Brexit: the end (of the beginning)?
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Impacts so far

- Sharp and sustained fall in £
- Otherwise no major impacts on financial markets
- Little impact on short-term growth
- Labour market remains robust
- Gradual but large fall in EU migration

Why did forecasters get it wrong? Mostly (lack of) sustained impact on confidence
Figure 1: The 'Brexit effect' on UK GDP

Source: UBS estimates
## Forecast growth (IMF)

<table>
<thead>
<tr>
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<th>Projections</th>
<th>Difference from July 2018 WEO Update³</th>
<th>Difference from April 2018 WEO¹</th>
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<td>2017</td>
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<td><strong>Advanced Economies</strong></td>
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<td>Advanced Economies</td>
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Source: Long-Term International Migration, Office for National Statistics
Scenario 1

- Deal is agreed and passed by Parliament
- Boost to confidence and growth in short term. £ rises
- But no certainly on negotiating approach post March.
  - Canada
  - Soft/EEA/Chequers+
  - Extended transition/temporary EE
- Renewed instability in 2020/21?
Scenario 2

• Negotiations break down or deal is voted down by Parliament

• Sharp fall in £, business and consumer confidence (but probably no financial crisis)

• Likely change of PM. Numerous (overlapping) scenarios:
  – No Deal
  – Conservative party leadership contest
  – General election and/or 2\textsuperscript{nd} referendum
  – Extension of Article 50
Brexit: economic implications

- No Deal: fall in £, disruption to trade. Downsides very hard to quantify

- Transition with hard Brexit/no trade deal: Stability & continued slow growth in short term: renewed instability in 2020

- Transition with soft Brexit: return to “normal” growth, rise in £.

- Reversal of Brexit: sharp rise in £ and investment boom

- BUT: all these scenarios have political implications (new PM, maybe new elections) – more short-term instability
Longer term: the UK dilemma

- UK government analysis suggests significant long-term negative impacts of leaving Single Market and customs union.

- Trade deals with 3rd countries likely to be marginal (Aus/NZ), difficult (China/India), or politically charged (US – even without Trump).

- All UK proposals therefore aim to replicate benefits of SM/CU while still leaving (at least legally/politically).
The Chequers Plan/Brexit White Paper

- Single Market (effectively) in goods. Freedom to diverge largely notional
- Some version of equivalence in financial services (and other service sectors?)
- “Facilitated customs arrangement” would look very like a customs union (at least for first few years)
- Solves (most of) Irish border issues
UK government analysis suggests main costs of Brexit are non-tariff barriers, especially in service sector. So even Chequers deal would impose significant costs.

Further complicates trade deals with third countries.

Individual service sectors will argue for similar treatment as for goods.

At least as complex as Swiss arrangements.

Longer term: UK will have to choose..
Brexit two years on
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