The headline repeated with little variation, could not make matters more succinct, “Santander wants to quit UK retail banking”.

Now, given Santander has close to 14m customers, a big presence on high streets, & large staff, you’d be right to be concerned by the prospect of it shutting-up UK shop.

Before I summarily dismiss the absurdity of a “scorched earth” exit, may I please first be excused for providing a brief history.

Santander didn’t grow in the UK from scratch but via opportunistic takeover in July 2004, of Abbey National; the 1st of the building societies to demutualize, & enter the FTSE100. And just as other former BS’s went on absolute BS expansions into markets they had no clue about, so absurdly did Abbey.

Now, because regulation of the UK’s banks had been wrestled by Gordon Brown from the BoE to the FSA, their behaviour was, to put it mildly, reckless. However, unlike the likes of Halifax, Northern Rock, Bradford & Bingley, whose poorly covenanted grab at UK mortgage market share, was royally exposed from late 2007, Abbey was cloistered by having been bought “on the relative cheap” by Santander.

As we know post the UK’s banking crisis the MPC sensibly slashed the base rate to 0.5%. The UK also witnessed the belated return of banking regulation to the BoE & with it a very conservative approach. Having been let lose to act recklessly, UK banks were told they needed to: create robust capital buffers; carry out sensible stress tests on borrowers; get proper certification of their incomes, & hold LTV’s to reasonable rates. Nothing really wrong with any of this apart from…

With the old sound BoE guard gone & a new poor Governor in, it FAILED to lift the base rate around late ‘13. Failed that is to pick up on the signals coming out of the labour & housing markets, that an EMERGENCY BASE RATE was no longer needed or indeed prudent. Not prudent because for a commercial financial system to work well (banks & insurance) they need to generate financial returns in real terms. And with the base rate held rock bottom, real returns were hard to come by. Moreover, every passing day of ZIRP saw another UK household go mortgage free. And with rates on the floor so Brits turned away from bank saving to property investing, very often FOR CASH or extremely low LTVs.

Even when it seemed the base rate was set to move up into sensible terribly, the MPC reacted to the BrexRef by loosening again. Come covid, we saw another move to cut, as well as demands on banks they allow mortgagees to revert to paying peppercorn interest only.

Basically, thanks to the MPC’s lack of urgency in normalizing monetary matters & indeed easings, banks & insurers struggled to get the real returns they so needed to meet the justified demands of their share & stakeholders; so they turned to LDIs!

Anyway back to the news. IF & I think not, Santander do exit the UK, they will find plenty of buyers willing to give it a generous financial present for their entire presence here.

Table 1: Forecasts for a new normal monetary future - higher YES, alarmingly so, NO

Metric	Q4 '98 - Q4 '07 average (%)	Q4 '08 - Q1 '22 average (%)	Now	'25 - '29 forecasts (%)
UK Base rate	4.9	0.5	4.75	3.50 - 4.50
US Fed rate	3.6	0.6	4.50	5.00 - 6.00
UK Real Interest rate	3.3	-1.7	2.70	0.00 - 2.50
US Real Interest rate	1.0	-1.3	2.15	0.00 - 2.75
5 Year Gilt yield	4.9	1.2	4.51	3.00 - 3.50
10 Year Gilt yield	4.8	1.9	4.80	3.25 - 3.75
5 Year Treasury yield	4.4	1.5	4.61	5.00 - 6.00
10 Year Treasury yield	4.8	2.3	4.79	5.50 - 6.50
UK Fixed rate mortgage	5.7	3.2	4.82	4.00 - 4.50
UK House prices, yoy	12.9	3.0	3.30	2.00 - 5.50
UK CPI	1.6	2.3	2.50	3.00 - 4.25
UK Goods CPI	-0.1	1.7	0.70	2.00 - 4.00
UK Services CPI	3.7	2.9	4.40	4.00 - 5.50
UK Rent CPI	2.9	1.2	7.60	3.50 - 5.50
US CPI	2.7	1.9	2.75	4.00 - 5.50
UK Real GDP growth yoy	2.0	1.9	1.00	1.80 - 2.10
UK Implied Deflator GDP yoy	4.3	2.2	3.20	3.00 - 3.30
UK Nominal GDP growth yoy	6.4	4.0	4.00	4.80 - 5.40
UK Wage growth	4.3	2.3	6.33	3.50 - 5.50
US Wage growth	3.1	3.0	3.80	4.25 - 5.75
UK Unemployment	5.3	5.9	4.30	4.00 - 4.50
$/£	1.69	1.46	1.22	1.60 - 1.70
€/£	1.52	1.19	1.19	1.30 - 1.40
UK Construction wage inflation	4.8	2.0	7.97	3.30 - 4.70
UK Construction materials cost inflation:				
New housing		3.5	1.32	(1.80) - 1.20
CRE/Infra		3.9	-1.16	(2.80) - 0.20
Repair and Maintenance		3.8	0.66	(1.90) - 1.10
All Work		3.7	0.00	(2.30) - 0.70

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