



International Monetary Fund

September 15, 2016

The Impact of Brexit Fall 2016 BPEA Conference

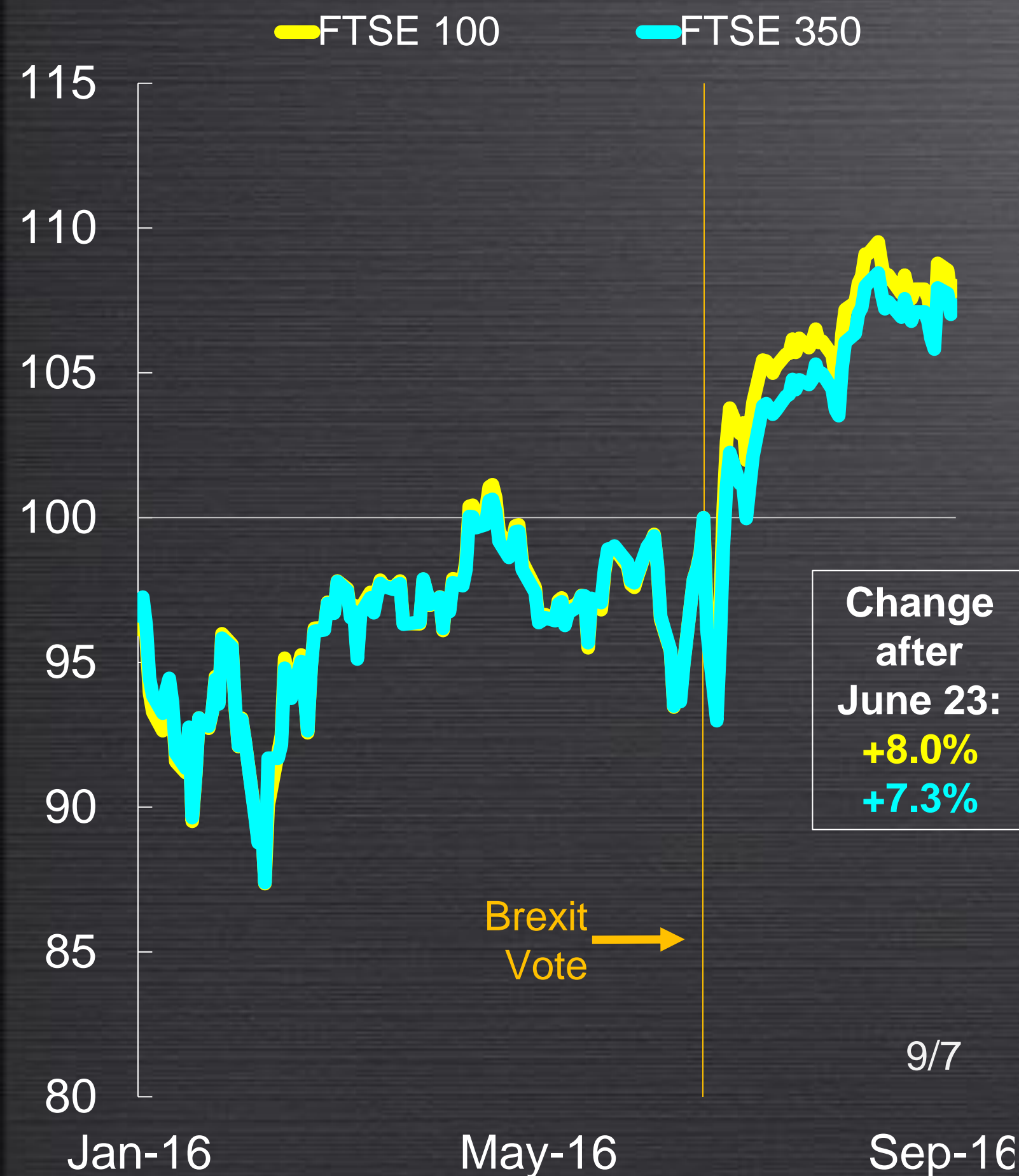
Maurice Obstfeld

Economic Counsellor

Quick equity recovery and lower bond yields

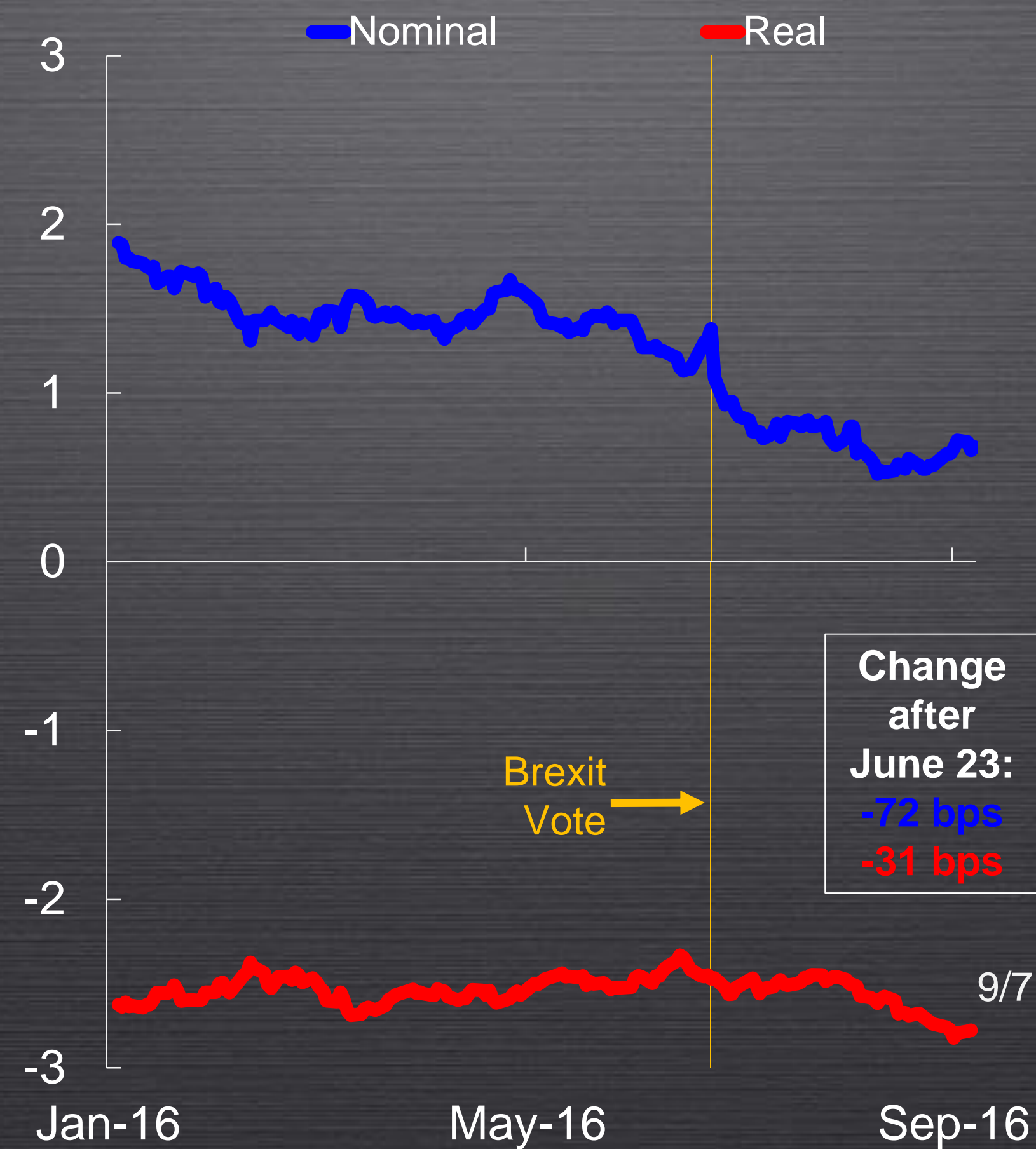
Equity markets

(index; June 23, 2016 = 100)



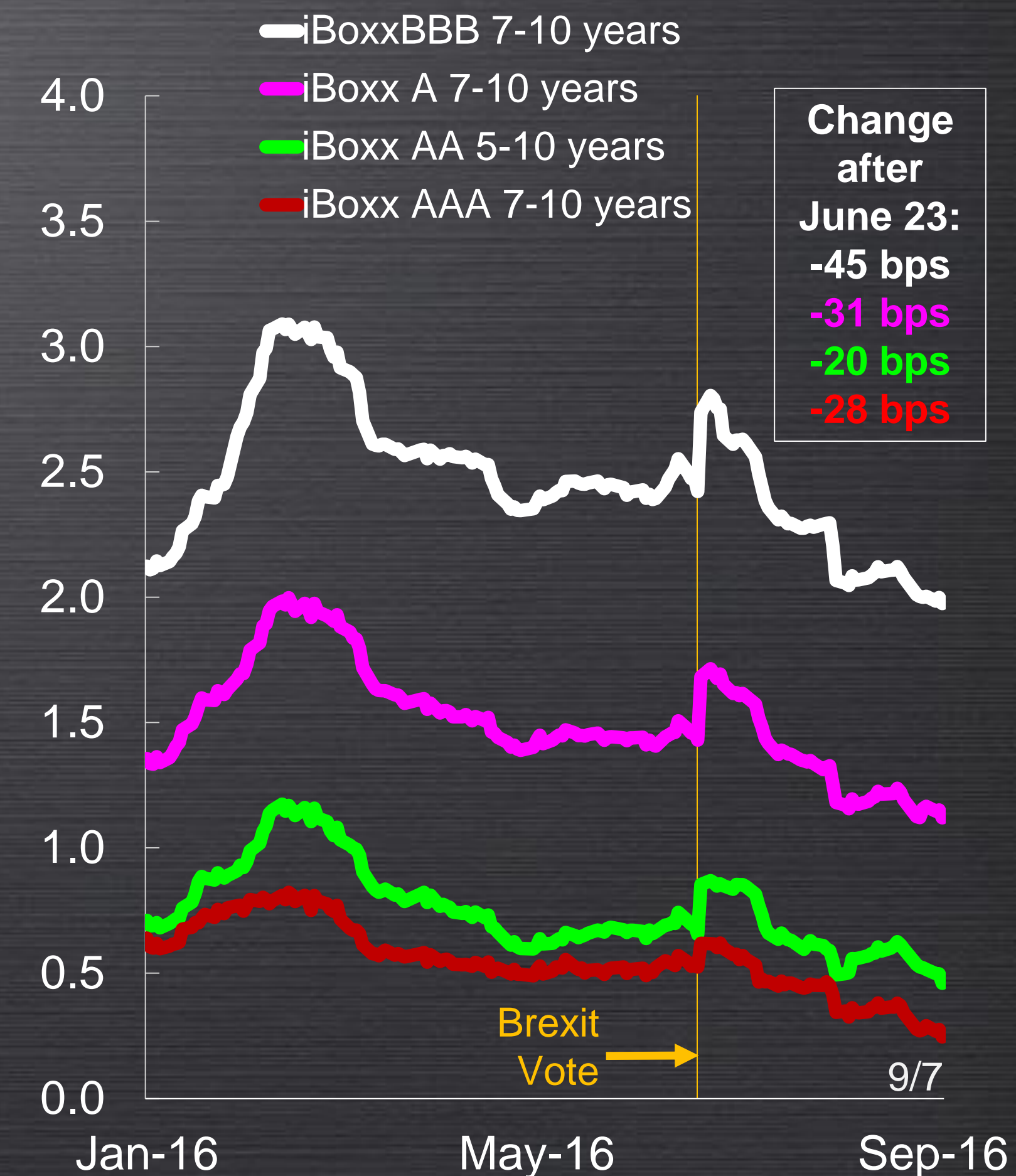
10-year government bond yields

(percent)



Corporate bond yields

(percent)

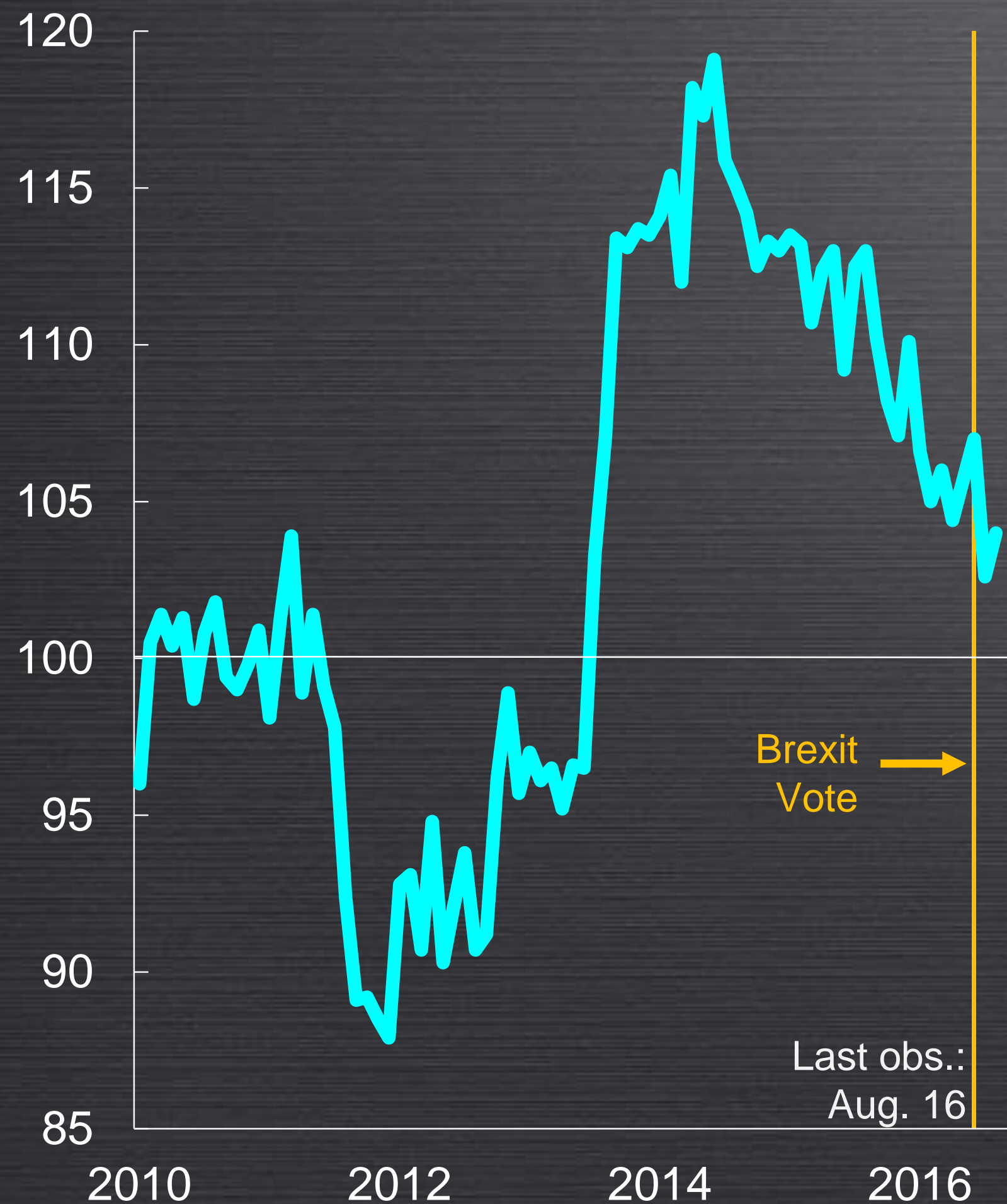


Sources: Haver Analytics, and IMF staff estimates.

Sentiment has deteriorated and sterling is down

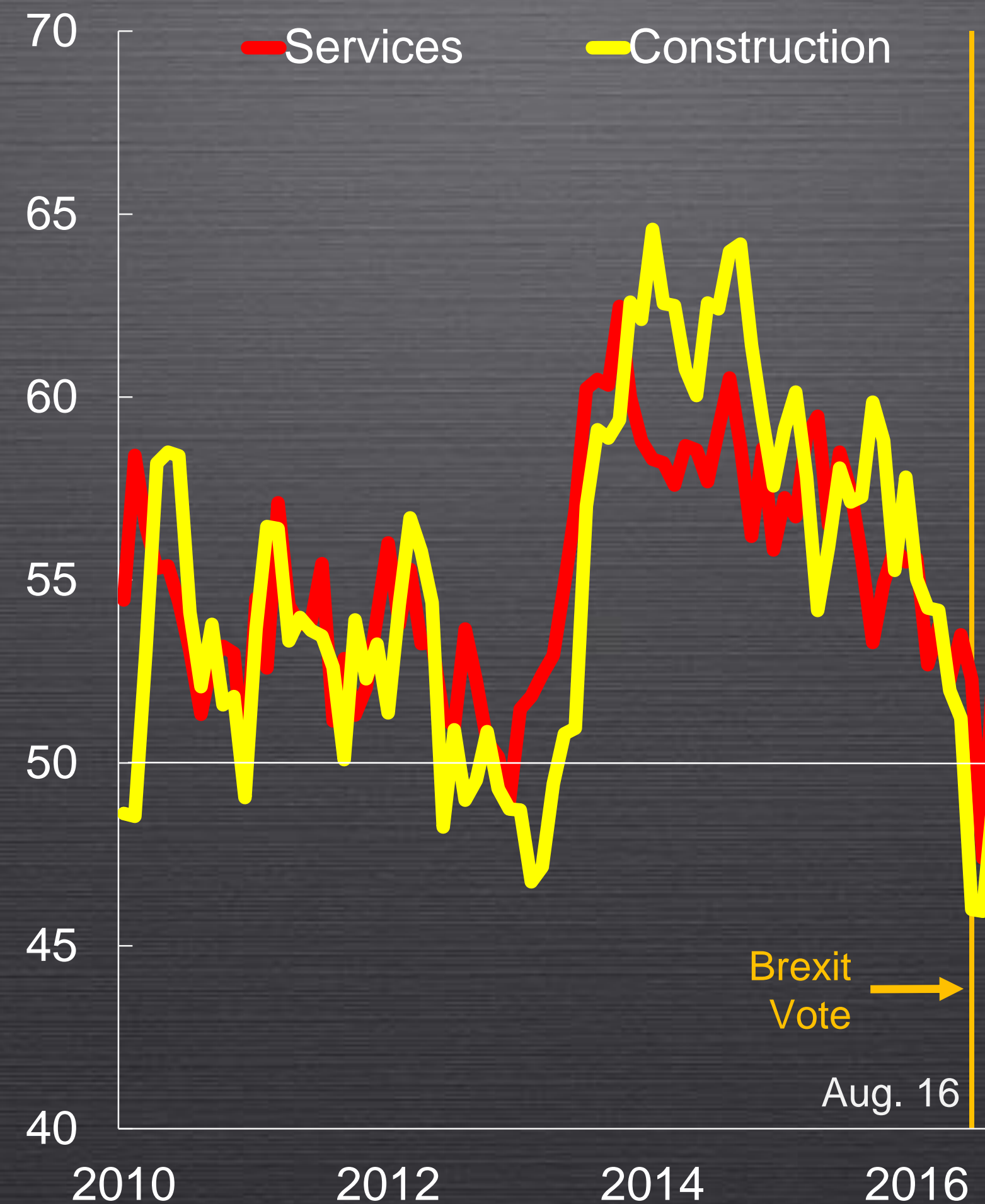
Economic sentiment

(index; long-term average=100)

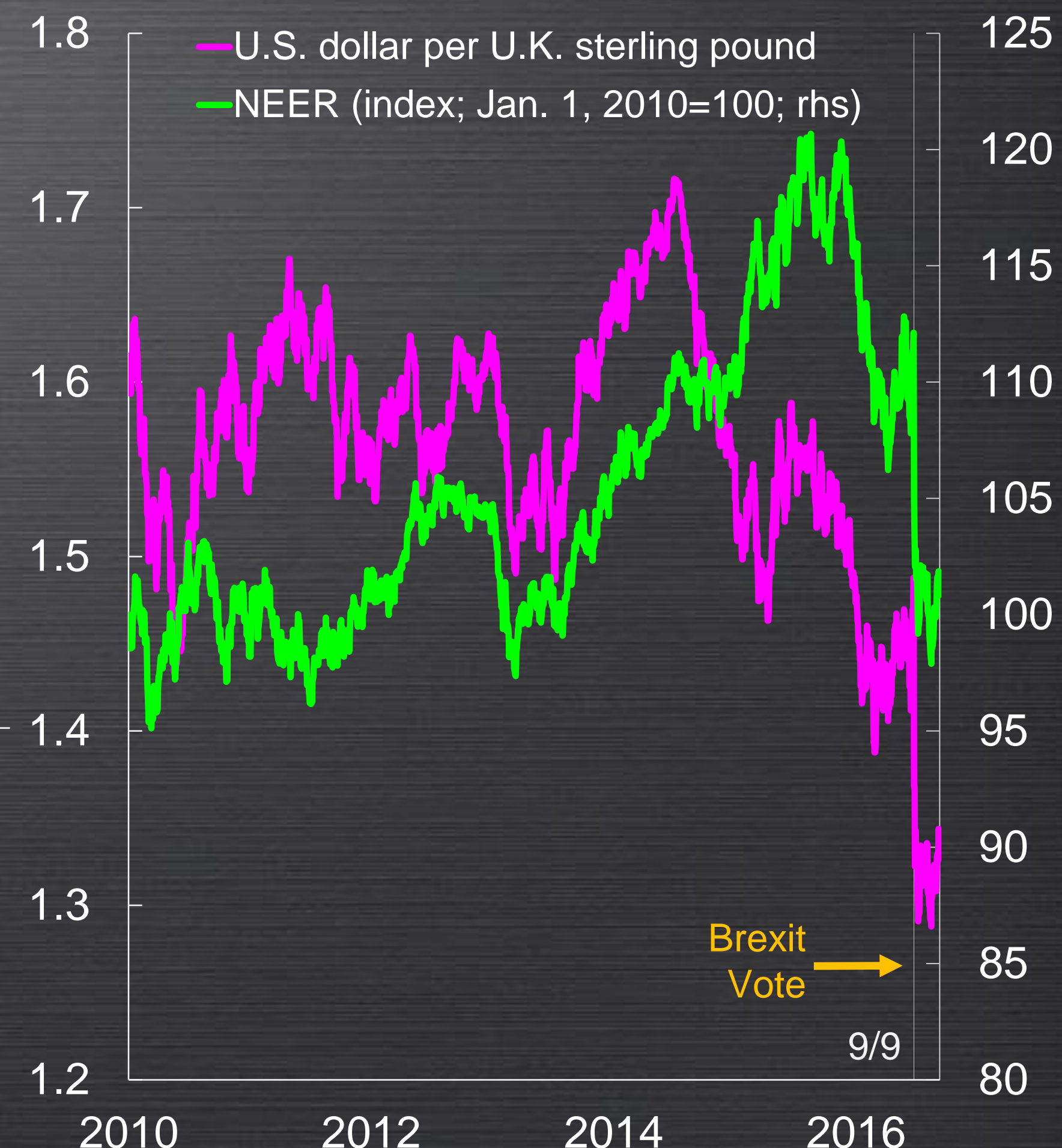


Manufacturing PMIs

(SA, 50+=Expansion)



UK exchange rates

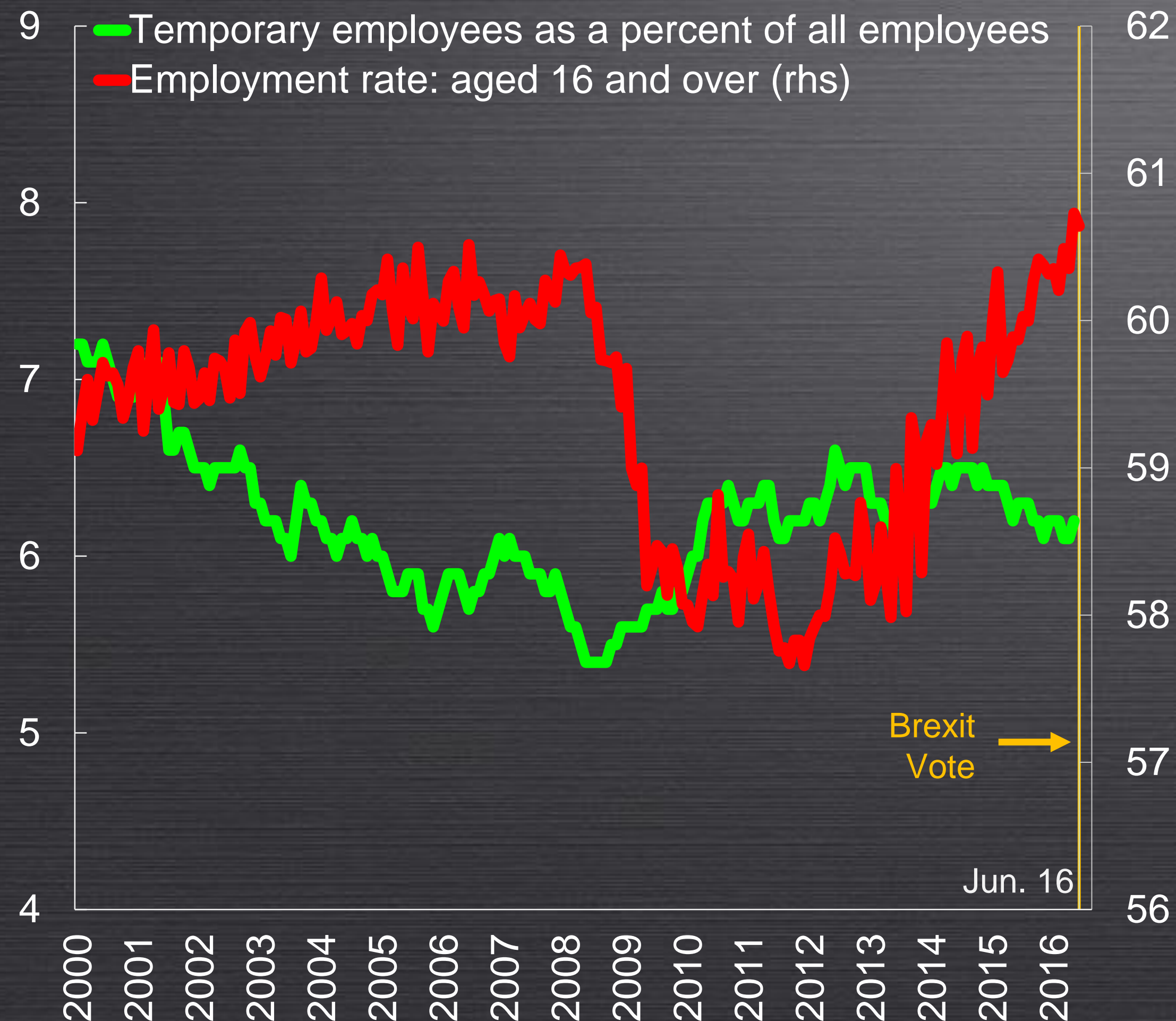


Sources: Haver Analytics, and IMF, *Global Data Source*.

Labor indicators steady and some trade improvement

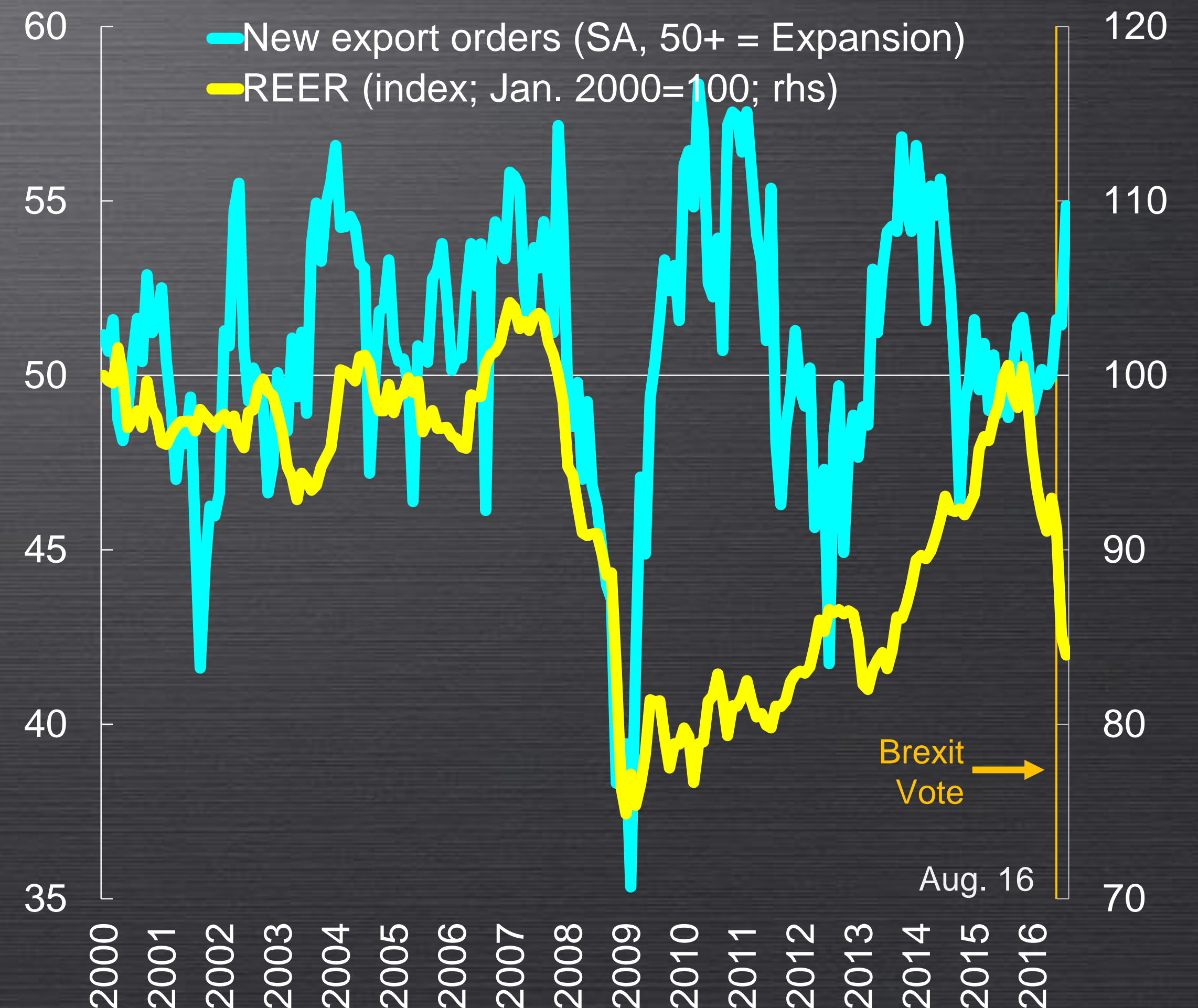
Labor markets

(percent)



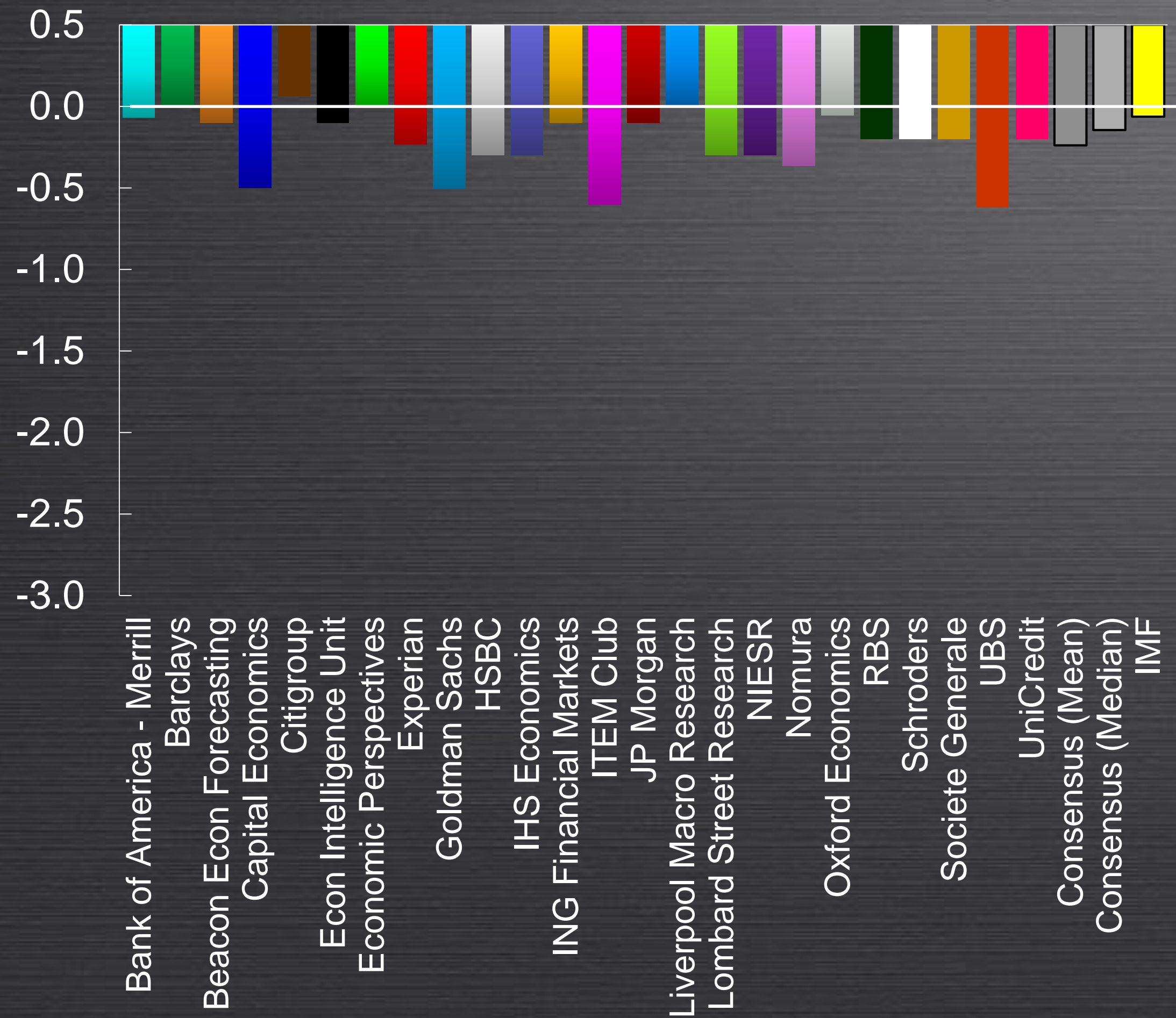
Sources: Haver Analytics and IMF, *Global Data Source*.

New export orders PMI and real effective exchange rate

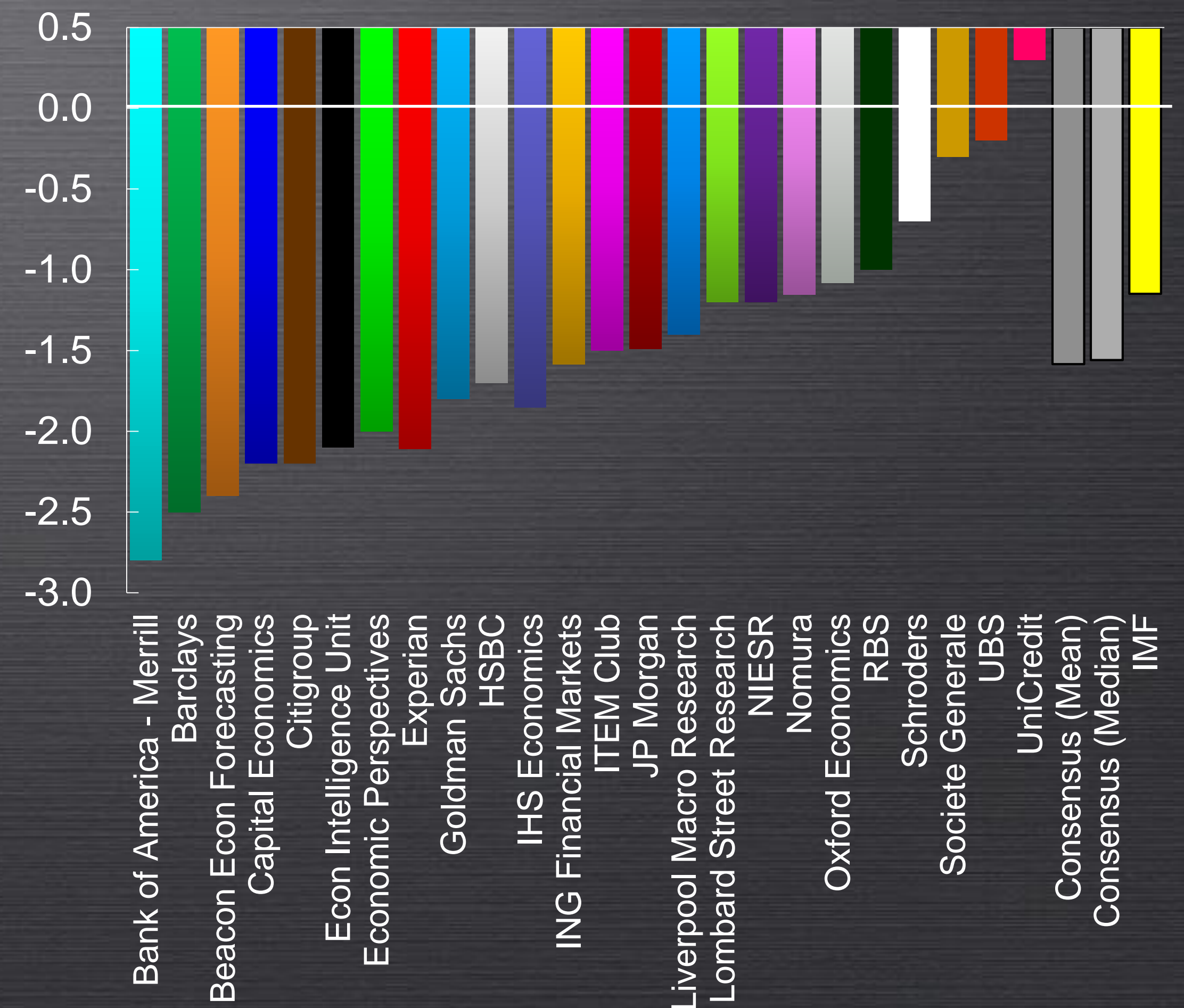


Current forecast revisions after Brexit vote

2016 1/



2017 1/



Source: Consensus Economics; and IMF, *World Economic Outlook*..

Note: 1/ Revisions are reflecting the change in forecasts between the pre-Brexit vote vintage and the most recently available vintage.

Brexit: Summing up impact

How do we interpret the *better-than-expected* financial market developments?

- Will they be unwound? No obvious reason, until new negative data emerge
- Has the exchange rate saved the day? It has helped (exports, UK debt denominated in sterling)
- House prices? Slowdown in rate of growth; BoE backstop (support to bank lending channel, eased countercyclical buffers, lower interest rates, and QE)

Uncertainty effects will be prolonged

- Can't negotiations quickly dissipate uncertainty? Not likely given French and German electoral calendars, U.K.'s lack of preparedness for referendum result
- U.K. macro policies, including fiscal easing, can be helpful
- But uncertainty effects will also impact the EU-27, with little policy space

Brexit: Structural factors and political fallout

How will structural factors play out? **Unclear, supply likely affected**

- What type of deal will be struck with EU? **Unclear. EEA unlikely due to lack of migration control. But access to single market crucial for exports**
- How will the financial sector be affected? Other key exporters (e.g. car manufacturers, Airbus suppliers)? **Depends on access to single market. U.K. *financial passport* a very likely casualty, City of London's status in peril**
- Will migration into U.K. slow down sharply? **At some point; in the short run, we may see a surge in migrants from EU-27 before restrictions come into play**

What further political repercussions?

- Too good a deal for the U.K. would further encourage centrifugal forces in EU
- Could the U.K. reconsider? **Seems difficult given current political disarray....**
- Serious re-think needed on a range of EU, euro area arrangements