

PM May uses speech to give utmost emphasis to kind of Brexit the UK desires

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The UK Prime Minister, Theresa May, clarified the UK's negotiating plans with "12 priorities" for its withdrawal from the EU in a speech on the 17th January. Within the speech, May gave utmost emphasis to the kind of Brexit the UK desires: one which gives top priority to restoring sovereignty to the UK and limiting the number of immigrants yet clarifies the UK's plan to maintain a close economic relationship with the EU as much as possible. The specific details are laid out in Table 1. Although the pound did recover somewhat after the speech, this was mainly due to a rebound from pound selling ahead of May's speech, reflecting media reports that the UK will withdraw from the EU's single market. There does not appear to be any significant change in the trend of pound depreciation since the referendum in June last year.

Table 1: UK's 4 Ideals and 12 Priorities when Leaving the EU

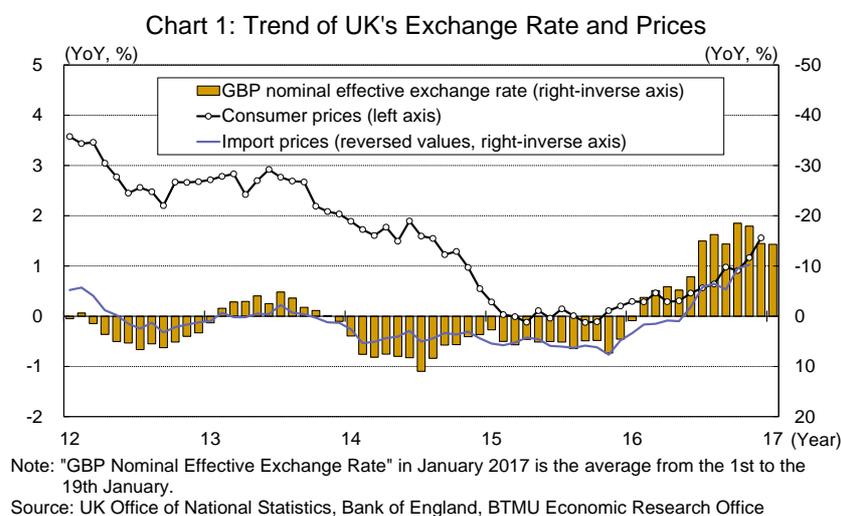
4 Ideals	Key Points
12 Priorities	
Certainty and Clarity	
① Provide certainty	• will seek Parliamentary approval on the final deal on leaving the EU
A Stronger Britain	
② Control of our own laws ③ Strengthen the Union ④ Maintain the Common Travel Area with Ireland	• restore sovereignty of the UK
A Fairer Britain	
⑤ Control of Immigration from the EU ⑥ Guarantee the rights for EU nationals in Britain, and British nationals in the EU ⑦ Protect workers' rights	• policy to control the numbers of immigrants
A Truly Global Britain	
⑧ Free trade with European markets ⑨ New trade agreements with non-EU countries ⑩ The best place for science and innovation ⑪ Co-operation in the fight against crime and terrorism	• leave the single market and seek a new FTA agreement with the EU • will not contribute to the EU budget on principle (at the least, the UK will not make contributions at the
A phased approach	
⑫ A smooth, orderly Brexit	• there will be a necessary transitional period

Source: UK Prime Minister's Office, BTMU Economic Research Office

Although this speech did shed some light on the UK government's negotiation plans, uncertainty remains regarding issues such as what sort of trade relationship the UK and the EU will have as well as its negotiation process. As the UK's attitude of "cherry picking" could create problems in the future for EU unity, there are expectations that the EU will adopt a tough stance during negotiations. Moreover, Theresa May has expressed her plan to trigger Article 50 and start the official withdrawal process from the EU by the end of March this year, and to finish negotiations within the two years from triggering Article 50. However, it is very unlikely

that the UK will reach an agreement with the EU within two years because trade negotiations would involve a high degree of complexity as each of the EU members' different interests are intricately intertwined. A recent example is the FTA between Canada and the EU which was finalised in October last year after 7 years of negotiations from start to finish.

Looking at the latest UK economic indicators, consumer sentiment is sluggish and the inflation rate is accelerating as the effect of continued depreciation of the pound has been passed through to consumer prices (Chart 1). This sluggish consumer sentiment and rise in the inflation rate has led to concerns that this will put downward pressure on private consumption. Furthermore, as mentioned earlier, it is doubtful that Theresa May's speech cleared up individual businesses' uncertainty about the future of the investment climate. In light of these circumstances, it is likely that the UK economy will decelerate this year as private consumption will be weighed down by households' lower real purchasing power on the back of a depreciated pound and a "wait-and-see" attitude from businesses.



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