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United Kingdom

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Brexit Divorce Deal

- On Wednesday 14th November, 2018 Prime Minister of the United Kingdom (UK) Theresa May, presented a draft Brexit deal to the cabinet with the aim of ending uncertainties regarding the relationship between the European Union (EU) and UK. The following are the key points presented:
 - *The UK will enter into a transition period after its exit from the EU in March 2019 until the end of 2020 with the option to extend. During the transition period the UK will lose its EU voting rights however EU citizens will continue to live and work in the UK and the oversight of EU courts and budget payments will be retained.*
 - *A free trade area will be established between the UK and EU to ensure the heavily integrated trade area will not be disrupted however, the UK will be bound by customs rules set by the EU.*
 - *The finance industry's access to the EU has been downgraded and the relationship will be based on "equivalence". The EU uses "equivalence" to determine whether a non-EU country's banks has rules and regulations that are equivalent to their own and can block access to said country's banks if they believe rules and regulations are not equivalent.*

- *An estimated figure of 39 billion pounds will be paid to the EU for a sum based on previous commitments to the EU budget, a share of pensions for EU staff, and European projects that the UK wants to continue participating in. There is no deadline for the payment however, the EU requires that payments be made annually to close the debt.*
- *Citizens of the UK will retain their immigration rights and will be protected “for their lifetime” provided they register with the EU after 5 years of continuous residence.*
- Several hours after the meeting the Prime Minister received several resignations from ministers in her party. Four resignations were announced on Thursday 15th, Dominic Raab: Brexit Minister, Esther McVey: Works and Pensions Secretary, Shailesh Vara: Junior Northern Ireland Minister, and Suella Braverman: Junior Brexit minister. Dominic Raab is the second appointed Brexit secretary to resign, citing similar reasons to his predecessor David Davis who also quit due to disagreements with Theresa May’s Brexit strategy.
- Following the resignations, market conditions deteriorated as the pound sterling and financial stocks declined. Stocks in autos and banking suffered the largest declines, the STOXX 600 index declined 0.5% and the FTSE 100 was relatively flat.

Economic Update

- Analysis done by the International Monetary Fund (IMF) highlighted two scenarios with forecasts on the long-run economic impact of Brexit on the UK. In presenting the estimates IMF noted “quantifying the impact of Brexit on the UK economy is complex and the estimates are subject to large uncertainty.”
- The first scenario represents a Free Trade Agreement between the nations. Under this scenario, the level of output is estimated to fall by between 2.5% and 4%. The second scenario will see the UK and EU trade using rules set by the World Trade Organisation (WTO) and estimates show output falling by between 5% and 8%.
- Further estimates highlight average losses of 1% and 4% to the manufacturing and services sector respectively. The decline in the services sector will be primarily due to a 15% loss in financial intermediation.

Table 1. United Kingdom: Selected Economic Indicators 2014-2019

	2014	2015	2016	2017	2018*	2019*
REAL GDP	2.9	2.3	1.8	1.7	1.4	1.5
PRIVATE FINAL DOMESTIC DEMAND	2.9	2.8	3.0	2.1	1.1	1.4
CPI END OF PERIOD	1.0	0.1	1.2	3.0	2.3	2.1
UNEMPLOYMENT RATE	6.2	5.4	4.9	4.4	4.1	4.2
CURRENT ACCOUNT BALANCE	-4.9	-4.9	-5.2	-3.8	-3.5	-3.2

** PROJECTIONS BY IMF*

Source: IMF, First Citizens Research & Analytics

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