



The **UK** in a **Changing Europe**

Brexit: the end (of the beginning)?

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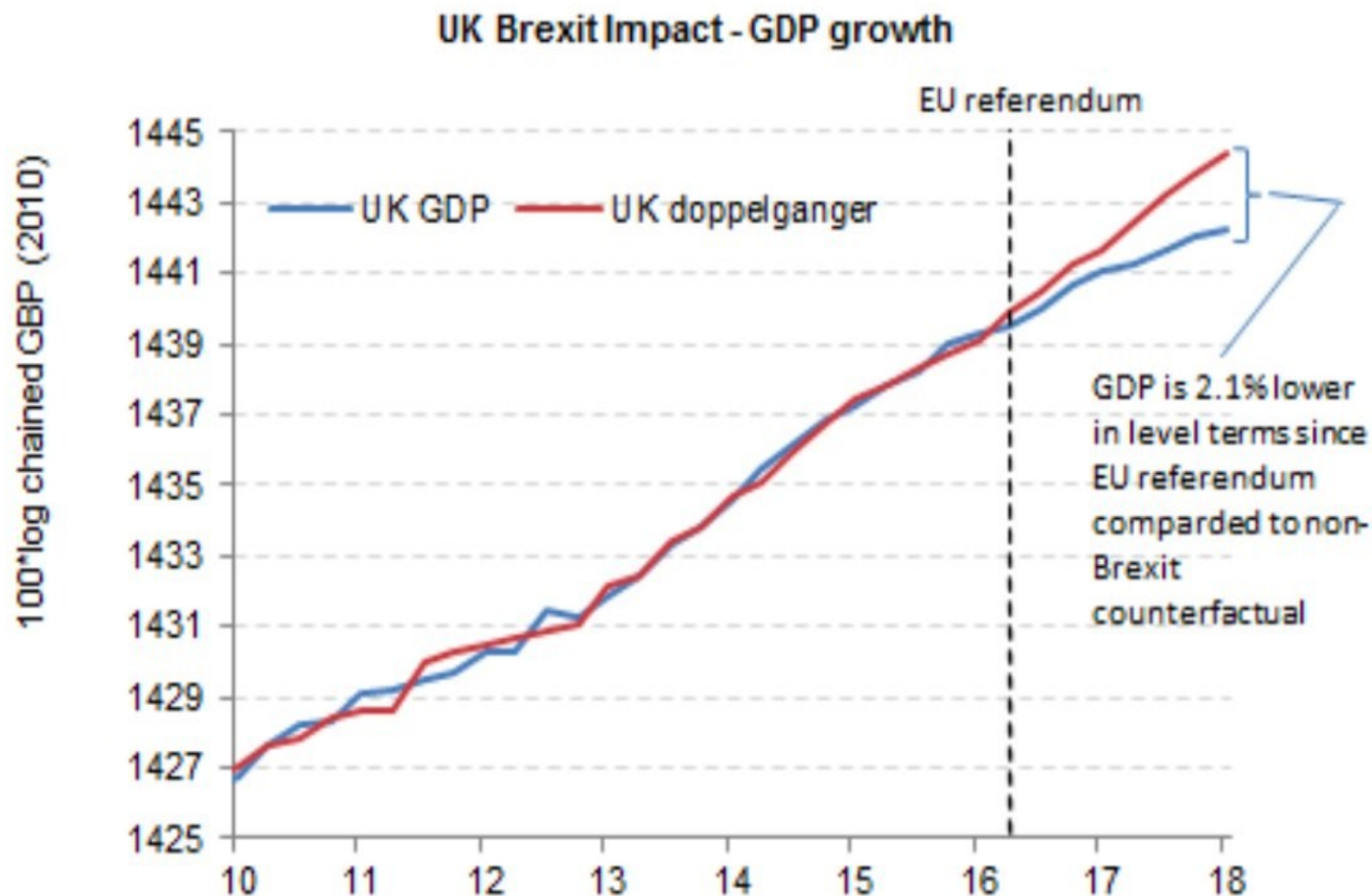


Impacts so far

- 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

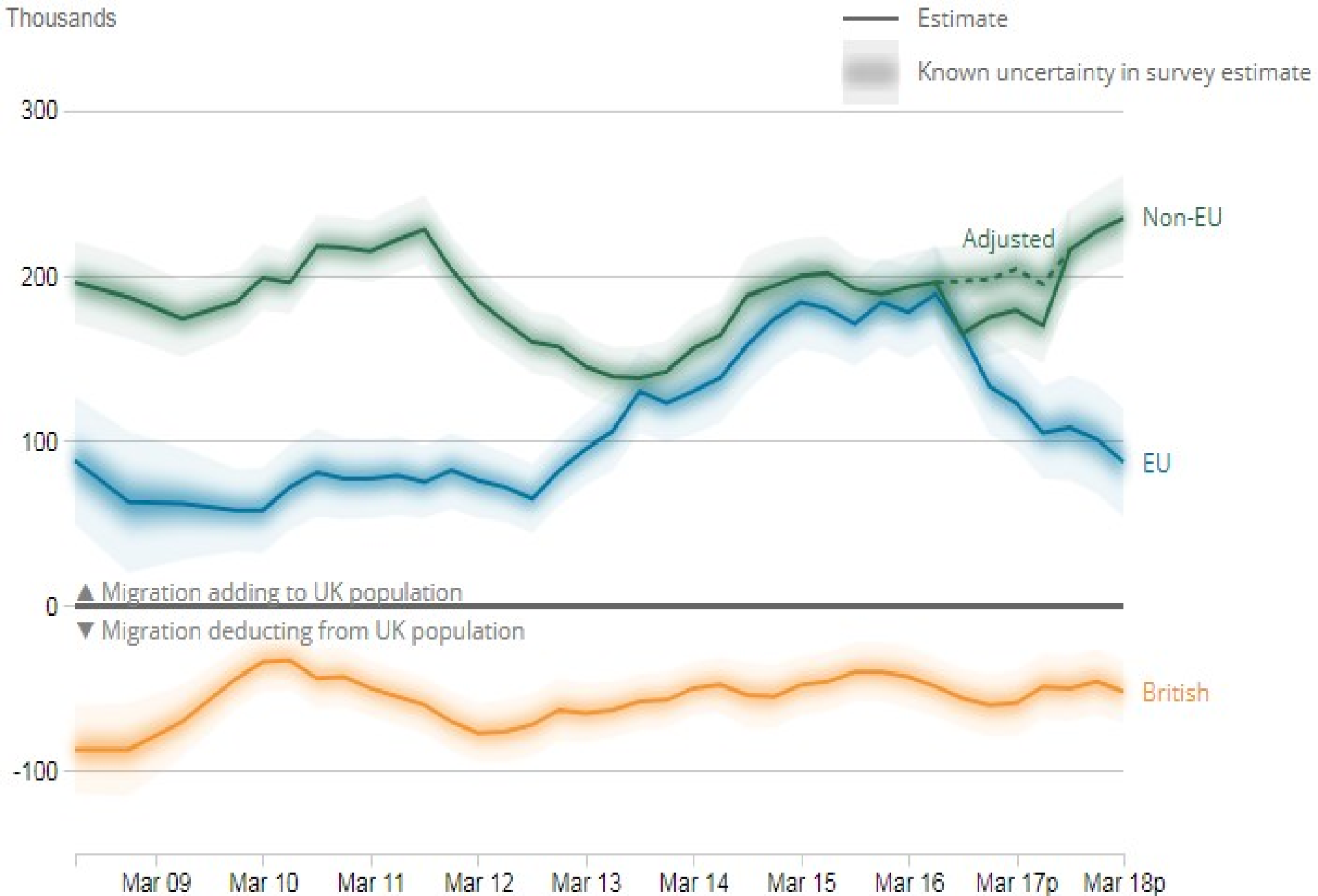
Figure 1: The 'Brexit effect' on UK GDP



Source: UBS estimates

Forecast growth (IMF)

	2017	Projections		Difference from July 2018 WEO Update ¹		Difference from April 2018 WEO ¹	
		2018	2019	2018	2019	2018	2019
World Output	3.7	3.7	3.7	-0.2	-0.2	-0.2	-0.2
Advanced Economies	2.3	2.4	2.1	0.0	-0.1	-0.1	-0.1
United States	2.2	2.9	2.5	0.0	-0.2	0.0	-0.2
Euro Area	2.4	2.0	1.9	-0.2	0.0	-0.4	-0.1
Germany	2.5	1.9	1.9	-0.3	-0.2	-0.6	-0.1
France	2.3	1.6	1.6	-0.2	-0.1	-0.5	-0.4
Italy	1.5	1.2	1.0	0.0	0.0	-0.3	-0.1
Spain	3.0	2.7	2.2	-0.1	0.0	-0.1	0.0
Japan	1.7	1.1	0.9	0.1	0.0	-0.1	0.0
United Kingdom	1.7	1.4	1.5	0.0	0.0	-0.2	0.0
Canada	3.0	2.1	2.0	0.0	0.0	0.0	0.0
Other Advanced Economies ²	2.8	2.8	2.5	0.0	-0.2	0.1	-0.1



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 certainty 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 2nd 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

Issues/problems (from economic perspective)

- 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..



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Brexit two years on
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