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International

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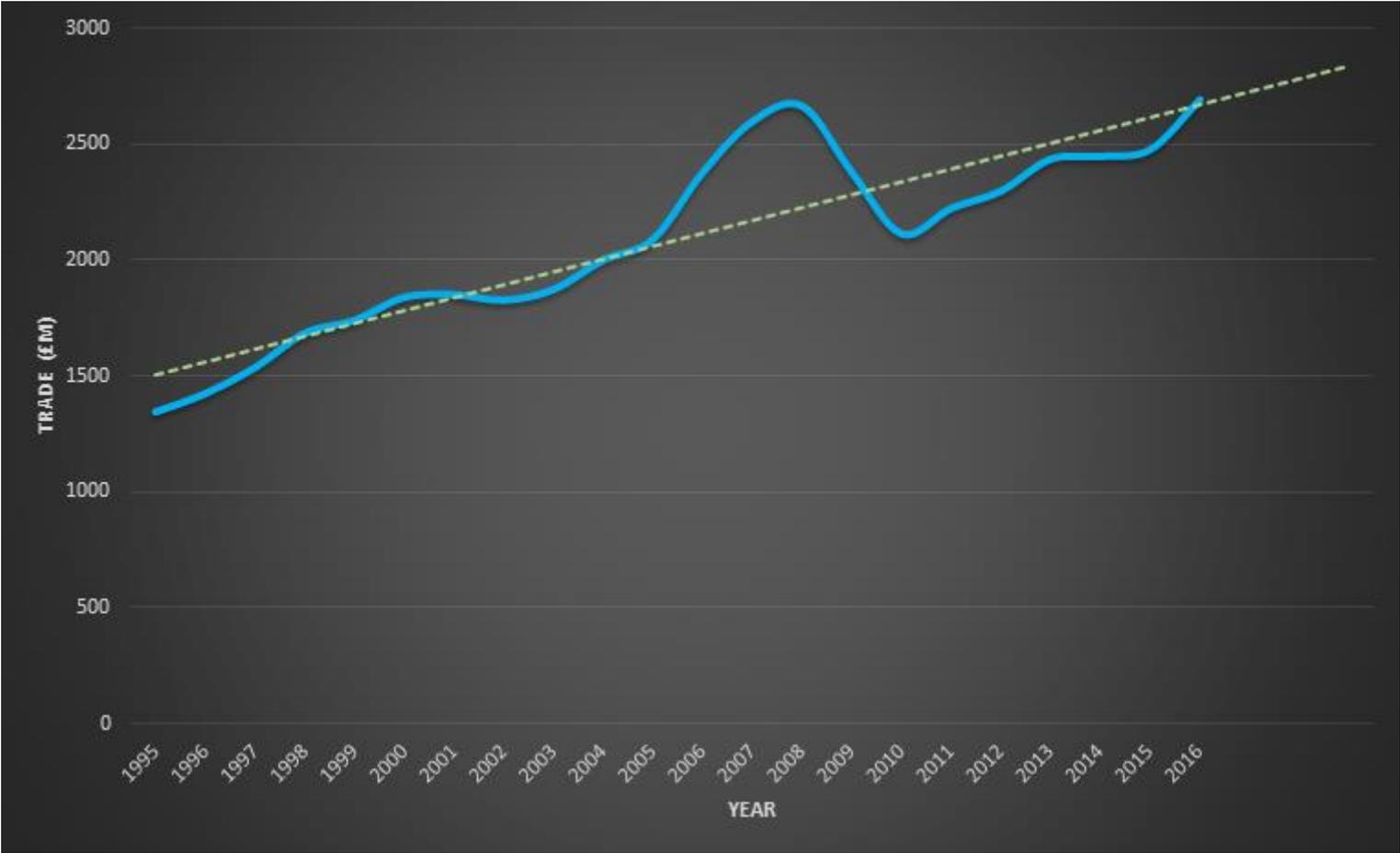
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## Fitch Ratings Places the UK on Negative Rating Watch

- On February 20<sup>th</sup>, Fitch Ratings placed the UK's AA long and short-term foreign and local currency rating on a negative rating watch due to prolonged uncertainties surrounding Brexit negotiations as the March 29<sup>th</sup> deadline to leave the European Union (EU) nears.
- The Bank of England (BoE) which is currently rated AA with a negative outlook has also been placed on a negative rating watch, directly in line with the UK.
- The next scheduled review date for the UK's sovereign rating is April 26<sup>th</sup>, however Fitch believes that current developments warrant a deviation in rating date.
- Heightened uncertainty over the Brexit process raising risks of a disorderly no-deal Brexit would see trade revert to World Trade Organisation (WTO) rules where UK GDP can decline by 8%, inflation and unemployment increase to 6.5% and 7.5% respectively in 2023 according to the Bank of England's report on Brexit. A disorderly no-deal Brexit will result in the economy being worse off than it was during the global financial crisis when GDP growth declined by 6.25%, unemployment stood at 8% and inflation at 4.75%.
- Prime Minister Theresa May's Brexit plan suffered a major voting loss in January when offered to the Parliament to vote on even though it was the only deal agreed on by the EU.

- The main reason for lack of Parliamentary support on May's Brexit plan arises from the Northern Ireland Backstop that the EU mandates to be a part of the deal for the UK to leave the EU.
- The Backstop is an insurance plan that will leave trade policies nearly unchanged between the Republic of Ireland and Northern Ireland so that a hard border will not separate the nation in the event of a no-deal Brexit. The Parliament is against having the Backstop in the Brexit plan as Northern Ireland which is a member of the UK will have preferential trade policies with the UK.
- As a member of the UK, the Parliament believes that Northern Ireland should not have EU member trade policies with the Republic of Ireland as other members of the UK will not receive the same trade policies as Northern Ireland.
- The EU on the other hand sees the Backstop as necessary to prevent the return of a hard border between Northern Ireland and the Republic of Ireland.

Cross-Border Trade between Northern Ireland and the Republic of Ireland in terms of total trade



Source: InterTradeIreland, First Citizens Research and Analytics

- The following risk factors may individually or collectively result in a downgrade of the UK's sovereign ratings:
  - The UK exits the EU without a deal resulting in a no-deal disorderly Brexit.
  - Economic data following Brexit displaying weaker than expected UK economic performance.
- The negative rating watch can be removed and the current ratings affirmed in the event that a deal is struck between the Government and the Parliament ensuring a smooth deal Brexit transition takes place. In this scenario according to the BoE under a close deal real GDP growth will be 1.75% with unemployment and inflation at 3.75% and 2.1% respectively.

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