

A Macroeconomic view on Brexit

Risks and Opportunities

September, 2016
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Economic Impacts: Risks and Opportunities

Brexit Effect – Had been Too Much Exaggerated?

Recent Update

- On the UK economy, 2Q 2016 GDP growth rate has expanded at +2.2% yoy, and composite PMI (purchasing managers' index) has shown a remarkable improvement in August after a sharp drop in July (June:52.3 → July:47.6 → August:53.6). Moreover, various surveys indicated relatively robust or stable developments in consumption and housing markets up to now. Although business concerns on the effects of Brexit could invite a sharp drop in capital expenditure and employment in the coming months, tangible signs of their materialization have not yet been seen.
- In this environment, as a preemptive measure, BOE cut the interest rate on August 4th for the first time in seven years since 2009, as well as introducing other easing measures. BOE also showed their intentions to further ease monetary policy, should the economic condition move as the forecast.
- The Eurozone economy has also enjoyed steady growth so far. August Eurozone PMI, for example, has kept a relatively strong level of 53.3. At this point, the economy has not shown significant adverse impact from the UK referendum.
- The ECB governing council meeting held in September 8th decided to keep the current policy, however, also hinted at taking further monetary easing actions, considering the impact of the UK referendum as well as the risk of economic downturn in the Eurozone.

Does Brexit Mean “Hard or Soft” Brexit?

Recent Arguments of Economic Relationship with the EU

- The UK priorities to be considered
 - Access to the single market
 - Maintaining the current trade benefits
 - Immigration control
 - Public mandate
 - Influence on rule making that is applied to the UK
 - Financial regulators’ pride and an element supporting prosperity of City
 - No customs
 - Making the border in Ireland invisible

	Norwegian type	Swiss type	Canadian type
Single market access	○	×	×
Immigration control	×	×	○
Influence on rule making	×	○	○
No customs	×	×	×

Mayism vs. Thatcherism

The UK's own choice of its future affects the relationship with the EU.

- Norwegian + α (partial immigration control)
 - Manufacturing friendly?
 - More aligned with PM May's policy
- Swiss + α (partial immigration control) or Canadian
 - Financial industry friendly? despite the risk of losing passport

The UK Economy in the past

- Financial industry centric
- High growth with increasing gaps (London vs. Regions, and Rich vs Poor)
- Strong currency and weak manufacturing
- Diversified London and monocultured region
- Light touch regulation being replaced by heavy touch

New Policies Implied by PM May

- Improving productivity, reducing energy costs
- More infrastructure investment
- Plan for dynamic cities and thereby reducing the gap between London and other regions
- More financial burdens on the rich and thereby reducing income gap
- Participation of representatives of workers and consumers in boards
- More shareholders' influence on executives' pay
- Stricter regulation on corporate acquisition by foreigners

New Policies Implied by N. Lawson

- Finishing Thatcherism
- Another deregulation of financial industry?

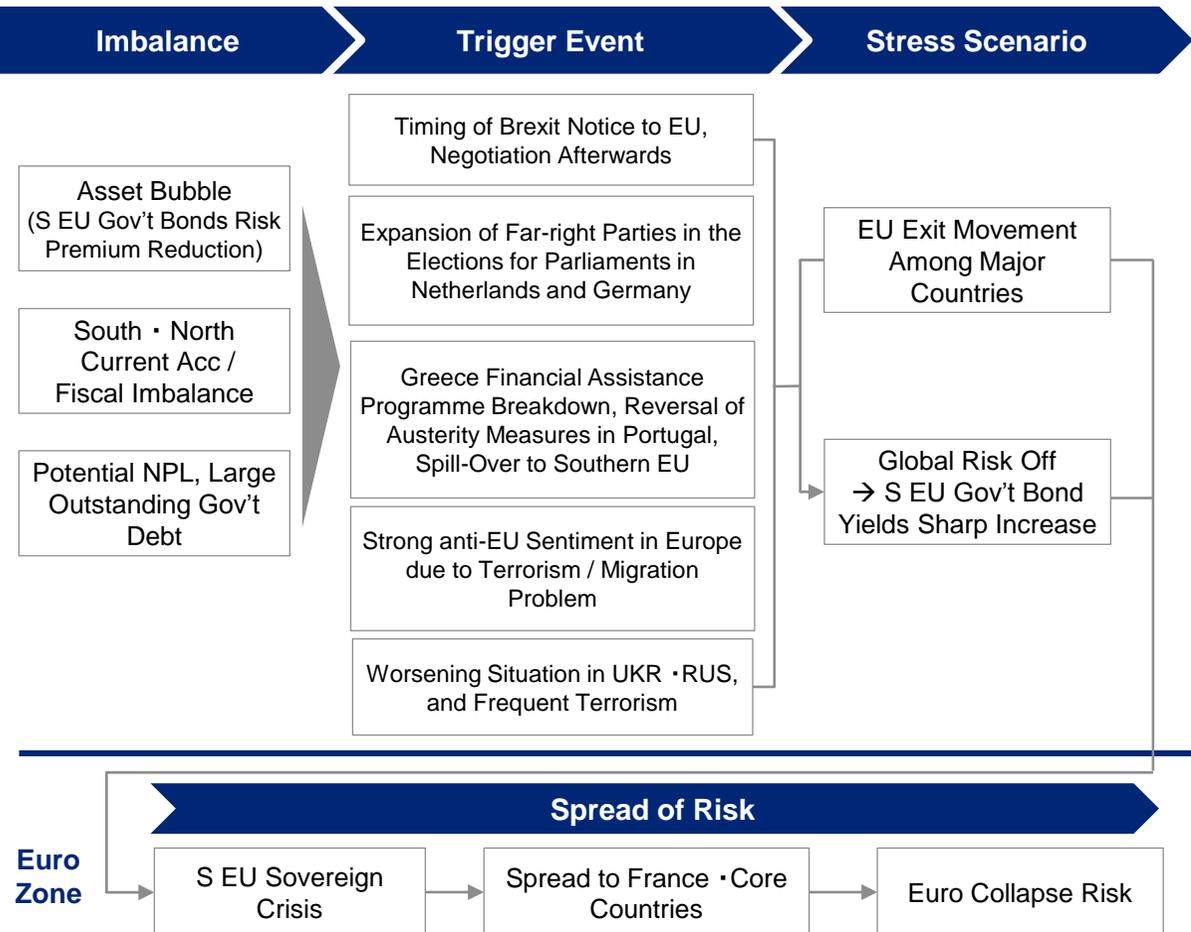
New UK Economy

?

Next – Frexit or Nexit?

A Possible Scenario of the EU Collapsing Triggered by Brexit

Stress scenario 1: EU destabilization ⇒ Bursting of southern European government bond bubble



Some Issues to be Considered

- Austria – Ultra-right plays down the referendum but could win the election.
- Italy – Lucky Renzi thanks to Five Star's own goal?
- France – Divided in favor of Le Pen but she still has few chances to win
- Netherlands -- ??
- Germany -- Increasing popularity of AfD could threaten Merkel.
- Greece – It's linked with German election.
- Thanks to the turmoil loomed by the result of Brexit referendum, anti-EU sentiment among EU member states have somewhat subsided so far.
- However, if the UK shows soft-landing of Brexit, this could invite other EU members to follow and lead to hard-landing for EU.

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