

After Conservative victory in UK General Election, focus shifts to post-Brexit FTA negotiations

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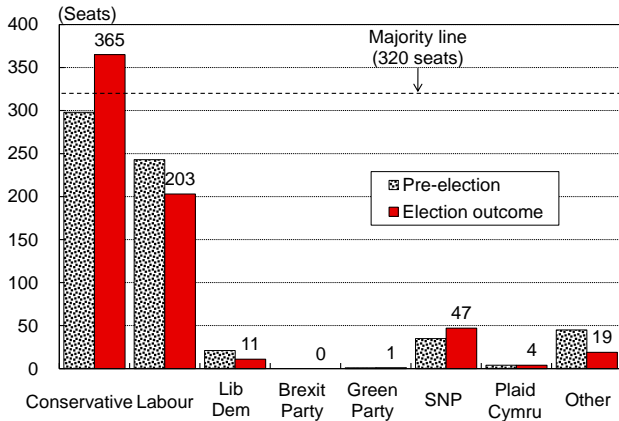
(ORIGINAL JAPANESE VERSION RELEASED ON 27 DECEMBER 2019)

In the UK General Election on 12 December, the ruling Conservative Party romped to victory with a considerably larger majority than the requisite 320 seats (Chart 1). This means that the UK will withdraw from the EU on 31 January 2020 according to the terms of the withdrawal agreement that has already been reached between PM Boris Johnson and the EU.

This will be followed by a transition period, lasting until the end of 2020, during which negotiations for a UK-EU free trade agreement (FTA) will take place. Unless an FTA is concluded during the transition period, the UK will effectively have a 'no-deal' Brexit at the end of 2020. Given that the even the shortest FTA negotiations to date (between the EU and Korea) took approximately 4 years to negotiate, many observers believe that the current arrangement doesn't allow sufficient time for the negotiation. The transition period can be extended, once, to the end of 2022, but this is dependent on the UK and EU agreeing to do so by 1 July 2020 (which the EU would likely grant, but the UK would need to apply for). UK PM Boris Johnson has already added a clause to the withdrawal agreement bill which precludes an extension to the transition period, and the outline of the bill will be approved by the newly elected parliament. This addition could be viewed as a negotiating tactic, but it seems likely that the withdrawal agreement will pass through parliament unchanged, resulting in an increased risk of an effective 'no deal' Brexit.

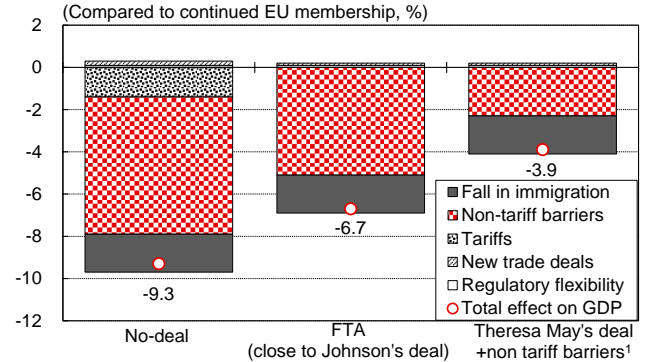
The 'political declaration' that accompanied the withdrawal agreement has also been changed. It no longer contains 'level playing field' provisions such as former PM Theresa May's assurance of regulatory alignment on goods. This means that non-tariff barriers will increase even if an FTA is reached. This is expected to be a significant headwind for trade in goods. In fact, based on the analysis published by the UK Treasury in November 2018, the current withdrawal agreement is expected to exert a drag of -6.7% on UK GDP over the next 15 years (compared to continued EU membership). This is a bigger drag than would be the case under the withdrawal agreement negotiated by Theresa May (-3.9%) (Chart 2). The actual impact will of course depend on the content of the eventual FTA, but we must not forget that even with a trade agreement, Brexit is likely to weigh heavily on the UK growth.

Chart 1: UK Parliamentary Seats



Note: 'Majority' excludes Sinn Fein MPs and non-voting MPs
 Source: UK Parliament, MUFG Bank Economic Research Office

Chart 2: Treasury Analysis of Long Term Brexit Impact on UK Economy



Note 1: Comparison of 15-year GDP growth with post-Brexit relationship
 Note 2: Analysis based on the assumption that non-tariff barriers will be greater than under Theresa May's plan
 Source: UK Treasury, MUFG Bank Economic Research Office

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