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Briefing

Brexit and development:
how will developing countries be affected?

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Key messages

- Brexit will have major implications for developing countries.
- Different countries will be affected in different ways, in the short-term and in the long-term, depending on how the UK exits. There are mostly negative effects for developing countries, but there may also be opportunities.
- The pathways of impact are through trade, financial markets and investment, growth, aid and development finance, migration and remittances, and global collaboration.
- In the short-term, the threat of Brexit led to currency and stock market fluctuations, which have not spared emerging markets and poorer countries.
- We estimate that the 10% devaluation of the pound in the first week post-Brexit, coupled with lower GDP in the UK (estimated at 3%), will lead to lower exports by developing countries ($500 million in least developed countries).
- The devaluation will also reduce the value of aid by roughly $1.9 billion. The combined cost (through aid, trade and remittances) of the devaluation for developing countries is expected to be $3.8 billion. If the pound continues to fall, the effects could increase.
- The long-term effects will depend on UK trade deals, EU trade deals (with the UK no longer influencing them), the way aid and other development finance will be maintained and allocated, the way in which global collaborations is affected, the way financial markets react, and the way immigration and remittances are maintained. This will be a long process.
- The opportunities of Brexit for developing countries rely on specific commodity price changes (e.g. gold exporters gain), changes in distribution of aid, cheaper imports from the UK, and the ability to gain from new trade deals, including through targeted Aid for Trade.
- Greater policy consideration is needed on what the UK alone can and should offer to developing countries on trade.

1. Introduction

On 23 June 2016, the UK voted to leave the European Union (EU) after 43 years of membership. Whether or not the UK eventually leaves the EU, the economic fall-out is already considerable, including the fall-out for developing countries[2]. This briefing paper discusses the actual and potential economic impact of Brexit on developing countries. It will set out how developing countries are already being affected by the prospect of UK departure from the EU and how in the future, developing countries might be affected by the route in which the UK leaves. The key points have been drawn from examination of existing data as well as scenario-based analysis.

The structure of this briefing is as follows:

- Section 2 presents the conceptual framework behind the potential impact of Brexit
- Section 3 discusses the immediate economic fall-out in relation to financial markets and investment
- Section 4 examines the trade aspects of Brexit
- Section 5 concludes and draws out policy implications.

2. Brexit and developing countries: pathways of impact

The impact of Brexit on developing counties depends on the shock and the transmission channels of that shock (Figure 1). The first element we consider is the shock – the shock of both the vote to leave the EU, and the policy of actually leaving. Secondly, we consider the potential effects of the Brexit shock on developing countries, which countries might be affected, and why.

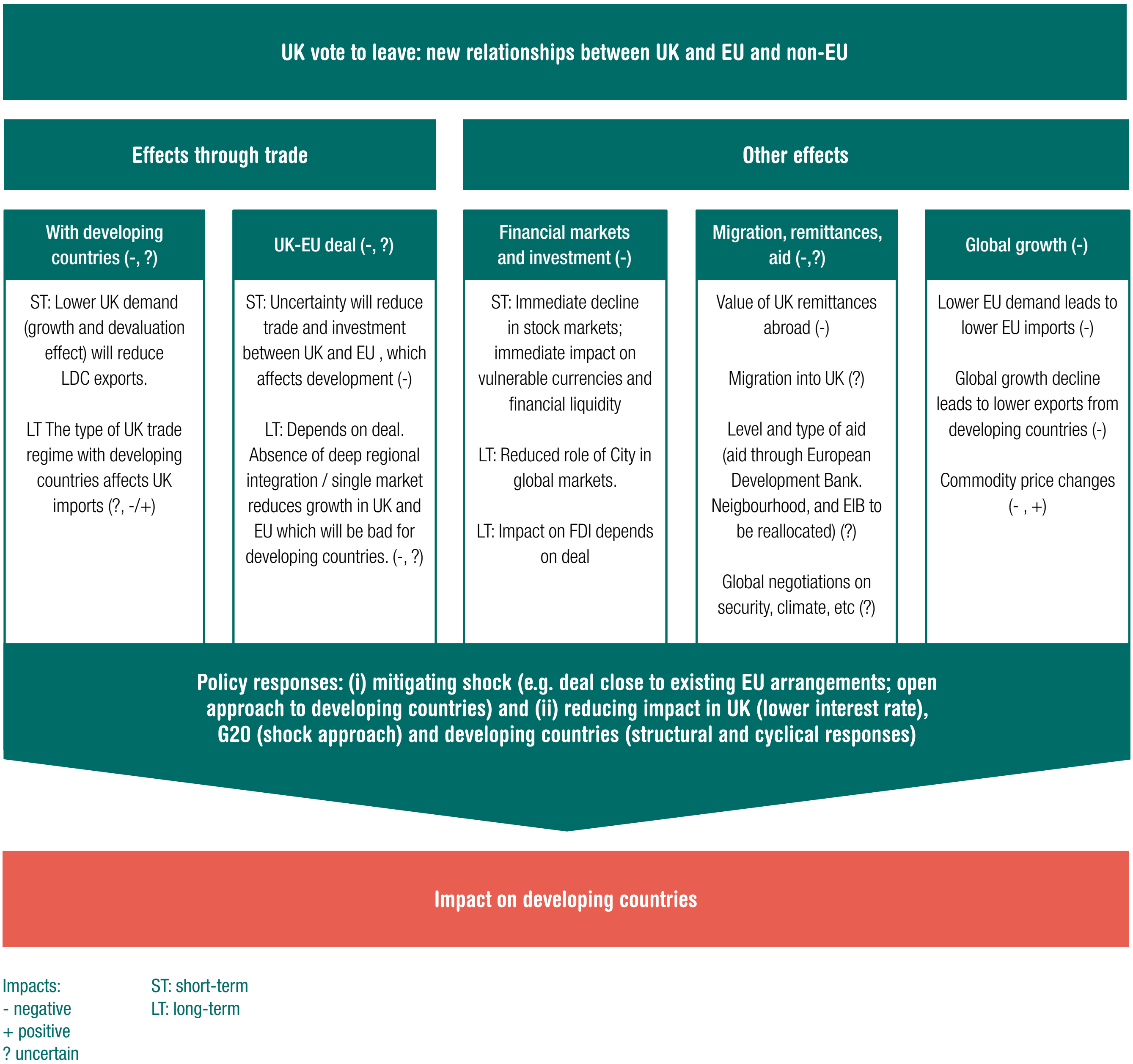
Figure 1 lays out the following pathways of impact:

- Trade: a lower value of the pound and lower UK growth will reduce imports in the short-term. As we calculate in Section 4, least developed countries (LDCs) as a group would see their exports decline by 0.6% (or $500 million). The most acutely affected countries will be those that export in relative terms a lot to the UK, such as Bangladesh, Kenya, Mauritius and Fiji. In the long-term, the trade effects will be on the types of deal between the UK and the EU, and between the UK and developing countries. There will be separate issues for deals on goods trade and on services trade.
- Financial markets and investment: there have already been weaknesses in currencies and stock markets of affected countries (global equities are 2% lower than on 24 June; on 5 July the pound was 12% lower, while currencies in emerging markets had already devalued by 4-6%). In the long-term, there might be effects through lower FDI flows because of smaller GDP, and financial sector activity may be relocated to the EU and elsewhere (Section 3 discusses this in more detail).
- Migration and remittances: while the outlook for immigration appears negative, we cannot rule out that migration might actually increase. Lower immigration into the UK will mean less UK growth which will affect development negatively. In addition, the development effects through UK remittances are undoubtedly negative because of the 10% devaluation of the pound. The countries most dependent on UK remittances include LDCs such as Uganda, and other countries such as Kenya, Mauritius, South Africa, Nigeria, St Lucia, India, etc. The loss would be equivalent to $1.4 billion of spending in developing countries, which includes a $370 million loss in both Nigeria and India (data on the value of bilateral remittances from the World Bank).
- Aid, development finance and global collaboration: a reallocation of aid away from EU channels (around 10% of UK aid) and through non-EU channels has yet unidentified implications. Commonwealth countries such as small and vulnerable middle income countries might become the new beneficiaries, but we cannot be sure as aid through EU pooled instruments might still be an option where it remains effective. For example, we have previously argued that pooled EU aid or trade has been effective (Holland and te Velde, 2012). More signfciantly, UK aid was $18.7 billion in 2015 (OECD DAC data), which will now decline in value by at least 10% because of devaluation of the pound. In other words, this amounts to a loss of $1.87 billion in value of UK aid. Other development finance channels such as the European Investment Bank (EIB) will also be affected. The UK is the biggest investor in the Juncker investment plan and holds 16% of the EIB's capital. If the UK leaves the EIB, it will not have a public investment bank, becoming an outlier in G20 terms. Moreover, it would have no say on how the EIB invests in developing countries (around 10% of total EIB investments) and volumes of investment in poor countries may drop. It is also not yet clear how global negotiations on issues like climate and security will be affected. Can the EU maintain an influence on climate negotiations that may benefit the poorest countries? The EU may face a unknown period of disintegration, instability and rebranding. On the other hand, there may be a strengthening in the fight for the global ideals the UK and the EU stand for: human rights, justice, equality, free trade and investment and open societies, but this is not guaranteed. The UK would need to seek new alliances (e.g. G20, Commonwealth, UN) in promoting the provision of global public goods that cannot be served by EU structures alone.

Figure 1 introduces a number of policy areas, which are important when determining the ultimate impact on developing countries (discussed in Section 5):

- Policies to mitigate the shock
    - Negotiating a deal that is close to existing EU arrangements
    - Open approach to developing countries in trade, investment and migration (although this would entail preference erosion for some of the poorest countries).
- Policies to reduce impact in:
    - The UK (lower interest rates)
    - G20 (a co-ordinated approach to addressing shocks)
    - Developing countries (structural responses such as diversification, economic transformation and cyclical responses to the immediate macroeconomic effects).

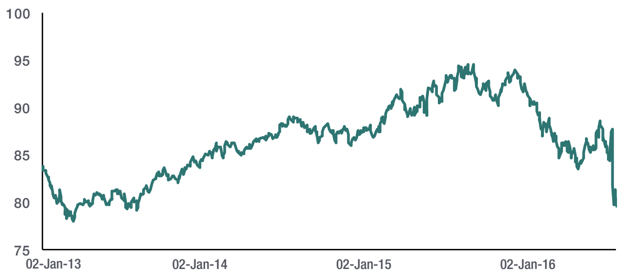
Figure 1: Brexit and development: pathways of impact



3. Financial impacts from the UK's vote to leave the EU

The UK's decision to leave the EU could have far-reaching macroeconomic consequences harming the growth prospects for emerging and developing countries. In the aftermath of the vote, roughly $3 trillion was lost in global equity markets (though at the time of writing, there has been some stabilisation). Sterling lost around 10% in trade-weighted terms as of 1 July 2016 (Figure 2), and has lost more since. In light of the economic and political uncertainty ahead, global sentiment is likely to remain risk averse and the UK will need to recover from the initial shock of the vote, Bank of England (2016a). In the short-term, financial risk aversion may mean that emerging and developing currencies could weaken. In the long-term, as investment decisions are likely to be postponed, both demand for exports and outbound investment could decline (or increase if there are few economic opportunities in the UK).

Figure 2: Sterling effective exchange rate index



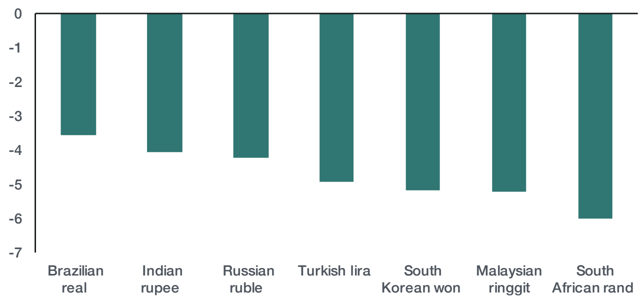
Source: Bank of England (January 2005=100)

The UK's vote to leave the EU comes at a time when many developing economies are already facing multiple shocks: lower oil and commodity prices, a stronger US dollar and a slowing Chinese economy. Before the UK vote, Kenya's central bank governor posited that Brexit could prove an even greater risk to the country than China's slowdown, due to the impact from financial market volatility and reduced investment (Bloomberg, 2016b). There are multiple channels of impact. We consider both the short-term and long-term financial market impacts.

Short-term financial impacts

Emerging market currencies were weak in the aftermath of the UK's vote, particularly currencies deemed to be riskier, or with closer trade links with the UK. Post-Brexit, daily declines were as large as 6% (Figure 3) and featured countries with stronger UK export links. The South African rand declined to a record low against the Japanese yen (the latter seen as a stable currency in this context). Central banks, including in India and South Korea, intervened to counter selling in their currencies. Looking ahead, there is a strong likelihood that risk aversion re-surfaces given the continued economic and political uncertainty. In this context, demand for 'safe haven' assets could come at the expense of currencies and assets that are seen to be riskier in emerging and developing countries.

Figure 3: Decline in emerging currencies on 24 June 2016



Source: Bank of England

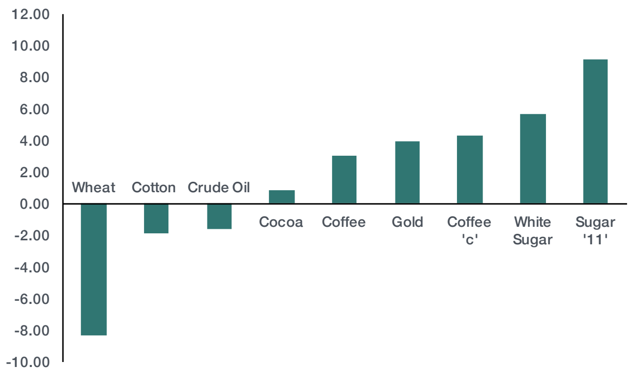
Shifts in relative commodity prices could shift terms of trade or changes in export prices against import prices. Since the vote, the price of gold has risen by 6%, whle the price of oil has fallen by 2%. If these trends continue, although gold producers (South Africa, China, Russia, Ghana, Tanzania, Brazil and Indonesia) could benefit, another decline in oil prices could undermine growth recovery in Sub-Saharan Africa growth (World Bank, 2016).

Figure 4: Recent gold price development ($ per ounce, 2016)

Source: Bank of England

While gold was the immediate beneficiary of the UK's vote to leave, it has been followed by increases in the prices of sugar, coffee and cocoa and other key commodities for developing countries (Figure 5).

Figure 5: Change in commodity prices between 23 June and 1 July 2016 (% changes)



Note: Closest future positions to the spot price.
Source: Financial Times

There is a small, short-term positive effect for LDCs associated with the fall in the pound and the euro. Imports from the UK and the EU are cheaper and, consequently, for those countries that have been favoured by the increase in the prices of their exported commodities, there is an improvement in their terms of trade. This may constitute an opportunity for these countries to import certain capital equipment. However, these effects are expected to be short-lived as the pound exchange rate devaluation will be followed by price increase and therefore a return to normal, real effective exchange rates. In addition, the effects are smaller in those emerging countries that have also seen their exchange rates fall.

Longer-term economic impacts

Increased capital outflows are a key risk. By some estimates, the Brexit vote triggered roughly $210 million in outflows from emerging markets, less than the $24 billion outflow related to concerns around China's slowdown in January 2015 (Reuters, 2016). Looking ahead, a reversal in UK foreign direct investment (FDI) is a key risk for South Africa, Nigeria, Mauritius, Kenya, Ghana and Zambia. Although Hong Kong, Malaysia, Singapore and India are also subject to this risk, they have a relatively positive external financing position that will mitigate any downside impact on their currencies. In Latin America, Brazil could be the major economy subject to downside risk from lower UK FDI because of lower growth.

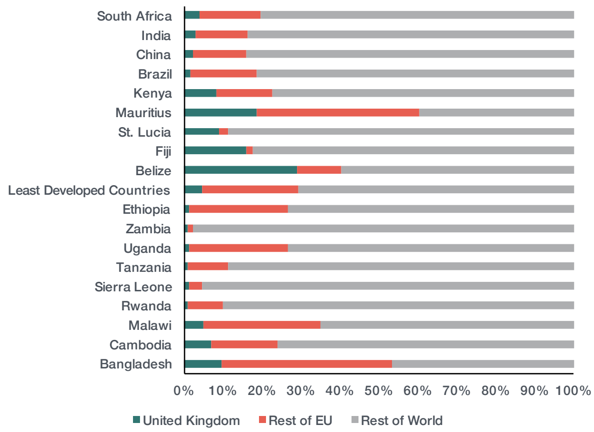
Higher borrowing costs. From a domestic policy perspective, access to finance and liquidity is a key concern with any resurgence in financial market volatility. Ghana and Kenya saw their borrowing costs rise in the aftermath of the vote and Africa's MSCI index (excluding South Africa) dropped to its lowest level in almost six years (Bloomberg, 2016a).Borrowing costs in the form of bond yields, could see further rises with increased preference for developed country bonds that are deemed safer (such as US government bonds). Although global financial markets have shown some stabilisation since, prohibitively high interest rates might restrict access to liquidity.

Lower export growth could materialise in emerging and developing countries that have stronger trade links with the United Kingdom (see Section 4). Of course, for several economies (Mozambique, Cameroon, Ghana, Tanzania, Uganda, South Africa, Zambia, Sierra Leone and Rwanda), trade with China is now as or more important than trade with both the UK and the euro area, with over 80% of Zambia and Sierra Leone's exports currently going to China.

4. The impact on trade with developing countries

The UK alone takes around 5% of LDC exports. The effects of Brexit on trade will vary by country. However, the effects may be particularly important for some countries. For Belize, exports to the UK is 30% of total exports; for Mauritius and Fiji, it is 20%; and for Bangladesh and Kenya, it is 10%.

Figure 6: Selected developing country exports by destination (2014)



Note: Bangladesh is 2011 and Kenya is 2013. The category Least Developed Countries includes 48 countries, including the nine selected in the chart underneath the category.
Source: UN Comtrade

While the UK may not represent an important destination for all developing countries, the impact of Brexit is yet another negative trade effect affecting developing countries after the fall in commodity prices, the slowdown of emerging economies such as China, and increased protectionism in G20 countries (WTO, 2016). Again, there are short and long-term trade effects.

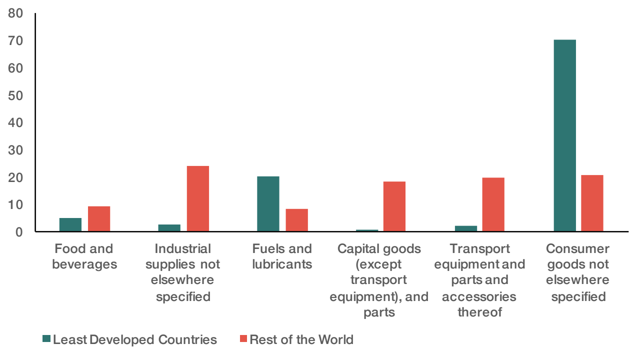
Short-term effects on trade

Brexit has increased uncertainty in the UK economy. UK economic policy has not changed, apart from the interventions to stabilise markets associated with the shock, and abandoning the objective of achieving balanced budgets. However, the potential long-term effects of Brexit in terms of structural adjustment in the UK economy (i.e. contraction of the services sector) has generated immediate instability. The fall in the pound translates into a decrease in UK wealth (lower price of assets including housing), with uncertainty reducing investment and increasing income insecurity. The combination of a negative wealth effect, the fall in incomes and the changes in expectations will depress UK aggregate demand. Imports will be directly affected, and will fall as a result of the negative income and expectations effects, and as a direct result of the fall in the pound (Figure 2). Imports, regardless of the origin, after Brexit have therefore become more expensive. This negative effect is expected to affect trade immediately.

Effects on developing country exports to the UK

The structure of the UK economy is heavily oriented towards the provision of services and the production of high-tech intermediates to regional value chains. The UK does not import large amounts of raw materials from LDCs. Rather, the UK is a major importer of final or consumer goods. Almost 70% of the UK goods imports from LDCs are consumer goods such as garments.

Figure 7: Composition of UK imports from LDCs and the rest of the world by type (%, 2015)



Source: UN Comtrade

We expect that imported products from developing countries, such as basic food staples will not be substantially affected as they are less price sensitive (e.g. tea and beans from Kenya or tea from Malawi). However, demand for imported goods that are more sensitive to income and price changes is expected to be harder hit. Flowers, certain gourmet foods (i.e. high quality coffee) and garments will be affected. Durable consumer goods such as toys, bicycles and other light manufactures are also likely to be affected substantially. This suggests that those countries that export price sensitive goods to the UK are expected to see a drop in their exports. For example, Bangladesh and Cambodia in textiles and garments, and Kenya in flowers, will be among the countries most directly affected. In the case of Bangladesh, 90% of Bangladeshi exports to the UK are in textiles and garments, with the UK representing 10% of Bangladeshi exports. Assuming a unit elasticity of demand, total Bangladeshi exports are expected to fall by 0.9% as a result of the weaker pound. This does not even include the negative effect in the UK demand associated with the fall in income and a decrease in consumer confidence.

The observed fall in the pound and the forecast effect of Brexit on GDP (3% within 18 months, see appendix and Bank of England, 2016b) sheds some light on the effect on exports in LDCs. The fall in the pound will create a total fall in exports in LDCs by roughly $370 million (value of exports multiplied by the change in the pound). While the fall in UK economic activity will cost LDCs around $111 million in exports. Together, we therefore suggest that the cost in terms of LDC exports will be closer to $500 million, or 0.6% of LDC exports (see Table 1). This does not include the price and income effect coming from the rest of the EU. Consequently, this actually presents a conservative estimation of the short-term trade effect.

Effects on EU exports to the UK

Brexit may affect important UK trade partners, including other EU countries that will be negatively affected in their demand from the UK; while countries such as Ireland, the Netherlands, Belgium and Germany may also be affected. Around 7% of EU exports goes to the UK. Assuming a unit elasticity of demand, the effect of the fall in the pound by 10% should reduce EU wide exports by 0.7%.

Effects on EU imports from developing countries

The euro has fallen in relation to the US dollar in the last week (around 2%) making EU imports more expensive. Consequently, exporters of non-basic consumer goods from developing countries to other EU member states may also be hit. For example, Ethiopia may be affected in its exports of flowers to the EU. The UK and the EU represent 30% of the LDCs exports and for some countries such as Bangladesh, they represent above 50% of their total exports.

European supply chain effects and developing countries

The UK and EU are linked through European supply chains (trade and investment) where components and intermediates products are traded, forming a big 'European factory'. It is likely that there will be disruption in these value chains. The fall in the pound may generate adjustments that could affect developing countries, particularly those providers of raw or semi-processed materials such as those like South African vehicle-parts being exported to the EU. The effects on these value chains will be larger in the long-term, once the trade policy implications of Brexit become effective or at least known.

Long-term effects on trade

The long-term effects of Brexit will depend on a newly defined UK trade policy. This is determined by the kind of economic and trade relationship that the UK will

Table 1: Estimation of price and income effects of Brexit on selected developing country exports

	Value of exports 2014 (in millions of $)			Short-term effects on exports (in millions of $)			
	United Kingdom	European Union	Rest of world	Price effect (10% devaluation)	Income effect (3% drop in income)	Combined price and income effect	Effect on total exports (% change)
Bangladesh	2,306.4	10,643.9	11,363.4	230.6	69.2	299.8	-1.20%
Cambodia	751.6	1,817.1	8,112.7	75.2	22.5	97.7	-0.90%
Malawi	63.0	389.9	836.9	6.3	1.9	8.2	-0.60%
Rwanda	4.6	40.0	409.3	0.5	0.1	0.6	-0.10%
Sierra Leone	3.2	9.4	266.7	0.3	0.1	0.4	-0.10%
Tanzania	46.6	591.7	5,066.4	4.7	1.4	6.1	-0.10%
Uganda	21.8	428.6	1,238.3	2.2	0.7	2.8	-0.20%
Zambia	97.8	140.2	9,449.9	9.8	2.9	12.7	-0.10%
Ethiopia	60.6	1,136.1	3,267.4	6.1	1.8	7.9	-0.20%
Least Developed Countries	3,739.2	20,034.5	56,861.0	373.9	112.2	486.1	-0.60%
Belize	89.4	34.7	183.1	8.9	2.7	11.6	-3.80%
Fiji	105.1	9.5	536.7	10.5	3.2	13.7	-2.10%
St. Lucia	6.7	1.7	64.8	0.7	0.2	0.9	-1.20%
Mauritius	357.5	787.6	756.1	35.7	10.7	46.5	-2.40%
Kenya	431.0	775.4	4,084.5	43.1	12.9	56.0	-1.10%
Brazil	3,827.2	38,214.0	183,057.2	382.7	114.8	497.5	-0.20%
China	57,140.8	313,983.9	1,971,218.3	5,714.1	1,714.2	7,428.3	-0.30%
India	9,665.3	41,904.0	265,975.3	966.5	290.0	1,256.5	-0.40%
South Africa	3,458.92	14,384.37	72,768.82	345.89	103.77	449.66	-0.50%

eventually establish with the EU and the rest of the world. Some 43% and 33% of UK goods and services exports, respectively, are exported to the EU. The trade effects will depend on two changes: the trade policy that the UK will apply after leaving the EU, and the ultimate UK economic structure after the agreement is finalised with the EU.

The effects on developing countries from the type of relationship the UK will have with the EU will depend on three potential outcomes:

- The UK retains access to the EU single market
- The UK The UK mantains a customs union with the EU
- The UK adopts its own trade policy in line with WTO principles.

UK, EU single market and developing countries

The continuity of access to the EU single market may be key in determining both dimensions. If the UK remains part of the single market (this would mean joining the European Economic Area), the structure of the import demand of the UK from developing countries is unlikely to change significantly. The UK will continue to take part in European value chains and its services sector will keep its access to the EU market. Consequently, very little will change in terms of the structure of the UK economy, and consequently its import demand.

In addition, if the UK remains part of a customs union with the EU, there will be no changes in terms of tariffs and peferences applied by the UK to the rest of the world. The continuation of the preference margins in developing countries' access to the UK will, despite the short-term negative effects explained, secure that demand will recover and major structural adjustments will not be necessary in the affected developing countries.

The situation will be different if the UK does not maintain its access to the EU single market. This will imply a major adjustment in the UK economy. The services sector is likely to contract and the participation in regional value chains will be severely affected. Consequently, the UK will adopt a different production and trade structure. The loss of access to the single market may imply changes in UK consumption patterns as well. These will constitute large challenges, but also opportunities for developing countries.

One outcome is the possible divergence in product standards. Developing countries will find that instead of supplying a single European value chain, they will be in the position of supplying two different markets. Standards and regulations may start to differ between them and developing countries will find that their compliance cost will increase. Moreover, the supply relationships established with European-wide retailers may be affected. As a result, some adjustment in the trade patterns of developing countries may be necessary.

At the same time, new opportunities may be created. The UK may substitute away the products previously sourced within the EU, which could present an opportunity for developing countries. However, it is worth considering that in the case of agricultural products, it is likely that large developing countries (Argentina, Brazil) or other developed countries (US, Canada, Australia) will be the main beneficiaries. LDCs are not expected to benefit substantially.

A new UK trade policy

Depending on the agreement that the UK may reach with the EU, we can identify two scenarios:

i. A UK-EU customs union
ii. A UK autonomous trade policy

i. UK-EU customs union

Here we assume that the UK does not have access to the single market but mantains a customs union with the EU. This would imply a scenario similar to the trade relationship between Turkey and the EU. Although still speculative, under this scenario the UK would maintain the same Most Favoured Nation (MFN) tariffs and preferences that are currently applied by the EU. This would be less disruptive for trade with developing countries. However, again it should be noted that there might still be some implications with respect to the cumulation of rules of origin, which are unclear at this stage. In this scenario, although the structure of the UK economy might change as a result of the lack of access to the single market, tariff and preferences would not be affected in principle.

It is very important to highlight that if the UK remains in a customs union with the EU, the need for and the complications of renegotiating over 50 free trade agreements (FTAs) that the EU has negotiated, will be smaller. Although some renegotiation may be necessary, the liberalisation schedules will remain. For example, in terms of market access, the UK could continue to offer duty free under the same conditions as under current Economic Partnership Agreements (EPAs). However, African, Caribbean and Pacific states countries (ACP), by virtue of the MFN clause under EPAs, would not extend additional concessions to the UK.

ii. Autonomous trade policy

A further scenario is that the UK would apply its own trade policy. This means that, although the UK may maintain a free trade area with the EU, its trade policy will be independent. The UK will need to define a new MFN tariff and its own system of preferences. The level and structure of MFN tariffs will depend on whatever is conceded in the very complicated negotiations with the rest of the World Trade Organization (WTO) members (ICTSD, 2016). In this case, there are also several implications for developing countries, and there may also be opportunities.

It is unclear what the MFN tariffs would be. Based on suggestions of some Brexiters (e.g. Minford, 2016) and on the pre-EU trade policy, the UK may apply very low (even zero) MFN tariffs. This will facilitate the negotiations with WTO partners but will complicate the negotiation of future FTAs and the renegotiation of the existing ones. The UK would lose the tariff bargain chip i.e. the UK would not be able to negotiate lower tariffs abroad by lowering UK tariffs.

However, while several countries will gain from lower tariffs, there will be a loss of preference margins for preference-dependent developing countries, such as the Everything But Arms (EBA), ACP, and the Generalised Scheme of Preference countries. For example, a country that had a zero tarff in the UK because of EBA may then also need to compete with all other countries on the same zero tariff basis (when many now have positive tariffs). In a scenario where the UK applies zero tariffs, preferences no longer exist. Developing countries, particularly LDCs dependent on the existence of positive preference margins may struggle to compete with other efficient producers. For example, exports of agricultural products from developing countries that were reliant on large preference margins generated between the preferences and the high MFN tariffs, will struggle to compete, with more efficient South American or Central American partners.

In this zero tariff scenario, only efficient suppliers will manage to continue exporting to the UK. Only the lowest priced suppliers will be able to compete, as the preference margins that offset high production and trade costs previously would now disappear. The quality and competitiveness of soft (e.g. regulatory issues) and hard (physical) infrastructure in the poorest countries will become even more important as countries can no longer rely on preference margins to offset the deficiencies in infrastructure. On the other hand there will also be opportunities for developing countries as a whole if the UK's new trade policy is more welcoming to imports from developing countries through better rules of origin, better preferences in services and more targeted Aid for Trade that improves infrastructure and reduces the costs of trade.

5. Conclusions and policy implications

The vote in the UK to leave the EU has already been felt in the UK and globally. There might be several negative impacts on developing countries, such as the expected decrease in exports to the UK and the reduction on the dollar value of UK remittances. It is possible to identify specific countries that are more vulnerable than others. In the long-term the effects will depend on what is being negotiated between the UK and the EU, between the UK and developing countries, and between the EU and developing countries.

Policies at various levels can help to mitigate the shock or mitigate the impact of the shock. These include:

i. The UK negotiating a deal that is close to existing EU arrangements to minimise the long-term impact (although the immediate effects cannot be undone)
ii. The UK maintaining an open approach to developing countries in trade, investment and migration (though this would entail preference erosion for some of the poorest countries)

In scenario (ii), the UK could consider offering better trade access than the EU currently does, and create more trade (rather than diverting trade amongst suppliers). For example, there could be opportunities for developing countries as a whole if the UK's new trade policy is more welcoming to imports from developing countries through better rules of origin and better preferences in services. This would provide an important opportunity for developing countries post-Brexit, but the details of what could be the UK's offer to developing countries on trade needs to be examined in more detail.

The UK and other developed countries can do more to reduce the impact of the shock. The UK can engage in further monetary easing, while the G20 can reassure financial markets and engage in necessary action.

Finally, developing countries can mitigate the impact of the shock. They can diversify and engage in economic transformation that makes them less dependent on UK aid, trade, remittances and investment. Some of this is already happening, with Asia becoming a key trade and investment partner for poorer countries. In some cases, cyclical responses to the immediate macroeconomic effects may be necessary, for example, the Kenyan Central Bank indicated that they stand ready for any fallout.

Notes

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2 The expectations on tapering of US monetary easing in 2013-2014 led to financial turmoil, even though the actual tapering had not yet happened.

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Appendix: Summary of the results of studies on the potential effect of Brexit on the UK economy

	OECD	LSE/CEP		Treasury			NIESR		IMF
	WTO/FTA	EEA (optimistic)	WTO (pessimistic)	EEA	FTA	WTO	WTO	WTO+	
Outcomes									
Short-term	2020	Static					2017		
GDP (%)	-3.3%	-1.29%	-2.61%				-1.00% (from -0.80% to -1.30%)		-1.50% to -5.50%
Trade effects (%)		-1.37%	-2.92%						
Fiscal benefit (pp)		0.09%	-0.31%						
GBP cost equivalent per household	-2200	-900	-1700						
CPI (%)							+2.0% to +4.0%		
Unemployment (%)	1.50%								
Exports (%)	-6.50%								
Long-term	2030	Dynamic		Impact of leaving the EU after 15 years			2030		
GDP (%)	-5.10%			-3.80%	-6.20%	-7.50%		-7.80%	
Range	-2.7% to -7.7%	-6.3% to -9.5%		-3.4% to -4.3%	-4.6% to -7.8%	-5.4% to -9.5%	-2.7% to -3.7%		
GBP cost equivalent per household	-3200			-2600	-4300	-5200			
Range	-1520 to -5000	-4200 to -6400		-2400 to -2900	-3200 to -5400	-3700 to -6600			
Wages (%)							-4.6% to -6.3%	-7.0%	
Exports (%)							-21% to -29%	-22.0%	
Aggregate consumption (%)							-4.0% to -6.3%	-9.2%	
Trade openness (%)	-10% to -20%								
FDI	-10% to -45%								

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