional Inflation Rates (2018): West Europe
Turkey
Denmark
Norway
United Kingdom
Belgium
Austria
Sweden
France
Germany
Spain
Netherlands
Finland
Italy
Ireland
Greece
Switzerland
Portugal
0.0
2.0
4.0
6.0
8.0
10.0
12.0
14.0
16.0
18.0
(percent)



Regional Current Account/GDP (2018): West Europe
Netherlands
Switzerland
Ireland
Denmark
Germany
Norway
Italy
Austria
Sweden
Portugal
Spain
France
Belgium
Finland
Greece
Turkey
United Kingdom
-6.0
-4.0
-2.0
0.0
2.0
4.0
6.0
8.0
10.0
12.0
(percent)



Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2014-2018
GDP Per Capita ($)
42756
Real GDP Growth (%)
2.0
Inflation (%)
1.5
Unemployment (%)
5.0
Capital Investment (% of GDP)
16.9
Budget Balance (% of GDP)
-3.5
Current Account (% of GDP)
-4.4
Debt Service Ratio
5.6
Currency Change (%)
-3.4
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

Social Indicators as of 2018

Primary Energy

Energy Consumption (10^{15} Btu):	8.23
Per Capita Consumption (10^{9} Btu):	0.12

Population

Annual Growth	0.6%
Infant Deaths per 1,000	4
Persons Under Age 15	18%
Urban Population	83%
Urban Growth	0.6%
Literacy	99%

Work Force Distribution

Agriculture	1%
Industry-Commerce	18%
Services	81%
Unions	24%

Ethnic Groups

white (87%), black (3%), Indian (2%), other (8%)

Languages

English, Welsh, Scots, Scottish Gaelic, Irish

Religions

Christian (60%), Muslim (4%), other (10%), unaffiliated (26%)

United Kingdom
Country Forecast
Comment & Analysis

No Turning Back on Brexit

When Boris Johnson, an outspoken Brexit hardliner, replaced Theresa May as prime minister in July, he remarked that he would rather die in a ditch by the side of the road than delay Brexit beyond the extended deadline of October 31, even if that meant departing the EU without first defining the terms of the post-Brexit relationship. However, Johnson retreated from his ultimatum when he failed to obtain majority support for a Withdrawal Agreement Bill (WAB) ahead of the October deadline, which has been extended to January 31, 2020.

Refusing to accept defeat, Johnson called a snap election with the aim of achieving a clear popular mandate to proceed with Brexit on his terms. Benefiting from an even greater internal divide over the Brexit issue within the main opposition Labour Party, as well as widespread public disenchantment with opposition leader Jeremy Corbyn, the Tories exceeded Johnson's wildest hopes.

Ahead of the December 12 election, most polls showed the Conservatives polling near or above 40% and, more important, on track to win a comfortable majority of seats in the 650-member House of Commons. In the event, the incumbents made a net gain of 48 seats, boosting its total to 365—an 80-seat majority—while the main opposition Labour Party suffered a loss of 60 seats, reducing its total to an 84-year low of just 202.

The result amounted to a definitive affirmation of public support for the UK's separation from the EU, a move that was approved by a slim majority at a referendum held in June 2016, and put an end to all talk of possibly holding a second plebiscite on the issue. In accordance with Johnson's strategy, the lower house passed a revised WAB on December 20, by a vote of 358-234, with six Labour lawmakers backing the agreement.

Changes to the version of the WAB that was rejected two months earlier included an explicit prohibition against any further extensions of either the January 2020 deadline for Brexit, or the proposed transition period that will expire on December 31, 2020. The agreement must still be reviewed by the House of Lords, which can recommend changes. However, members of the upper house traditionally defer to their elected colleagues in the Commons in the case of disagreements, making it unlikely that the process might result in amendments.

Royal assent will be a formality, and the combination of the government's commanding majority and Johnson's determination to fulfil his party's election pledge to "get Brexit done" will limit the danger that the final version of the WAB might contain revisions that delay ratification by the European Parliament. All of which suggests that Brexit will finally become official at midnight on January 31, 2020, a full 10 months later than originally scheduled.

Uncertainty Will Persist Through Transition Period

Key provisions of the WAB repeal the 1972 European Communities Act that created the legal basis for the UK's membership in the European bloc, while also providing for the temporary continued application of the EU's rules during the transition period. As such, the UK and the EU will have an 11-month window for negotiating the terms of their relationship from 2021 onward.

A top priority will be hammering out a trade agreement before the end of the transition period. If a new framework for trade is not in place by January 1, 2021, commerce between the UK and the EU would by default become subject to WTO rules, meaning that British goods destined for the continent would be subject to tariffs, quotas, and other barriers to trade, and vice-versa. In addition, the two sides will negotiate the process for settling the UK's portion of the EU's common debt and establish the areas in which British rules will supersede existing EU regulations.

Acceptance of a transition period is itself a major concession in the eyes of many hardliners, as the UK will no longer have membership (or voting rights) in the EU's political institutions, but it will remain bound by the rules of the customs union and the single market through the end of 2020. The government will also continue to make payments toward the EU budget, and the European Court of Justice (ECJ) will remain the court of last resort for the resolution of any legal disputes through the end of the year.

The UK's negotiators will need to strike a balance between ensuring access for British goods on the continent and safeguarding national control over policy in areas that the most zealous supporters of Brexit consider to be crucial to British sovereignty, and hardliners are likely to adopt a rigid position on such matters. As such, it is far from certain that the UK will have an agreement in hand when the transition period expires at the end of 2020.

Although the Political Declaration grants the London government until July to seek an extension of the transition period, the revised WAB recently approved by the British Parliament creates a legal impediment to doing so. That decision may come back to bite Johnson and the hardliners if negotiations run into obstacles.

The stock market surged in the aftermath of the December 12 election, as the incumbents' achievement of a commanding majority all but ensured that Brexit would occur at the end of a January with a transitional agreement in place. However, by foreclosing the possibility of extending the transition period, Johnson has invited the very real danger of an adverse market reaction in the event of troubled talks that point to a renewed risk of a no-deal Brexit.

The Irish Dilemma

The crucial difference between the recently approved WAB and former Prime Minister May's rejected agreement with the EU is the elimination of the controversial "Irish backstop." The 2016 Brexit vote created a dilemma about how to deal with the border dividing Ireland, which is a member of the EU, and Northern Ireland, which will leave the bloc along with the rest of the UK early next year. May agreed to an arrangement under which the border between Ireland and Northern Ireland would remain open (or "frictionless"), regardless of the outcome of negotiations to define the relationship between the UK and the EU more broadly.

Under the revised plan proposed by Johnson, Northern Ireland will remain in a *de facto* customs union with the EU. However, the UK will be responsible for ensuring compliance with the EU's rules, thereby maintain Northern Ireland's *de jure* union with the UK and separation from the EU. The hybrid customs arrangement will remain in place for a minimum of four years following the end of the transition period (i.e., until December 31, 2024). Beyond that point, the arrangement can be ended or extended (in four-year increments) by a simple majority vote in the devolved Northern Ireland Assembly.

Critics of the plan see that as a recipe for political polarization that will heighten the risk of a revival of deadly political violence in Northern Ireland. Theoretically, a bare majority of republican lawmakers in the Northern Ireland Assembly could vote to extend the temporary arrangement, which would prolong Northern Ireland's *de facto* connection to the EU, regardless of how Great Britain's relationship with the EU evolves. Alternatively, a bare majority of unionist lawmakers might vote to let the modified customs union with the EU lapse as of 2025, initiating a clean break with Ireland that dashes republican hopes for a united Ireland. The mere possibility of either of those scenarios coming to pass could aggravate existing tensions between unionist and republican rivals, undermining local stability in the intervening period.

Tories Gamble on Fiscal Expansion

A government report issued last year forecast that a Brexit arrangement similar to that envisioned under the WAB would reduce GDP by 6.7% over a period of 15 years, and the losses would be significantly larger (up to 9.3% of GDP) under a no-deal scenario. As such, it did not come as a surprise when Chancellor of the Exchequer Sajid Javid confirmed plans to loosen near-term fiscal constrains in early November.

Javid had previously revealed plans to boost spending on public services by some $17.2 billion in 2020/2021, which did not square with a fiscal rule requiring structural borrowing to be held to no more than 2% of GDP in the coming fiscal year. He has reconciled the discrepancy by increasing the limit on borrowing for investment to 3% of GDP.

The lingering possibility that the UK will fail to seal a trade deal with the EU by the end-of-year deadline will have a negative impact on business confidence in 2020. Whether and to what degree the shift in fiscal policy compounds the damage will be influenced by a number of factors, including the extent to which the full budget (to be unveiled in the first quarter of next year) and the course of negotiations with the EU bolster or undermine the credibility of Johnson's assurances that the public-sector debt burden will have been set on a sustained downward path by the end of the current term in 2024.

GDP contracted by 0.2% (quarter-on-quarter) in the April–June period, while year-on-year real expansion slowed to just 1.2%, from 2% in the first quarter of the year. The annual growth rate slowed further to 1.1% in the third quarter, despite a 0.4% quarter-on-quarter advance in July–September. Monthly indicators for October and November suggest that the negative impact from Brexit uncertainty was compounded by Johnson's call for an early election, with the likely result that year-on-year growth decelerated to less than 1% for the first time in nearly a decade in the fourth quarter.

On that basis, the figures for the fourth quarter will likely show that real GDP growth slowed to 1.2% in 2019. The fiscal stimulus may be enough to sustain real growth of at least 1% next year, but much will depend on how smoothly negotiations with the EU—and other trade talks, most notably those with the US—proceed over the coming months.

The unemployment rate, which is currently at a 45-year low, is forecast to push back above 4% in 2020, and the dampening of domestic demand will hold inflation below the Bank of England's 2% target level, assuming the pound remains fairly stable against the

US dollar and the euro. A no-deal Brexit would likely push the economy into recession, resulting in a steeper rise in the unemployment rate, while a combination of currency depreciation and tariff-related increases in the cost of imported goods would push inflation higher.

Taking note of the risks, the Bank of England's Monetary Policy Committee unanimously agreed to keep its main policy interest rate unchanged at 0.75% at its first post-election meeting on December 19. However, two of the nine members of the committee voted for a rate cut, citing concerns about the job market, a sentiment that could take hold among a majority is the economy were to slow more rapidly than anticipated. The departure of Mark Carney as governor of the BoE at the expiration of his extended tenure in January does not have any significant implications for monetary policy, which will be guided by factors such as employment and inflation.

Even if the UK manages to conclude a deal that helps to limit the economic damage caused by separation from the EU, the expansion of the fiscal and external deficits will be pronounced enough to create a risk of spooking investors. The current account shortfall is expected to widen to more than 4.5% of GDP in 2020, from somewhat more than 4% of GDP this year, while the budget deficit looks to widen to about 2.6% of GDP, from less than 2% in 2019. The increased financing needs implied by the forecasts for the twin deficits all but ensure that the public-sector debt burden will increase as a percentage of GDP for the first time in three years in 2020.

United Kingdom
Country Forecast
Forecast Scenarios

SUMMARY OF 18-MONTH FORECAST

REGIMES & PROBABILITIES	Conservative 75%	Minority Conservative 15%	Grand Coalition 10%

SUMMARY OF FIVE-YEAR FORECAST

REGIMES & PROBABILITIES	Conservative 45%	Labour Coalition 40%	Minority Conservative 15%

Most Likely Regime Scenario

18-Month Forecast Period:
Conservative (75% Probability)
Five-Year Forecast Period:
Conservative (45% Probability)

Conservative	Growth (%)	Inflation (%)	CACC ($bn)
2019	1.2	1.9	-111.50
2020-2024	1.6	2.0	-136.40

When Boris Johnson, an outspoken Brexit hardliner, replaced Theresa May as prime minister in July, he remarked that he would rather die in a ditch by the side of the road than delay Brexit beyond the extended deadline of October 31, even if that meant departing the EU without first defining the terms of the post-Brexit relationship. However, Johnson retreated from his ultimatum when he failed to obtain majority support for a Withdrawal Agreement Bill (WAB) ahead of the October deadline, which has been extended to January 31, 2020.

Refusing to accept defeat, Johnson called a snap election with the aim of achieving a clear popular mandate to proceed with Brexit on his terms. Benefiting from an even greater internal divide over the Brexit issue within the main opposition Labour Party, as well as widespread public disenchantment with opposition leader Jeremy Corbyn, the Tories exceeded Johnson’s wildest hopes.

Ahead of the December 12 election, most polls showed the Conservatives on track to win at least 40% of the vote and, more important, claim a comfortable majority of seats in the 650-member House of Commons. In the event, the incumbents made a net gain of 48 seats, boosting its total to 365—an 80-seat majority—while the main opposition Labour Party suffered a loss of 60 seats, reducing its total to just 202.

The result amounted to a definitive affirmation of public support for the UK's separation from the EU, a move that was approved by a slim majority at a referendum held in June 2016, and put an end to all talk of possibly holding a second plebiscite on the issue. Just as significantly, the Tories' strong showing ended the government's dependence on the support of the Northern Irish Democratic Unionist Party (DUP), which was vehemently opposed to Johnson's favored solution to the problem of the Irish border. The election outcome cleared the way for approval of a slightly revised WAB on December 20, which passed by a vote of 358-234, with six Labour lawmakers backing the agreement.

The fact that the Conservatives continued to poll so strongly ahead of the election, despite the internal dysfunction that led to May's downfall and her replacement by a figure that even many Tories considered to be something of a buffoon, is a testament to the public's mistrust of Corbyn's ability to manage the Brexit-related challenges even as well as Johnson. With his party's parliamentary numbers significantly diminished and Brexit at this point seemingly a *fait accompli*, Corbyn will have little influence beyond an ability to carp from the sidelines, a futile exercise that is likely to quickly become tiresome even among the Labour leader's backers.

No election is required until quite late in the five-year forecast period, and the Conservatives' large majority will enable the current government to withstand a significant public backlash. That said, there is much that could go wrong as the UK adjusts to the realities of separation from the EU. The economy is expected to take a significant hit even if the government manages to establish the legal foundation for a mutually beneficial relationship with the EU before the expiration of the transition period at the end of 2020, and a bumpy exit from the EU would carry a risk of galvanizing an independence movement in Scotland and sparking renewed deadly political violence in Northern Ireland.

Given the ample opportunity for much to go wrong on the Brexit front, the survival of the current government for a full term is far from assured, and the high potential for political miscalculations to produce a crisis means that the probability of Johnson being able to count on majority support even through the end of the 18-month forecast period is lower than the distribution of parliamentary seats would otherwise suggest.

Even assuming Labour undergoes a change of leadership and replaces Corbyn with someone who eschews a populist platform in favor of a detailed and coherent policy strategy for addressing the weaknesses of a post-Brexit economy (which is hardly a safe bet), it may still fall short of the numbers needed even to form a minority government at an election held later in the forecast period. Consequently, while the probability that the Conservatives will be in power at the end of the five-year forecast period is less than 50%, that is nevertheless the most likely scenario.

Brexit Risks: The Devil Will Be in the Details

The WAB approved by the Parliament in December 2019 included some revisions to the version rejected two months earlier, among the most notable being an explicit prohibition against any further extensions of either the January 2020 deadline for Brexit, or the proposed transition period that will expire on December 31, 2020. The agreement must still be reviewed by the House of Lords, which can recommend changes. However, members of the upper house traditionally defer to their elected colleagues in the Commons in the case of disagreements, making it unlikely that the process might result in amendments.

Royal assent will be a formality, and the combination of the government's commanding majority and Johnson's determination to fulfil his party's election pledge to "get Brexit done" will limit the danger that the final version of the WAB might contain revisions that delay ratification by the European Parliament. All of which suggests that Brexit will finally become official at midnight on January 31, 2020, a full 10 months later than originally scheduled.

Even after Brexit becomes official, many of the existing rules related to trade, regulation, and judicial authority will continue to apply in the UK during a transition period that will expire on December 31, 2020. In the interim the two sides will engage in negotiations to define the future of their relationship. Although hammering out a trade agreement will be a priority, talks will also involve many other facets diplomatic ties, including (among other things) the establishment of a process for settling the UK's portion of the EU's common debt and determining the areas within which British rules will supersede existing EU regulations.

The outline of the terms of a future relationship is included in the Political Declaration endorsed by the EU and the UK in October. Beyond a trade agreement, matters to be addressed that have potentially significant implications for the business climate in the UK include immigration policies and deciding which rulings of the European Court of Justice (ECJ) will continue to be observed by the UK (and incorporated into the country's case law) and where the UK will be permitted to deviate from EU standards on the basis of decisions handed down by the British courts.

Acceptance of a transition period is itself a major concession in the eyes of many hardliners, as the UK will no longer have membership (or voting rights) in the EU's political institutions after Brexit becomes official, but it will remain bound by the rules of the customs union and the single market through the end of 2020. The government will also continue to make payments toward the EU budget, and the ECJ will remain the court of last resort for the resolution of any legal disputes through the end of the year.

The UK's negotiators will need to strike a balance between ensuring access for British goods on the continent and safeguarding national control over policy in areas that the most zealous supporters of Brexit consider to be crucial to British sovereignty, and hardliners are likely to adopt a rigid position on such matters. Under the circumstances, Johnson's confident assurance that a trade agreement can be reached before the end of the year smacks of wishful thinking.

The EU has made explicit in the Political Declaration that it will condition a comprehensive trade agreement on the UK's retention of various "level playing field" regulations, in particular those pertaining to workers' rights, environmental protection, tax levels, and state support for businesses. There is likely to be hard bargaining over all of those issues that will impede progress. As such, it is far from certain that the UK will have an agreement in hand when the transition period expires at the end of 2020.

If a new framework for trade is not in place by the end of the transition, commerce between the UK and the EU would by default become subject to WTO rules, meaning that British goods destined for the continent would be subject to tariffs, quotas, and other barriers to trade. Although the Political Declaration grants the London government until July to seek an extension of the transition period, the revised WAB recently approved by the British Parliament creates a legal impediment to doing so. That decision may come back to bite Johnson and the hardliners if negotiations run into obstacles.

The stock market surged in the aftermath of the December 12 election, as the incumbents' achievement of a commanding majority all but ensured that Brexit would occur at the end of a January with a transitional agreement in place. However, by foreclosing the possibility of extending the transition period, Johnson has invited the very real danger of an adverse market reaction in the event of troubled talks that point to a renewed risk that the UK will crash out of the EU customs union.

The crucial difference between the recently approved WAB and former Prime Minister May's rejected agreement with the EU is the elimination of the controversial "Irish backstop." The 2016 Brexit vote created a dilemma about how to deal with the border dividing Ireland, which is a member of the EU, and Northern Ireland, which will leave the bloc along with the rest of the UK early next year. May agreed to an arrangement under which the border between Ireland and Northern Ireland would remain open (or "frictionless"), regardless of the outcome of negotiations to define the relationship between the UK and the EU more broadly.

Opponents of the backstop objected on the grounds that it would force the UK (via Northern Ireland) to continue observing EU rules indefinitely, while providing no means of ending the arrangement without the consent of the EU. Opponents of the plan warned that the backstop would make it impossible for the UK to fully separate from the EU unless it cut political ties with Northern Ireland. Not surprisingly, lawmakers from the DUP rejected the plan, as did Conservative advocates of a clean break with the EU.

Johnson proposed a revised scheme whereby Northern Ireland will remain in a *de facto* customs union with the EU, but the UK will be responsible for ensuring compliance with the EU's rules, thereby maintaining Northern Ireland's *de jure* union with the UK and separation from the EU. Lawmakers from the DUP declared the revised plan to be unworkable, a stance that effectively forced Johnson to pursue an early election in hopes of freeing his government from dependence on that party's support.

Under the proposal approved earlier this month, the hybrid customs arrangement will remain in place for a minimum of four years following the end of the transition period (i.e., until December 31, 2024). Beyond that point, the arrangement can be ended or extended (in four-year increments) by a simple majority vote in the devolved Northern Ireland Assembly.

Theoretically, a slim majority of unionist parties could vote to extend the temporary arrangement, which would prolong Northern Ireland's *de facto* connection to the EU, regardless of how Great Britain's relationship with the EU evolves. Alternatively, a bare majority of republican lawmakers in the Northern Ireland Assembly might vote to let the modified customs union with the EU lapse as of 2025, initiating a clean break with Ireland that dashes hopes for a united Ireland. The prospect of either of those scenarios coming to pass figures to undermine local stability in the intervening period.

The prospect of heightened policy uncertainty points to a greater risk of volatility of UK assets with approach of the expiration of the transition period. Thus far, Brexit-related risks have made the greatest impact on the stock value of companies with heavy domestic exposure, such as construction firms, insurance companies, and banks, a phenomenon reflected in the greater volatility of the FTSE Local UK Index compared to the FTSE 100 (which includes multinationals with dollar earnings that have been bolstered by the depreciation of pound-sterling).

The uncertainty surrounding the UK's medium-term relationship with the EU and, by extension, those countries with which the EU has trade agreements, has had a significant negative impact on inward foreign investment. According to fDi Markets, the value of greenfield investment fell by close to 30% in the first three years after the June 2016 referendum compared to the pre-referendum period, while job creation stemming from such investment decreased by 19%. The impact on employment opportunities was especially pronounced in the ICT sector, where new job openings decreased by 47% in the three-year period.

Beyond the threat of high tariffs and other obstacles to competing in the European market, businesses located in the UK also run a risk of labor shortages and higher wage costs in the event of tighter restrictions on the entry of foreign workers. Risks stemming from the possibility that the UK will fail to conclude a trade agreement with the EU by the end of the year include the potential for exchange-rate volatility to drive up non-wage costs, and reduced demand for products sold in the domestic market amid a post-Brexit slowdown of the British economy.

The uncertainty for the financial sector is compounded by the EU's moves to raise the standards that non-EU firms must meet in order to conduct business inside the bloc. As part of the broader negotiations, the EU will decide whether the UK's reporting requirements and other regulations for the financial services industry are close enough to those of the EU to warrant allowing London-based firms to freely conduct business in Ireland and on the continent. Johnson has echoed British monetary authorities in warning against the UK becoming a "taker" of EU rules, and divided opinion within the local industry about how to proceed reduces the likelihood of heavy pressure that weakens the resolve of political leaders in that regard.

In general, the climate for investment is very favorable, as indicated by the UK's ranking of 8th out of 190 countries included in the World Bank's most recent *Doing Business* survey. For that reason alone, many businesses have decided to ride out the process before making any final decisions about their future in the UK. However, the continued uncertainty will at the very least create a disincentive to invest in their British assets in the near term.

In contrast to the slim nationwide majority that voted to leave the EU in June 2016, the "Stay" camp represented an overwhelming majority in Scotland, a fact that raised expectations of a push by the secessionist Scottish National Party (SNP) for another independence referendum. Scottish voters only narrowly rejected independence in September 2014, and once the UK's exit from the EU becomes a reality, and the terms of the breakup are known, it is quite possible that a second vote would deliver a clear majority in favor of secession.

At present, Scotland cannot hold a binding referendum without the consent of the prime minister. Shortly after the Parliament approved the WAB, Nicola Sturgeon, the leader of the SNP and the first minister of Scotland's devolved government, proposed political reforms that would authorize the devolved governments to choose for themselves when and if to hold a status referendum.

Johnson will even consider Sturgeon's demand while the UK is focused on negotiations with the EU, and the Tories' parliamentary majority will limit the government's susceptibility to pressure from Scottish secessionists in the near term. However, calls for a second vote on independence could become deafening if the transition period ends without a trade agreement in place, resulting in a very rocky start to the post-Brexit era.

Upon leading the Conservatives to an unexpectedly decisive victory in 2015, then-Prime Minister David Cameron was prepared to implement an economic policy agenda consistent with expectations of the UK's continued membership in a reformed EU, including a commitment to deficit reduction and containment of the public-sector debt burden. Barely more than two years later, as the UK prepared for life outside the EU, and with support for Labour reinvigorated by Corbyn's embrace of an unabashedly populist campaign strategy, Cameron's successor effectively announced the death of austerity.

May's government abandoned its goal of balancing the budget by 2019/2020, while sticking with both a planned one-point reduction of the top corporate tax rate (to 18%) and a phased increase in the minimum threshold for inheritance-tax liability to the equivalent of about $1.4 million by 2020.

A government report issued last year forecast that a Brexit scenario similar to that implied by the successful implementation of the strategy envisioned under the WAB would reduce GDP by 6.7% over a period of 15 years, and posited that the losses would be significantly larger (up to 9.3% of GDP) under a no-deal scenario. As such, it did not come as a surprise when Chancellor of the Exchequer Sajid Javid confirmed plans to loosen near-term fiscal constraints in early November 2019.

Javid had previously revealed plans to boost spending on public services by some $17.2 billion in 2020/2021, which did not square with a fiscal rule requiring structural borrowing to be held to no more than 2% of GDP in the coming fiscal year. He has reconciled the discrepancy by increasing the limit on borrowing to 3% of GDP.

Back in November 2016, the Office of Budget Responsibility (OBR) estimated that slower post-Brexit growth would increase the government's financing requirement by about $75 billion over the first five years following the UK's departure from the bloc. In response to budget revisions announced in September 2019, the OBR increased its forecast of the financing requirement for 2020/2021 alone by some $40 billion compared to its projection in March 2019.

The lingering possibility that the UK will fail to seal a trade deal with the EU by the end-of-year deadline will have a negative impact on business confidence in 2020. Whether and to what degree the shift in fiscal policy compounds the damage will be influenced by a number of factors, including the extent to which the full budget (to be unveiled in the first quarter of next year) and the course of negotiations with the EU bolster or undermine the credibility of Johnson's assurances that the public-sector debt burden will be on a sustained downward path by the end of the current term in 2024.

During campaigning for the Brexit referendum in 2016, the "Leave" campaign argued that separation from the EU would resulting in a savings of $350 million per week. Skepticism on that score was validated in March 2018, when the OBR estimated that the cost of settling the UK's share of EU debt and the increased domestic spending required to replace the loss of EU funds will be roughly equivalent to the net payments the UK would have been required to make as a member of the EU.

Among the key selling points of Brexit is the fact that the UK will enjoy freedom to conclude bilateral deals with key trade partners, including China, India, and the US, and at a speed (theoretically) that is just not possible for the ungainly EU. However, then-US President Barack Obama warned in 2016 that negotiations for a bilateral free-trade agreement (FTA) might take as long as a decade to complete.

Moreover, the UK will have less leverage negotiating FTAs on its own than it would as a member of the EU. Significantly, trade negotiations with other countries cannot begin in earnest until the end of the transition period, which, were that point to be reached without a UK-EU trade agreement in place, would leave Britain negotiating from a position approximating desperation.

President Donald Trump has sent more positive signals than his predecessor about the potential for the speedy conclusion of a US-UK trade agreement, even as his administration has adopted an aggressively protectionist posture on trade more generally. The 2019 election campaign amplified the opposition's dire warnings that US demands for reforms to facilitate competition would, if met, lead inexorably to the dismantling of the National Health Service (NHS) and the privatization of other public services.

Given the potential political hazards, some observers have suggested that the UK would be better served by prioritizing inclusion in existing multinational free-trade blocs. The most obvious starting point for such a strategy would signing up to the Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP), whose 11 current participants include Canada, Australia, and New Zealand, and account for nearly 14% of global GDP. The UK's inclusion would be a simple matter of accepting the terms already agreed by the current members of the bloc, which are far less intrusive vis-a-vis national sovereignty than the EU's rules, and require a less competitive domestic market than the US is likely to demand.

The UK has for some time been a favored destination for Chinese investors, who poured $28.8 billion into the British economy between 2000 and 2016, and pledged investment of more than $20 billion in 2017 alone. Although pledged investment from China fell sharply last year, that was consistent with the global trend for Chinese investment, and the UK remained the top preference for Chinese investors in Europe.

The May government pledged to more closely scrutinize foreign investment in "sensitive" sectors of the economy, a security-driven policy drawn up clearly with China in mind. The tension between a desire to attract more investment and limiting China's role in the domestic economy figures to be a persistent feature of the post-Brexit scenario.

In most cases, China will hold the upper hand. Beijing flexed its muscle in August 2016, when the UK government announced plans to review the Hinkley Point nuclear power project, which had become a source of controversy owing to the participation of Chinese investors in a project involving vital infrastructure. China issued a barely veiled threat that cancelation of the nuclear project could mean the loss of some $120 billion of additional Chinese investment down the road. The project was given the green light two months later.

President Trump has leaned heavily on Johnson to join the US and other security allies in banning China's Huawei from participation in their domestic 5G networks. Although the prime minister indicated that he was inclined to do so in early December, he stated that a final decision would only be made after the election. China will not always get its way, but with Chinese investors continuing to show a preference for the UK at a time when others are drawing up relocation plans or sitting on their hands, British officials will be wary of alienating the Chinese, with good reason.

Muted Turmoil Risk

The overall risk to business from political turmoil is low, but a spate of terrorist attacks in 2017, including a bombing at a music concert in May and two separate attacks involving vans running down pedestrians followed by stabbings (in March and June), underscore the potential for the UK's high-profile role in global efforts to combat Islamist terrorism to open the country up to attacks by lone-wolf religious extremists sympathetic to international jihadist organizations.

Critics of the Irish border plan in the WAB see it as a recipe for political polarization that will heighten the risk of a revival of deadly political violence in Northern Ireland. The division of political support between republican and unionist parties in Northern Ireland has posed an obstacle to cobbling together a majority coalition in the devolved legislature, resulting in the suspension of local rule since 2017. There is a not insubstantial risk that efforts to reconcile Northern Ireland's geographic separation from Great Britain (England, Scotland, and Wales) with the legal practicalities arising from Brexit will only aggravate local political tensions, possibly resulting in a breakdown of the 1998 Good Friday agreement that has underpinned a welcome period of internal peace.

Trade union militancy, long in retreat before Labour returned to power in 1997, has reared its head again in recent years over job conditions and government policies. Although the unions are fragmented and membership has declined, organized labor still wields some power. Even so, the government won approval of legislation in 2017 that significantly constrains the right to strike, particularly in "essential services" industries, a factor that will limit the danger that labor militancy might have a broadly negative effect on business operations.

Brexit to Produce Slower Growth and Rising Debt

GDP contracted by 0.2% (quarter-on-quarter) in the April–June period, while year-on-year real expansion slowed to just 1.2%, from 2% in the first quarter of the year. The annual growth rate slowed further to 1.1% in the third quarter, despite a 0.4% quarter-on-quarter advance in July–September. Monthly indicators for October and November suggest that the negative impact from Brexit uncertainty was compounded by Johnson's call for an early election, with the likely result that year-on-year growth decelerated to less than 1% for the first time in nearly a decade in the fourth quarter.

On that basis, the figures for the fourth quarter will likely show that real GDP growth slowed to 1.2% in 2019. The fiscal stimulus may be enough to sustain real growth of at least 1% next year, but much will depend on how smoothly negotiations with the EU—and other trade talks, most notably those with the US—proceed over the coming months.

The unemployment rate, which is currently at a 45-year low, is forecast to push back above 4% in 2020, and the dampening of domestic demand will hold inflation below the Bank of England's 2% target level, assuming the pound remains fairly stable against the US dollar and the euro. A no-deal Brexit would likely push the economy into recession, resulting in a steeper rise in the unemployment rate, while a combination of currency depreciation and tariff-related increases in the cost of imported goods would push inflation higher.

Taking note of the risks, the Bank of England's Monetary Policy Committee unanimously agreed to keep its main policy interest rate unchanged at 0.75% at its first post-election meeting on December 19. However, two of the nine members of the committee voted for a rate cut, citing concerns about the job market, a sentiment that could take hold among a majority is the economy were to slow more rapidly than anticipated. The departure of Mark Carney as governor of the BoE at the expiration of his extended tenure in January does not have any significant implications for monetary policy, which will be guided by factors such as employment and inflation.

Even if the UK manages to conclude a deal that helps to limit the economic damage caused by separation from the EU, the expansion of the fiscal and external deficits will be pronounced enough to create a risk of spooking investors. The current account shortfall is expected to widen to more than 4.5% of GDP in 2020, from somewhat more than 4% of GDP this year, while the budget deficit looks to widen to about 2.6% of GDP, from less than 2% in 2019. The increased financing needs implied by the forecast of a larger budget deficit all but ensure that the public-sector debt burden will increase as a percentage of GDP for the first time in three years in 2020.

Given the near-term outlook for economic growth and the trajectory of public debt, pressure for fiscal restraint will intensify beyond 2020, limiting the potential for a strong economic rebound during the five-year forecast period. Real GDP growth is forecast to average just 1.6% through 2024, and maintaining even that pace of expansion will depend on securing enhanced access to non-EU export markets and the avoidance of any shocks that necessitate aggressive monetary tightening by the BoE. The priority granted to lifting the economy out of a post-Brexit slump will encourage a cautious approach to monetary tightening, but the higher cost of imports from the EU and the risk of currency volatility as the Brexit process moves forward point to sustained inflation averaging 2% over the medium term.

The negative impact of an eventual recovery in commodity prices on the current account balance will depend on whether UK exporters are in a position to take advantage of the factors contributing to increased global demand for fuel and metals (e.g., the reinvigoration of the Chinese economy). In any case, deficits will remain fairly large throughout the five-year forecast period, averaging $136.4 billion annually, equivalent to about 3.7% of GDP.

Second Most Likely Regime Scenario

18-Month Forecast Period:
Minority Conservative (15% Probability)
Five-Year Forecast Period:
Labour Coalition (40% Probability)

Labour Coalition	Growth (%)	Inflation (%)	CACC ($bn)
2019	1.0	2.0	-106.40
2020-2024	1.0	2.6	-126.30

Labour put in a much stronger performance at the 2017 elections than most expected, but still lost to an "accidental" prime minister (May) who by all objective standards ran a rather poor campaign. Despite winning 40% of the vote, Labour won just 262 seats, a net gain of 30 compared to 2015, but more than 60 seats short of a majority. Moreover, it is probable that at least some of Labour's gains were attributable to the support of voters who hoped that a change of government might create an opportunity to somehow reverse the verdict of the June 2016 Brexit vote, a hope that was never more than wishful thinking.

The leading opposition party gave back all of its gains and then some at the snap election held in December 2019, and Labour is currently rudderless, with a discredited Corbyn leading a badly divided party. Even if Johnson's government ran into serious difficulties in the near term, resulting in dissension that costs his government its claim to majority backing in the House of Commons, the Labour Party is in no position to credibly claim that it would be a better choice to lead the country through a post-Brexit crisis. Under such circumstances, Labour would have little to gain from doing anything that might necessitate another snap election, and could incur additional damage if the party is perceived to be impeding a minority Conservative administration's ability to deal with the problems that cost the government its majority.

Labour's chances of returning to power could be greatly improved at a general election held closer to the scheduled expiration of the current term in 2024, by which time any crisis generated by a botched Brexit would have had a chance to subside, and resentment over the Conservatives' role in setting the Brexit train in motion and then mishandling the process would have had time to take hold. But even under such circumstances, Labour's ability to form a government would likely depend on sizeable gains for ideologically compatible smaller parties that might be willing to join a Labour-led coalition government, such as the Liberal Democrats (LibDems) or the SNP.

In any case, Labour would need to formulate a policy strategy for addressing the negative economic impact of Brexit that includes clear contrasts with that of the Conservatives, while also resolving the ideological gulf that has opened within its ranks. The party's current leader occupies an ideological space far to the left of the political mainstream. If that remains the case heading into the next election campaign, Labour might be hard-pressed to attract the independent voters whose support would be essential to pushing the Conservatives out of power.

Political Obstacles to Reform

The Conservative government's loss of its majority status during the 18-month forecast period would almost certainly be precipitated by political tensions and economic difficulties arising from bumpy exit from the EU following the expiration of the transition period at the end of 2020. Such a scenario assumes the government's failure to establish the legal foundation of post-Brexit relations with the EU before the UK leaves the customs union, and Johnson's loss of majority support in the Parliament would impede the government's ability to take corrective action in a timely manner.

Safeguarding the fiscal progress made under Prime Minister David Cameron would require action to contain Brexit-related leaks in the state finances. A minority government would be more susceptible to political pressure to combine spending cuts with tax increases as it maps out a strategy for achieving that objective.

A Labour-led government coming to power later in the forecast period, by which point Brexit would be an established reality, would attempt to redefine the UK's relationship with the EU along the lines of the bloc's historical arrangement with Switzerland, which would afford the UK many of the central benefits enjoyed by members of the bloc, in exchange for British acceptance of many of the obligations of EU members. However, even if the election result indicated strong popular support for such a shift in strategy, the change in government would likely occur too late in the five-year forecast period for the reorientation of the UK's posture toward the EU to have much of a positive impact during that time frame.

Moreover, there are no guarantees that the EU would respond enthusiastically to the opportunity to establish closer ties with the UK. Much could depend on how that might affect the unity of the remaining members of the bloc. Far-right opponents of European integration are making gains in Germany, and have claimed a share of power in Austria and Italy. In addition, the liberal democratic principles providing the ideological glue that holds the EU together has come under strain in Hungary and Poland. Under the circumstances, even member states that are more inclined to accommodate the UK might be reluctant to make compromises for fear of giving EU members that less committed to European integration a reason to reconsider their own status within the bloc.

A Labour-led government returning to power under crisis conditions would be hard-pressed to justify moves to bolster union prerogatives, but business-friendly reforms of the labor market would be out of the question, as would an aggressive effort to tackle reform of the pension system. Cameron explicitly reserved the right to make changes to pension-reform plan formulated by his government, and a Labour-led government coming to power before the scheduled implementation date would undoubtedly exercise that option.

Both of the main parties have accepted the need to maintain public services, but reforms are obviously in order, and the fiscal pressures that would likely be inherited by a Labour-led government coming to power at any point in the five-year forecast period means that the administration would not have the luxury of tinkering around the edges. Cuts in spending on education, transportation, and even health would likely be required, and a government headed by Labour would be less inclined than the current administration to realize the necessary savings through a reduction in the civil service work force, a strategy that has generated strong opposition from public-sector unions. The alternative of increases in out-of-pocket costs and/or a scaling back of services provided would face resistance from Labour back-benchers, a prospect that points to the risk of damaging inaction under a Labour-led government.

Unions Would Test Labour's Backbone

A change in the government's majority status in the 18-month forecast period would at least temporarily revive the militancy of organized labor, as the unions tested the willingness of a minority Conservative government to impose austerity in the face of strong popular opposition. Labour lacks the Tories' internal cohesion on the issue of battling the unions, and likely signs of ambivalence on the part of a Labour-led government taking over later in the five-year forecast period might encourage the unions to maintain heavy pressure in the form of strikes and protest demonstrations. The probable result would be the delay or dilution of reform initiatives and more frequent labor-related disruptions to economic activity than has been the case under the recent Conservative governments.

Risk of Lasting Economic Damage

Assuming the Conservative government's loss of its majority status in the next 18 months would be precipitated by setbacks in the Brexit process that have a negative impact on economic performance, a combination of fiscal and monetary tightening that would be required to stabilize the currency would contribute to a more pronounced slowing of real GDP growth than is forecast under the most likely scenario. Tax increases on businesses would dampen investment, resulting in increased unemployment that would sap the vigor of private consumption at a time when budget strains would all but rule out any possibility that public-sector consumption and investment might take up the slack.

Interest-rate hikes would create serious problems for heavily indebted households that could trigger negative reverberations throughout the domestic financial system. Real GDP growth would average no more than 1% per year through 2024, with downside risks predominating. An inflationary spike produced by the depreciation of the currency would be temporary, and a combination of weak domestic demand and aggressive moves by the BoE to check the rise in prices and stabilize the pound would hold inflation to 2.6% on average over the five-year forecast period.

Disruptions to existing trade links assumed under this scenario would have a negative impact on export performance, although moves to negotiate favorable access to EU markets and the pursuit of trade agreements with key non-European trade partners could mitigate the damage somewhat by the end of the five-year forecast period. Although weak domestic demand would check the growth of imports, and a reduction in profit repatriation would narrow the income deficit, the current account shortfall would remain quite large, averaging $126.3 billion per year through 2024.

Third Most Likely Regime Scenario

18-Month Forecast Period:
Grand Coalition (10% Probability)
Five-Year Forecast Period:
Minority Conservative (15% Probability)

Minority Conservative	Growth (%)	Inflation (%)	CACC ($bn)
2019	0.7	2.1	-124.30
2020-2024	1.3	2.4	-146.70

Although unlikely, it is possible that the current government's loss of its majority status in the 18-month forecast period could become the trigger for a third general election in the space of less than five years. Although most of the smaller parties performed poorly in each of the last two elections, a crisis within the Conservative Party that results in yet another return to the polls within the 18-month forecast period could benefit the Liberal Democrats (Lib Dems) and the SNP, and might even give rise to new parties advocating far-left or far-right positions on the ideological spectrum. Under those circumstances, the fragmentation of parliamentary support could make it very difficult for either of the main parties to form a majority government except by teaming up with one another.

In numerical terms, such an arrangement would ensure the government a comfortable majority in the Parliament. However, hammering out a mutually acceptable program of governance would be a difficult process, particularly given the challenges that such a government would likely inherit, and the risk of a premature divorce would be high.

Somewhat more probable is a scenario under which the Conservatives secure another term in power at an election held later in the forecast period, but fail to retain a parliamentary majority.

Fiscal Constraints Would Hamper Recovery

A government made up of Labour and the Conservatives would generally pursue a pro-business agenda, but assuming the conditions underlying this scenario included a negative turn for the economy directly related to Brexit, there would be an added intensify to the disagreements that would be expected within a grand coalition under any circumstances, e.g., the extent and the pace of reform, and the proper mix of tax and spending measures in a deficit-reduction plan. On the positive side, each of the parties would act as a check on the other, limiting the risk of any significant policy departures that might further unnerve already cautious investors.

Real GDP growth would average just 1.3% annually over the forecast period. The formation of a Labour-Conservative coalition would reduce the risk of a prolonged bout of fiscal slippage, but the scope for a growth-focused monetary policy would be limited, as the uncertainty arising from the UK's departure from the EU on unclear terms would create pressure for monetary tightening aimed at maintaining a stable currency. Inflation would average 2.4% per year through 2024.

A grand coalition government would be in a stronger position than a Labour-led alternative to strike deals designed to repair the damage to export performance arising from the UK's departure from the EU, but progress would still be slow, and somewhat stronger growth in the second half of the forecast period would generate increased demand for imports. On that basis, current account deficits would be larger than under either of the alternative scenarios, averaging $146.7 billion annually through 2024.

Forecast Summary

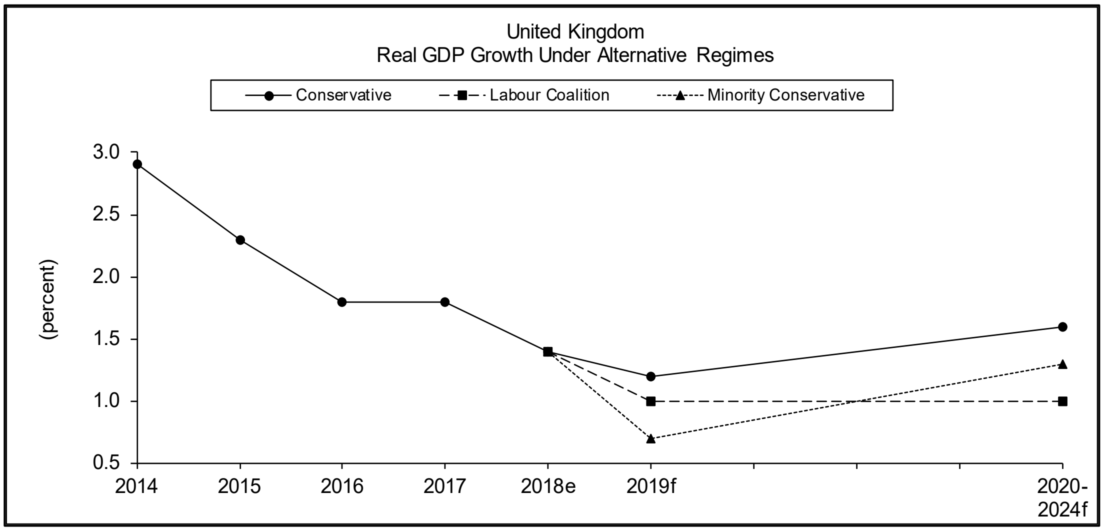
SUMMARY OF 18-MONTH FORECAST

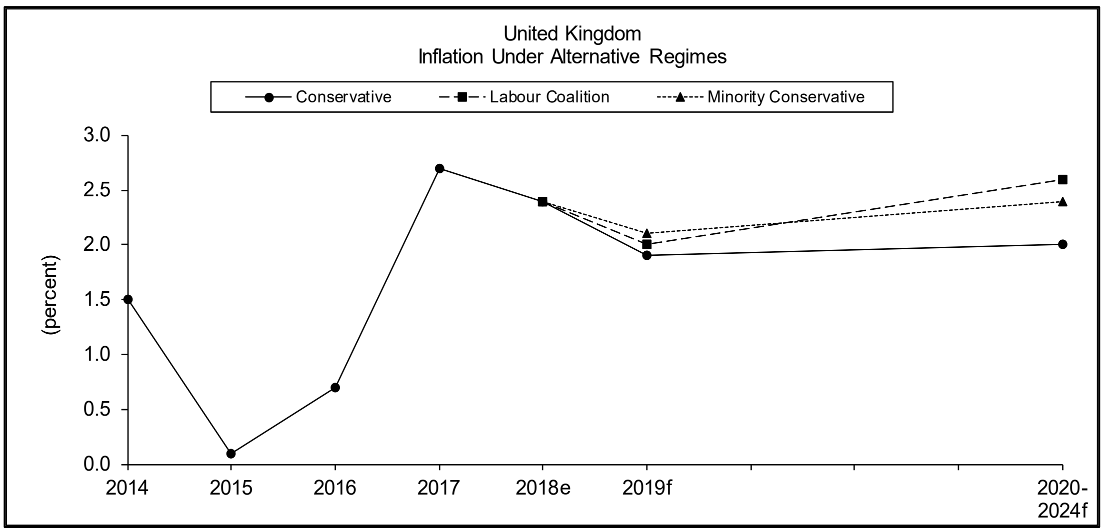
REGIMES & PROBABILITIES		Conservative 75%	Minority Conservative 15%	Grand Coalition 10%
RISK FACTORS	**CURRENT**			
Turmoil	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
Investment				
Equity	Low	Same	Same	Same
Operations	Low	SLIGHTLY MORE	MORE	MORE
Taxation	Moderate	Same	Same	SLIGHTLY MORE
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Other Barriers	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Payment Delays	Low	Same	Same	Same
Economic Policy				
Expansion	High	Same	Same	Same
Labor Costs	High	Same	Same	Same
Foreign Debt	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE

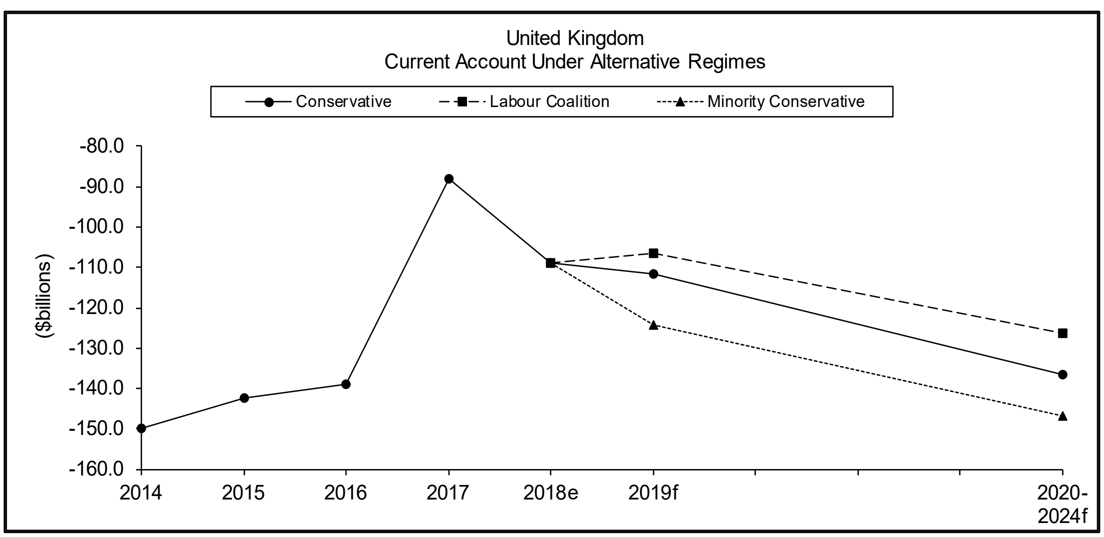
SUMMARY OF FIVE-YEAR FORECAST

REGIMES & PROBABILITIES		Conservative 45%	Labour Coalition 40%	Minority Conservative 15%
RISK FACTORS	**BASE**			
Turmoil	Low	Same	Same	Same
Restrictions				
Investment	Low	Same	Same	MORE
Trade	Moderate	SLIGHTLY MORE	SLIGHTLY MORE	MORE
Economic Problems				
Domestic	High	Same	Same	Same
International	High	Same	Same	Same

* When present, indicates forecast of a new regime


United Kingdom
Real GDP Growth Under Alternative Regimes
Conservative
Labour Coalition
Minority Conservative
(percent)
3.0
2.5
2.0
1.5
1.0
0.5
2014
2015
2016
2017
2018e
2019f
2020-2024f


United Kingdom
Inflation Under Alternative Regimes
Conservative
Labour Coalition
Minority Conservative
(percent)
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2014
2015
2016
2017
2018e
2019f
2020-2024f


United Kingdom
Current Account Under Alternative Regimes
Conservative
Labour Coalition
Minority Conservative
($billions)
-80.0
-90.0
-100.0
-110.0
-120.0
-130.0
-140.0
-150.0
-160.0
2014
2015
2016
2017
2018e
2019f
2020-2024f

United Kingdom
Country Forecast
Political Framework

Players To Watch

Boris Johnson: A former journalist whose crude brashness has made him a polarizing figure, Johnson replaced Theresa May as leader of the Conservative Party and as prime minister in July 2019. The former mayor of London served as foreign secretary under May until mid-2018, when he resigned over his objections to May's Brexit strategy. Johnson was a prominent cheerleader for Brexit during the referendum campaign and upon becoming prime minister pledged to lead the UK out of the EU by the revised deadline of October 31, with or without an agreement establishing the basis for long-term economic and political relations with the bloc. His effort to force the EU to make concessions included some highly controversial early moves, including a failed attempt to prorogue the Parliament, but his plan backfired when members of his own party and Northern Irish lawmakers from the Democratic Unionist Party (on whom he depended for a majority) rejected a revised Withdrawal Agreement Bill tabled in early October. He obtained another extension of the Brexit deadline (to January 31, 2020), and a snap election held on December 12 delivered a sizeable majority for the Conservatives. The WAB has been approved, and the UK is on track to leave the EU at the end of January. However, the country will continue to be bound by many of the EU's rules through the end of 2020, during which time the two sides will continue to negotiate the terms of their future relationship. There is ample cause for skepticism that negotiations for a comprehensive trade agreement (and separate arrangements for security cooperation and institutional relations) can be completed before the end of the 11-month transition period, particularly given the signals from Johnson that he still prefers a potentially disastrous "no-deal" Brexit if the EU is not willing to make compromises that protect the UK's sovereignty. In that regard, Johnson risks prolonging the uncertainty, with detrimental implications for economic performance, even if Brexit proceeds in a relatively orderly fashion.

Conservative Party: The Tories won a total of 365 seats at the snap election held in December 2019, an 80-seat majority that will provide Prime Minister Johnson with a solid basis for pursuing his chosen Brexit strategy, at least in the early going. Although the prime minister purged his most vocal detractors within the party, factional divisions remain, and could jeopardize the unity of the Tories if setbacks in negotiations with the

EU resulting in a disorderly break with the bloc at the end of the transition period that expires on December 31, 2020.

Labour Party: The main opposition party put in a much stronger performance at the 2017 elections than most expected, but still lost to an "accidental" prime minister (May) who by all objective standards ran a rather poor campaign. Despite winning 40% of the vote, Labour won just 262 seats, a net gain of 30 compared to 2015, but more than 60 seats short of a majority. Emboldened by Labour's unexpectedly strong showing at the 2017 elections, party leaders called for the trade unions to spearhead a political protest campaign aimed at forcing another snap poll. However, an early election held in December 2019 resulted in heavy losses that have left the party in its weakest position in more than eight decades. Labour has little chance of returning to power unless it formulates a policy strategy for addressing the negative economic impact of Brexit that contrasts clearly with that of the Conservatives, while also resolving the ideological divisions that have opened within its ranks.

Sajid Javid: The current chancellor of the exchequer, Javid is an experienced banking executive who previously worked for Chase Manhattan Bank in New York and Deutsche Bank in London. He was first elected to Parliament in 2009, and served in junior roles at Treasury before being promoted to ministerial rank (as culture secretary) in 2014. Prior to appoitment to his current post by Johnson in July 2019, Javid served as home secretary under May. During his failed bid to become May's replacement, Javid proposed the elimnation of the top income tax rate as a means of injecting vigor into the sluggish economy, and he has expanded the scope of proposed fiscal expansion as chancellor. His proposals for the 2020/2021 budget point to both a widening of the fiscal surpus and a rise in the debt burden in the near term, a risky strategy that could create problems for Johnson's government in the event of a bumpy exit from the EU customs union in 2021.

Scottish National Party: The SNP heads the Scottish government and retained its status as the main party of Scotland in the British parliament, despite losing 21 of its 56 seats at the general election held in June 2017. The party enjoyed a rebound at the election held in December 2019 that boosted its seat total to 48, and SNP leader Nicola Sturgeon has already begun to press for another status referendum. An overwhelming majority of Scots voted to stay in the EU at the Brexit referendum in June 2016, and calls for a second independence vote could become deafening in the event of a disorderly parting with the EU.

United Kingdom
Country Conditions
Climate for Investment & Trade

Overview

Openness to Foreign Investment

The UK encourages foreign direct investment. With a few exceptions, the government does not discriminate between nationals and foreign individuals in the formation and operation of private companies. The Department for International Trade actively promotes direct foreign investment, and prepares market information for a variety of industries. U.S. companies establishing British subsidiaries generally encounter no special nationality requirements on directors or shareholders. Once established in the UK, foreign-owned companies are treated no differently from UK firms. The British Government is a strong defender of the rights of any British-registered company, irrespective of its nationality of ownership.

Limits on Foreign Control and Right to Private Ownership and Establishment. Foreign ownership is limited in only a few strategically privatized companies, such as Rolls Royce (aerospace) and BAE Systems (aircraft and defense). No individual foreign shareholder may own more than 15 percent of these companies. Theoretically, the government can block the acquisition of manufacturing assets from abroad by invoking the Industry Act 1975, but it has never done so. Investments in energy and power generation require environmental approvals. Certain service activities (like radio and land-based television broadcasting) are subject to licensing. The Enterprise Act of 2002 extends powers to the UK government to intervene in mergers which might give rise to national security implications and into which they would not otherwise be able to intervene.

The UK requires that at least one director of any company registered in the UK must be ordinarily resident in the UK. The UK, as a member of the Organization for Economic Cooperation and Development (OECD), subscribes to the OECD Codes of Liberalization, committed to minimizing limits on foreign investment.

While the UK does not have a formalized investment review body to assess the suitability of foreign investments in national security sensitive areas, an ad hoc investment review process does exist and is led by the relevant government ministry with regulatory responsibility for the sector in question (e.g., the Department for Business, Energy, and Industrial Strategy who would have responsibility for review of investments in the energy sector). U.S. companies have not been the target of these ad hoc reviews. The UK is currently considering ways to revise its rules related to foreign direct investment that may implicate UK national security interests. (https://www.gov.uk/government/consultations/national-security-and-infrastructure-investment-review).

Other Investment Policy Reviews. The Economist's "Intelligence Unit", World Bank Group's "Doing Business 2018", and the OECD's "Economic Forecast Summary (May 2018) have current investment policy reports for the United Kingdom:

- http://country.eiu.com/united-kingdom
  http://www.doingbusiness.org/data/exploreeconomies/united-kingdom/;
- http://www.oecd.org/economy/united-kingdom-economic-forecast-summary.htm.

Business Facilitation. The UK government seeks to facilitate investment by offering overseas companies access to widely integrated markets. Proactive policies encourage international investment through administrative efficiency in order to promote innovation and achieve sustainable growth. The online business registration process is clearly defined, though some types of company cannot register as an overseas firm in the UK, including partnerships and unincorporated bodies. Registration as an overseas company is only required when it has some degree of physical presence in the UK. After registering a business with the UK government, overseas firms must register for the corporation tax within three months. The process of setting up a business in the UK requires as few as thirteen days, compared to the European average of 32 days, which puts the country in first place in Europe and sixth place in the world. As of April 2016, companies have to declare their Persons of Significant Control (PSC's). This change in policy recognizes that individuals other than named directors can have significant influence on a company's activity and that this information should be transparent. More information is available at this link: https://www.gov.uk/government/publications/guidance-to-the-people-with-significant-control-requirements-for-companies-and-limited-liability-partnerships.

The UK offers a welcoming environment to foreign investors, with foreign equity ownership restrictions in only a limited number of sectors covered by the Investing Across Sectors indicators. As in all other EU member countries, foreign equity ownership in the air transportation sector is limited to 49 percent for investors from outside of the European Economic Area (EEA). Furthermore, the Industry Act (1975) enables the UK government to prohibit transfer to foreign owners of 30 percent or more of important UK manufacturing businesses, if such a transfer would be contrary to the interests of the country. While these provisions have never been used in practice, they are still included in the Investing Across Sectors indicators, as these strictly measure ownership restrictions defined in the laws.

- https://invest.great.gov.uk/int/;
- https://www.gov.uk/government/organisations/department-for-international-trade;
- https://www.gov.uk/set-up-business;
- https://www.gov.uk/topic/company-registration-filing/starting-company;
- http://www.doingbusiness.org/data/exploreeconomies/united-kingdom/starting-a-business.

Special Section on the British Overseas Territories. The British Overseas Territories (BOTs) comprise Anguilla, British Antarctic Territory, Bermuda, British Indian Ocean Territory, British Virgin Islands, Cayman Islands, Falkland Islands, Gibraltar, Montserrat, Pitcairn Islands, St. Helena, Ascension and Tristan da Cunha, Turks and Caicos Islands, South Georgia and South Sandwich Islands, and Sovereign Base Areas on Cyprus. The BOTs retain a substantial measure of responsibility for their own affairs. Local self-government is usually provided by an Executive Council and elected legislature. Governors or Commissioners are appointed by the Crown on the advice of the British Foreign Secretary, and retain responsibility for external affairs, defense, and internal security. However, the UK imposed direct rule on the Turks and Caicos Islands in August 2009 after an inquiry found evidence of corruption and incompetence. Its Premier was removed and its constitution was suspended. The UK restored Home Rule following elections in November 2012.

Many of the territories are now broadly self-sufficient. However, the UK's Department for International Development (DFID) maintains development assistance programs in St. Helena, Montserrat, and Pitcairn. This includes budgetary aid to meet the islands' essential needs and development assistance to help encourage economic growth and social development in order to promote economic self-sustainability. In addition, all other BOTs receive small levels of assistance through "cross-territory" programs for issues such as environmental protection, disaster prevention, HIV/AIDS and child protection. The UK also lends to the BOTs as needed, up to a pre-set limit, but assumes no liability for them if they encounter financial difficulty.

Many of the BOTs, particularly those in the Caribbean, were hit hard by the financial crisis. In the Cayman Islands, the British Virgin Islands, the Turks and Caicos and Anguilla, decreases in financial services activity and tourism resulted in falling output and government revenue. To mitigate the impact of the crisis, the territories are reprioritizing government expenditure and looking at ways to increase revenue. Additionally, BOTs which have signed fiscal framework agreements with the UK may request higher borrowing limits.

Seven of the BOTs have financial centers: Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Montserrat, and the Turks and Caicos Islands. These Territories have committed to the OECD's Common Reporting Standard (CRS) for the automatic exchange of taxpayer financial account information. They are already exchanging information with the UK, and began exchanging information with other jurisdictions under the CRS from September 2017.

The OECD Global Forum on Transparency and Exchange of Information for Tax Purposes has rated Anguilla as "partially compliant" with the internationally agreed tax standard. Although Anguilla sought to upgrade its rating in 2017, it still remains at "partially compliant" as of April 2018. The Global Forum has rated the other six territories as "largely compliant." Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar and the Turks and Caicos Islands have also committed in reciprocal bilateral arrangements with the UK to hold beneficial ownership information in central registers or similarly effective systems, and to provide UK law enforcement authorities with near real-time access to this information. These arrangements came into effect in June 2017. As of May 2018, UK government was on the verge of taking legislative steps to require British Overseas Territories to establish publicly accessible registers of the beneficial ownership of companies.

- *Anguilla:* Anguilla is a neutral tax jurisdiction. There are no income, capital gains, estate, profit or other forms of direct taxation on either individuals or corporations, for residents or non-residents of the jurisdiction. The territory has no exchange rate controls. Non-Anguillan nationals may purchase property, but the transfer of land to an alien includes a 12.5 percent tax.
- *British Virgin Islands:* The government of the British Virgin Islands welcomes foreign direct investment and offers a series of incentive packages aimed at reducing the cost of doing business on the islands. This includes relief from corporation tax payments over specific periods but companies must pay an initial registration fee and an annual license fee to the BVI Financial Services Commission. Crown land grants are not available to non-British Virgin Islanders, but private land can be leased or purchased following the approval of an Alien Land Holding License. Stamp duty is imposed on transfer of real estate and the transfer of shares in a BVI company owning real estate in the BVI at a rate of 4 percent for belongers and 12 percent for non-belongers. There is no corporate income tax, capital gains tax, branch tax, or withholding tax for companies incorporated under the BVI Business Companies Act. Payroll tax is imposed on every employer and self-employed person who conducts business in BVI. The tax is paid at a graduated rate depending upon the size of the employer. The current rates are 10 percent for small employers (those which have a payroll of less than USD 150,000, a turnover of less than USD 300,000 and fewer than 7 employees) and 14 percent for larger employers. Eight percent of the total remuneration is deducted from the employee, the remainder of the liability is met by the employer. The first USD 10,000 of remuneration is free from payroll tax.
- *Cayman Islands:* There are no direct taxes in the Cayman Islands. In most districts, the government charges stamp duty of six percent on the value of real estate at sale; however, certain

districts, including Seven Mile Beach, are subject to a rate of nine percent. There is a one percent fee payable on mortgages of less than KYD 300,000, and one and a half percent on mortgages of KYD 300,000 or higher. There are no controls on the foreign ownership of property and land. Investors can receive import duty waivers on equipment, building materials, machinery, manufacturing materials, and other tools.

- *Falkland Islands:* Companies located in the Falkland Islands are charged corporation tax at 21 percent on the first GBP one million and 26 percent for all amounts in excess of GBP one million. The individual income tax rate is 21 percent for earnings below USD 16,882 (GBP 12,000) and 26 percent above this level.
- *Gibraltar:* The government of Gibraltar encourages foreign investment. Gibraltar has a buoyant economy with a stable currency and few restrictions on moving capital or repatriating dividends. The corporate income tax rate is 20 percent for utility, energy, and fuel supply companies, and 10 percent for all other companies. There are no capital or sales taxes. Gibraltar is currently a part of the EU and receives EU funding for projects that improve the territory's economic development.
- *Montserrat:* The government of Montserrat welcomes new private foreign investment. Foreign investors are permitted to acquire real estate, subject to the acquisition of an Alien Land Holding license which carries a fee of five percent of the purchase price. The government also imposes stamp and transfer fees of 2.6 percent of the property value on all real estate transactions. Foreign investment in Montserrat is subject to the same taxation rules as local investment, and is eligible for tax holidays and other incentives. Montserrat has preferential trade agreements with the United States, Canada, and Europe. The government allows 100 percent foreign ownership of businesses but the administration of public utilities remains wholly in the public sector.
- *St. Helena:* The island of St. Helena is open to foreign investment and welcomes expressions of interest from companies wanting to invest. Its government is able to offer tax based incentives which will be considered on the merits of each project – particularly tourism projects. All applications are processed by Enterprise St. Helena, the business development agency.
- *Pitcairn Islands:* The Pitcairn Islands have approximately 50 residents, with a workforce of approximately 29 employed in 10 full-time equivalent roles. The territory does not have an airstrip or safe harbor. Residents exist on fishing, subsistence farming, and handcrafts.
- *The Turks and Caicos Islands:* The islands operate an "open arms" investment policy. Through the policy, the government commits to a streamlined business licensing system, a responsive immigration policy to give investment security, access to government-owned land under long-term leases, and a variety of duty concessions to qualified investors. The islands have a "no tax" status, but property purchasers must pay a stamp duty on purchases over USD 25,000. Depending on the island, the stamp duty rate may be up to 6.5 percent for purchases up to USD 250,000, eight percent for purchases USD 250,001 to USD 500,000, and 10 percent for purchases over USD500,000.

The tax data above are current as of April 2017. In September 2017, two category 5 hurricanes severely impacted Anguilla and the British Virgin Islands and had minor impacts on the Falkland Islands, Montserrat, and Saint Helena. The hurricanes caused wide spread electrical outages and infrastructure damage. Certain government services were temporarily unavailable during the recovery efforts. Post has no information at this time on the amount of investment loss due to these storms and no physical presence in Anguilla, British Virgin Islands, Falkland Islands, Montserrat, or Saint Helena.

Outward Investment. The UK is one of the largest outward investors in the world, often through Bilateral Investment Treaties (BITs), which are used to promote and protect investment abroad and have been adopted by many countries. The UK's international investment position abroad (outward investment) fell slightly from 2014 to 2015, but increased significantly from GBP 1,084.0 billion in 2015 to GBP 1,212.8 billion in 2016, which can be partly explained by the depreciation in the pound sterling exchange rate. The UK remains one of the world's largest foreign direct investors, second only to the United States. By the end of 2011 the UK's stock of outward FDI was GBP 1,098 billon, having risen by 75 percent since 2002. The main destination for UK outward FDI is the United States, which accounted for approximately 19 percent of UK outward FDI stocks at the end of 2011. Other key destinations include the Netherlands, Luxembourg, France, and Ireland which, together with the United States, account for more than half of the UK's outward FDI stock.

Europe and the Americas remain the dominant areas for UK international investment positions abroad, accounting for 50.1 percent and 32.6 percent of total UK outward FDI positions respectively. The UK's international investment position within the Americas experienced a decline in 2015 for the first time since 2010, falling by GBP 24.7 billion to a level of GBP 342.8 billion. Despite this decline, the level in 2015 remains the second largest recorded value in the time series since 2006 for the Americas. The United States, at GBP 237.3 billion, continued to be the largest destination for UK international investment positions abroad within the Americas in 2015.

Privatization Program. The privatization of state-owned utilities in the UK is now essentially complete. With regard to future investment opportunities, the few remaining government-owned enterprises or government shares in other utilities are likely to be sold off to the private sector when market conditions improve.

Transparency of the Regulatory System

U.S. exporters and investors generally will find little difference between the United States and UK in the conduct of business. The regulatory system provides clear and transparent guidelines for commercial engagement. Common law prevails in the UK as the basis for commercial transactions, and the International Commercial Terms (INCOTERMS) of the International Chambers of Commerce are accepted definitions of trading terms. In terms of accounting standards and audit provisions firms in the UK must use the International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) and approved by the European Commission. The UK's Accounting Standards Board provides guidance to firms on accounting standards and works with the IASB on international standards.

Statutory authority over prices and competition in various industries is given to independent regulators, for example Ofcom, Ofwat, Ofgem, the Office of Fair Trading (OFT), the Rail Regulator, and the Prudential Regulatory Authority (PRA). The PRA was created out of the dissolution of the Financial Services Authority (FSA) in 2013. The PRA reports to the Financial Policy Committee (FPC) in the Bank of England. The PRA is responsible for supervising the safety and soundness of individual financial firms, while the FPC takes a systemic view of the financial system and provides macro-prudential regulation and policy actions. The Consumer and Markets Authority (CMA) acts as a single integrated regulator focused on conduct in financial markets. The Financial Conduct Authority (FCA) is a regulatory enforcement mechanism designed to address financial and market misconduct through legally reviewable processes. These regulators work to protect the interests of consumers while ensuring that the markets they regulate are functioning efficiently. Most laws and regulations are published in draft for public comment prior to implementation. The FCA maintains a free, publicly searchable register of their filings on regulated corporations and individuals here: https://register.fca.org.uk/.

The UK government publishes regulatory actions, including draft text and executive summaries, on the Department for Business, Energy & Industrial Strategy webpage listed below. The current policy requires the repeal of two regulations for any new one in order to make the business environment more competitive.

The primary difference between the regulatory environment in the UK and the United States is that so long as the UK is a member of the European Union, it is mandated to comply with and enforce EU regulations and directives. The U.S. government has expressed concerns about the degree of transparency and accountability in the EU regulatory process. The extent to which the UK will maintain the EU regulatory regime after the UK withdraws from the EU is unknown at this time.

- https://www.gov.uk/government/policies/business-regulation;
- https://www.gov.uk/government/organisations/regulatory-delivery.

International Regulatory Considerations. The UK's withdrawal from the EU may result in an extended period of regulatory uncertainty across the economy as the UK determines the extent to which it will maintain and enforce the current EU regulatory regime or deviate towards new regulations in any particular sector . The UK is an independent member of the WTO, and actively seeks to comply with all its WTO obligations.

Legal System and Judicial Independence. The UK is a common law country. UK business contracts are legally enforceable in the UK, but not in the United States or other foreign jurisdictions. International disputes are resolved through litigation in the UK Courts or by arbitration, mediation, or some other alternative dispute resolution (ADR) method. The UK has a long history of applying the rule of law to business disputes. The current judicial process remains procedurally competent, fair, and reliable, which helps position London as an international hub for dispute resolution with over 10,000 cases filed per annum.

Laws and Regulations on Foreign Direct Investment. There is no specific statute governing or restricting foreign investment in the UK. The procedure for establishing a company in the UK is identical for British and foreign investors. No approval mechanisms exist for foreign investment, apart from the ad hoc process outlined in Section 1. Foreigners may freely establish or purchase enterprises in the UK, with a few limited exceptions, and acquire land or buildings. As noted above, the UK is currently reviewing its procedures and considering new rules for restricting foreign investment in those sectors of the economy with higher risk for impacting national security.

Tax avoidance by multinational companies, including several major U.S. firms, has been a controversial political issue and subject to investigations by the UK Parliament and EU authorities. However, foreign and UK firms remain subject to the same tax laws, and several UK firms have also been criticized for tax avoidance. Foreign investors may have access to certain EU and UK regional grants and incentives designed to attract industry to areas of high unemployment, but these do not include tax concessions.

In 2015, the UK flattened its structure of corporate tax rates. The UK currently taxes corporations at a flat rate of 20 percent for non-ring fence companies, with marginal tax relief granted for companies with profits falling between USD 426,000 (GBP 300,000) and 2.1 million (GBP 1.5 million). Tax deductions are allowed for expenditure and depreciation of assets used for trade purposes. These include machinery, plant, industrial buildings, and assets used for research and development. A special rate of 20 percent is given to unit trusts and open-ended investment companies. There are different Corporation Tax rates for companies that make profits from oil extraction or oil rights in the UK or UK continental shelf. These are known as 'ring fence' companies. Small 'ring fence' companies are taxed at a rate of 19 percent for profits up to USD 426,000 (GBP 300,000), and 30 percent for profits over USD 426,000 (GBP 300,000).

The UK has a simple system of personal income tax. The marginal tax rates for 2018-2019 are as follows: up to GBP 11,850, 0 percent; GBP 11,851 to GBP 46,350, 20 percent; GBP 46,351 to GBP 150,000, 40 percent; and over GBP 150,000, 45 percent.

UK citizens also make mandatory payments of about 12 percent of income into the National Insurance system, which funds social security and retirement benefits. The UK requires non-domiciled residents of the UK to either pay tax on their worldwide income or the tax on the relevant part of their remitted foreign income being brought into the UK. If they have been resident in the UK for seven years or more, and they choose to pay tax only on their remitted earnings, they may be subject to an additional charge of USD 42,887 (GBP 30,000). If they have been resident in the UK for 12 of the last 14 years, they may be subject to an additional charge of USD 85,775 (GBP 60,000).

The Scottish Parliament has the legal power to increase or decrease the basic income tax rate in Scotland, currently 20 percent, by a maximum of three percentage points. The Scottish Government has been opposed to increasing tax rates, mainly because any financial advantage gained by an increase in taxes would be offset by the need to establish a new administrative body to manage the new revenue.

For guidance on laws and procedures relevant to foreign investment in the UK, follow the link below: https://www.gov.uk/government/collections/investment-in-the-uk-guidance-for-overseas-businesses.

All USD conversions based on spot exchange rate as of April 18, 2018.

Competition and Anti-Trust Laws. UK competition law contains both British and European elements. The Competition Act 1998 and the Enterprise Act 2002 are the most important statutes for cases with a purely national dimension. However, if the impact of a business' conduct crosses borders, EU law applies. Section 60 of the Competition Act 1998 provides that UK rules are to be applied in line with European jurisprudence.

The Companies Act of 1985, administered by the Department for Business, Entrepreneurship, Innovation and Skills (BEIS), governs ownership and operation of private companies. On November 8, 2006 the UK passed the Companies Act of 2006 to replace the 1985 Act. The law simplifies and modernizes existing rules rather than make any dramatic shift in the company law regime.

BEIS uses a transparent code of practice that is fully in accord with EU merger control regulations, in evaluating bids and mergers for possible referral to the Competition Commission. The Competition Act of 1998 strengthened competition law and enhanced the enforcement powers of the Office of Fair Trading (OFT). Prohibitions under the act relate to competition-restricting agreements and abusive behavior by entities in dominant market positions. The Enterprise Act of 2002 established the OFT as an independent statutory body with a Board, and gives it a greater role in ensuring that markets work well. Also, in accordance with EU law, if deemed in the public interest, transactions in the media or that raise national security concerns may be reviewed by the Secretary of State of BEIS. In 2014, the Competition Commission and the OFT merged into a single Non Departmental Government Body: the Competition and Markets Authority. This new body is responsible for investigating mergers that could restrict competition, conducting market studies and investigations where there may be competition problems, investigating breaches of EU and UK prohibitions, initiating criminal proceedings against individuals who commit cartel offenses, and enforcing consumer protection legislation. This body is unlikely to alter UK competition policy.

UK competition law has three main tasks: 1) prohibiting agreements or practices that restrict free trading and competition between business entities (this includes in particular the repression of cartels); 2) banning abusive behavior by a firm dominating a market, or anti-competitive practices that tend to lead to such a dominant position (practices controlled in this way may include predatory pricing, tying, price gouging, refusal to deal and many others); and 3) supervising the mergers and acquisitions of large corporations, including some joint ventures. Transactions that are considered to threaten the competitive process can be prohibited altogether, or approved subject to "remedies" such as an obligation to divest part of the merged business or to offer licenses or access to facilities to enable other businesses to continue competing.

The Competition and Markets Authority (CMA) is the primary regulatory body for competition law enforcement. It was created through the merger of the Office of Fair Trading (OFT) with the Competition Commission through the Enterprise and Regulatory Reform Act 2013. Competition law is closely connected with law on deregulation of access to markets, state aids and subsidies, the privatization of state owned assets, and the establishment of independent sector regulators.

Although the OFT and the Competition Commission have general review authority, specific "watchdog" agencies such as Ofgem (the electricity and gas markets regulation authority), Ofcom (the communications regulation authority), and Ofwat (the water services regulation authority) are also charged with seeing how the operation of those specific markets work.

Foreign/Free Trade Zones/Ports

The cargo ports and freight transportation ports at Liverpool, Prestwick, Sheerness, Southampton, and Tilbury used for cargo storage and consolidation are designated as Free Trade Zones. No activities that add value to commodities are permitted within the Free Trade Zones, which are reserved for bonded storage, cargo consolidation, and reconfiguration of non-EU goods. The Free Trade Zones offer little benefit to U.S. exporters or investors, or any other non-EU exporters or investors. Current questions remain as to the UK's use of Free Trade Zones in a post-Brexit environment.

Tariff and Non-tariff Barriers

The UK has no significant trade or investment barriers and no restrictions on the transfer of capital or repatriation of profits. The few barriers that exist are almost all attributable to UK implementation of EU Directives and regulations. For information on existing trade barriers, please see the National Trade Estimate Report on Foreign Trade Barriers, published by Office of the United States Trade Representative (USTR).

Policies

Conversion and Transfer

Foreign Exchange. The British pound sterling is a free-floating currency with no restrictions on its transfer or conversion. Exchange controls restricting the transfer of funds associated with an investment into or out of the UK are not exercised.

The Finance Act 2004 repealed the old rules governing thin capitalization, which allowed companies to assess their borrowing capacity on a consolidated basis. Under the new rules, companies which have borrowed from a UK-based or overseas parent need to show that the loan could have been made on a stand-alone basis or face possible transfer pricing penalties. These rules were not established to limit currency transfers, but rather to limit attempts by multinational enterprises to present what is in substance an equity investment as a debt investment to obtain more favorable tax treatment.

Sovereign Wealth Funds. The United Kingdom does not maintain a national wealth fund. Although there have at time been calls to turn The Crown Estate – created in 1760 by Parliament as a means of funding the British monarchy – into a wealth fund, there are no current plans in motion. Moreover, with assets of just under USD 12 billion, The Crown Estate would be small in relation to other national funds.

Performance Requirements

Investment Incentives. The UK offers a range of incentives for companies of any nationality locating in depressed regions of the country, as long as the investment generates employment. DIT works with its partner organizations in the devolved administrations – Scottish Development International, the Welsh Government and Invest Northern Ireland – and with London and Partners and Local Enterprise Partnerships (LEPs) throughout England, to promote each region's particular strengths and expertise to overseas investors.

Local authorities in England and Wales also have power under the Local Government and Housing Act of 1989 to promote the economic development of their areas through a variety of assistance schemes, including the provision of grants, loan capital, property, or other financial benefit. Separate legislation, granting similar powers to local authorities, applies to Scotland and Northern Ireland. Where available, both domestic and overseas investors may also be eligible for loans from the European Investment Bank.

Performance and Data Localization Requirements. As of May 2018, companies operating in the UK will need to comply with the EU General Data Protection Regulation. The GDPR will have a significant impact on the business practices of companies operating in the UK. The UK presently intends to transpose the requirements of the GDPR into UK domestic law after the UK withdraws from the EU. The impact of the UK leaving the EU on the free flow of data between the EU and the UK, and the UK and U.S. is unknown at this time.

The UK does not follow "forced localization" and does not require foreign IT firms to turn over source code. The Investigatory Powers Act became law in November 2016 addressing encryption and government surveillance. It permitted the broadening of capabilities for data retention and the investigatory powers of the state related to data.

The UK Government does not mandate local employment, though at least one director of any company registered in the UK must be ordinarily resident in the UK.

New immigration rules (HC1888) that came into effect on April 6, 2012 have wide-ranging implications for foreign employees, primarily affecting businesses looking to sponsor migrants under Tier 2 as well as migrants looking to apply for settlement in the UK. In particular, the UK Government has introduced a 12-month cooling off period for Tier 2 (General) applications similar to the one that is currently in place for Tier 2 (Intra-company transfer). The effect of this is that, while those who enter the UK under Tier 2 (General) to work for one company will be able to apply in-country under Tier 2 (General) to work for another company, if they leave the UK, they will not be able to apply to re-enter the UK under a fresh Tier 2 (General) permission until twelve months after their previous Tier 2 (General) permission has expired.

In addition, those who enter the UK under Tier 2 (Intra-company transfer) after April 6, 2011 will not be able to change their status in-country to Tier 2 (General) under any circumstances. If they leave the UK, they will also not be able to apply to enter the UK under Tier 2 (General) until 12 months after their previous Tier 2 (Intra-company transfer) permission has expired.

These provisions represent a significant tightening of the Tier 2 requirements. One of the consequences is that, where an individual is sent to the UK on assignment under Tier 2 (Intracompany transfer), and the sponsoring company subsequently wishes to hire them permanently in the UK, they will not be able to apply either to remain in the UK under Tier 2 (General) or leave the UK and submit a Tier 2 (General) application overseas.

This change will mean that employers will have to carefully consider the long-term plans for all assignees that they send to the UK and whether Tier 2 (Intracompany transfer) is the most appropriate category. This is because, if the assignee is subsequently required in the UK on a long-term basis, it will not be possible for them to make a new application under Tier 2 (General) until at least twelve months after their Tier 2 (Intra-company transfer) permission has expired.

In 2016, the British government updated requirements for Tier 2 visas. It increases the Tier 2 minimum salary threshold to GBP 30,000 for experienced workers. This change was phased in, with the minimum threshold increased to GBP 25,000 in fall 2016 and to GBP 30,000 in April 2017. The minimum threshold for new entrants will remain at GBP 20,800. Employers will continue to be able to recruit non-EEA graduates of UK universities without first testing the resident labor market and without being subject to the annual limit on Tier 2 (General) places, which will remain at 20,700 places per year. Additionally, it shall give extra weighting within the Tier 2 (General) limit to businesses sponsoring overseas graduates, and will allow graduates to switch roles within a company once they have secured a permanent job at the end of their training program. These changes took effect from fall 2016.

From April 2017, extra weighting was added within the Tier 2 (General) limit where the allocation of places is associated with the relocation of a high-value business to the UK or, potentially, supports an inward investment. It will also waive the resident labor market test for these applications.

Legal Framework

Expropriation and Compensation

The OECD, of which the UK is a member, states that when a government expropriates property, compensation should be timely, adequate and effective. In the UK, the right to fair compensation and due process is uncontested and is reflected in all international investment agreements. Expropriation of corporate assets or the nationalization of industry requires a special act of Parliament. A number of key UK banks became subject to full or part-nationalization from early 2008 as a response to the financial crisis and banking collapse. The first bank to become nationalized was the Northern Rock in February 2008, and by March 2009 the UK Treasury had taken a 65 percent stake in the Lloyds Banking Group and a 68 percent stake in the Royal Bank of Scotland (RBS). In the event of nationalization, the British government follows customary international law by providing prompt, adequate, and effective compensation.

Dispute Settlement

As a member of the World Bank-based International Center for Settlement of Investment Disputes (ICSID), the UK accepts binding international arbitration between foreign investors and the State. As a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, the UK provides local enforcement on arbitration judgments decided in other signatory countries.

London is a thriving center for the resolution of international disputes through arbitration under a variety of procedural rules such as those of the London Court of International Arbitration, the International Chamber of Commerce, the Stockholm Chamber of Commerce, the American Arbitration Association

International Centre for Dispute Resolution, and others. Many of these arbitrations involve parties with no connection to the jurisdiction, but who are drawn to the jurisdiction because they perceive it to be a fair, neutral venue with an arbitration law and courts that support efficient resolution of disputes. They also choose London-based arbitration because of the general prevalence of the English language and law in international commerce. A wide range of contractual and non-contractual claims can be referred to arbitration in this jurisdiction including disputes involving intellectual property rights, competition, and statutory claims. There are no restrictions on foreign nationals acting as arbitration counsel or arbitrators in this jurisdiction. There are few restrictions on foreign lawyers practicing in the jurisdiction as evidenced by the fact that over 200 foreign law firms have offices in London.

ICSID Convention and New York Convention. The UK is a member of the International Center for Settlement of Investment Disputes (ICSID) and a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The latter convention has territorial application to Gibraltar (September 24, 1975), Hong Kong (January 21, 1977), Isle of Man (February 22, 1979), Bermuda (November 14, 1979), Belize and Cayman Islands (November 26, 1980), Guernsey (April 19, 1985), Bailiwick of Jersey (May 28, 2002), and British Virgin Islands (February 24, 2014).

The United Kingdom has consciously elected not to follow the UNCITRAL Model Law on International Commercial Arbitration. Enforcement of an arbitral award in the UK is dependent upon where the award was granted. The process for enforcement in any particular case is dependent upon the seat of arbitration and the arbitration rules that apply. Arbitral awards in the UK can be enforced under a number of different regimes, namely: The Arbitration Act 1996, The New York Convention, The Geneva Convention 1927, The Administration of Justice Act 1920 and the Foreign Judgments (Reciprocal Enforcement) Act 1933, and Common Law.

The Arbitration Act 1996 governs all arbitrations seated in England, Wales and Northern Ireland, both domestic and international. The full text of the Arbitration Act can be found here: http://www.legislation.gov.uk/ukpga/1996/23/data.pdf.

The Arbitration Act is heavily influenced by the UNCITRAL Model Law, but it has some important differences. For example, the Arbitration Act covers both domestic and international arbitration; the document containing the parties' arbitration agreement need not be signed; an English court is only able to stay its own proceedings and cannot refer a matter to arbitration; the default provisions in the Arbitration Act require the appointment of a sole arbitrator as opposed to three arbitrators; a party retains the power to treat its party-nominated arbitrator as the sole arbitrator in the event that the other party fails to make an appointment (where the parties' agreement provides that each party is required to appoint an arbitrator); there is no time limit on a party's opposition to the appointment of an arbitrator; parties must expressly opt out of most of the provisions of the Arbitration Act which confer default procedural powers on the arbitrators; and there are no strict rules governing the exchange of pleadings. Section 66 of the Arbitration Act applies to all domestic and foreign arbitral awards. Sections 100 to 103 of the Arbitration Act provide for enforcement of arbitral awards under the New York Convention 1958. Section 99 of the Arbitration Act provides for the enforcement of arbitral awards made in certain countries under the Geneva Convention 1927.

Under Section 66 of the Arbitration Act, the court's permission is required for an international arbitral award to be enforced in the UK. Once the court has given permission, judgment may be entered in terms of the arbitral award and enforced in the same manner as a court judgment or order. Permission will not be granted by the court if the party against whom enforcement is sought can show that (a) the tribunal lacked substantive jurisdiction and (b) the right to raise such an objection has not been lost.

The length of arbitral proceedings can vary greatly. If the parties have a relatively straightforward dispute, cooperate, and adopt a fast track procedure, arbitration can be concluded within months or even weeks. In a substantial international arbitration involving complex facts, many witnesses and experts and post-hearing briefs, the arbitration could take many years. A reasonably substantial international arbitration will likely take between one and two years.

There are two alternative procedures that can be followed in order to enforce an award. The first is to seek leave of the court for permission to enforce. The second is to begin an action on the award, seeking the same relief from the court as set out in the tribunal's award. Enforcement of an award made in the jurisdiction may be opposed by challenging the award. However, the court also may refuse to enforce an award that is unclear, does not specify an amount, or offends public policy. Enforcement of a foreign award may be opposed on any of the limited grounds set out in the New York Convention. A stay may be granted for a limited time pending a challenge to the order for enforcement. The court will consider the likelihood of success and whether enforcement of the award will be made more or less difficult as a result of the stay. Conditions that might be imposed on granting the stay include such matters as paying a sum into court. Where multiple awards are to be rendered, the court may give permission for the tribunal to continue hearing other matters, especially where there may be a long delay between awards. UK courts have a good record of enforcing arbitral awards. The courts will enforce an arbitral award in the same way that they will enforce an order or judgment of a court. At the time of writing, there are no examples of the English courts enforcing awards which were set aside by the courts at the place of arbitration.

Most awards are complied with voluntarily. If the party against whom the award was made fails to comply, the party seeking enforcement can apply to the court. The length of time it takes to enforce an award which complies with the requirements of the New York Convention will depend on whether there are complex objections to enforcement which require the court to investigate the facts of the case. If a case raises complex issues of public importance the case could be appealed to the Court of Appeal and then to the Supreme Court. This process could take around two years. If no complex objections are raised, the party seeking enforcement can apply to the court using a summary procedure that is fast and efficient. There are time limits relating to the enforcement of the award. Failure to comply with an award is treated as a breach of the arbitration agreement. An action on the award must be brought within six years of the failure to comply with the award or 12 years if the arbitration agreement was made under seal. If the award does not specify a time for compliance, a court will imply a term of reasonableness.

Bankruptcy Regulations. The UK has strong bankruptcy protections going back to the Bankruptcy Act of 1542, and in modern days both individual bankruptcy and corporate insolvency are regulated in the UK primarily by the Insolvency Act 1986 and the Insolvency Rules 1986, regulated through determinations in UK courts. The World Bank's Doing Business report Ranks the UK 13/189 for ease of resolving insolvency.

Regarding individual bankruptcy law, the court will oblige a bankrupt individual to sell assets to pay dividends to creditors. A bankrupt person must inform future creditors about the bankrupt status and may not act as the director of a company during the period of bankruptcy. Bankruptcy is not criminalized in the UK, and the Enterprise Act of 2002 dictates that for England and Wales, bankruptcy will not normally last longer than 12 months. At the end of the bankrupt period, the individual is normally no longer held liable for bankruptcy debts unless the individual is determined to be culpable for his or her own insolvency, in which case the bankruptcy period can last up to fifteen years.

For corporations declaring insolvency, UK insolvency law seeks to equitably distribute losses between creditors, employees, the community, and other stakeholders in an effort to rescue the company. Liability is limited to the amount of the investment. If a company cannot be rescued, it is liquidated and assets are sold to pay debts to creditors, including foreign investors.

Protection of Property Rights

Real Property. The UK has robust real property laws stemming from legislation including the Law of Property Act 1925, the Settled Land Act 1925, the Land Charges Act 1972, the Trusts of Land and Appointment of Trustees Act 1996, and the Land Registration Act 2002.

Interests in property are well enforced, and mortgages and liens have been recorded reliably since the Land Registry Act of 1862. The Land Registry is the government database where all land ownership and transaction data are held for England and Wales, and it is reliably accessible online, here: https://www.gov.uk/search-property-information-land-registry. Scotland has its own Registers of Scotland, while Northern Ireland operates land registration through the Land and Property Services.

Long-term physical presence on non-residential property without their permission is not typically considered a crime in the UK. Police take action if squatters commit other crimes when entering or staying in a property. A long-term squatter on otherwise unoccupied land can become the registered owner of property they've occupied without the owner's permission.

Intellectual Property Rights. The UK legal system provides a high level of intellectual property rights (IPR) protection. Enforcement mechanisms are comparable to those available in the United States. The UK is a member of the World Intellectual Property Organization (WIPO). The UK is also a member of the major intellectual property protection agreements: the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, and the Patent Cooperation Treaty. The UK has signed and, through implementing various EU Directives, enshrined into UK law the WIPO Copyright Treaty (WCT) and WIPO Performance and Phonograms Treaty (WPPT), known as the internet treaties.

The Intellectual Property Office (IPO) is the official UK government body responsible for intellectual property rights including patents, designs, trademarks and copyright. The IPO web site contains comprehensive information on UK law and practice in these areas.

- https://www.gov.uk/government/organisations/intellectual-property-office.

The British government tracks and reports seizures of counterfeit goods and regards the production and subsequent sale as a criminal act. The Intellectual Property Crime Report for 2014/15 highlights the incidence of IPC and the harm caused to the UK economy, with over 1.6 million infringing items removed at the borders during that period.

The Special 301 Report is an annual, congressionally-mandated review of the global state of intellectual property rights protection and enforcement. It is conducted by the Office of the U.S. Trade Representative to identify countries with commercial environments possibly harmful to intellectual property. The UK is not on the list.

For additional information about national laws and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Corruption and other Bureaucratic Obstacles

Although isolated instances of bribery and corruption have occurred in the UK, U.S. investors have not identified corruption of public officials as a factor in doing business in the UK.

The Bribery Act 2010 came into force on July 1, 2011. It amends and reforms the UK criminal law and provides a modern legal framework to combat bribery in the UK and internationally. The scope of the law is extra-territorial. Under the Bribery Act, a relevant person or company can be prosecuted for bribery if the crime is committed abroad. The Act applies to UK citizens, residents and companies established under UK law. In addition, non-UK companies can be held liable for a failure to prevent bribery if they do business in the UK.

Section 9 of the Act requires the UK Government to publish guidance on procedures that commercial organizations can put in place to prevent bribery on their behalf. It creates the following offences: active bribery, described as promising or giving a financial or other advantage, passive bribery, described as agreeing to receive or accepting a financial or other advantage; bribery of foreign public officials; and the failure of commercial organizations to prevent bribery by an associated person (corporate offense). This corporate criminal offense places a burden of proof on companies to show they have adequate procedures in place to prevent bribery (http://www.transparency.org.uk/our-work/business-integrity/bribery-act/adequate-procedures-guidance/). To avoid corporate liability for bribery, companies must make sure that they have strong, up-to-date and effective anti-bribery policies and systems. The first prosecution under the Act (a domestic case) went forward in 2011. A UK administrative clerk faced charges under Section 2 of the Act for requesting and receiving a bribe intending to improperly perform his functions as a result.

The Bribery Act creates a corporate criminal offense making illegal the failure to prevent bribery by an associated person. The briber must be “associated” with the commercial organization, a term which will apply to, amongst others, the organization’s agents, employees, and subsidiaries. A foreign corporation which “carries on a business, or part of a business” in the UK may therefore be guilty of the UK offense even if, for example, the relevant acts were performed by the corporation’s agent outside the UK. The Act does not extend to political parties and it is unclear whether it extends to family members of public officials.

UN Anticorruption Convention, OECD Convention on Combatting Bribery. The UK formally ratified the OECD Convention on Combating Bribery in December 1998. The UK also signed the UN Convention Against Corruption in December 2003 and ratified it in 2006. The UK has launched a number of initiatives to reduce corruption overseas. The OECD Working Group on Bribery (WGB) criticized the UK’s implementation of the Anti-Bribery convention. The OECD and other international organizations promoting global anti-corruption initiatives pressured the UK to update its anti-bribery legislation which was last amended in 1916. In 2007, the UK Law Commission began a consultation process to draft a Bribery Bill that met OECD standards. A report was published in October 2008 and consultations with experts from the OECD were held in early 2009. The new Bill was published in draft in March 2009 and adopted by Parliament with cross-party support as the 2010 Bribery Act in April 2010.

Resources to Report Corruption. UK law provides criminal penalties for corruption by officials, and the government routinely implements these laws effectively. The Serious Fraud Office (SFO) is an independent government department, operating under the superintendence of the Attorney General with jurisdiction in England, Wales, and Northern Ireland. It investigates and prosecutes those who commit serious or complex fraud, bribery, and corruption, and pursues them and others for the proceeds of their crime.

The SFO is the UK's lead agency to which all allegations of bribery of foreign public officials by British nationals or companies incorporated in the United Kingdom should be reported – even in relation to conduct that occurred overseas. Some of these allegations, where they involve serious or complex fraud and corruption, may fall to the SFO to investigate. Some may be more appropriate for other agencies to investigate, such as the Overseas Anti-Corruption Unit of the City of London Police (OACU) or the International Corruption Unit of the National Crime Agency. When the SFO receives a report of possible corruption, its intelligence team makes an assessment and decides if the matter is best dealt with by the SFO or passed to a law enforcement partner organization. Allegations can be reported in confidence using the SFO's secure online reporting form: https://www.sfo.gov.uk/contact-us/reporting-serious-fraud-bribery-corruption/.

International Agreements

Trade Agreements. The UK participates in the free trade arrangements of the European Union (EU) and European Free Trade Association (EFTA), and is a member of the World Trade Organization (WTO). For a list of trade agreements with the EU and its member states, as well as concise explanations, please see: U.S.-UK Defense Trade Cooperation Treaty

The U.S. Senate ratified the U.S.-UK Defense Trade Cooperation Treaty on September 29, 2010. The treaty creates Approved Communities of government and private sector entities that may receive defense articles and defense services under the treaty. Under the treaty, it is possible for most U.S. defense articles to be exported into, and within, these communities without prior licenses or other authorizations pursuant to the ITAR if certain conditions are met.

Bilateral Investment Agreements and Taxation Treaties. The UK has concluded 110 Bilateral Investment Treaties, which are known in the UK as Investment Promotion and Protection Agreements. These include: Albania, Angola, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, Bahrain, Bangladesh, Barbados, Belarus, Belize, Benin, Bolivia, Bosnia and Herzegovina, Brazil, Bulgaria, Burundi, Cameroon, Chile, China, Colombia, Congo, Costa Rica, Côte d'Ivoire, Croatia, Cuba, Czech Republic, Dominica, Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Gambia, Georgia, Ghana, Grenada, Guyana, Haiti, Honduras, Hong Kong, China SAR, Hungary, India, Indonesia, Jamaica, Jordan, Kazakhstan, Kenya, Korea Republic of, Kuwait, Kyrgyzstan, Lao People's Democratic Republic, Latvia, Lebanon, Lesotho, Libya, Lithuania, Malaysia, Malta, Mauritius, Mexico, Moldova, Mongolia, Morocco, Mozambique, Nepal, Nicaragua, Nigeria, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Qatar, Romania, Russian Federation, Saint Lucia, Senegal, Serbia, Sierra Leone, Singapore, Slovakia, Slovenia, South Africa, Sri Lanka, Swaziland, Tanzania, United Republic of, Thailand, Tonga, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Uganda, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vanuatu, Venezuela, Bolivarian Republic of, Vietnam, Yemen, Zambia, and Zimbabwe.

For a complete current list, including actual treaties, see:
http://investmentpolicyhub.unctad.org/IIA/CountryBits/221#iiaInnerMenu.

The United States and UK have enjoyed a Commerce and Navigation Treaty since 1815 which guarantees national treatment of U.S. investors. A Bilateral Tax Treaty specifically protects U.S. and UK investors from double taxation. The UK has its own bilateral tax treaties with more than 100 countries and a network of about a dozen double taxation agreements.

OPIC and Other Investment Insurance Programs. OPIC does not operate in the UK. Export-Import Bank (Ex-Im Bank) financing is available to support major investment projects in the UK. A Memorandum of

Understanding (MOU) signed by Ex-Im Bank and its UK equivalent, the Export Credits Guarantee Department (ECGD), enables bilateral U.S.-UK consortia intending to invest in third countries to seek investment funding support from the country of the larger partner. This removes the need for each of the two parties to seek financing from their respective credit guarantee organizations.

Labor Conditions

The UK's labor force is the second largest in the European Union, at just over 40 million people. For the period between December 2017 and February 2018, the employment rate was 75.4 percent, with 32.26 million workers employed – the highest employment rate since 1971. Unemployment also hit a 43-year low with 1.42 million unemployed workers, or just 4.2 percent (down from 4.7 percent a year earlier). This rate is now less than half of the Euro Area average of 8.5 percent. For the same period, the unemployment rate for 16 to 24 year olds was 12.0 percent, lower than for a year earlier (12.5 percent); it has not been lower since fall 2004.

The most serious issue facing British employers is a skills gap derived from a high-skill, high-tech economy outpacing the educational system's ability to deliver work-ready graduates. The government has placed a strong emphasis on improving the British educational system in terms of greater emphasis on science, research and development, and entrepreneurial skills. The UK's skills base stands just above the OECD average and is improving.

As of 2016, approximately 23.5 percent of UK employees belonged to a union. Public-sector workers have a much higher share of union members, at 52.7 percent, while the private sector is just under 14 percent. Manufacturing, transport, and distribution trades are highly unionized. Unionization of the workforce in the UK is prohibited only in the armed forces, public-sector security services, and police forces. Union membership has been relatively stable in the past few years, although the trend has been slightly downward over the past decade.

Once-common militant unionism is less frequent, but occasional bouts of industrial action, or threatened industrial action, can still be expected. Recent strike action was motivated in part by the Coalition Government's deficit reduction program impacts on highly unionized sectors. In the 12 months to January 2015, there were 802,000 working days lost from 214 official labor disputes. Privatization of traditional government entities has accelerated such thinking. The Trades Union Congress (TUC), the British nation-wide labor federation, encourages union-management cooperation as do most of the unions likely to be encountered by a U.S. investor.

In 2017 some cabin crew members of British Airways went on strike; 2018 has seen significant strikes at the university level. In February of this year, university lecturers launched a widespread strike with staff and students taking collective action across 64 different universities. Estimates show over a million students were affected and 575,000 teaching hours were lost.

On April 1, 2016, the UK raised the minimum wage from USD 9.50 (GBP 6.70) an hour to USD 10.15 (GBP 7.20) an hour an hour for workers ages 25 and over. The increased wage impacts about 1.8 million workers across Britain. The government plans to raise the National Living Wage to USD12.70 an hour (GBP 9) by 2020.

The UK decision to leave the EU has also introduced uncertainty into the labor market, with questions surrounding the rights of workers from other EU countries currently in the UK, the future rights of employers to hire workers from EU countries, and the extent to which the UK will maintain EU rules on workers' rights.

The 2006 Employment Equality (Age) Regulations make it unlawful to discriminate against workers, employees, job seekers, and trainees because of age. The regulations cover recruitment, terms and conditions, promotions, transfers, dismissals, and training. They do not cover the provision of goods and services. The regulations also removed the upper age limits on unfair dismissal and redundancy. It sets a national default retirement age of 65, making compulsory retirement below that age unlawful unless objectively justified. Employees have the right to request to work beyond retirement age and the employer has a duty to consider such requests.

Sources: 2018 INVESTMENT CLIMATE STATEMENT–UNITED KINGDOM, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, US DEPARTMENT OF STATE; UNITED KINGDOM COUNTRY COMMERCIAL GUIDE FY 2019, US & FOREIGN COMMERCIAL SERVICE AND US DEPARTMENT OF STATE; PRS Data files.

United Kingdom
Country Conditions
Background

Geography

The island nation of the United Kingdom lies off the west coast of the European continent, separated from the rest of Europe by the English Channel, the Straits of Dover, and the North Sea. The country consists of the island of Great Britain (England in the south and central, Scotland to the north, and Wales to the west), the province of Northern Ireland, and several small islands. Northern Ireland occupies the northeast corner of Ireland across the North Channel from Scotland. The UK's resources include coal, crude oil, natural gas, tin, limestone, iron ore, salt, clay, chalk, gypsum, lead, and silica.

The climate of the UK is mild and temperate. In the capital, London, the average low and high temperatures in January are 5°C and 9°C respectively, and it receives an average of 23 days of precipitation. In July, the average low and high temperatures are 15°C and 23°C with 17 days of precipitation.

Social Conditions

Ethnic and Racial Divisions. Although Britain's class system remains amazingly resilient, the intensity of class–based social divisions has declined; even the Labour Party has abandoned its traditional rhetoric of class conflict, achieving its election victories on an appeal to a broad range of workers and middle–class professionals. Social tensions based on economic differences persist. Since the mid-1980s, the rich have prospered and the extent of public services has declined. Labour addressed a problem of labor shortages for technically skilled positions by changing immigration policy, allowing permanent resident status for some technically skilled foreign workers. Meanwhile, relatively low–paid labor has helped attract investment and spur economic growth.

Regional and Class Divisions. Regional differences reflect economic and political divisions. Except for parts of inner London, southern England, which has remained fairly prosperous, traditionally backs the policies of the Conservative Party. The rest of the country—the midlands, northern England, Scotland, Wales, and Northern Ireland—suffers from chronically high unemployment and, except in Northern Ireland, residents generally support the Labour Party. After the 1997 national elections, the Scottish Conservative Party found itself without a single member in Parliament, but now holds 24% of the seats in the Scottish Parliament and 13 seats in the UK Parliament. Scottish nationalism revived, but the government expected the establishment of regional legislatures in both Scotland and Wales to help reduce regional divisions. Regional disparities in employment levels produce resentment, conflict, and occasional violence in some urban areas. On the other hand, Britons seem to be adjusting to their multicultural society. The UK has undergone radical change in the past few decades. The Church of England has lost more than half of its members since 1975, and there are now more Roman Catholics than Anglicans, as well as many Muslims and Sikhs. Irish, Indians, and West Indians are increasingly accepted into British society.

Education. The UK's nearly universal literacy rate can be attributed to the introduction of public primary education in 1870 and secondary education in 1900. Although children under 16 may work as part of an educational course, local education authorities can limit their employment if working will interfere with a child's education. Education is compulsory from ages five through 16. Seventy-nine percent of those between the ages of 25 and 64 have obtained at least an upper secondary education and 42% a tertiary education.

Health. Life expectancy averages about 81 years. Government expenditure provides 79% of Britain's health care (18% of total government expenditures in 2016), but many UK consumers who can afford it have opted for private treatment because of the problems in the system. The infant mortality rate in 2018 was four deaths per 1,000 live births.

Government

The United Kingdom does not have a written constitution. The equivalent body of law is based on statute, common law, and "traditional rights." Changes may come about formally through new acts of Parliament, informally through the acceptance of new practices and usage, or by judicial precedents. Although Parliament has the theoretical power to make or repeal any law, in actual practice the weight of 700 years of tradition restrains arbitrary actions.

Executive power rests nominally with the monarch but actually is exercised by a committee of ministers (cabinet) traditionally selected from among the members of the House of Commons and, to a lesser extent, the House of Lords. The prime minister is normally the leader of the largest party in the Commons, and the government is dependent on its support.

Parliament represents the entire country. It legislates for the entire country in matters that are not devolved to the legislatures in Scotland, Wales, and Northern Ireland, such as foreign policy, energy policy, immigration and border control, and monetary policy. The devolved legislatures in Scotland, Northern Ireland, and Wales have varying degrees of legislative authority over other matters. England does not have its own separate legislative body and Parliament can therefore legislate in all fields for England. As of May 2010, the maximum parliamentary term was five years, and the prime minister could ask the monarch to dissolve Parliament and call a general election at any time. Following the May 6, 2010 election the newly-formed Conservative/Liberal Democrat coalition government announced plans to institute fixed five-year Parliament terms. The Fixed-term Parliaments Act was passed in early 2011, bringing in the five-year parliamentary term. There are two ways an early election could be called, both of which involve votes in the House of Commons. One requires a vote of no confidence in the current government, which can be passed by a simple majority (326-324). If an alternative government then cannot be formed within 14 days from the parties already in the House, a general election must take place. The other is a vote explicitly for a general election, and requires a two-thirds majority, or 434 MPs, to pass. The 650-member House of Commons has sole jurisdiction over finance. The House of Lords, although shorn of most of its powers, can still review, amend, or delay temporarily any bills except those relating to the budget. The House of Lords has more time than the House of Commons to pursue one of its more important functions—debating public issues. In 1999, the government removed the automatic right of hereditary peers to hold seats in the House of Lords. The current house consists of 676 appointed life peers, who hold their seats for life, 25 bishops, and 90 hereditary peers, who will hold their seats only until final reforms have been agreed upon and implemented. The judiciary is independent of the legislative and executive branches, although the most senior judges (Law Lords) have seats in the House of Lords. The doctrine of parliamentary sovereignty means that the judiciary cannot review the constitutionality of legislation.

Following approval of referenda by Scottish and Welsh voters in 1997, the British Government established a Scottish Parliament and a Welsh Assembly, both of which were launched in 1999. Scotland, Wales, and Northern Ireland now each have legislative and executive bodies that legislate on and administer many matters, though there is significant variation in the extent of powers enjoyed by each of the devolved governments. The devolved governments have taken over many of the functions previously performed by the Scottish, Welsh, and Northern Ireland offices, whose primary purpose now is to coordinate between Westminster and the devolved administrations and to represent their interests in non-devolved matters. Scotland has always maintained different systems of law (Scots Law), education, local government, judiciary, and national church (the Church of Scotland instead of the Church of England). In January 2012 the ruling Scottish National Party announced its intention to hold a referendum in Scotland on full independence from the U.K. in 2014, and the U.K. government began discussions with the devolved Scottish government as to the terms of such a referendum. The referendum was held on September 18, 2014, with 55.3% of the vote against independence.

Northern Ireland had its own parliament and prime minister from 1921 to 1973, when the British government imposed direct rule in order to deal with the deteriorating political and security situation. From 1973, the Secretary of State for Northern Ireland, based in London, was responsible for the region, including efforts to resolve the issues that lay behind "the troubles."

By the mid-1990s, gestures toward peace encouraged by successive British and Irish governments and by U.S. President Bill Clinton began to open the door for restored local government in Northern Ireland. A Provisional Irish Republican Army (PIRA) cease-fire and nearly two years of multiparty negotiations, led by former U.S. Senator George Mitchell, resulted in the Belfast Agreement (also known as the Good Friday Agreement) of April 10, 1998, which was subsequently approved by majorities in both Northern Ireland and the Republic of Ireland. Key elements of the agreement include devolved government, a commitment of the parties to work toward "total disarmament of all paramilitary organizations," police reform, and enhanced mechanisms to guarantee human rights and equal opportunity. The Good Friday Agreement also called for formal cooperation between the Northern Ireland institutions and the Government of the Republic of Ireland, and it established the British-Irish Council, which includes representatives of the British and Irish Governments as well as the devolved Governments of Northern Ireland, Scotland, and Wales. Devolved government was reestablished in Northern Ireland in December 1999, although certain key functions, such as policing and justice powers, remained under Westminster control.

The Good Friday Agreement provides for a 108-member elected Assembly, overseen by a 12-minister Executive Committee (cabinet) in which unionists and nationalists share leadership responsibility. Northern Ireland elects 18 representatives to the Westminster Parliament in London. However, the seven Sinn Fein members of Parliament, who won seats in the last election, follow an abstentionist policy in which they refuse to take their seats, although they do maintain offices and perform constituency services. Progress has been made on each of the key elements of the Good Friday Agreement. Most notably, a new, more-representative police service has been instituted, and PIRA and the other main republican and loyalist paramilitary groups have decommissioned their weapons. However, a small number of splinter republican groups continue to oppose the peace process and engage in violence, particularly against the police, U.K. military, and the justice sector. Disagreements over the implementation of elements of the agreement and allegations about PIRA's continued engagement in paramilitary activity troubled the peace process for several years. In October 2002, Northern Ireland's devolved institutions were suspended amid allegations of IRA intelligence gathering at Stormont, the seat of Northern Ireland's government. Assembly elections scheduled for May 2003 were postponed. Elections were held in November 2003, but the Assembly remained suspended. Finally, in 2007, the parties signed the St. Andrews Agreement, which paved the way for the restoration of the Northern Ireland Assembly and for the devolution of powers to Belfast to occur. Responsibility for police and justice issues in Northern Ireland were the last component of devolution to take place; the transfer of these powers from London to Belfast occurred on April 12, 2010, having been provided for by the signing of the Hillsborough Agreement on February 4, 2010. The United States remains firmly committed to the peace process in Northern Ireland and to the full implementation of the Good

Friday Agreement and subsequent agreements, which it views as the best means to ensure lasting peace. The United States has condemned all acts of terrorism and violence, perpetrated by any group.

The United States is committed to Northern Ireland's economic development as a means of supporting a secure and stable peace, and works closely with local government and trade and investment bodies to highlight opportunities in the region. The United States has also been a strong supporter of the International Fund for Ireland, which has sought to enhance indigenous business prospects, redress inequalities of employment opportunity and community services, and improve cross-border business and cross-community ties.