May 2019

Quarterly Economic Bulletin

Julian Hodge Institute of Applied Macroeconomics

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"the labour market figures have been telling us clearly that we are at full employment, with wages now rising faster than prices, record employment and unemployment at its lowest since the 1970s. But it is the public finances that tell the most upbeat story about the economy. Public borrowing has fallen by about 2.5% of GDP in only three years. When you set all this also beside the booming labour market, it does indeed confirm that the ONS could be getting growth too low; growth could be more like 2.5% than the ONS' 1.7%".

Commercial Lending

Commercial Deposits

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Hodge Bank specialises in providing key products and services to commercial clients. This includes the provision of funding facilities for property developers where the Bank caters for the specific requirements of a client through speed of response and flexibility of approach, rather than the adoption of a "one size fits all" strategy.

These projects are not restricted to the principality however, with clients located across the UK. The Bank has seen its business continue to grow and its client base expand during the last year. Demand for its products and services remains very high in what is still a competitive market place.

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The ONS estimates of growth look oddly weak next to the statistics of booming government revenues and a bursting labour market. With Brexit creating opportunities for tax cuts and higher spending, this is a good time for the government to borrow more at negative real interest rates and drive them up back to normal, so making normal monetary policy possible again. This also applies to the other major western economies, still suffering from interest rates close to zero: government borrowing needs to exploit these rates an drive them higher, ending this episode of weak recovery.

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Professor Minford argues that it is time to get the Withdrawal Agreement across the line in Parliament, so that the UK can move on to deciding on post-Brexit policies. The Agreement will need in the long run to be replaced by long term arrangements that are in line with both UK and EU economic interests; no others would be sustainable.

THE PUBLIC FINANCES AND THE LABOUR MARKET TELL THE MOST RELIABLE STORY

Table 1: Summary of Forecast

	2016	2017	2018	2019	2020	2021	2022
GDP Growth[1]	1.9	1.8	1.4	1.6	2.0	2.1	2.3
Inflation CPI	1.1	2.6	2.5	2.0	2.1	2.0	2.0
Wage Growth	2.4	2.9	3.1	3.1	3.1	3.0	3.0
Unemployment (Mill.)[2]	0.8	0.8	0.8	0.8	0.7	0.7	0.6
Exchange Rate[3]	82.1	77.4	78.5	76.6	76.1	76.3	75.6
3 Month Interest Rate	0.5	0.4	0.7	0.9	1.3	2.4	3.1
5 Year Interest Rate	0.7	0.6	1.0	1.4	1.6	2.5	3.4
Current Balance (£bn)	-90.9	-66.3	-62.9	-48.8	-41.2	-30.6	-18.4
PSBR (£bn)	45.1	39.4	30.9	22.3	6.9	-6.9	-18.5

[1]Expenditure estimate at factor cost
[2]U.K. Wholly unemployed excluding school leavers (new basis)
[3]Sterling effective exchange rate, Bank of England Index (2005 = 100)

Great attention is lavished on the early estimates of GDP when they come out. Yet they are notoriously inaccurate. When ten years later all the data are in, they can be revised by several percent. By contrast, employment and unemployment data are little revised, as they are based entirely on largescale surveys of the labour market. As for the public finances, they are public accounting statistics that are accurate in arrival.

Of course, the labour market figures have been telling us clearly that we are at full employment, with wages now rising faster than prices, record employment and unemployment at its lowest since the 1970s- probably lower, since we only had the benefit claimant count then and this routinely lies below the modern survey measure.

But it is the public finances that tell the most upbeat story about the economy. On the basis of the latest figures the 2018/19 outturn for public borrowing looks like being only £24.7 billion; down from £72 billion in 2015/16, a fall of about 2.5% of GDP in only three years. Over the same period government receipts have risen about 17%. Usually they rise about 1.4 times money GDP, which would suggest indirectly that money GDP has grown by about 12% in the last three years, about 4% a year. Against this the ONS estimate of money GDP growth is 3.7%. But from this they derive an output estimate of only 1.7% a year growth; yet labour costs have been rising weakly suggesting production costs of GDP may only have been rising at 1.5% a year. The ONS says 2%.

When you set all this also beside the booming labour market, it does indeed confirm that the ONS could be getting growth too low; growth could be more like 2.5% than the ONS' 1.7%. But because GDP revision is glacial we will not know for another ten years, by which time the mistake will be too late to correct the policies that inaccurate pessimism may have caused.

Fortunately, we know the public finances for sure. With borrowing now running at 1% of GDP, the debt/GDP ratio is falling fast. When correctly measured to exclude the Bank's operations to buy up debt by printing money, it is now 74% of GDP and falling by about 2 percentage points a year. On our projections of borrowing post-Brexit, it will reach 60% of GDP by 2024 with no change in fiscal policies.

This gives the Chancellor room to plan a rise in borrowing of 25 billion a year from 2020, and a further rise of another £40 billion from 2025, while still reaching a 'safe' 60% debt/GDP ratio by 2025. This 'headroom' can be used to improve UK competitiveness by a variety of tax cuts including:

From the viewpoint of supply-side incentives, corporation tax and the two top rates are the highest priorities for taxcutting. If corporation tax and the top rate were both cut by 2% in 2020, and the very top rate by 7% (to equalitywith the top rate), the cost would be of the order of £9 billion. Together, with additional spending of £16 billion, a 'Brexit dividend' from 2020 of £25 billion would begin to reduce the strains in the public sector and also give a useful boost to competitiveness.

From 2025, the further dividend of £40 billion per annum could be taken. At this point,

- The standard rate could be cut by 2%, at a cost of £12 billion (raising the tax threshold is very expensive and hardly affects any marginal rates, mainly going in the form of lower taxes to the better off, barely helping the less well-off because they lose benefits); or else VAT could be cut by 1.5% for roughly the same cost
- Corporation tax could be cut another 3%, costing another £10 billion; and
- The top rate could come down by 2%, costing around £3 billion.
- The remaining £15 billion could be used on spending.

Other measures can include:

- Improving regulation by bringing it under our own pragmatic control- whether in labour markets, or in product innovation, or in the City and finance
- Regaining control of immigration so that we can focus on obtaining necessary skills from around the world, and avoiding the problems caused by free access to our benefit system from EU unskilled workers.
- Indeed, Brexit can be seen as a way of ensuring the strong continuation of the Thatcher supply-side reform programme which our EU membership derailed in a number of ways.

With the use of the Brexit dividend (i.e., the 'Post-Brexit Fiscal Fund ') in this way, it would be plain to all that, indeed, Britain was 'open for business'. These arguments for fiscal expansion post-Brexit are further strengthened by the need to lift the UK economy, like the rest of the West, out of zero interest rates.

How to dig the world economy out of the Great Recession created by central bank mistakes?

The state of the world economy can only be described as weak and lacking in confidence. Interest rates on safe assets like government bonds range from zero on short-dated paper to a maximum of around 2% on very long term bonds, but close to zero on most western countries' long term bonds, with the US around 2% as the only exception. In Japan and the euro-zone all rates are close to zero, while rates paid to banks on their central bank balances are actually negative. On risky assets rates are generally positive, reflecting the risk premium; however, large corporations enjoying dominant market positions are able to access capital at close to zero cost which is heavily distorting market competition. As for governments, they can raise capital at negative real interest rates, implying that they are being paid to borrow; they can even print money to finance themselves at negative real interest rates.

These facts signal desperate times are with us. Monetary policy is a busted flush, with its latest tool, QE, actually damaging the situation. Can nothing be done?

The clue to what can be done is to be found in that last sentence of the earlier paragraph: that people will pay governments to borrow and spend. This mirrors the desperate plight of the private sector, unwilling to borrow enough at such low interest rates that the economy would surge and raise the rate of return to normal.

Because of the bailouts of banks and related financial costs, western governments have historically high debt/GDP ratios. Yet because of QE, as much as a third of this debt is actually simply money- the debts have been bought by central banks in return for printed money. In normal times we would worry that all this printed money would cause inflation; and we would be urging the central banks to sell their bonds and retrieve the money. Yet plainly we are not in normal times.

It is as if people were going around too emaciated to eat large stores of accumulated food that in normal times we would worry might cause obesity. The economy is too emaciated to use the huge supplies of money that have been printed.

Abnormal times require abnormal solutions. Fortunately all western countries have governments that can borrow, spend and cut taxes. As we have seen, they can do this at negative cost in debt interest; this means that future taxpayers will gain from the negative real interest cost on the debt, effectively only paying back less than the real value of the debt. From society's viewpoint, provided the government can get a social return on its spending or its tax cuts that is positive, then this borrowing pays. Future taxpayers will have more income with which to pay off less than 100% of the debt. This means that there is no argument to be had with future taxpayers. Meanwhile, current taxpayers will plainly be delighted if the government would take this action, bringing immediate direct benefits, but more importantly restoring the economy to functionality and confidence.

For those who feel concerned about adding to public debt ratios for fears of insolvency, this arithmetic provides consolation. The truth is that if such fiscal policies work and push up interest rates once more to the normal real interest rates of the past, then any current rise in debt ratios will actually be reversed. Here is a simple arithmetical example of what can happen. Suppose a country starts off with a debt ratio of 100%, of which say a third is very long term debt, say perpetuities, with long term interest rates at 1% p.a. Now assume it spends 10% of GDP borrowing on more very long term bonds to spend and cut taxes; and that this in time drives interest rates up to 3%. Its new stock of long term bonds will go up at first to 43% of GDP. But once interest rates rise to 3%, its value will fall by a third to 14% of GDP; this is because it is now being discounted by a rate three times higher than the current 1% (the value of a perpetuity is the coupon paid each year divided by the rate of interest). It therefore strongly pays governments with long term debts to get long term interest rates back up to normal, in the interests of solvency alone.

This example also shows that fiscal expansionism in these troubled times will bring its own termination and so can be thought of as self-limiting. Once interest rates get back up to normal, the normal solvency calculus will apply. New borrowing will once again be expensive in real terms; and potential movements in interest rates downwards will threaten yet higher future debt values and should induce the usual caution over fiscal deficits.

It is important to realise that the case we are making here for fiscal expansion is strictly exceptional, to be ended once normality returns. It echoes Hayek's response to Keynes' work, 'The general theory of employment, interest and money'; Hayek agreed that, in the very special circumstances of a stubborn depression, fiscal stimulus could be justified but he said there was not a 'general' case for fiscal 'activism', which Keynes was arguing for, on the grounds that the unaided economy might repeatedly fall into this state.

The same is true here. Usually, the economy works well without fiscal intervention. Any needs of stabilisation can be supplied by monetary policy. What has happened however is that monetary policy has laid waste the economy's usual robustness by dreadful mistakes, leaving only fiscal policy as the tool for the restoration of its robustness that we desperately need.

We have set out above some details of what spending and what tax cuts could safely be done in the UK. In the US, we commend President Trump's tax cuts and urge Congress to agree with Trump a large infrastructure programme. In the euro-zone we would urge a general liberalisation of fiscal policy, backed up by an ECB pledge to buy the bonds of any government facing market pushback; in particular we would urge the German government to abandon its doctrinal opposition to fiscal deficits until the Great Recession is over.

What is clear is that capitalist governments have here a good opportunity to demonstrate their power to enhance living standards by well-targeted spending and by tax cuts that raise spending power and strengthen corporate competitiveness.

The current statistics from the ONS:

As we argued in the last Bulletin, even on the ONS' estimates the UK economy has carried on rather unruffled by the Brexit shenanigans. The reason lies in full employment and rising real wages, not to say continued growth and an improving balance of payments. Households and business decisions are dominated by such here and now facts. Uncertainty is always with us and can be insured in various ways. Politically, the British have confidence in their ability to get politicians to deliver what they want- the best insurance policy of all.

Prospects for the current account

Since the fall in the pound after the Brexit referendum, the UK current account of the balance of payments has improved from a deficit of around 7% of GDP to 4.7% of GDP in the last quarter of 2018, a big improvement of 2,3% of GDP, or around £46 billion a year. However, the deficit is still running at nearly £100 billion which is too large; a sustainable deficit would be more like £20 billion, about 1% of GDP.

Help is at hand however. If Brexit happens and we both leave the EU Customs Union and sign trade deals with the rest of the world that drive our home prices down to world levels, then the prices charged by EU exporters will have to drop in line to compete, while our exporters too will reduce the prices they charge to EU buyers. This will reduce our net EU imports bill by no less than £20 billion a year, 1% of GDP, giving us a substantial improvement in our current account. It is not widely realised that this is the cost of being in the EU customs union with protection against all other countries on food and manufactured imports. This cost is the extent to which we pay premium prices for EU imports due to the protection of the customs union. Yes, we also get these premium prices on what we sell to the EU; but as we buy about £100 billion more from them than we sell to them, there is this large net loss for us and an equal gain to them.

Eliminating this not only improves the current account, it also directly raises our GDP. As Sir Michael Caine would say, not a lot of people know this.

Other policies that will improve our current account will be strengthening the City of London and our other traded service industries with pro-business regulation. Our current surplus on services, which are our comparative advantage, is more than £100 billion a year. This will be the sector whose growth will bring our current account into balance.

It all goes to show that after Brexit we need to move as rapidly as possible to enact these free trade and regulative reforms. Unfortunately, it has been impossible to get a proper focus on these issues of post-Brexit policy in the continuing wars of religion over Brexit. Once Brexit actually happens it will become both possible and necessary for us to get focused analysis of the best trade and regulative policies for a Brexit Britain. Once identified it will be for a new government to pursue them firmly and clear-sightedly.

The Brexit end game

The EU Commission now finds itself in discussions not just with the British Parliament and public opinion, increasingly exasperated by its intransigence and delay; but also with business across the continent, worried about the effect of a No Deal Brexit on economies increasingly tipping into recession, now that the ECB is withdrawing its exceptional monetary stimulus. All round business in the EU and the UK face a cocktail of uncertainty, which while it has little effect as we have seen on consumer spending, does put off investment plans and so defers the future progress of the economy.

As we have explained repeatedly, a No Deal Brexit on WTO terms gives the UK a £650 billion bonus in present value, but costs the EU economy £500 billion on the same basis. This is because the UK can rapidly sign free trade agreements, especially with the US. Which will bring forward our gains from Brexit, but also the EU's losses of the inflated prices they sell to us at. In addition, they lose our budget contribution, and pay some stinging tariffs to our Treasury. Their own tariffs on our exports will be paid for by EU consumers.

For continental businesses that sell into the UK this is a disturbing prospect, far from the cushy environment of the current customs union, which is quite unacceptable to the Conservative party current consensus.

Unfortunately, the EU Commission is hellbent on playing politics, 'punishing Brexit' to discourage others tempted to leave. But even Mrs. Merkel, fervent European that she is, is beginning to sense the economic perils this could bring her economy, and thus her Christian Democrats. She has encouraged the search for an alternative Irish border solution, which is well-known to exist.

This no deal outcome is in fact the best Brexit outcome for us, as it creates exit with maximum freedom for post-Brexit policy. Clearly it also opens up the prospect of a quicker Free trade agreement with the EU, with none of the problems of the Irish backstop: the Irish border will remain much the same as now, managed via sensible administration off-border and available technology. The EU will want an FTA sharpish, for reasons above.

A WTO-based 'no deal' managed with mini-agreements, much as proposed in the 'Malthouse compromise', remains possible in this stalemate; it could be revived as a negotiable option if the Conservatives elected a new leader at once. MPs are under pressure from public opinion to deliver Brexit on time, one way or another, to 'get on with it' and certainly 'to respect the referendum'. But MPs in this Remainer-dominated Parliament have ruled out no deal, so forcing the government to ask for a delay, now agreed until the end of October, unless a Brexit agreement with the EU can gain a majority to get across the line sooner.

In the third chapter of this Bulletin, Patrick Minford argues that any Brexit deal is now a better option than the risk of endless deferral, with indefinite business uncertainty, as Brexit continues to be endlessly debated. A Brexit deal of any sort can be built on by a newly sovereign UK in future discussions.

Vo Phuong Mai Le

Economic growth continued but at a slower pace in the last quarter of 2018. Real GDP rose 0.2% compared to 0.7% in Q3. The service sector continued to grow steadily (0.5% in Q4 following 0.6% in Q3), while output declined in production (-0.8% compared to a rise of 0.6% in Q3) and construction sectors (-0.5% after expanding 0.6% in Q3). On the expenditure side, a positive contribution from private consumption (0.3% after 0.4% in Q3) compensated for the negative contribution to GDP growth from investment (-0.6% after rising 0.9% in Q3) and net trade as imports (2.1% compared to 0.7% in Q3) grew faster than exports (1.6% compared to 0.9% in Q3).

Recent data and surveys show signs of moderate economic growth performance for Q1 2019. According to the ONS the economy grew at 0.3% in the three months to February 2019. The manufacturing sector continued its expansion and with the expectation for Brexit at the end of March there was a surge in stockpiling. Its PMI rose to a 13-month high of 55.1 in March (compared to 52.1 in February and 52.8 in January). The construction sector contracted in the last 2 months of the quarter with its PMI at 49.7 in March and 49.5 in February. The service sector may have contracted for the first time in March since July 2016, with its PMI at 48.9 in March compared to 51.3 in February.

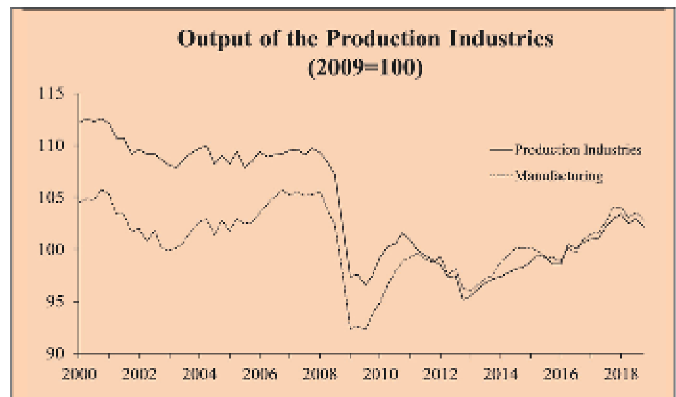
Labour market, costs and prices

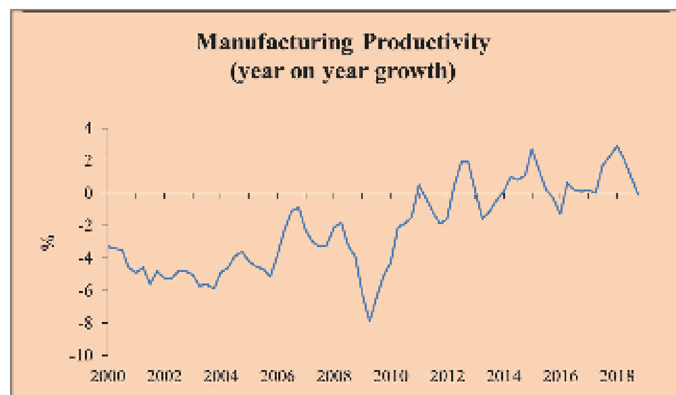
Labour market conditions continued to strengthen. The employment rate was 76.1% in the period from December 2018 to February 2019, higher than 75.4% for a year earlier. This is the highest rate on record. The unemployment rate was also at the lowest rate since November 1974-January 1975 period at 3.9% for three months to January 2019. These figures show that the labour market is at full employment and wages should continuously grow in real terms. Real average weekly earnings grew by 1.5% during this period, compared to 1.3% in October-December 2018 period.

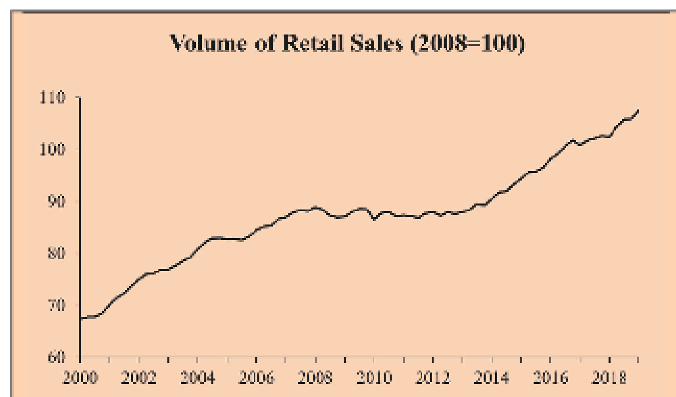
Despite the wages growth, there is no sign of upward pressure on the inflation rate. Input price annual inflation was 3.7% in March, down from 4.0% in February. Output price annual inflation was 2.4%, unchanged from February. The annual CPI inflation rate was 1.9% in March, unchanged from February.

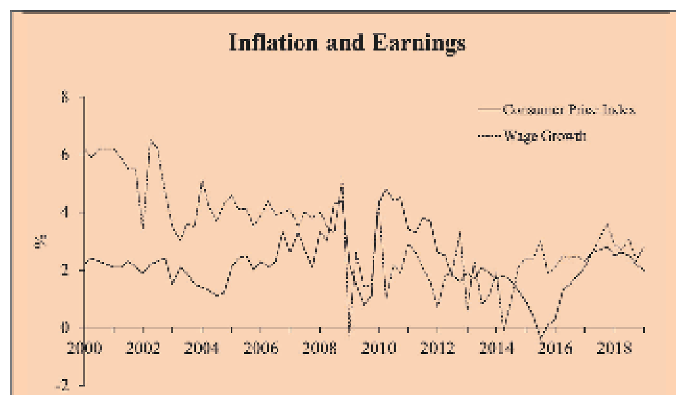
Fiscal and Monetary Developments

In the financial year 2018/2019 up to March 2019 total public net borrowing was £24.7 billion, down from £41.9 billion in the previous financial year. It is the lowest level of borrowing for 17 years. The continuous reduction in net borrowing has brought a further decline in net debt as a percentage of GDP. At the end of March 2019, public sector net debt (excluding public sector banks and Bank of





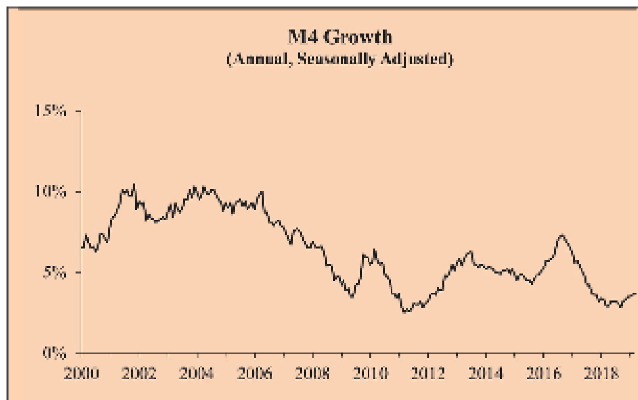


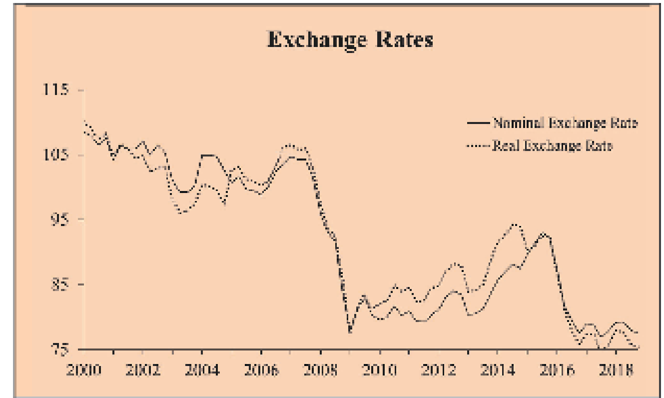


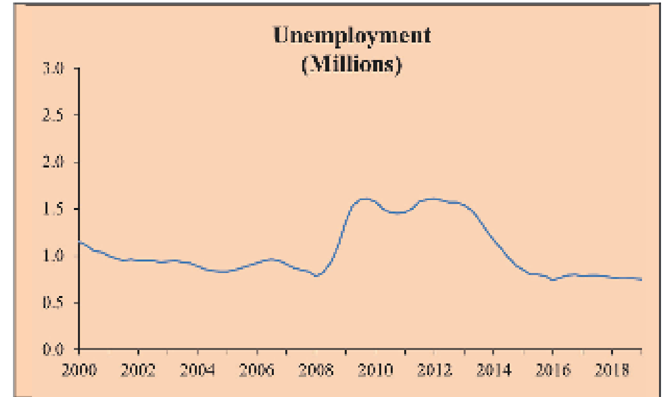
England) was £1617.6 billion or 74.6% of GDP. This compares with 75.6% of GDP in March 2018.

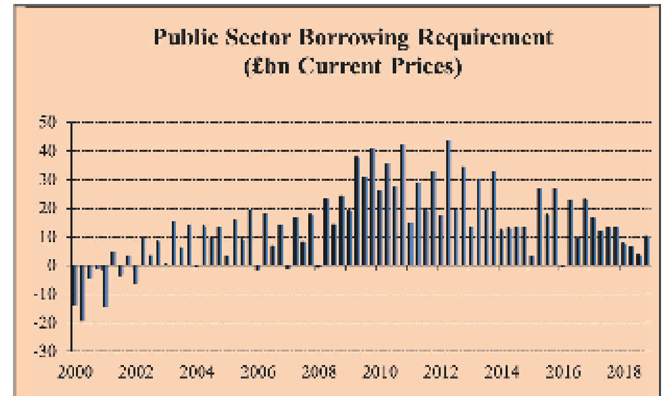
Given slower economic growth data and a weaker economic outlook due to Brexit uncertainties as well as inflation being close to the target of 2%, there was no change in the monetary policy stance. The Bank of England decided to keep the Bank rate at 0.75% in its March meeting. It also maintained the current level of bond stocks purchased by printing money and central bank reserves at £435 billion in government bonds and £10 billion of corporate bonds.

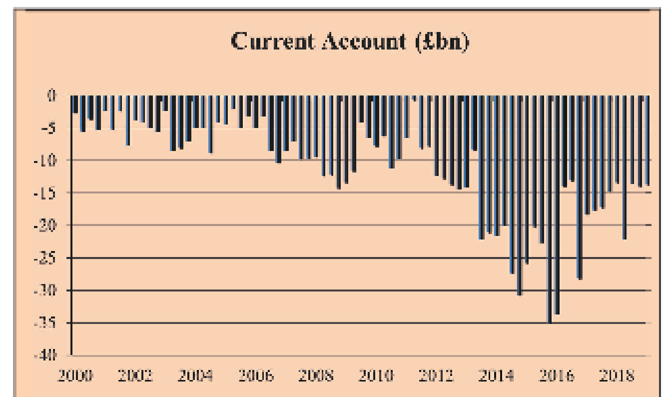
The year-on-year aggregate credit growth, M4 lending excluding intermediate other financial corporates (OFCs), was 3.7% in March, unchanged from February. This rate has been low and thus contributes to a slow money growth. The year-on-year M4 (excluding intermediate OFCs) growth rate was 2.2% in March, marginally up from 2.1% in February. The money market is rather tight.











UK FORECAST DETAIL

Prices, Wages, Interest Rates and Exchange Rate Forecast (Seasonally Adjusted)

	Inflation %[1] (CPI)	Short Dated (5 Year) Interest Rates	3 Month Int. Rates	Nominal Exchange Rate (2005=100)[2]	Real Exchange Rate[3]	Real 3 Month Int. Rates %[4]	Inflation (RPIX)	Real Short Dated Rate of Interest[5]
2017	2.6	0.6	0.4	77.4	75.5	-1.6	3.8	-1.5
2018	2.5	1.0	0.7	78.5	76.7	-1.5	3.4	-0.5
2019	2.0	1.4	0.9	76.6	74.6	-0.7	2.9	0.5
2020	2.1	1.6	1.3	76.1	74.3	0.4	2.7	1.4
2021	2.0	2.5	2.4	76.3	75.1	1.1	2.6	0.9
2022	2.0	3.4	3.1	75.6	74.6	1.1	2.5	0.6
2017:1	2.2	0.6	0.3	76.8	75.0	-1.7	3.3	-1.5
2017:2	2.6	0.4	0.4	78.2	76.4	-1.5	3.8	-1.7
2017:3	2.7	0.6	0.3	76.7	74.5	-1.5	4.0	-1.5
2017:4	2.8	0.8	0.4	77.9	76.0	-1.7	4.1	-1.3
2018:1	2.5	1.0	0.5	79.2	77.9	-1.7	3.7	-1.1
2018:2	2.5	1.0	0.7	79.3	77.7	-1.7	3.4	-1.1
2018:3	2.5	1.0	0.8	78.0	75.9	-1.3	3.3	-1.1
2018:4	2.4	1.0	0.8	77.6	75.4	-1.2	3.1	-0.3
2019:1	2.1	1.4	0.8	77.2	75.4	-1.0	2.9	0.5
2019:2	2.0	1.4	1.0	76.6	74.4	-0.8	2.9	0.5
2019:3	2.0	1.4	1.0	76.4	74.4	-0.6	2.9	0.5
2019:4	2.0	1.4	1.0	76.3	74.3	-0.5	3.0	0.5
2020:1	2.1	1.5	1.1	76.1	74.3	0.1	2.8	1.0
2020:2	2.1	1.5	1.2	76.2	74.3	0.1	2.8	1.0
2020:3	2.0	1.6	1.3	76.1	74.3	0.1	2.6	1.5
2020:4	2.0	1.7	1.6	76.0	74.3	1.3	2.5	1.8
2021:1	2.0	2.5	2.1	76.5	75.3	1.3	2.5	1.8
2021:2	2.0	2.5	2.1	76.6	75.3	1.0	2.6	1.8
2021:3	2.0	2.5	2.1	75.8	74.3	1.0	2.6	1.8
2021:4	2.0	2.5	3.3	76.4	75.3	1.2	2.6	1.8
2022:1	1.9	3.0	3.2	76.2	75.3	1.2	2.4	1.8
2022:2	2.0	3.0	3.0	75.5	74.3	1.4	2.6	1.8
2022:3	2.0	3.8	3.0	75.5	74.3	0.9	2.6	1.8
2022:4	2.0	4.0	3.2	75.4	74.3	1.0	2.6	1.8

[1] Consumer's Expenditure Deflator
[2] Sterling Effective Exchange Rate Bank of England
[3] Ratio of UK to other OECD consumer prices adjusted for nominal exchange rate
[4] Treasury Bill Rate less one year forecast of inflation
[5] Short Dated 5 Year Interest Rate less average of predicted 5 year ahead inflation rate

Labour Market and Supply Factors (Seasonally Adjusted)

	Average Earnings (1990=100)[1]	Wage Growth[2]	Unemployment (New Basis) Percent[3]	Millions	Real Wage Rate[4] (1990=100)
2017	259.1	2.9	2.2	0.8	142.2
2018	265.9	3.1	2.2	0.8	142.6
2019	274.2	3.1	2.1	0.8	143.4
2020	282.6	3.1	1.9	0.7	144.6
2021	291.1	3.0	1.6	0.7	145.7
2022	299.8	3.0	1.3	0.6	146.9
2017:1	258.1	2.3	2.1	0.8	142.2
2017:2	257.3	2.6	2.3	0.8	141.6
2017:3	260.2	3.1	2.2	0.8	142.7
2017:4	260.9	3.6	2.3	0.8	142.2
2018:1	264.6	3.0	2.3	0.8	142.9
2018:2	266.3	2.8	2.2	0.8	141.8
2018:3	266.3	3.0	2.1	0.8	143.5
2018:4	266.3	3.5	2.1	0.7	142.3
2019:1	272.3	2.9	2.0	0.7	143.7
2019:2	274.4	3.0	2.0	0.7	142.6
2019:3	274.0	2.9	2.0	0.7	144.3
2019:4	276.1	3.7	2.0	0.7	143.0
2020:1	280.8	3.1	2.0	0.7	144.8
2020:2	282.9	3.1	2.0	0.7	143.8
2020:3	282.2	3.0	2.0	0.7	145.5
2020:4	284.4	3.0	1.9	0.7	144.2
2021:1	289.2	3.0	1.7	0.7	146.0
2021:2	291.4	3.0	1.6	0.6	144.9
2021:3	290.6	3.0	1.6	0.6	146.6
2021:4	293.0	3.0	1.5	0.6	145.3
2022:1	297.6	2.9	1.4	0.5	147.2
2022:2	300.1	3.0	1.3	0.5	146.1
2022:3	299.4	3.0	1.3	0.5	147.8
2022:4	301.9	3.0	1.2	0.5	146.5

[1] Whole Economy
[2] Average Earnings
[3] Wholly unemployed excluding school leavers as percentage of employed and unemployed, self employed and HM Forces
[4] Wage rate deflated by CPI

Estimates and Projections of the Gross Domestic Product[1] (£ Million 1990 Prices)

	Expenditure Index	£ Million '90 prices	Non-Durable Consumption[2]	Private Sector Gross Investment Expenditure[3]	Public Authority Expenditure[4]	Net Exports[5]	AFC
2017	162.3	777336.9	443745.6	302292.1	198857.7	-65371.5	102187.0
2018	164.6	788057.2	447703.5	309777.2	199983.9	-71893.1	97213.6
2019	167.6	802696.2	454303.6	310600.3	200602.7	-62943.8	99862.6
2020	171.0	818972.8	460685.5	316674.7	201938.2	-58117.3	102210.3
2021	174.6	836108.1	467804.4	321816.8	203070.4	-52020.5	104566.0
2022	178.6	855103.2	475356.9	327523.1	204308.6	-44936.8	107148.0
2017/16	1.8		0.6	0.8	0.4		0.6
2018/17	1.4		0.9	3.2	0.6		-2.8
2019/18	1.9		1.5	0.3	0.3		2.8
2020/19	2.0		1.4	2.0	0.7		2.4
2021/20	2.1		1.5	1.6	0.6		2.3
2022/21	2.3		1.6	1.8	0.6		2.5
2017:1	161.5	193340.7	110460.5	76110.0	50838.0	-16948.9	27118.9
2017:2	161.9	193817.5	111360.7	74039.4	48893.4	-16008.3	24467.6
2017:3	162.6	194710.8	110910.0	75858.8	49324.8	-15656.7	25726.1
2017:4	163.3	195468.0	111014.4	76284.0	49801.5	-16757.6	24874.3
2018:1	163.4	195600.5	111071.3	74328.3	51436.3	-17532.1	23703.2
2018:2	164.1	196413.8	111520.6	78149.0	49061.0	-18806.3	23510.5
2018:3	165.1	197609.1	112343.6	79434.8	49642.5	-18437.4	25074.5
2018:4	165.7	198433.9	112768.1	77865.2	49844.0	-17117.3	24925.4
2019:1	166.4	199235.8	112806.5	76347.5	50526.0	-15756.7	24688.2
2019:2	167.1	200032.9	113132.9	77285.3	50009.7	-15591.0	24802.8
2019:3	168.1	201273.4	113952.7	78293.8	50056.5	-15900.9	25126.9
2019:4	168.9	202154.1	114411.5	78673.8	50010.4	-15695.2	25244.6
2020:1	169.9	203369.8	114363.4	78191.7	50860.0	-14689.5	25354.4
2020:2	170.5	204186.2	114717.5	79020.4	50335.5	-14421.8	25465.2
2020:3	171.4	205199.1	115569.5	79774.3	50315.1	-14836.7	25624.4
2020:4	172.2	206217.7	116035.1	79688.3	50427.6	-14169.3	25766.2
2021:1	173.1	207248.3	115986.0	79120.4	51177.9	-13137.9	25900.0
2021:2	174.0	208273.6	116461.7	79880.2	50636.9	-12666.8	26039.1
2021:3	175.2	209772.8	117442.5	81169.1	50637.7	-13235.4	26241.7
2021:4	176.1	210813.3	117914.2	81647.1	50617.9	-12980.4	26385.1
2022:1	177.0	211888.0	120614.5	78065.4	51486.4	-10870.2	27407.3
2022:2	177.9	212936.6	121228.6	78213.5	50964.1	-9913.9	27556.1
2022:3	179.3	214686.5	121841.6	77992.8	50934.7	-8286.7	27796.2
2022:4	180.2	215722.2	122454.3	78138.1	50923.4	-7850.4	27943.7

[1] GDP at factor cost. Expenditure measure; seasonally adjusted

[2] Consumers expenditure less expenditure on durables and housing

[3] Private gross domestic capital formation plus household expenditure on durables and clothing plus private sector stock building

[4] General government current and capital expenditure including stock building

[5] Exports of goods and services less imports of goods and services

Financial Forecast

	PSBR/GDP %[1]	GDP[1] (£bn)	PSBR (£bn) Financial Year	Debt Interest (£bn)	Current Account (£ bn)
2017	2.0	2047.3	39.4	79.9	-66.3
2018	1.5	2117.0	30.9	80.0	-62.9
2019	1.0	2206.6	22.3	84.7	-48.8
2020	0.3	2297.2	6.9	91.0	-41.2
2021	-0.3	2394.8	-6.9	94.2	-30.6
2022	-0.7	2500.2	-18.5	95.4	-18.4
2017:1	-2.9	507.9	-14.6	20.0	-15.7
2017:2	5.0	503.8	25.3	20.0	-20.5
2017:3	2.3	510.3	11.8	19.7	-15.3
2017:4	3.2	513.3	16.5	19.9	-14.8
2018:1	-2.8	515.6	-14.3	20.2	-16.7
2018:2	3.3	518.6	16.9	19.7	-18.7
2018:3	0.7	527.9	3.8	19.8	-13.5
2018:4	1.9	532.3	10.2	20.1	-14.0
2019:1	0.0	538.2	0.1	20.4	-13.7
2019:2	2.2	541.9	11.9	20.7	-13.8
2019:3	1.7	548.8	9.2	20.9	-9.4
2019:4	1.5	554.3	8.3	21.2	-11.9
2020:1	-1.3	561.6	-7.1	21.9	-12.2
2020:2	1.3	565.4	7.5	22.0	-12.0
2020:3	0.9	570.9	5.1	22.1	-7.6
2020:4	1.0	576.9	5.5	23.5	-9.4
2021:1	-1.9	584.1	-11.2	23.4	-9.5
2021:2	0.8	588.6	4.8	23.3	-8.9
2021:3	0.3	595.6	1.8	23.4	-4.9
2021:4	0.3	601.8	1.5	23.7	-7.3
2022:1	-2.5	608.8	-15.0	23.8	-6.1
2022:2	0.5	614.2	2.8	24.0	-6.0
2022:3	-0.1	622.0	-0.6	23.6	-2.5
2022:4	-0.3	628.4	-1.7	23.8	-3.7

[1] GDP at market prices (Financial Year)

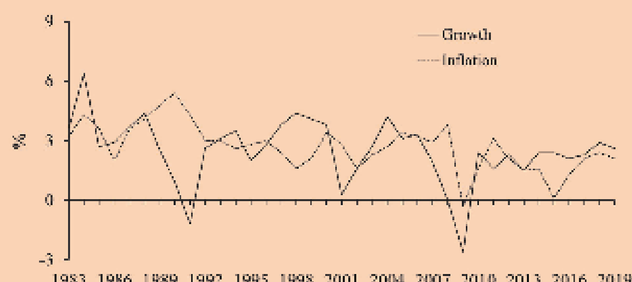
US

Economic growth accelerated. The quarter-to-quarter GDP growth rate was 0.8% in Q1, following 0.55% growth in Q4 2018. The growth was driven by both strong domestic and foreign demand. The biggest contribution came from investment, rising 1.3% in Q1 after 0.9% in Q4 2018. Real private consumption expanded but at a slower pace, 0.3% compared to 0.8% in Q4 2018. Net exports contributed over 0.25 percentage points to the quarter's growth, as exports rose (almost 1% after a rise of 0.4% in Q4) and imports fell (-0.9% after rising 0.5% in the previous quarter). The recent survey data indicate that the economy should continue to expand but at a slower growth pace in Q2. The composite PMI is at 31-month low of 52.8 in April (down from 54.6 in March).

The labour market continued to be robust. The average unemployment rate has remained at 3.8%, the lowest level since 1969 Q3, for three consecutive quarters. Job gains are solid with nonfarm payroll employment increasing by an average of 180,000 per month in Q1. Tight labour market conditions have kept upward pressure on wages growth with annual average hourly earning rising by 3.3% in Q1, unchanged from the previous quarter. The recent data shows further signs of improvement. The unemployment rate declined to 3.6% and job creation was 263,000 in April.

The annual headline CPI inflation rate increased 1.9% in March, up from 1.5% in February. Excluding food and energy the inflation rate was 2.0%, compared to 2.1% in February. This shows little sign of upward inflation pressure despite the strength in the labour market and the wage growth rate. At the April meeting, the FOMC decided to maintain the range for the Fed funds target rate at 2.25% to 2.5%. Earlier this year the FOMC indicated that they would not change interest rates in 2019.

U.S.: Annual Growth Rates of Real GNP and Consumer Prices



US

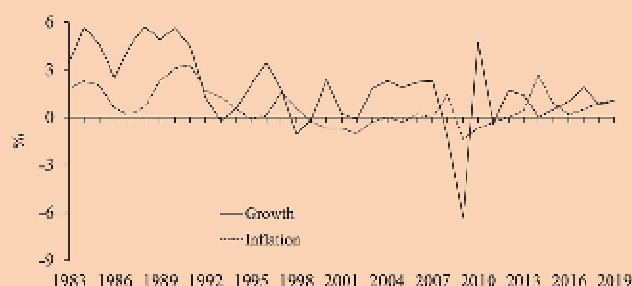
	2014	2015	2016	2017	2018	2019
Real GDP Growth (% p.a.)	2.4	2.9	1.6	2.2	2.9	2.6
Inflation (% p.a.)	1.6	0.1	1.3	2.1	2.4	2.2
Real Short Int. Rate	–1.1	–1.1	–1.6	–0.9	0.5	1.0
Nominal Short Int. Rate	0.2	0.2	0.5	1.4	2.4	2.6
Real Long Int. Rate	0.7	0.3	0.5	0.8	1.1	1.4
Nominal Long Int. Rate	2.2	2.2	2.5	2.8	3.2	3.4
Real Ex. Rate (2000=100)[1]	83.9	93.0	94.0	94.5	94.8	95.0
Nominal Ex. Rate[2]	89.40	103.08	101.91	102.20	102.40	102.50

[1]The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation of the real exchange rate.
[2] The series for the USA is a trade weighted index (1990=100)

Japan

Growth moderated in Q1 2019 after a recovery in Q4 2018. Without the support from strong external demand the manufacturing sector and business investment inevitably became weaker. The manufacturing sector expanded only in January with a PMI of 50.2 above the 50 threshold mark, but for February and March it contracted to 48.9 and 49.2, respectively. Net trade also deteriorated with exports falling 2.4% yoy in March (following -1.2% yoy in February) and imports rising at 1.1% yoy in March (after -6.6% yoy in February). Domestically, the weak economic performance and outlook weighed on household spending. Consumer confidence reached its lowest level since February 2016 at 40.5 in March, compared to 41.5 in February. For Q2 the economic outlook appears to be weakening, as in April the manufacturing sector output continued to decline for the 3rd month in a row and its PMI reached 49.5.

Japan: Annual Growth Rates of Real GNP and Consumer Prices



Japan

	2014	2015	2016	2017	2018	2019
Real GDP Growth (% p.a.)	1.6	1.3	0.6	1.9	0.8	1.1
Inflation (% p.a.)	2.7	0.8	–0.1	0.5	1.0	1.1
Real Short Int. Rate	–0.6	0.1	–0.4	–0.8	–0.9	–1.2
Nominal Short Int. Rate	0.2	0.2	0.1	0.1	0.0	0.0
Real Long Int. Rate	–1.1	–0.5	–1.0	–1.1	–0.9	–1.2
Nominal Long Int. Rate	0.3	0.3	0.0	0.1	0.1	0.2
Real Ex. Rate (2000=100)[1]	59.8	56.0	58.4	58.3	58.1	58.4
Nominal Ex. Rate	106.7	121.11	108.61	112.18	114.10	112.00

[1]The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation of the real exchange rate.

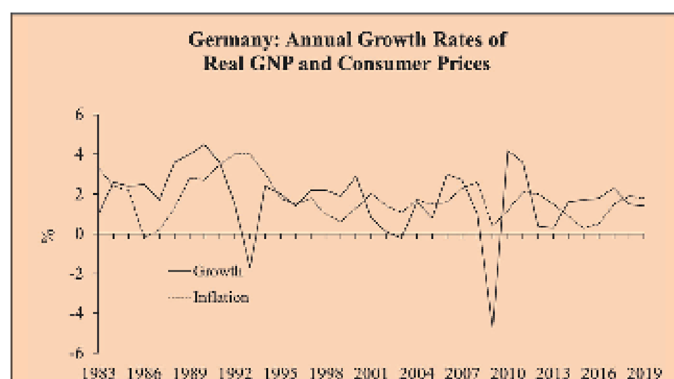
In an attempt to boost the economy, Japan approved a 101 trillion Japanese Yen budget (around 19% of GDP) for the fiscal year 2019/2020 to increase government spending in areas including welfare, public works and defence. On the monetary policy side, the Bank of Japan started to conduct

forward guidance by stating at its April meeting the intention to keep the short-term and long-term interest rates at the current levels until at least spring 2020.

Germany

The economy grew moderately at the start to 2019 as robust domestic demand balanced weak foreign demand. Services sector business activity was the driver for the overall economic expansion whose growth was the fastest in six months with the PMI Business activity index at 55.4 rising from 55.3 in February and 53.0 in January. This in turn supported the labour market where the March unemployment rate was at its lowest since April 1980 unification at 3.2%. A robust labour market together with a rising consumer confidence level in Q1 (averaging 10.6 compared to 10.5 in Q4 2018) in turn should support the domestic demand level. Weak external demand had a negative impact on the manufacturing sector, which had been shrinking since January 2019 and hit an 80 month low at 44.1 in March, dropping from 47.8 in February.

The recent data and surveys signal a slight improvement in the Q2 outlook. The composite PMI rose to 52.1 in April from 51.4 in March. The service sector continued its expansion with the highest PMI Activity Index since September 2018 at 55.6 (up from 55.4 in March; the manufacturing contraction continued but at a slower pace with its PMI at 44.4 in April compared to 44.1 in March.



German

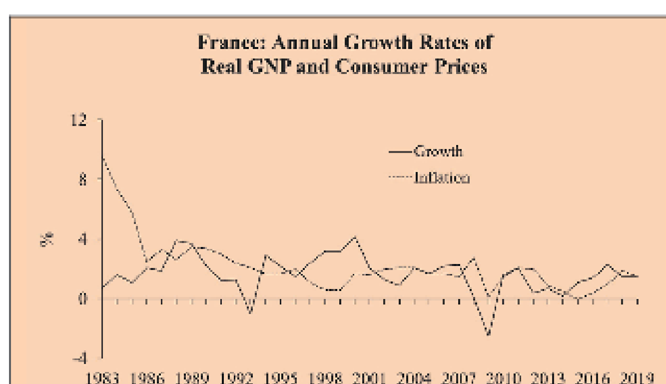
	2014	2015	2016	2017	2018	2019
Real GDP Growth (% p.a.)	1.6	1.7	1.9	2.2	1.6	1.5
Inflation (% p.a.)	0.9	0.3	0.5	1.8	1.9	1.9
Real Short Int. Rate	–0.2	–0.6	–2.0	–2.0	–2.2	–2.2
Nominal Short Int. Rate	0.1	–0.1	–0.3	–0.3	–0.3	–0.3
Real Long Int. Rate	–0.8	–0.9	–1.7	–1.5	–1.4	–1.1
Nominal Long Int. Rate	0.5	0.6	0.1	0.4	0.5	0.8
Real Ex. Rate (2000=100)[1]	99.9	94.7	95.0	94.3	94.9	95.1
Nominal Ex. Rate	0.76	0.90	0.90	0.88	0.85	0.86

[1]The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation of the real exchange rate.

France

Growth remained positive but slow. Real GDP expanded 0.3% in Q1, unchanged from the previous quarter. The positive contribution to the growth came from a strong domestic demand with the expansion in private consumption (0.4% after 0% in Q4 2018) and investment (0.3% after 0.4% in Q4 2018). Change in inventories added 0.3 percentage points to the Q1 growth rate, compared with -0.1 percentage points deduction from Q4 2018's growth rate. Net trade subtracted 0.3 percentage points from the quarterly growth (compared with 0.3 percentage points in Q4 2018), as the deceleration in export growth (0.1% compared with 2.2% in Q4) dominated that of imports (0.9% after 1.2%).

The economic outlook for Q2 looks similar to that in Q1. The recent survey data do not signal many changes. Consumer confidence remained at 96 points in April, unchanged from March. The National Institute of Statistics and Economic Studies' business climate indicator for manufacturing was 101 points (down from 103 in March). The composite output index was 50.0 in April, up from 48.9 in March.



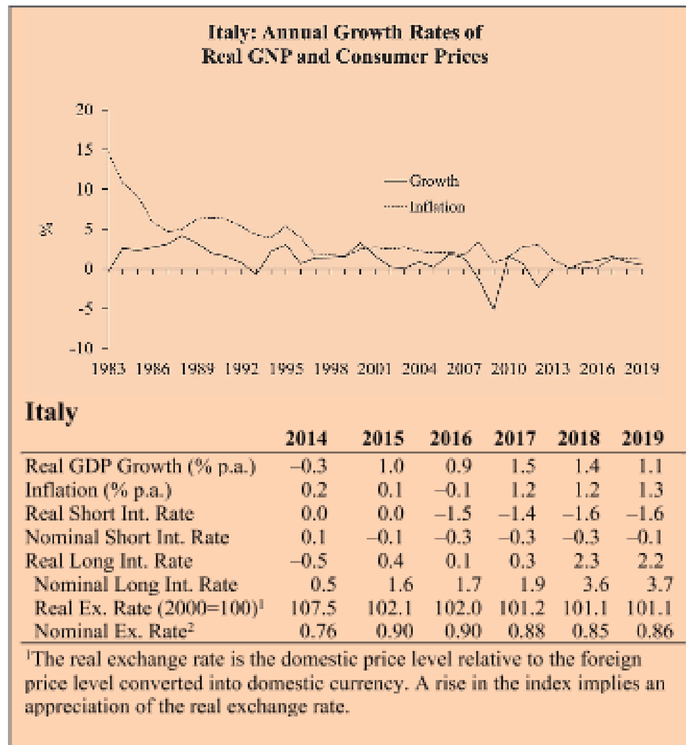
France

	2014	2015	2016	2017	2018	2019
Real GDP Growth (% p.a.)	0.2	1.0	1.1	2.3	1.5	1.5
Inflation (% p.a.)	0.5	0.0	0.2	1.0	1.9	1.3
Real Short Int. Rate	0.1	–0.2	–1.3	–1.6	–1.8	–1.7
Nominal Short Int. Rate	0.1	–0.1	–0.3	–0.3	–0.3	–0.3
Real Long Int. Rate	–0.5	–0.7	–0.9	–0.9	–0.6	–0.5
Nominal Long Int. Rate	0.5	1.0	0.7	0.8	0.9	1.1
Real Ex. Rate (2000=100)[1]	100.8	96.2	96.0	95.3	95.1	95.5
Nominal Ex. Rate[2]	0.76	0.90	0.90	0.88	0.85	0.86

[1]The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation of the real exchange rate.

Italy

The economy rebounded from a recession. Real GDP grew 0.2% in Q1 after shrinking 0.1% in the previous two quarters. The recovery was driven by strong external demand, while domestic demand made a negative contribution to growth. Based on the recent data and surveys Q2 economic performance appears likely to be weak. The manufacturing sector continued to contract for the 7th consecutive month with the PMI at 49.1 in April (after 47.4 in March). Uncertainties related to the new government economic and fiscal policy and their consequences have damaged confidence ; the business confidence index was 98.7 points in April (compared to 99.1 points in March and 98.2 in February), staying persistently lower than its long term average. The consumer confidence index was 110.5 in April, down from 111.2 in March and the lowest since July 2017.



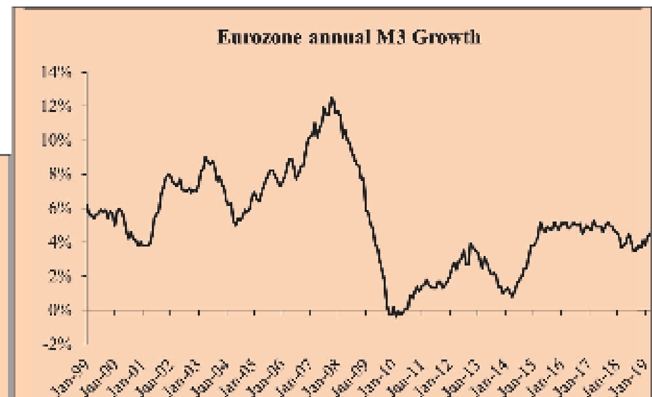
Italy

	2014	2015	2016	2017	2018	2019
Real GDP Growth (% p.a.)	–0.3	1.0	0.9	1.5	1.4	1.1
Inflation (% p.a.)	0.2	0.1	–0.1	1.2	1.2	1.3
Real Short Int. Rate	0.0	0.0	–1.5	–1.4	–1.6	–1.6
Nominal Short Int. Rate	0.1	–0.1	–0.3	–0.3	–0.3	–0.1
Real Long Int. Rate	–0.5	0.4	0.1	0.3	2.3	2.2
Nominal Long Int. Rate	0.5	1.6	1.7	1.9	3.6	3.7
Real Ex. Rate (2000=100)[1]	107.5	102.1	102.0	101.2	101.1	101.1
Nominal Ex. Rate[2]	0.76	0.90	0.90	0.88	0.85	0.86

[1]The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation of the real exchange rate.

Euro-zone monetary policy

The Harmonised Index of Consumer Prices' inflation rate was 1.4% in March, down from 1.5% in February. At the April meeting the European Central Bank decided to maintain its accommodative monetary policy by keeping its interest rates unchanged. It expected to keep them at the present levels at least through the end of 2019 to facilitate a path in which inflation would converge to its target of 2%. It also decided to continue reinvesting all principal payments from maturing securities purchased under the asset purchases scheme for an extended period to maintain favourable liquidity conditions.



WORLD FORECAST DETAIL

Growth Of Real GNP

	2015	2016	2017	2018	2019	2020
U.S.A.	2.9	1.6	2.2	2.9	2.6	1.9
U.K.	2.3	1.9	1.8	1.4	1.6	2.0
Japan	1.3	0.6	1.9	0.8	1.1	0.5
Germany	1.7	2.2	2.2	1.4	1.4	1.6
France	1.0	1.1	2.3	1.5	1.5	1.4
Italy	0.9	1.1	1.6	0.9	0.5	0.7

Growth Of Consumer Prices

	2015	2016	2017	2018	2019	2020
U.S.A.	0.1	1.3	2.1	2.4	2.1	2.2
U.K.	0.2	1.1	2.6	2.5	2.0	2.1
Japan	0.8	–0.1	0.5	1.0	1.1	1.0
Germany	0.3	0.5	1.5	1.8	1.8	1.7
France	0.0	0.2	1.0	1.9	1.3	1.5
Italy	0.1	–0.1	1.2	1.2	1.2	1.4

Real Short-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	–1.1	–1.6	–0.9	0.5	1.0	0.8
U.K.	0.0	–1.2	–1.5	–1.3	-1.2	-0.8
Japan	0.1	–0.4	–0.8	–0.9	–1.2	–1.1
Germany	–0.6	–2.1	–2.2	–2.1	–2.0	–1.7
France	–0.3	–1.3	–2.2	–1.6	–1.8	–1.5
Italy	0.0	–1.5	–1.5	–1.5	–1.7	–1.4

Nominal Short-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	0.2	0.5	1.4	2.4	2.6	3.0
U.K.	0.6	0.5	0.4	0.7	0.9	1.3
Japan	0.2	0.1	0.1	0.1	0.1	0.1
Germany	–0.1	–0.3	–0.3	–0.3	–0.3	0.0
France	–0.1	–0.3	–0.3	–0.3	–0.3	0.0
Italy	–0.1	–0.3	–0.3	–0.3	–0.3	0.0

Real Long-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	0.2	0.3	0.6	0.8	1.2	1.4
U.K.	–0.7	–1.5	–1.5	–1.0	-0.6	-0.4
Japan	–0.4	–1.0	–1.1	–1.4	–1.4	–1.6
Germany	–0.9	–1.7	–1.5	–1.7	–1.3	–1.0
France	–0.2	–0.8	–0.8	–0.9	–0.8	–0.7
Italy	0.6	0.3	0.5	1.2	1.5	1.6

Nominal Long-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	2.2	2.5	2.8	3.0	3.5	3.8
U.K.	1.3	0.7	0.6	1.0	1.4	1.6
Japan	0.3	0.0	0.1	0.0	0.1	0.1
Germany	0.6	0.1	0.4	0.2	0.6	1.0
France	1.0	0.7	0.8	0.7	1.0	1.2
Italy	1.6	1.7	1.9	2.8	3.3	3.5

Index Of Real Exchange Rate(2000=100)[1]

	2015	2016	2017	2018	2019	2020
U.S.A.	93.0	94.0	94.5	94.8	95.0	95.2
U.K.	92.2	81.4	77.4	78.5	76.6	76.1
Japan	56.0	58.4	58.3	58.1	58.4	58.3
Germany	94.7	95.0	94.3	94.9	95.1	95.0
France	96.2	96.0	95.3	95.1	95.5	95.4
Italy	102.1	102.0	101.2	101.1	101.1	101.0

[1] The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation in the real exchange rate.

Nominal Exchange Rate (Number of Units of Local Currency To $1)

	2015	2016	2017	2018	2019	2020
U.S.A.[1]	103.08	101.91	102.20	102.40	102.50	102.50
U.K.	1.53	1.35	1.30	1.29	1.30	1.32
Japan	121.11	108.61	112.18	114.10	112.00	112.50
Eurozone	0.90	0.90	0.88	0.85	0.86	0.85

[1] The series for the USA is a trade weighted index (1990=100); the series for the UK is $ per £

* Forecasts based on the Liverpool World Model

Anupam Rastogi

India

The Indian economy seems to have clocked 7% in 2018–19. We maintain our growth forecast of 7.3% in the fiscal year 2019–20, driven by continued investment, particularly private sector investment and improved export performance supported by resilient consumption. After 2019–20, we have trimmed our forecast as the GDP growth would depend on crucial land and labour reforms. Multilateral agencies like the IMF, World Bank and ADB expect growth to be above 7.5% in the medium term as India is able to implement structural reforms and eases infrastructure bottlenecks.

A sustained decline in food prices and the softening of oil prices resulted in sub 4% inflation in the last fiscal year and may remain contained around 4% in the current fiscal year. The RBI reduced the policy rate by 25 basis points in February 2019 and may go for another 25 basis points cut if the monsoon turns out to be normal and crude oil prices do not cross USD 80 to a barrel to bolster domestic investment.

Food price inflation at the wholesale level appears to be picking up steam in India, with the WPI food index rising from 3.3% to 3.9% in April.

Despite exports and imports growing at the same rate of 9%, India's trade deficit reached a record high of $176 billion in 2018–19. Exports in 2018–19 were $331 billion compared to $303 billion in 2017–18. Imports soared to $507 billion in 2018–19. The trade deficit figures may not rise even when India abides by the U.S. rules on trade with Iran. With a slowdown in India's domestic demand slowing its core imports, the current account deficit is set to narrow in 2019.

The rupee gained strength against the US dollar and recorded a higher-than-average appreciation rate in March as foreign investors bought Indian equity.

India is in the midst of general election and the six week long exercise would throw its result on May 23rd. All will know whether India has given Mr. Modi, the incumbent Prime Minister, another chance to govern the country for another five years or not. Like all political parties, the nationalist leaning BJP party is supremely confident that it would get the mandate. It is time to look back and see critically what they have achieved and what they have missed.

The jury is still out on their most controversial economic decision of demonetization. Result shows, as named by THE IMF, it was only an exercise in remonetisation. We think that more than anything else, it was an exercise to tell businesses to keep account books and pay taxes. Without this, the biggest fiscal reform i.e. introduction of Goods and Services

Tax (GST) would have failed. The time was most appropriate as the economy was at its peak and general elections were 2½ years away in November 2016, soon after the Deepavali, when most traders gross 50% of their revenue. The implementation of GST saw tweaking of rates many times and gross GST collections remained below Rs 100,000 crore (USD 1.4 billion) per month. It seems that it has settled now, as March 2019 collection was ~Rs 106,000 crore and April 2019 collection was ~Rs113,000 crore. The rising tax revenue provides the government money to spend on infrastructure now.

Credit markets have also strengthened with expedited insolvency procedures with a new bankruptcy code.

With inflation well under control, the shortage of jobs and rural distress are the election issues. Rural distress is mostly to do with almost zero inflation of agriculture produce leading to no rise in income for rural folks in the last two years. Mr. Modi says with another term he can address two impediments to luring more manufacturers: employment laws that make it nearly impossible to fire full-time workers, and real-estate laws that impede the accrual of land to build large-scale factories. Neither of these initiatives were allowed by opposition in Mr. Modi's first term.

In terms of key indicators, in the last five years, there are many successes and a few failures. Economic growth accelerated during Mr. Modi's premiership and India's gross domestic product is on track to be the fifth-largest in the world in the next couple of years. Manufacturing Companies did not invest much in new capacities as the introduction of Insolvency and Bankruptcy Code made them consolidate their balance sheet first before taking any more debt. As far as corruption is concerned, we saw fewer scandals under his watch and an improved ranking for India in Transparency International's corruption index.

Finally, lives have improved in the last five years if one measures it in terms of some consumption indicators that suggest that the growing middle class has more freedom and

money to spend on family trips, motorcycles, smartphone and data consumption.

In terms of jobs creation, data is imprecise and both, government and private entities, count only jobs created in formal sector whereas 75% to 80% of jobs in India are in informal sector. He has given handouts to the poor and middle class also provided there is no apparent leakage. But, critiques say that doles have not reached the most deserving lot. Election results would tell whether enough jobs have been created in the economy or not and doles reached to the poor or not, because both may not find a place in the economic statistics but they are voters and vote enthusiastically.

	18–19	19–20	20–21	21–22	22–23
GDP (%p.a.)	7.0	7.3	7.6	7.6	7.6
WPI (%p.a.)	3.9	3.9	4.0	4.0	4.0
Current A/c(US$ bill.)	-70.0	-64.0	-64.0	-65.0	-65.0
Rs./$(nom.)	79.5	69.5	71.0	72.0	72.5

China

The Chinese government is able to manage growth figures well and, hence, some inconsistencies in economic data may be apparent. A 6.4% expansion in China's economy during the first quarter is in line with the last year's growth rate and belied the market expectations that the Sino-US spat on trade would decelerate the economy. The clampdowns on riskier lending and pollution that deterred fresh investment, and the U.S. and Chinese tariffs on each other's goods would eventually see the economy growing 6% in 2019, which is at the lower end of Beijing's 6–6.5% target range. The government flooded the market with debt, but it isn't flowing to areas such as infrastructure spending that underpin real economic gains. China's consumers remain stretched, and they are wary of buying cars and smartphones or ordering takeout meals. Beijing's recent stimulus is filtering into real estate, damaging the country's long-term prospects. We believe that 2019 being a politically sensitive year in China, policy makers are promoting economic expansion and putting aside restructuring needed to keep debt under control.

Chinese authorities began 2019 by cutting taxes, pledging lending to small companies and ordering municipal governments to fund infrastructure construction, actions taken in response to a rapid economic slowdown late last year that frightened many business owners. We think that managing growth rate has three reasons. First, economic buoyancy could limit the barbs from President Trump, who has said China's economy is so weak that Beijing has great incentive to secure a trade deal. Second, China's sustained economic growth optically allowed President Xi Jinping to convince the visiting heads of state that Beijing has the wherewithal to push forward its global infrastructure program, the Belt and Road Initiative. Third, China will celebrate in October the 70th year of rule by the Communist Party.

The central bank has cut banks' reserve requirement ratios (RRR) five times since early last year to free up more funds for lending. It has also pressed banks to keep lending to struggling firms despite the risk of more bad loans, and has guided interbank interest rates lower to reduce financing costs. In its fight to maintain the GDP growth, we may see three more RRR cuts of 50 basis points each in the three quarters of 2019.

Consumer and producer prices both accelerated last month, lifted by hefty increases in pork prices and higher oil prices. March's consumer price index rose 2.3% from a year earlier, compared with a 1.5% gain in February. The producer price index rose 0.4% in March from a year ago, compared with a 0.1% on-year increase in February. The increase in the consumer price index was mainly driven by surging vegetable prices, after cold rainy weather, and rebounding pork prices due to supply disruptions caused by African swine fever that forced farmers to cull hundreds of thousands of pigs. Pork prices in March rose 5.1% from a year ago, while fresh vegetable prices surged 16.2%.

American and Chinese officials met in the last week of April to give a final push to settle a year-long dispute over bilateral trade. As part of a prospective deal on trade, the U.S. and China have agreed to measures that will deter Beijing from currency manipulation by requiring greater disclosure of economic actions. The deal could also include penalties for China if it manipulates its currency to increase exports. In the first quarter, China's exports increased 1.4% on year while its growth in the same period last year was 14%. Dollar-denominated imports were down 7.6% in March from a year ago. Imports fell 4.8% on year, compared with an 18.9% increase in the first quarter of 2018. The dollar-yuan rate remains around 6.8 with a bias of moving down a few basis points.

The U.S.-China trade dispute is entering a critical stage, President Xi Jinping has pledged fresh backing for the liberalization of his country's economy in ways the Trump administration has demanded. While addressing the gathering of the Belt and Road Initiative, Mr. Xi said China would increase imports, cut production overcapacity, protect intellectual property, expand imports, hold its currency stable and allow foreign companies to operate in more sectors. He said China's government would eliminate "unjustified" market-distorting policies, including industrial subsidies.

He promised that a more open China will fully integrate itself into the world.

To the gathering, Mr. Xi outlined a more expansive definition of Belt and Road, stretching it beyond infrastructure-building into areas including international cooperation in education and media. Mr. Xi also called for more multilateral and commercial funding for infrastructure projects, a contrast to his pledges of Chinese financing in a similar speech two years ago. The Belt and Road Initiative has pushed China's massive construction, telecommunications and shipping companies to go global as a cooling domestic economy reduces business at home. But the recipient countries have found that the projects are capital intensive, involves huge corruption and enmeshing the countries into a debt trap.

Therefore, Mr. Xi was forced to concede this year that China would introduce well-recognised rules and standards in its Belt and Road projects to ensure they are of high-standard, beneficial to people and sustainable. He made it clear that "we will make sure that corporates follow international rules and standards during construction, operation, merchandise and tender and respect laws and regulations in different countries."

	18	19	20	21	22
GDP (%p.a.)	6.6	6.0	5.6	5.4	5.2
Inflation (%p.a.)	2.2	2.3	2.3	2.0	1.8
Trade Balance(US$ bill.)	300	280	260	240	200
Rmb/$(nom.)	6.8	6.8	6.8	6.9	6.9

South Korea

South Korea's first-quarter gross domestic product declined a seasonally adjusted 0.3% from October–December. The business sentiment is clearly bad. The shrinking of GDP was largely due to reduced government spending and sluggish capital investment and exports. The government submitted the supplementary budget bill worth 6.7 trillion won (5.8 billion U.S. dollars) in April to the National Assembly to push economy. But, the passage of the extra budget plan was forecast to be delayed on the ongoing wrangling in the parliament over the amendment of an election law that can be enforced in the parliamentary election in April 2020.

The inflation rate is likely to remain far below the central bank's 2% target and clock 1.1% for 2019. The headline inflation slowed to its weakest pace since July 2016 in March on declines in food prices and weaker service costs growth, adding pressure for policymakers to shift to an easing stance and ramp up stimulus. In April, however, consumer prices rose 0.6% year on year. The Bank of Korea may cut interest rates for the first time in three years. However, the central bank maintains that the bank is not in a hurry to ease the monetary policy.

South Korea's exports contracted less in April than in the previous month, but the fifth straight of month of shrinkage, with memory chip shipments down 13.5%, could hurt chances of the trade-reliant economy to grow more than 2% in 2019. April exports fell 2.0% from a year earlier compared to March's 8.2% drop. South Korea is suffering collateral impact from the China-US tariff war, and falling semiconductor prices, which are now in a cyclical downturn.

Import increased 2.4% over the year to 44.74 billion dollars in April, sending the trade surplus to 4.12 billion dollars. The trade balance stayed in black for 87 months in a row. Imports fell 3.3% on a decline in imports of energy goods, including crude oil and natural gas, and machinery and equipment.

South Korea's won fell to its weakest in more than two years. The won has weakened by 4.2%, the most so far this year among Asian currencies.

	18	19	20	21	22
GDP (%p.a.)	2.7	2.0	2.5	2.7	2.7
Inflation (%p.a.)	1.5	1.1	1.5	1.5	1.5
Current A/c(US$ bill.)	86.0	80.0	78.0	70.0	70.0
Won/$(nom.)	1130	1090	1160	1160	1160

Taiwan

Notwithstanding the risk the island economy is facing, we maintain the GDP growth to be 2.1% for 2019 and growing 2.4% in 2020 and 2021. We expect an increase in domestic demand to offset the impact of slowing global demand in 2019. The International Monetary Fund forecast that Taiwan's gross domestic product will grow 2.5% in 2019 and 2020, in its latest World Economic Outlook report.

We maintain the consumer prices in Taiwan to grow 1.0% in 2019 and 2020.

Taiwan's imports of capital equipment rose 15.4% in the first quarter from a year earlier, while imports of semiconductor production equipment increased 41.2%. As a result, domestic demand is expected to pick up, which will help drive Taiwan's 2019 GDP growth.

Taiwan's exports have shrunk for five straight months amid weak demand for smart devices. But there is a silver lining from imports, which returned to positive growth due to stronger demand for semiconductor equipment. The 5G is helping and will be the growth engine of Taiwan's economy in the coming years. The production of equipment is just the beginning of the 5G supply chain. In the coming year, this latest generation of cellular mobile communications will create demand for end products, namely, smart devices, from which Taiwan's manufacturing sector will benefit the most.

Taiwan's foreign exchange reserves climbed to a new high for the fifth consecutive month at the end of March, largely on the back of an increase in returns on the central bank's portfolios, according to the bank. The country's forex reserves were at US$464 billion at the end of March. Taiwan's forex reserves were the fifth highest in the world, after China's US$3.09 trillion, Japan's US$1.22 trillion, Switzerland's US$741.6 billion and Saudi Arabia's US$474 billion.

	18	19	20	21	22
GDP (%p.a.)	2.6	2.1	2.4	2.4	2.2
Inflation (%p.a.)	1.2	1.0	1.0	1.0	1.0
Current A/c(US$ bill.)	68.0	70.0	71.0	70.0	60.0
NT$/$(nom.)	29.8	31.0	31.0	31.0	31.0

Brazil

The slow pace of economic reforms is keeping the economy underperforming. Brazil is running a fiscal deficit of around 7% of gross domestic product and a debt-to-GDP ratio of more than 75%. The overly generous public pension system, which bleeds the treasury, is unsustainable.

GDP growth is expected to be 1.70% this year.

Brazilian consumer price inflation rose to 4.7% in the last 12 months, its highest in two years, in mid-April, led by price increases in the transport and food and drink sectors. The central bank expects inflation to drift towards the target of 4% later in the year. We expect the central bank to maintain the SELIC rates at its historical minimum of 6.5% until the end of 2019. The rates may rise gradually to 7.50% by the end of 2020.

Brazil posted a current account deficit of $494 million in March, narrowing from a deficit of $994 million in February.

Foreign direct investment fell to $6.8 billion in March, down from $8.4 billion in February and below the $8 billion average estimate.

The forecast for the dollar remains at BRL 3.7 at the end of this year and gradually moving to BRL 3.8 at the end of 2020 assuming that inflation would not flare up in the coming months.

Brazilian President Jair Bolsonaro's proposal to overhaul the country's pension system had its first win after two months of contentious debate, but the path ahead for final approval is long and likely to get thornier. A committee of the lower house of Congress has finally approved that the bill is in accordance with Brazil's constitution. Support for the Bolsonaro administration is fading as delivery of reforms is slow. After 30 years of mis-management of the economy and corruption, there is a public uproar against corruption, violence and lack of jobs. The government's first two reform packages sent to the Congress are aimed at fighting corruption and reform of the public pension system, which addresses the fiscal time bomb.

According to the Economy Minister Paulo Guedes, the proposed pension bill will save the government about 1 trillion Brazilian reais ($251 billion) over a decade. This will improve public finances unless the bill is watered down.

	18	19	20	21	22
GDP (%p.a.)	1.1	2.0	2.2	2.5	2.5
Inflation (%p.a.)	3.8	4.0	4.2	4.2	4.0
Current A/c(US$ bill.)	-14.6	-16.0	-16.0	-16.0	-16.0
Real/$(nom.)	3.8	3.7	3.7	3.8	3.8

Other Emerging Markets

Hong Kong: FT-Actuaries

Indonesia: Jakarta Composite

Malaysia: FT-Actuaries (US$ Index)

Thailand: Composite Index

Singapore: Straits Times Index

Philippines: Manila Composite

POST-BREXIT REALISM AND INTERNATIONAL LAW: RENEGOTIATING A BAD WITHDRAWAL AGREEMENT

Patrick Minford

Summary: Patrick Minford reviews Parliamentary options for Brexit. Some pro-Brexit MPs will not vote for the government's proposed Withdrawal Agreement because of its fine print: they think it will be written in indelible tablets of law that we can never change. But sovereign states will not indefinitely stay in treaties that do not suit them, if no one can force them to; our Agreement with the EU if we sign it will not last for long if it stops us from pursuing our interests in trade and regulation.

In the latest discussions on the Brexit Withdrawal Agreement and Political Declaration, the WAPD for short, two views have emerged about the UK's future choices. One, which I will call the lawyer view, is that once signed, the WAPD binds the UK indefinitely; this view is held by many of my friends and Brexit allies who are largely lawyers and as such tend to believe that the letter of the law will prevail. The other, which I will call the realist view, is that it can be 'evolved', to use a word popular with some politicians, in line with the mutually evolving interests of the two sovereign parties, the EU and the UK. The latter view is the one generally adopted in the economic analysis of international treaties, as the following quotation from a recent paper in a leading economic journal makes very clear.

At the national level, such conflicts [over payment for /usage of public goods] between individual and collective rationality can be resolved by the intervention of the government (Demsetz, 1967). At the international scale, however, there is no supranational authority that could coerce states into adopting efficient policies if they run counter to national interests. Filling the void are international agreements. Under the terms of the Vienna Convention on the Law of Treaties, a state that ratifies a multilateral treaty chooses partially to surrender its sovereignty and to subject its policies in a specific domain to the rules and prescriptions of the treaty. In so doing, sovereign states agree to coordinate their policies in mutually beneficial ways. By the very nature of sovereignty, however, the agreement is fundamentally non-binding and states can always withdraw from it. Therefore, the fact that public good provision is implemented through an international agreement should not change a country's incentives to contribute per se—unless the treaty alters the country's incentives to cooperate in other ways. (Wagner, 2016)

The point of economic analysis of treaties therefore is that a sovereign state only continues as a party to any treaty if it remains in its interests to do so. Therefore one must analyse treaty development over time with reference to how these sovereign interests evolve; and how at any time the sovereigns reach an accommodation based on their mutual interests. The basic reason, as explained in the quotation, is that there is no supranational power that enforces treaties in the way that a national state, with a monopoly of force, enforces domestic law.

The Realist View is therefore asserting that once the UK is out of the EU, how it deals with the WAPD is a matter of subsequent choice and negotiation with the EU, which also has freedom of the same sort. Anyone supporting the Lawyer View must therefore demonstrate that the WAPD remains an agreement that it is in the interests of both sides to maintain in the same form. It is not sufficient to say that because it has been signed it is indefinitely binding; this would only be sufficient if there was a supranational power that could enforce this, and I shall assume it as obvious that indeed there is no such power. In a recent posting on Lawyers for Britain (2019) my old friend and longtime Brexit ally, Martin Howe, argues that the Treaty of Utrecht binding Spain into Gibraltar's status, illustrates that treaties bind longterm. However, in fact this well illustrates the point about self-interest. Spain, like the UK, has had a strong interest in Gibraltar not accidentally becoming a casus belli, much as the Falklands, with a population similarly determined to remain British, became, at great expense to both the UK and Argentina. Ceaseless ongoing diplomacy on both sides to accommodate mutual complaints has found the Treaty a useful figleaf.

In the rest of this piece I will discuss what the interests of the UK and EU are and how if at all they might evolve, and with them the UK/EU future Treaty relationship. This type of analysis is a branch of game theory, which can involve highly complicated mathematics, as in the paper cited, but fortunately not in this case here.

Current UK and EU interests and the WA:

Based on economic analysis within a rather standard World Trade model and other models described in Minford et (2015) I suggest the following broad interests of the EU and the UK:

EU: for the EU the status Quo is optimal. The UK contributes 10% of the EU budget. Its food and manufacturing industries sell to UK consumers at 20% above world prices because the customs union places trade barriers of this tariff-equivalent value against products from the rest of the world. EU regulations prevent UK practices that would reduce UK costs and so undercut EU competition, driving down margins. Unskilled EU workers can be exported to the UK labour market where their wage is supplemented by the UK taxpayer by about 20%.

UK: for the UK the optimal policy is abolition of protection against the non-EU; this 'free trade' policy eliminates the

20% premium paid to EU producers of food and manufactures and it also lowers consumer prices, pushing up productivity via trade competition. At the same time the UK would want to sign a free trade agreement with the EU that keeps the current free access with zero tariffs between them; nevertheless it turns out that any tariffs or equivalent that are imposed will benefit the UK and be paid by EU traders, because UK prices of both imports and exports are set by world prices, so UK tariffs must be absorbed by EU exporters while EU tariffs must similarly be absorbed by EU importers. It follows that though the UK would be willing on the 'good neighbour' principle to sign an EU-UK FTA, it would strictly speaking be better off under WTO rules with no deal.

These descriptions of economic interests take no account of current political pressures. A natural question is: given its interests why on earth did the UK sign up to the WAPD? This effectively makes the status quo the most achievable agreement, given that the backstop endows the EU with effective veto power over anything it dislikes; under the backstop the UK effectively stays in the EU as now until the EU deems there to be an agreement.

The only way to account for this is in terms of the votes in Parliament. With a part of the Tory party led by Philip Hammond having a Remainer view of UK interests- that is wanting protection for reasons of preserving **current** jobs (notice not gaining the most jobs in the long term as would occur under free trade etc), following vested interests like the CBI- the government of Mrs. May seems to have assumed that only the 'soft Brexit' WAPD could get through Parliament. Similarly, it assumed that Parliament would not support No Deal, because this too would sacrifice some current jobs to a free trade strategy under WTO Rules; as a result the government did not prepare for No Deal and so lost its only bargaining counter with the EU so that the WAPD failed to favour UK interests. As a result the WAPD too cannot get through Parliament because the ERG Conservatives and DUP votes oppose it. Now Mrs May is trying to get Labour votes to push through some even 'softer' WA, with a PD promising EU customs union in some shape or form. Hence the EU have not had any difficulty achieving a WAPD that favours its interests, because of Parliamentary politics. Add to this that the EU was in any case determined- due to its own politics- to show that exiting countries get a bad deal, to discourage others. It is clear that the politics of the divorce situation was bound to produce a bad deal from the UK viewpoint. One does not need to go further and accuse Mrs May of being a closet Remainer, which she may well be, to account for what has been agreed.

The Economic Analysis puzzle

How those Remainer ideas took hold in the face of strong economic arguments to the opposite effect, as set out above, for the long run gains of Brexit, is rather baffling. As I explained in a recent paper in World Economy, Minford (2019), Remainers and their economist allies (eg Breinlich et al, 2016) used 'gravity theory' to argue that leaving the EU would be damaging to the UK and that gains from free trade with the rest of the world would be small. However, the 'gravity models' they used did not obey the canons of good general equilibrium modelling, in which all causal factors are simultaneously analysed for the effect of a major policy change like Brexit. All the gravity models were 'partial equilibrium relationships' in which trade, GDP, FDI and productivity were separately related without any overall inter-linking. This approach was originally -in 2016- also adopted by the Treasury (HM Treasury, 2016); but at the end of 2017 the Treasury for this reason finally abandoned it, in favour of a full general equilibrium model, the GTAP model, bought in from the Purdue University Trade Modelling Project. This was used to re-evaluate Brexit in the Cross-Whitehall Civil Service Report (Civil Service, 2018) of that time. Given the strong Whitehall bias against Brexit the new model was given assumptions that produced similar negative results to the previous ones. These consisted of a) few and limited FTAs with the non-EU world b) large border barriers, even with an EU FTA, between the UK and the EU. However, plausible alternative assumptions reverse the Brexit effect on GDP under WTO No Deal for example from highly negative (-7%) to firmly positive (+3%).These assumptions are that the UK uses FTAS with the non-EU to eliminate all trade barriers on goods against them while also gaining wide market access; and that it signs an FTA with the EU that prevents any new barriers, or if it goes to WTO Rules then only tariffs spring up at the border, other interferences being illegal under WTO obligations.

As this debate has unfolded between our critique and the Treasury, academic economists espousing the previous gravity methods have stayed strangely quiet while the Treasury dropped their methodology. Meanwhile we published another paper (Minford and Xu, 2018) in which we tested a full 'Computable general equilibrium' (CGE) model with gravity mechanisms against a plain Classical CGE trade model without them, to see how well each matched the UK trade facts. Using an elaborate and thorough Indirect Inference test we found that the gravity version was strongly rejected while the Classical one fitted the facts. Furthermore when we did the Brexit policies on the Gravity version the effects were much the same as with the Classical, our main tool; this was because Brexit gives gains with the rest of the world while not much disturbing our relations with the EU and so stirring up the negative gravity effects. Therefore it is clear that the anti-Brexit claims based on the gravity approach are invalid.

Unfortunately in the present fevered atmosphere calm academic debate cannot take place; it is reminiscent of wars of religion where each entrenched side only wants to hear confirmation of its prejudices. One of the side benefits of Brexit occurring is that people may move on to normal technical discussions about optimal UK policies.

The way forward in Parliament

There are now three main Parliamentary scenarios. In two of them one or another WAPD, Mrs May's or some even softer

one agreed with Labour, gets through Parliament. The UK then leaves the EU in these two scenarios, initially for the transition period, as soon as either gets through.

In the third, there is no WAPD agreed and the possibility strengthens of a second referendum with Remain on the ballot paper, leading to either No Brexit or a renewed demand for Brexit. This third scenario is one in which Brexit uncertainty continues for a year or more, with unknown political consequences, given that the Leave voters in the first referendum would feel betrayed. This third scenario will only be welcomed by Remainers determined to reverse the democratic referendum decision. From a Brexit viewpoint, the only hopeful outcome would be a new Conservative leader and government determined to change the WAPD and get it through Parliament before exit. But how could this be achieved without an election to change Parliament's composition? Also, what would be the odds on the Conservatives winning such an election, given the fury of the populace with the Conservatives for failing to deliver Brexit? Such hopes look forlorn.

Scenarios 1 and 2, if Brexit occurs: What of UK and EU interests post-Brexit?

In this section I ask what, given we have a WAPD as described, opposed widely by Brexiters, is likely to occur if, as seems probable, Mrs. May steps down and is succeeded by a Brexiter Conservative leader? Such a leader is likely to agree with my account above of UK interests. If so, what can such a leader do, if saddled with the WAPD?

Under the realist view espoused by economic analysis, this leader's government moves to reopen bargaining with the EU. This would be done via normal diplomatic processes, in which the EU would face a possible general lack of UK political cooperation in a wide array of areas, including key ones like security and military matters; also the WTO option would be reactivated as a 'walk away' trade strategy, should the EU be unwilling to move away from its status quo aims. The UK having left the EU after resolving basic administrative issues such as citizen rights, aviation/transport/visa agreements, there would probably be little appetite to revisit these issues; and the focus should be on the trade relationship quite narrowly. Nevertheless, were it to be widened, the new government would make active preparations for a breakdown in these areas.

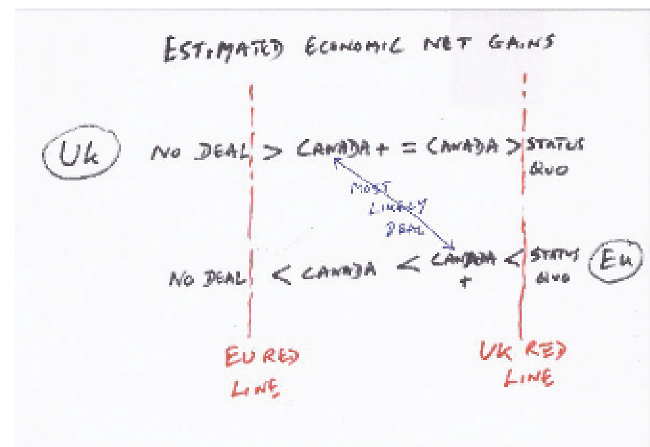
At the same time the UK would proceed to negotiate FTAs with non-EU countries, informing them of their aims on EU relations. These would be widely welcomed, as we already know.

How would the EU /UK bargaining go from here? We can think of the 'game' now as a series of proposals and counter proposals. Start from the opening WAPD 'proposal' for the status quo. This violates UK interests radically, breaching its basic 'red lines'. The UK counter-proposal is to walk away to WTO Rules and no deal. This UK counter proposal damages EU interests radically, as we have seen: they face world prices in the UK market and tariffs in both directions are paid by EU traders. In order to counter this the EU now offers an FTA: Canada+ which consists not just of zero barriers on goods (Canada) but also the + of mutual recognition in services where EU interests are served by free trade, given a wide reliance on UK service industries. The UK wants either Canada or Canada+ more or less indifferently as its service industries are all highly competitive around the world. As noted earlier, while No Deal gives strictly better gains, the UK is likely to agree to this proposal for the sake of neighbourly relations.

The bargaining round which may well take a few years to play out is therefore likely to be resolved by Canada+. We can essentially rule out any other resolution because all other alternatives leave one side unacceptably badly off- beyond its red lines- or can be improved on by one side without making the other worse off

What I mean by unacceptably is literally that it will not accept it in the long run, when by walking away or cooperating it can avoid it. The EU can avoid No Deal by cooperating. The UK can avoid the status quo by walking away.

All this is illustrated in the following diagram: the top line shows how the UK ranks all options, with No Deal the best; the second line shows the EU rankings, with the status quo the best. Each side's red lines of unacceptability are marked out on each side. Any resolution must be inside these. Canada + within these is better than Canada for the EU and an equals with it for the UK. So Canada+ gets chosen.



Notice that all this diplomacy is carried out between 'consenting sovereigns'. Neither will bring in outsiders because no outside power has jurisdiction or indeed wants it. In so far as third parties have preferences, they tend to favour the UK as they typically want to agree FTAs with the UK. As for the WTO, it allows states to negotiate FTAs freely; and in general favours all agreements that in net terms reduce trade barriers, just as will occur under the EU-UK renegotiation.

The need for a new Conservative leader and government

In order for this new diplomacy based on the UK's true economic interests, not sandbagged by Remainers within the tent like Hammond and co, there plainly needs to be a new Conservative leader and government, fully seized of the Brexit case for free trade and so on. The current leadership/government has proved that it has neither the understanding nor the will to pursue the UK's true interests. Without it changing no progress along the lines discussed here is possible.

It is now very likely that the Conservative party will change its leadership, if only for reasons of pure survival. With the agreed extension, the Conservatives face carnage in the local elections and if the European elections take place, annihilation in those. This will inform the party of how unpopular its failure to deliver Brexit has made it. Its best hope then is for Mrs. May to go and for a new leader to chart a new direction, while making it clear that the new government rejects and regrets the old government's failed Brexit agenda.

What are the implications of the Realist View for Parliamentary votes?

MPs now have some time for reflection during their Easter holiday. They need to ponder the effects of their votes.

Any MP that wants to avoid the chance of that third scenario of possibly No Brexit needs to consider voting for one or other WAPD. With either of them Brexit occurs and the renegotiation can be launched under a new Prime Minister.

An ERG Brexiter will prefer Mrs May's original WAPD since it does not contain extra 'soft' commitments put in to satisfy Labour. These become yet another element to be renegotiated. In principle that too will be jettisoned; but it adds complication.

A DUP Brexiter will remain nervous about the backstop in Mrs May's WAPD; and could be less nervous with a softer one including a customs union because with that the backstop does not come into play. Nevertheless a DUP MP should reflect that none of these will survive renegotiation and should not therefore be unduly concerned. What it really needs from Mrs May and her potential successors is a guarantee that whatever is renegotiated it will never include differential treatment for Northern Ireland, or indeed any other devolved part of the Union. But they should feel confident on this: the Conservatives have been robustly and consistently a unionist party.

It should be noted by both these groups that in opposing any WAPD they are playing the role of 'useful idiots' to Remainers who want no Brexit, leading to a second referendum.

When one turns to Labour MPs and Mrs May, both involved in negotiations over a softer WAPD, they should reflect that their new WAPD causes both sides difficulties- Mrs May because it infuriates most Conservatives, Labour because it will infuriate the substantial Labour group that wants a second referendum rather than any sort of Brexit; but at the same time achieves no extra longterm softness in the outcome, as the added-on soft elements will simply be the first to go in the inevitable renegotiation.

Reflection on all sides should therefore have the effect of terminating the May-Labour negotiation while logically inducing ERG and DUP Brexiters to push the May WAPD over the line.

Conclusions

The Realist view of post-Brexit affairs clearly implies that the UK, once it is out of the EU will behave like any other sovereign power and see that its foreign relationships evolve to suit its interests. So far these have been stitched up in talks with the EU due to a Remainer group of Tories who have opposed the government's Brexit policies in favour of industrial vested interests, in alliance with Labour opponents, and undermined its bargaining position vis-à-vis the EU which was in any case politically determined not to agree a good trade deal. No sovereign state could put up with this sort of stitch-up in the long term. This piece has described how a new government, fully seized of the UK interest in free trade and domestically set regulation, besides control of borders and the ending of budget transfers to the EU, will have both the incentive and the scope to achieve a logical renegotiation that reaches an EU agreement tolerable to both sides.

Under this view the key aim for Brexiters should be to get the WAPD in some form- it does not much matter what form- over the line, so that Brexit definitely happens as demanded in the referendum. Policy in the future will then evolve to meet UK interests.

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ISSN 0952-0724
The Quarterly Economic Bulletin is now indexed by the International Bibliography of the Social Sciences and can be found at http://www.bids.ac.uk/

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