The Impact of Brexit
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Quick equity recovery and lower bond yields

**Equity markets**
(index: June 23, 2016 =100)

- FTSE 100
- FTSE 350

**10-year government bond yields**
(percent)

- Nominal
- Real

**Corporate bond yields**
(percent)

- iBoxx BBB 7-10 years
- iBoxx A 7-10 years
- iBoxx AA 5-10 years
- iBoxx AAA 7-10 years

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
(U.S. dollar per U.K. sterling pound
NEER (index; Jan. 1, 2010=100; rhs)

Sources: Haver Analytics, and IMF, Global Data Source.
Labor indicators steady and some trade improvement

Labor markets (percent)

New export orders PMI and real effective exchange rate

Sources: Haver Analytics and IMF, Global Data Source.
Current forecast revisions after Brexit vote

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