

Brexit watch

Fortnightly briefing on Brexit developments

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Time is truly of the essence in Brexit planning, however it is starting to appear as if the British Parliament has fallen considerably behind schedule. UK opposition MPs and Lords have criticised the Government for leaving insufficient time to see all Brexit legislation through Parliament - due before the transition period begins. The Withdrawal Bill has been met with a determined opposition from pro-remain peers in the House of Lords where it was [debated](#) over the past three days. A strong majority of peers passed an amendment on Wednesday that UK should negotiate to stay in the Customs Union.

Theresa May continues to experience disapproval from both sides as she tries to accommodate two disparate groups, however it is unlikely her leadership will be challenged in the short to medium term. Tory MP Anna Soubry [explains](#) that 'people might want to replace Theresa May but really, can [the Conservative Party] spend three months electing a new leader when we are approaching the biggest decision this country has faced in years and have so much else to deal with?' It is also unlikely a Government MP is willing to take over negotiations at, arguably, the most contentious stage.

In positive news for the UK economy, sterling strengthened against both the euro and the dollar following the release of real wages data on Monday. [Figures](#) show what investors hope to be the beginning of a trend towards lower rates of inflation, which wage growth outpaced last month. A stronger pound increases the relative competitiveness of Irish exports to the UK so the trend is also likely to be welcome news to Irish producers.

Tánaiste Simon Coveney committed to keeping border solutions to the fore of discussions after the UK agreed to the 'backstop' arrangement last month. Following this, Mr Coveney issued a [warning](#) to the UK this week, that there will be 'difficulties' in the Brexit negotiation process if progress is not seen on the wording of the 'backstop' by June. Mr Coveney's comments have been widely covered by the British press, given the firm nature of his position. British representatives have not responded yet on whether there have been any developments on this task.



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1 Political developments

Ireland

Taoiseach recommends joint cabinet meetings to keep a productive dialogue with UK, post-Brexit

Taoiseach Leo Varadkar proposed holding joint cabinet meetings with the British Government in the aftermath of Brexit, to Prime Minister Theresa May. The Irish Times [reports](#) that Mr Varadkar seeks to keep an open dialogue with the UK as both Governments navigate the new relationship, throughout and after the transition period. The Taoiseach cited the annual Franco-German Ministerial Council meeting as the model on which the suggestion is based.

Coveney increases pressure on the UK to secure legal wording on 'backstop agreement'

Tánaiste Simon Coveney, continues to push for progress on the issue of the Irish border. His most recent comments in Luxembourg highlighted the Irish position that the 'backstop' option must be put in legal writing soon if the Withdrawal Treaty is to be finalised.

The 'backstop' solution avoids a hard border between the North and South and will be implemented if a more favourable outcome is not determined during negotiations. As the UK has agreed to this, it is confirmed that a hard border cannot be erected. However, uncertainty on the final trade relationship makes it impossible to say that checks will not be required.

The Tánaiste wants to see considerable development on this by June and asserted that: '[the Government is] putting down a marker, which says that if there isn't significant progress [by June] towards trying to find a wording that puts in place an operational backstop in the Withdrawal Treaty, well then we'll have to ask some very serious questions as to whether it's possible to do it by October.' Given Governmental concerns that the 'backstop' wording will be put off, Mr Coveney has confirmed: 'there will be difficulties in June' should he not see adequate progress.

SPU shows strong growth forecasts but don't expect an expansionary budget in light of Brexit

Minister for Finance Paschal Donohoe published the draft [Stability Programme Update 2018](#) on Tuesday which forecasts 5.6 per cent and 4.0 per cent growth for 2018 and 2019 respectively. Referencing geopolitical uncertainty and Brexit, the Minister emphasised the need to 'continue to prudently manage the economy and the public finances... through the implementation of sensible policies'. It is being [interpreted](#) that Budget 2019 will not be as expansionary as when growth levels were similar before the recession.

Economic Performance

European Union

Available from [EuroStat](#)

- The euro area international trade in goods surplus stood at €18.9bn in Feb 2018. The same figure for the EU28 was €3.3bn
- The EU28 seasonally adjusted current account of the balance of payments had a surplus of €63.5bn in Q4 2017, down from a surplus of €67.4bn in Q3 2017, and from a surplus of €64.4bn in Q4 2016
- Industrial production down by 0.8% in euro area in Feb 2018 compared with Jan 2018

Great Britain

Available from the [ONS](#)

- The unemployment rate was 4.2% in the three months to Feb 2018, down from 4.7% over the same period the year previous - the lowest since 1975
- Average nominal weekly earnings increased by 2.8% in the three months to Feb 2018, and in real terms by 0.2%. This is the highest nominal rate since Q3 2015
- The total UK trade deficit (goods and services) widened by £0.4 billion to £6.4 billion in the three months to Feb 2018

Recent Statistics

Republic of Ireland

Available from the [CSO](#)

- Seasonally adjusted (SA) goods exports decreased by €1.466 million (-12%) to €10,922 million in Feb 2018. SA goods imports increased by €94 million (+1%) to €6,934 million
- This led to a decrease of €1,560 million (-28%) in the SA trade surplus to €3,988 million in Feb 2018
- Exports to GB decreased by €98 million (-9%) to €1,051 million in Feb 2018 compared with Feb 2017
- The CPI annual percentage change to Mar 2018 was 0.2%

Northern Ireland

Available from [NISRA](#)

- The unemployment rate in the three months to Feb 2018 was 3.5% according to the Labour Force Survey. The annual decrease in the unemployment rate was 1.8 percentage points
- The Northern Ireland Composite Economic Index results estimate economic activity increased by 0.4% in real terms from Q3 2017 to Q4 2017
- Construction output in Q4 2017 increased by 1.8% compared with Q3 2017 and was 3.6% higher than the same quarter in 2016

1 Political developments

United Kingdom

Shadow Brexit Minister warns of 'real danger' as MPs don't have time to vote on crucial legislation

Labour MP and Shadow Brexit Minister, Jenny Chapman has [highlighted](#) the 'real danger' that MPs will be required to vote on the final Withdrawal Bill without having first voted on important legislation needed to feed into the Bill.

Eleven bills must be voted on by Parliament before the beginning of the transition, which require a first, second and third reading, a committee stage and a report stage. Depending on the individual bill, a combination of time in the House of Commons and House of Lords will be needed.

As of April 2018, 44 per cent of Brexit legislation is yet to be introduced and no legislation has been passed. One thousand statutory instruments also have to be agreed with the LibDem leader in the House of Lords [acknowledging](#) 'it is very difficult to see how [Parliament] can possibly get through it all in time.'

In response to the criticism, a Government spokesperson said: 'it is important that parliament is given the proper opportunity to scrutinise the legislation that will underpin [Brexit]' and that the Government is confident it will pass all legislation with time to spare.

House of Lords offers up another challenge to Prime Minister May

The first days of the [report stage](#) of the Withdrawal Bill took place this week in the House of Lords, and saw members turn out in strong numbers. Approximately 185 peers took the floor - with a majority speaking in favour of remain, and calling for close ties with the EU as part of the future relationship after the transition period.

The Tory party does not hold a majority in the House of Lords so the reading is viewed as an opportunity to amend the Bill in such a way as to favour a softer Brexit by pro-remain peers. Success for the Prime Minister requires DUP support as well as significant co-operation across the Tories, however Conservative peers in the upper chamber represent some of the most prominent speakers for both sides of the argument, and as such makes Mrs May's job more difficult.

On Wednesday evening, a majority of peers [supported](#) an amendment calling for the Government to negotiate to stay in the EU customs union. The amendment was brought forward by former Conservative chairman, Chris Patten.

Campaign launched for 'People's Vote' with support of MPs from leading parties

While the Conservatives and Labour have ruled out a second referendum, a campaign has been [launched](#) to allow a 'people's vote' on the final Withdrawal Deal. Supporting MPs from the aforementioned parties were in attendance.

Labour's Lord Adonis, a strong remain advocate, explained that the movement is motivated by the fact that 'it was a vote in the dark two years ago.' He asserted that citizens want a say, now that they have been given a fuller picture of the consequences.

European Union

Emmanuel Macron delivers first speech to European Parliament

The French President gave his first [address](#) to the European Parliament on Tuesday, and called for a 'new European sovereignty' to assure citizens the EU will 'protect them in this changing world.' The speech focused on Macron's key message of European strength and criticised member states that pulled back from the Union to follow fairy tale 'adventures'.

On Brexit, the President was pithy in stating his support for 'the most integrated and closest possible relationship after Brexit, and there's a well-known solution - it's called EU membership.'

Northern Ireland

Inquiry to hear of Brexit implications for North's fishing industry - and Bertie gives view on Stormont

The Northern Ireland Affairs Committee in the House of Commons [heard](#) from witnesses on the impact of Brexit on the fishing industry in the North on Wednesday. A draft of the Fisheries White Paper was leaked on Tuesday and prompted concerns from the industry that the quota system will not be reformed. A number of stakeholders have [criticised](#) the paper, claiming a substantial number of smaller fishing boats will be lost before the transition period is complete unless the quotas are reformed.

Meanwhile, Former Taoiseach and contributor to the Belfast Agreement, Bertie Ahern, says he [believes](#) a Stormont agreement can be achieved if the British and Irish Governments 'at top level give it total commitment... a deal can be done quickly' - as early as the end of May.

Mr Ahern also [said](#) there will never be a hard border between the North and South, regardless of the type of future trade relationship, because 'people would just physically pull it down - the ordinary people.'

2 Economic Updates

What does sterling depreciation and strengthening mean for the Irish economy?

In the last six months, sterling has strengthened well against the euro when compared with its performance over the previous 18 months. The trend has quieted commentary that the sterling and the euro will reach parity in 2018. Given the relatively weak UK headline GDP, performance the strength of sterling may appear surprising. The prospects of an imminent interest rate rise and strong labour market data are likely factors in the increasingly bullish markets view of the UK currency.

The impacts of sterling depreciation are discussed in the Central Bank's [Quarterly Bulletin](#). The Bank has hypothesised the impact of a permanent sterling shock on the Irish economy, in which the pound depreciates by 10 per cent. For context, sterling has dropped by 12 per cent against the euro since the referendum was held in 2016.

The analysis found, when compared with a baseline of 'no shock', the level of traded sector output would be 0.4 per cent lower after three to four years, and 0.2 per cent lower in the long run, though these figures are interesting when set against the data over the recent devaluation.

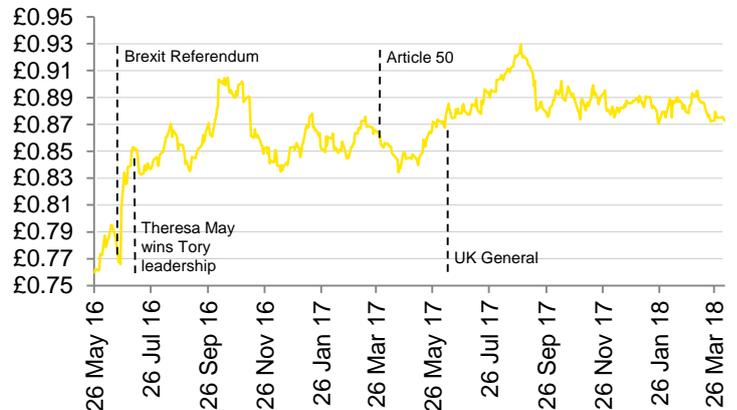
How does the exchange rate of a foreign currency affect the Irish economy?

The two most direct ways in which sterling depreciation impacts the Irish economy are as follows: firstly, Irish exports to the UK become relatively more expensive, which reduces their competitiveness in that market, secondly, Irish imports from the UK become cheaper as the euro has a higher purchasing power. Price reductions on imports may not be passed on fully to consumers, potentially allowing firms to increase margins and hence profitability.

As the rate affects relative pricing, it can alter consumption patterns as people look to substitute - and production choices as firms look to source locally or abroad depending on currency rates. For example, it impacts how much holidaymakers will pay and potentially their choice of destination. Therefore, in the longer run it can make substantial structural differences.

As Figure 1 shows, there has been volatility in the euro-sterling exchange rate since the Brexit vote, however the average price of sterling shows an upward trend since the referendum.

Figure 1: Euro to Sterling Exchange Rate



Source: Central Bank of Ireland

Table 1: Average euro to sterling exchange rate annually 2015 - 2017

Year	€1 buys
2015	£0.726
2016	£0.819
2017	£0.877

Source: Central Bank of Ireland

In the year to date, the average euro to sterling exchange rate is £0.883, continuing the upward average price growth. It is very difficult to estimate how the outcome of the withdrawal agreement will affect this metric, mainly because it is as yet unknown what kind of post-Brexit trade relationship will be achieved.

A 2017 [paper](#) by Reddan and Rice found that Irish consumer goods price inflation is particularly exposed to changes in the euro-sterling exchange rate relative to its EU counterparts, and significantly so since the Brexit referendum vote. Copenhagen Economics [explains](#) that the weakened sterling 'corresponds to a loss in [Irish exporting] income of approximately €3.2bn since the referendum was held' based on 2015 export figures.

Trends in the exchange rates this week

Sterling moved towards its post-referendum high this week following the announcement that UK wages were rising faster than inflation for the first time in 15 months. Against the dollar, £1 bought \$1.438 on Wednesday, a rate last seen in December 2015.

The pound also reached an 11 month high against the euro on Wednesday, showing the extent to which investors take wage data as indicative of economic growth. In the current climate, where GDP is increasingly difficult to interpret, wage growth captures an important element of the real economy that investors interpret easily. It is positive news in light of the expected interest rate rise by the Bank of England in May.

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