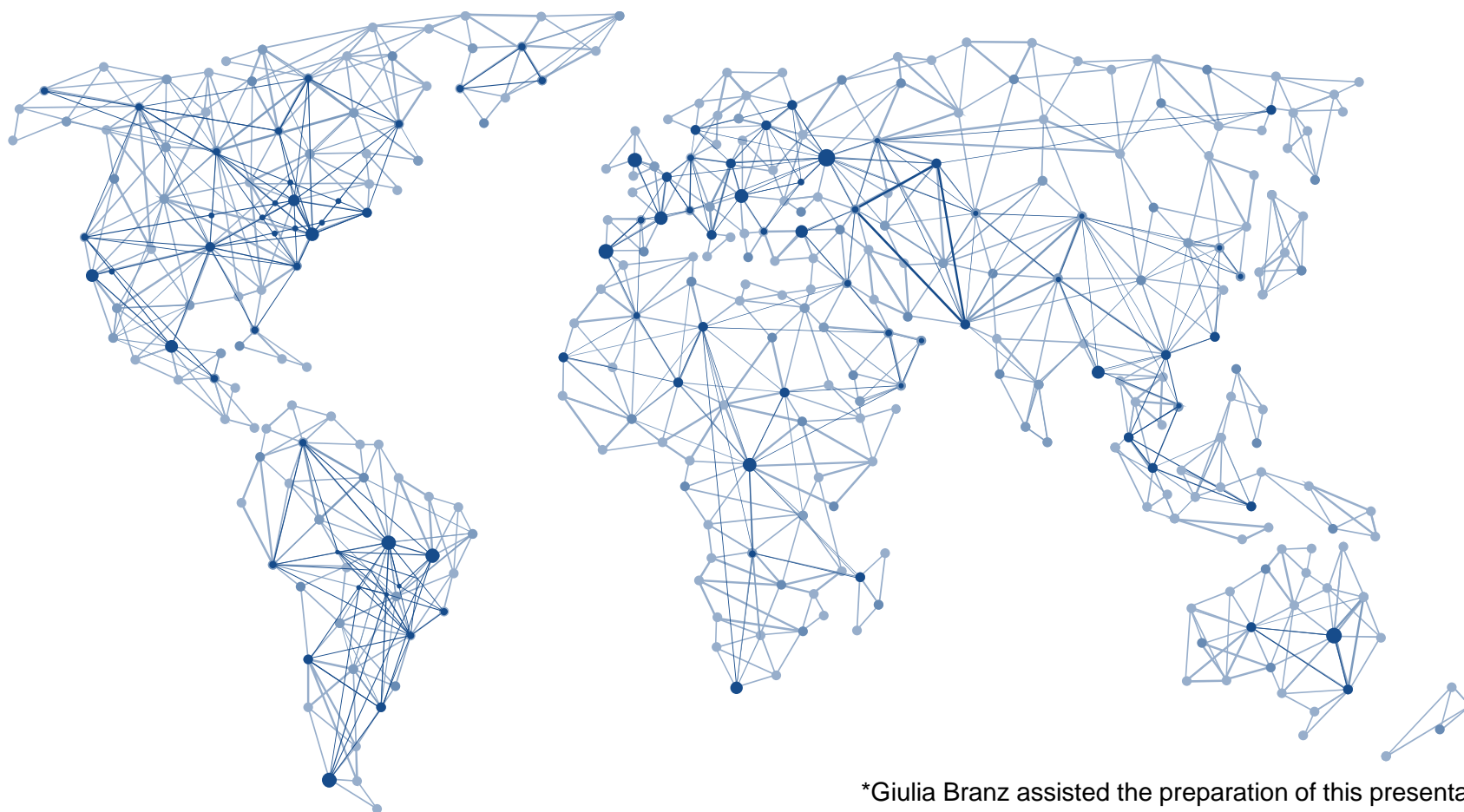


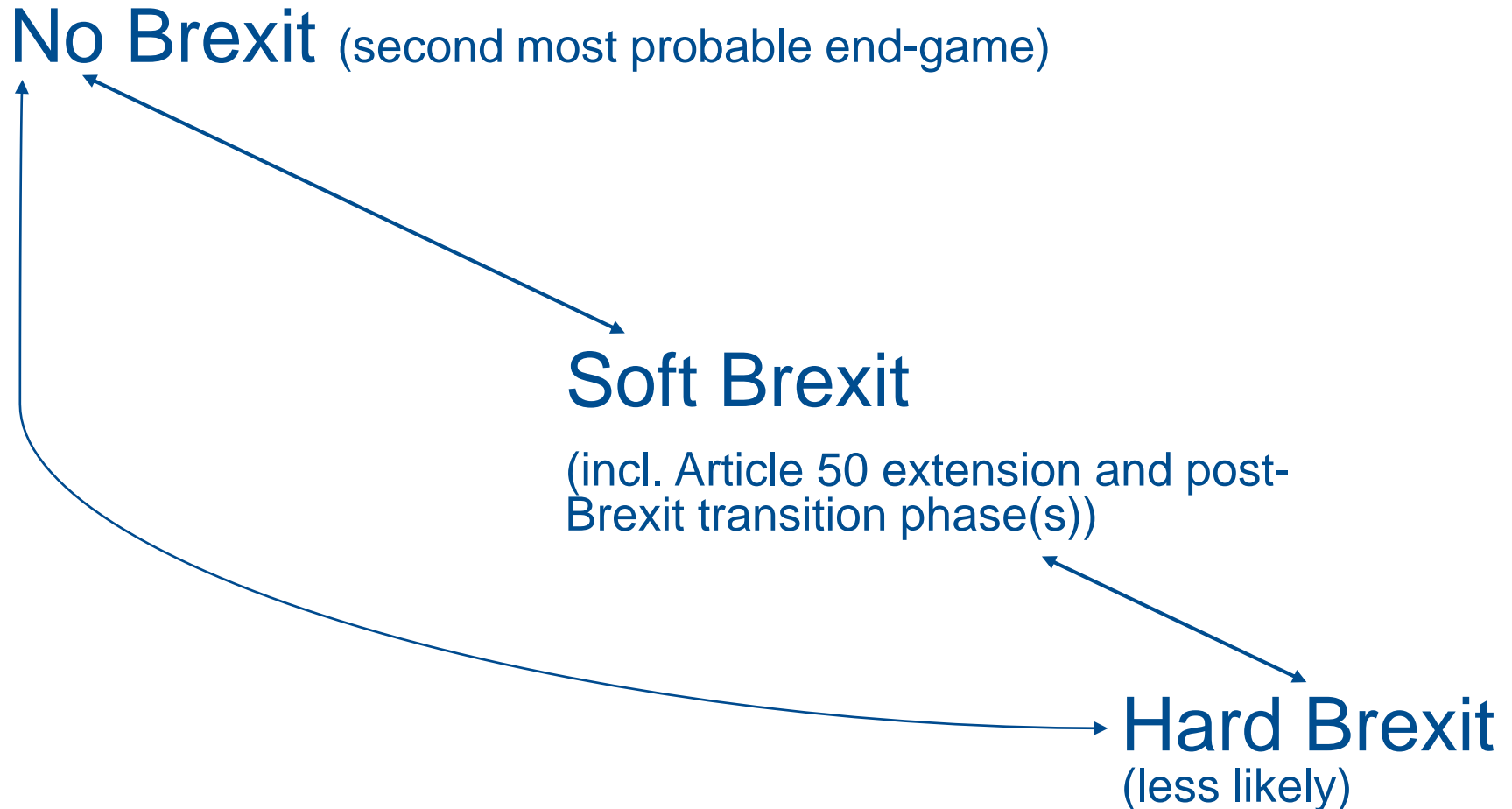
# Brexit: what's next and the UK sovereign outlook

**Dennis Shen**

Director, Public Finance  
d.shen@scoperatings.com



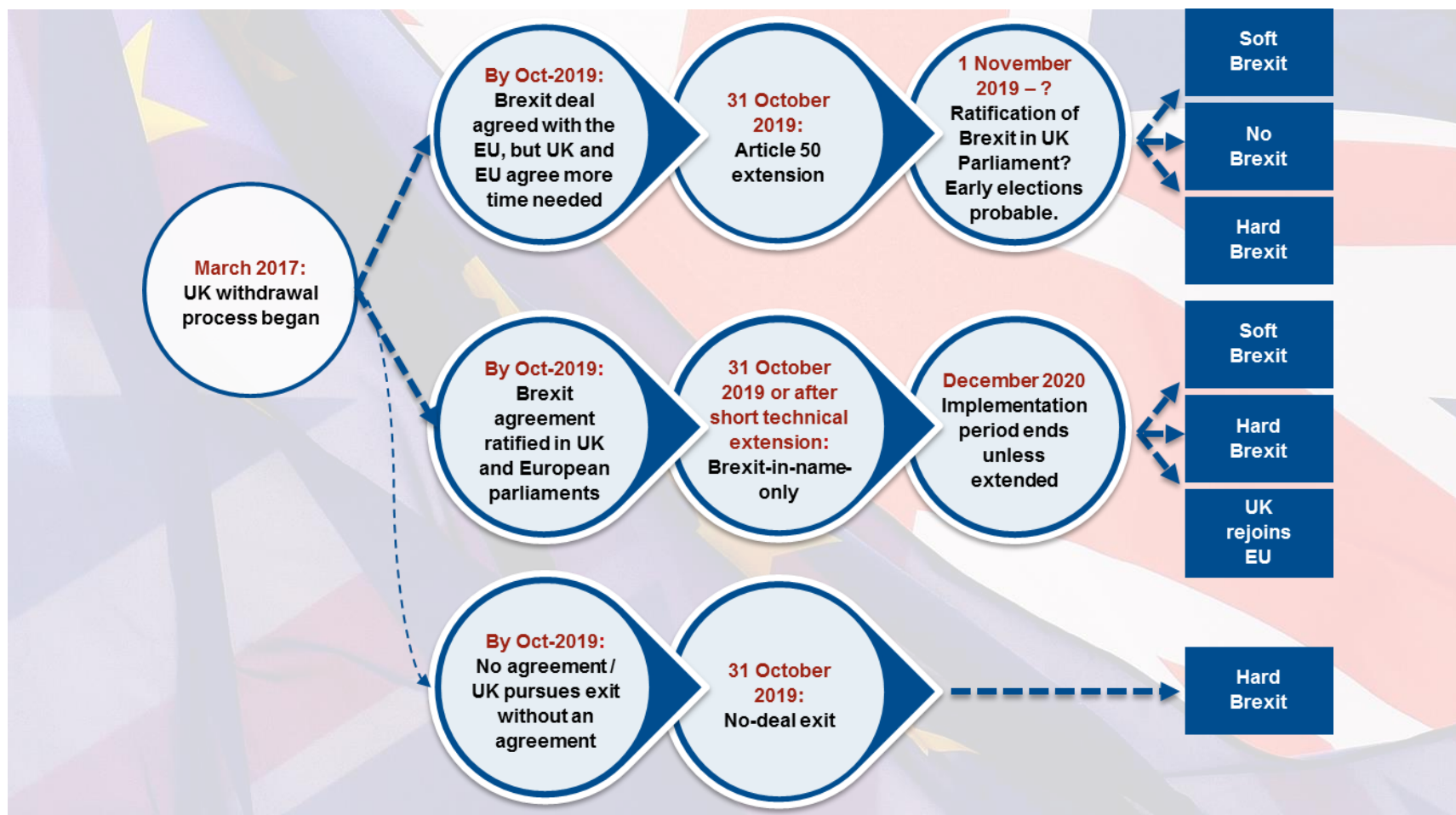
\*Giulia Branz assisted the preparation of this presentation.



Source: Scope Ratings (2017). [‘Uncertainties around Brexit challenge UK credit outlook’](#).

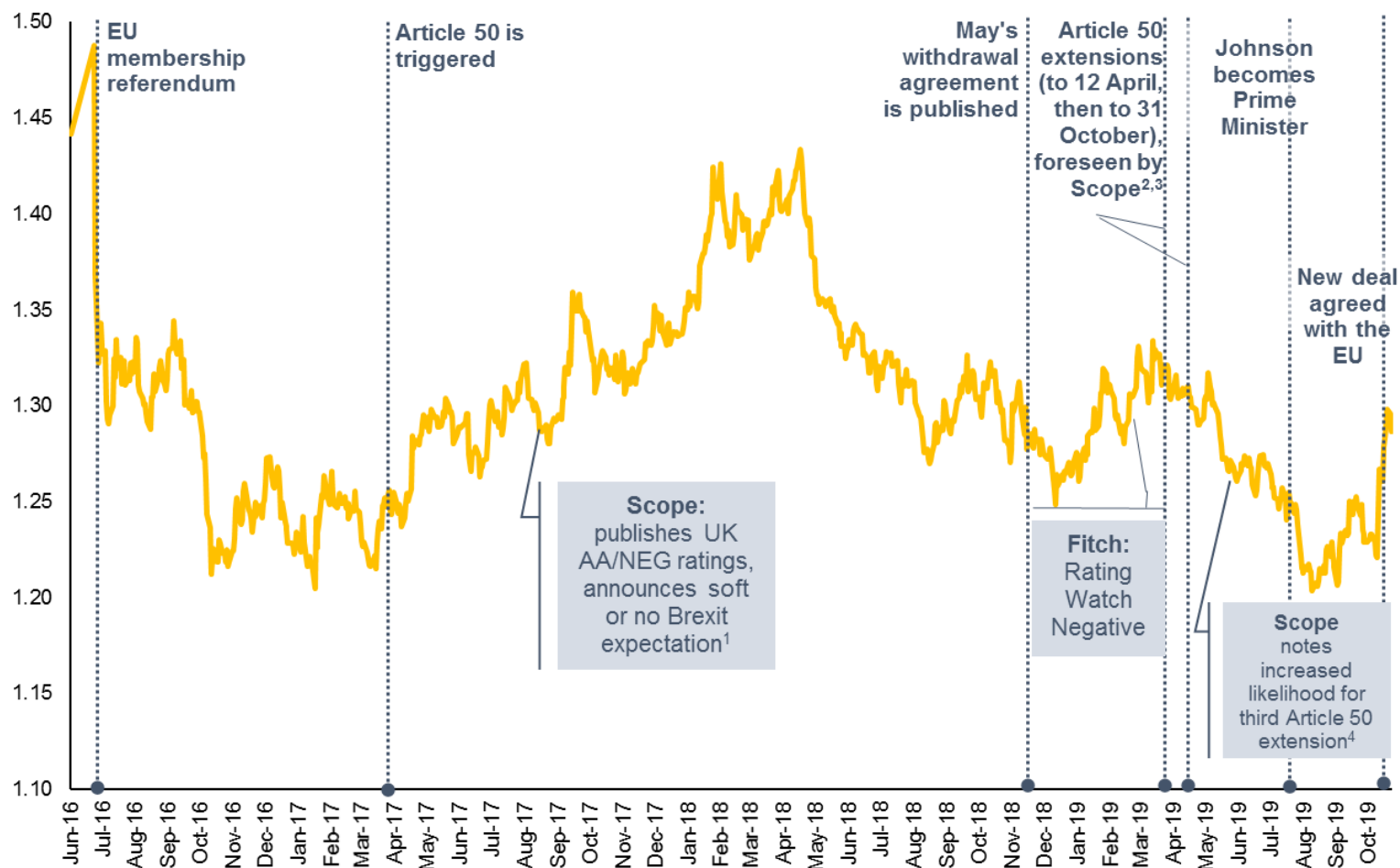
# Brexit and UK credit outlook

## Core Brexit Scenarios



# Brexit and UK credit outlook

Timeline of events: 2016 referendum to present

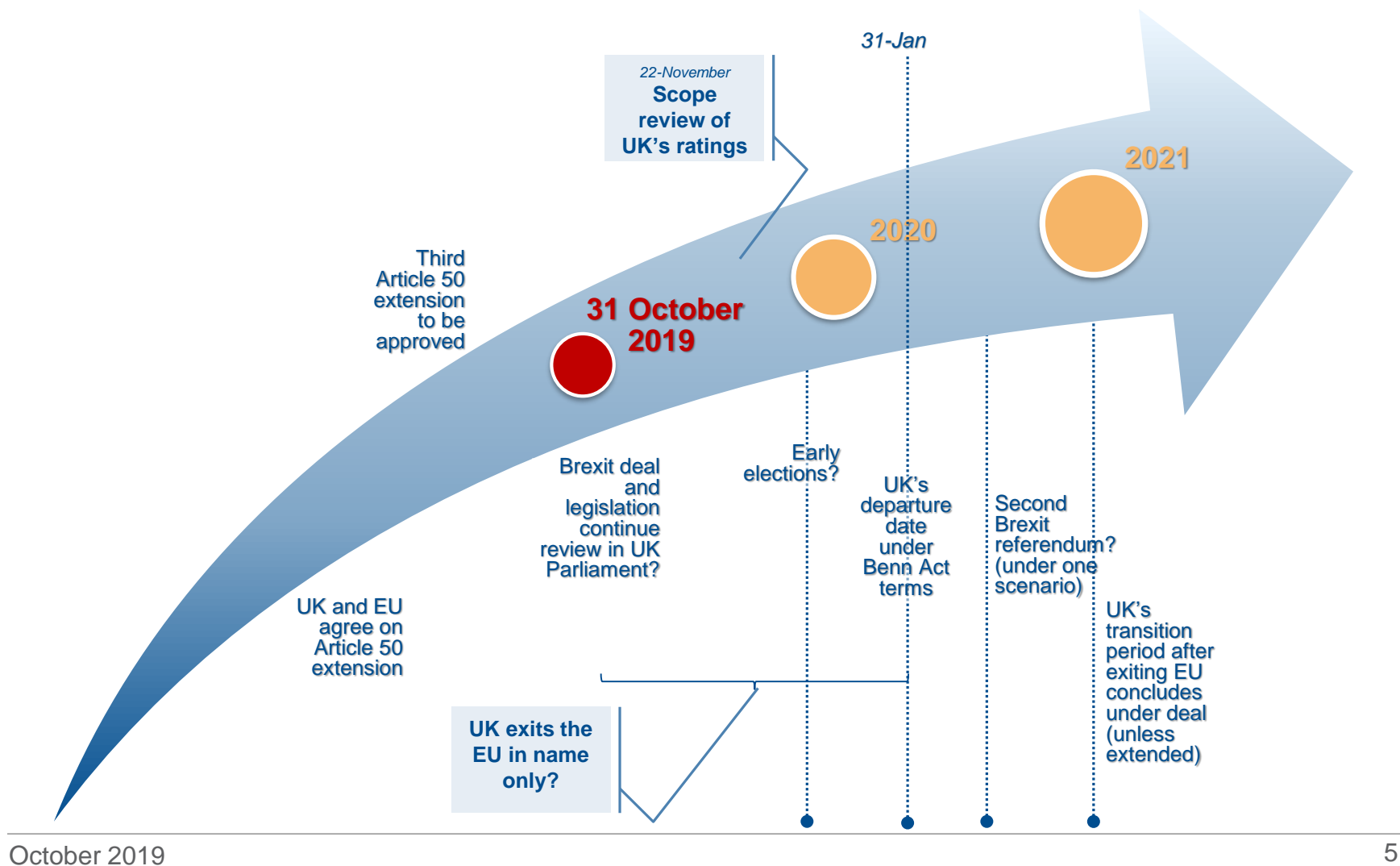


Scope references: [\(1\)](#); [\(2\)](#); [\(3\)](#); [\(4\)](#).

GBP/USD exchange rate; Source: Bloomberg

# Brexit and UK credit outlook

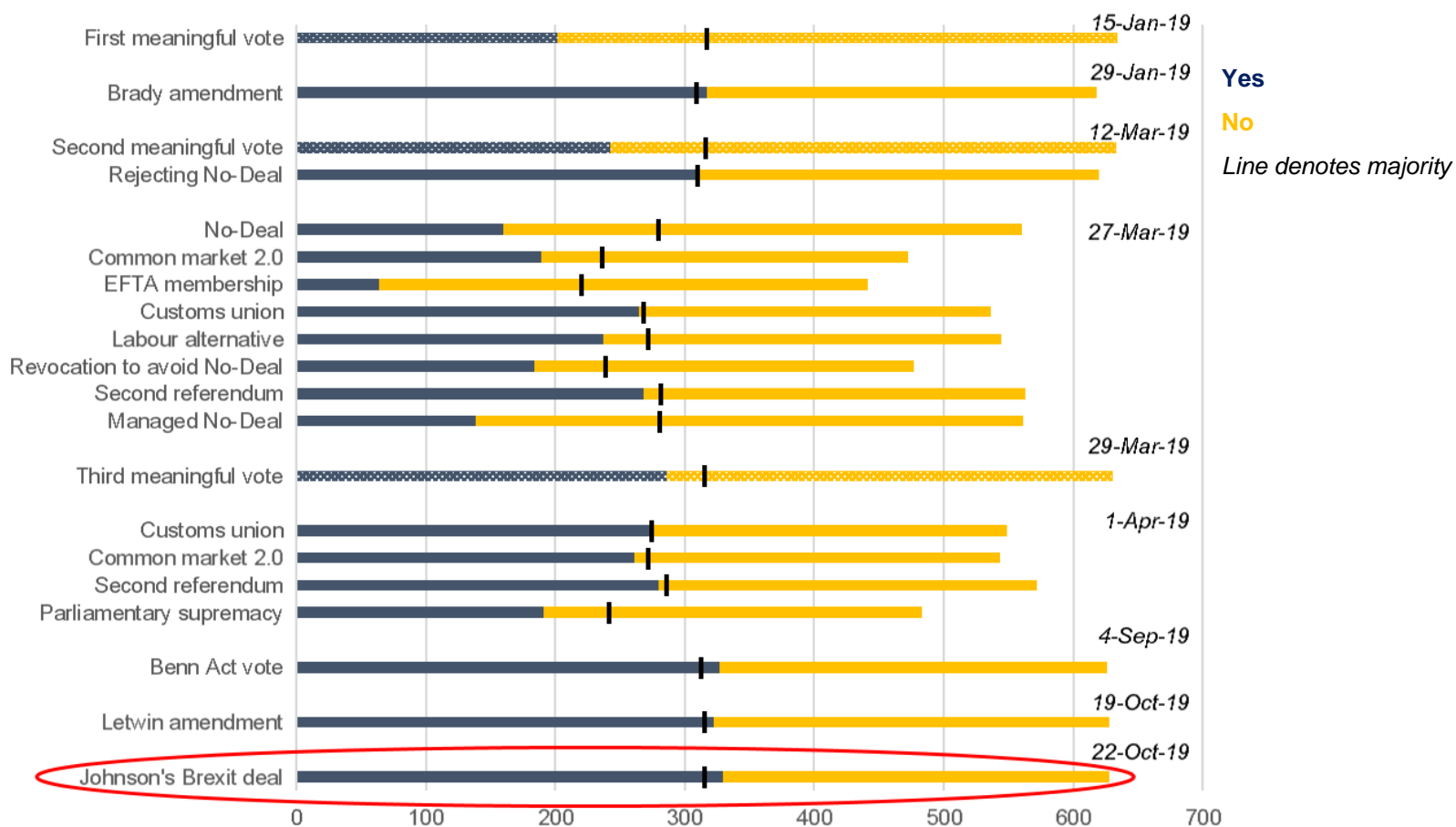
Timeline of events: moving ahead



## Brexit and UK credit outlook

Johnson's new deal obtained a tentative majority in Parliament on 22 October... even though an exit by 31 October was more/less ruled out

### House of Commons votes on alternative Brexit options



Source: UK House of Commons

## Brexit and UK credit outlook

Scope's UK credit rating versus that as evaluated by CRA peers

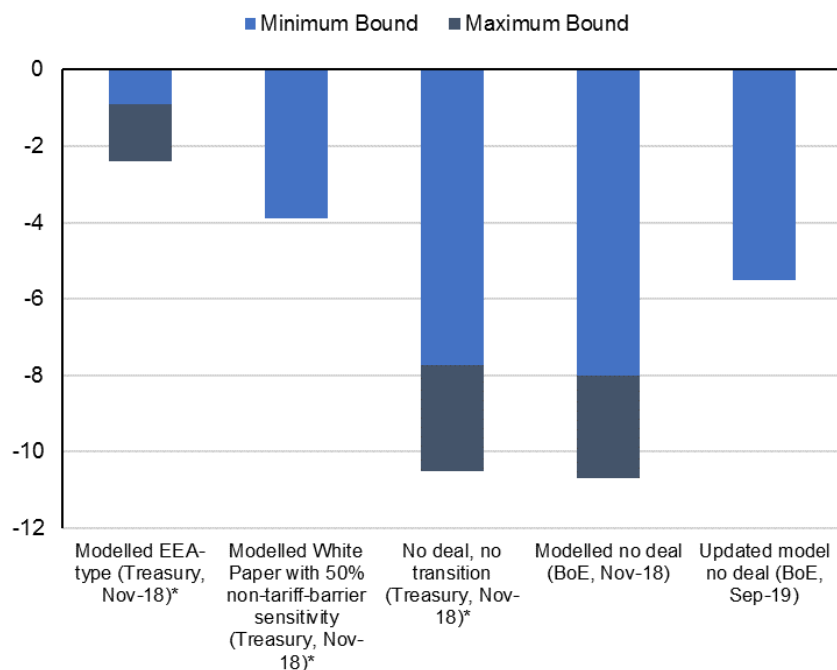
Credit rating agency	UK long-term rating
Scope Ratings	AA/Negative
Moody's	Aa2/Stable
S&P	AA/Negative
Fitch	AA(Rating Watch Negative)
DBRS	AAA/Stable

Source: Bloomberg, Scope Ratings GmbH

## Brexit and UK credit outlook

A hard Brexit could pose significant challenges...

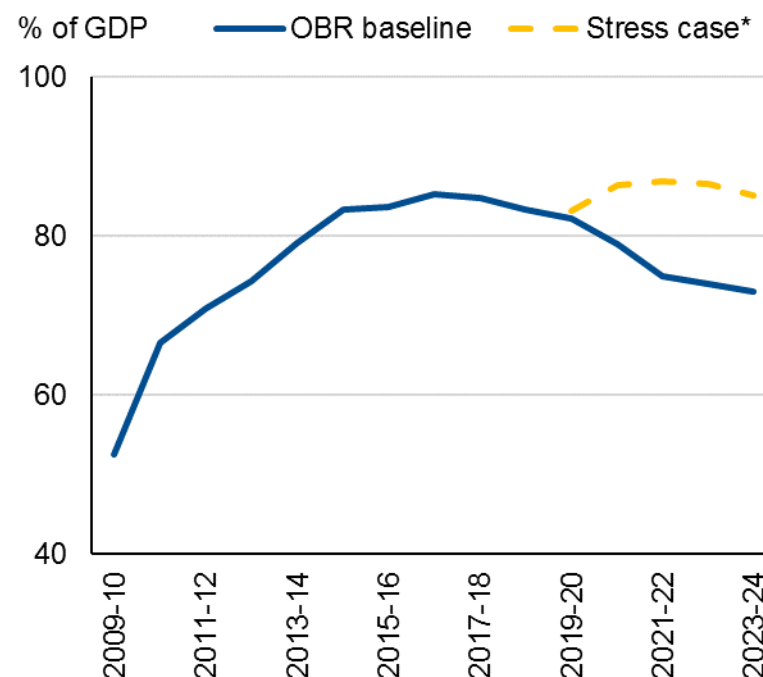
### Aggregate impact of Brexit on UK GDP, HM Treasury and Bank of England



\*Impact of Brexit on UK GDP 15 years after the UK's new relationship with the EU comes into effect, relative to baseline of today's arrangements.

Source: HM Treasury, Bank of England

### Net public debt, OBR baseline forecast versus stress case



Source: Office for Budget Responsibility, 'Fiscal risks report' July 2019 and 'Economic and fiscal outlook', March 2019.

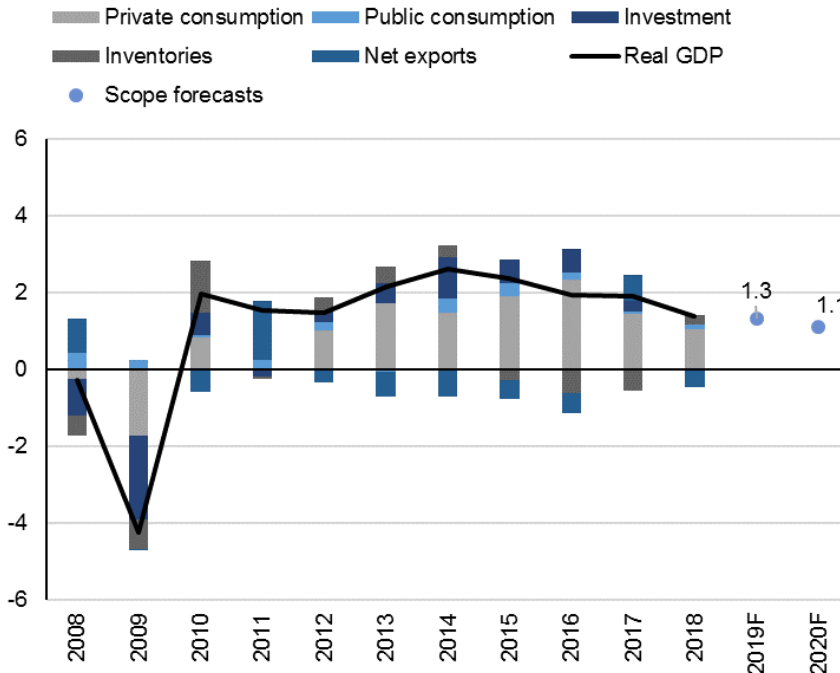
\*Stress case represents the potential fiscal impact from a no-deal, no-transition Brexit scenario as set out in the IMF's April 2019 World Economic Outlook



## Brexit and UK credit outlook

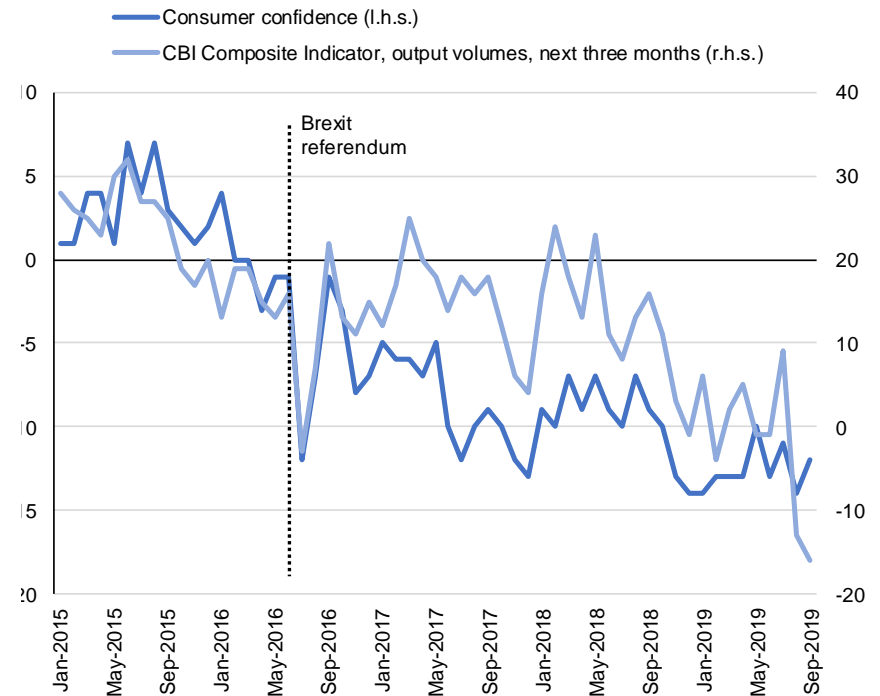
Weakened economic growth outlook

### Percentage point contribution to real GDP growth, %



Source: Office for National Statistics, Scope Ratings GmbH

### Consumer vs business confidence, % balance

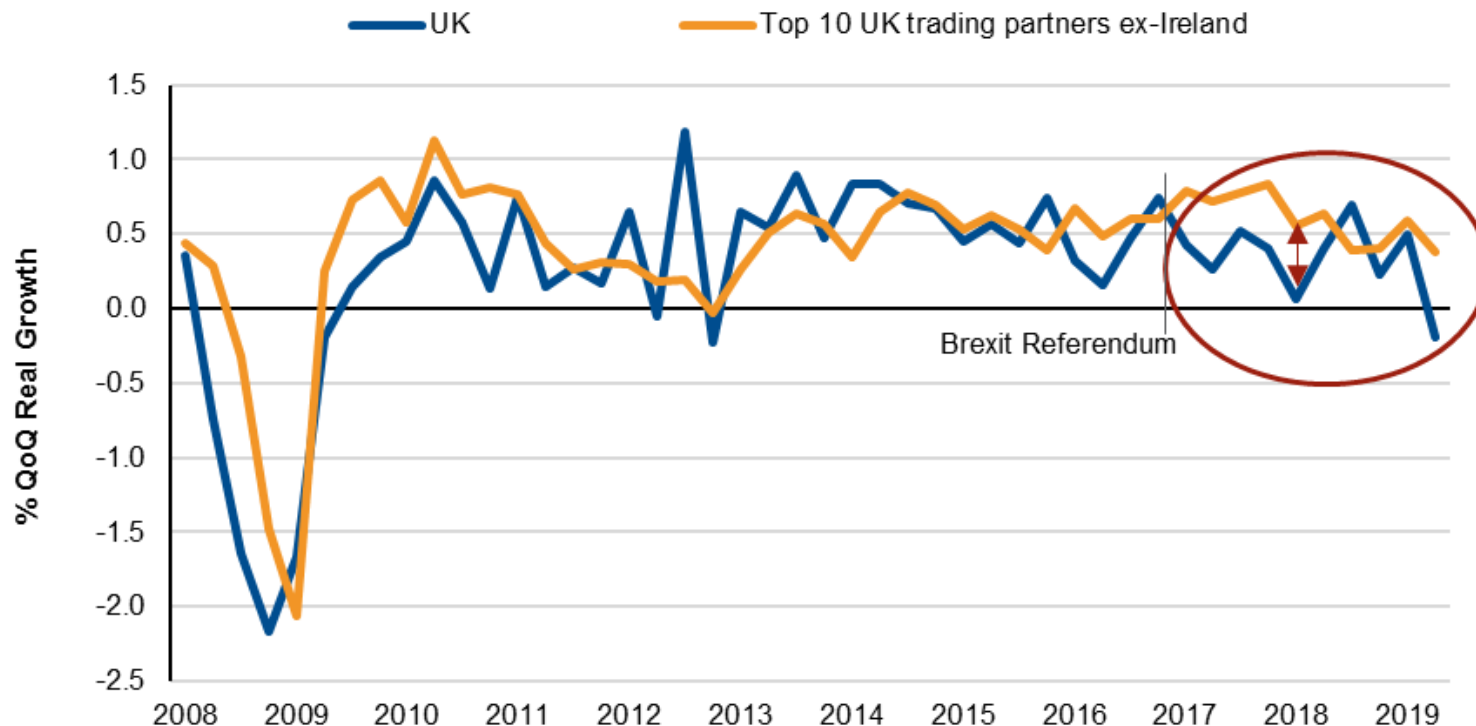


Source: GfK NOP, Confederation of British Industry

## Brexit and UK credit outlook

Brexit has cost the UK economy well over 1% of GDP, even before Brexit happens

### UK economy versus top 10 trading partners ex-Ireland, %QoQ GDP growth

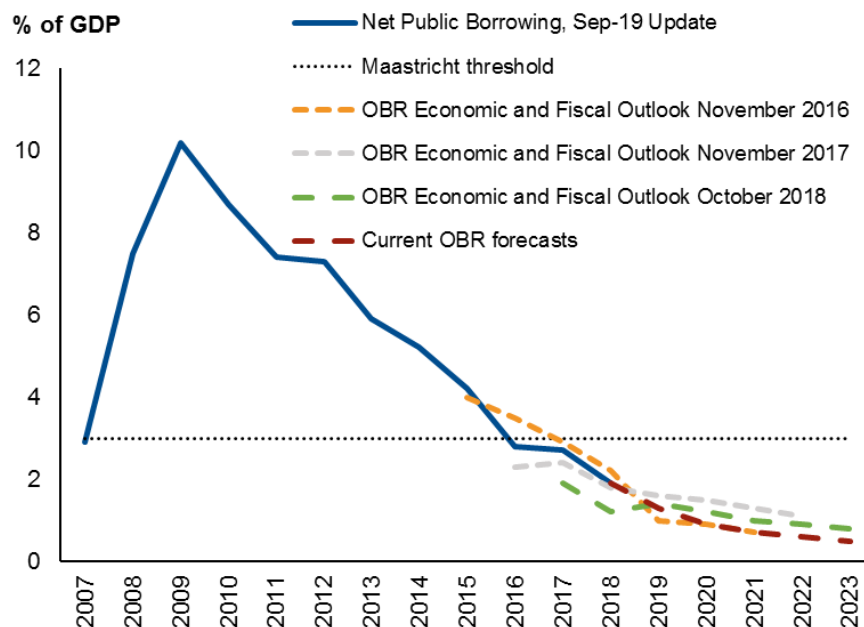


Source: Haver Analytics, Scope Ratings GmbH calculations

## Brexit and UK credit outlook

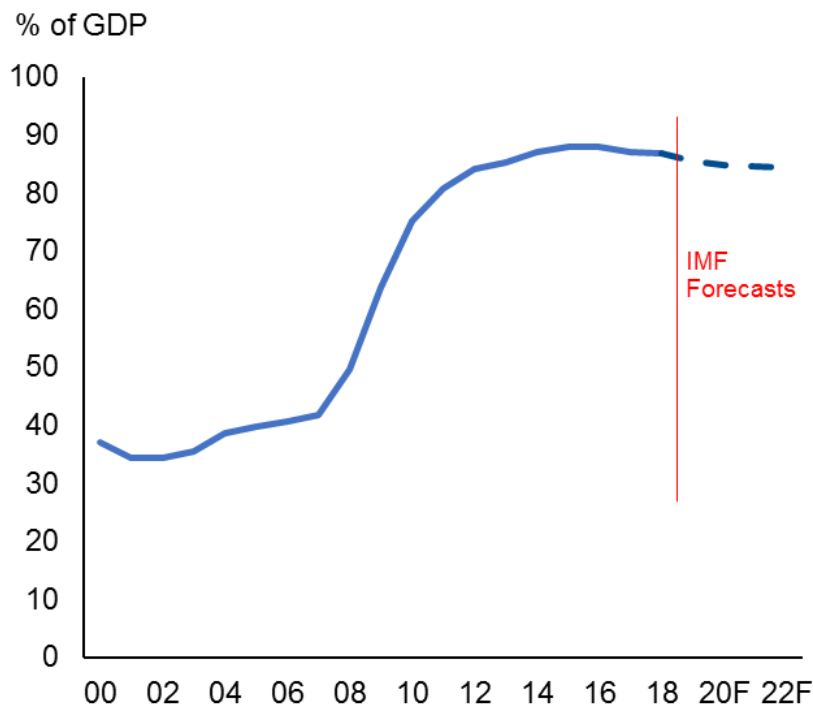
Fiscal loosening in 2020-21 remains a risk, though the size of the UK's deficit is still modest

### UK public sector net borrowing, latest OBR forecasts versus earlier projections



Source: Office for Budget Responsibility

### General government gross debt, with IMF projections

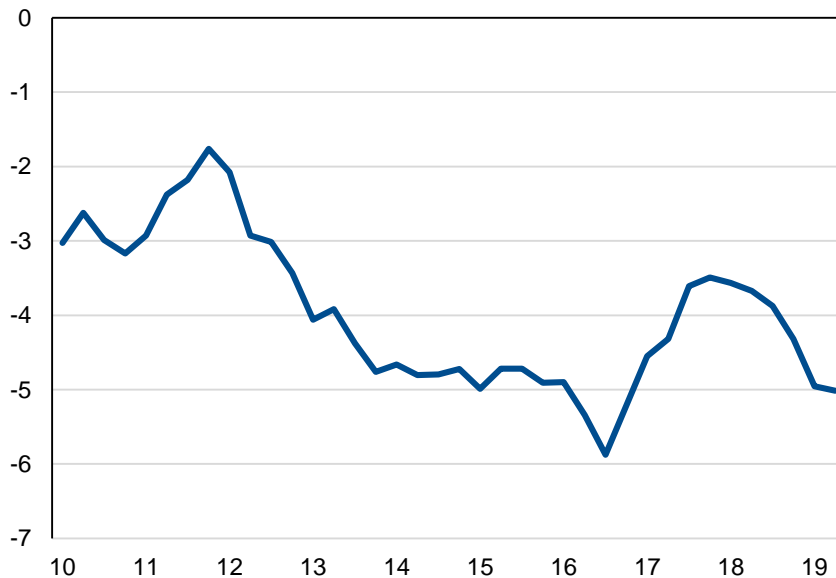


Source: IMF October 2019 WEO

## Brexit and UK credit outlook

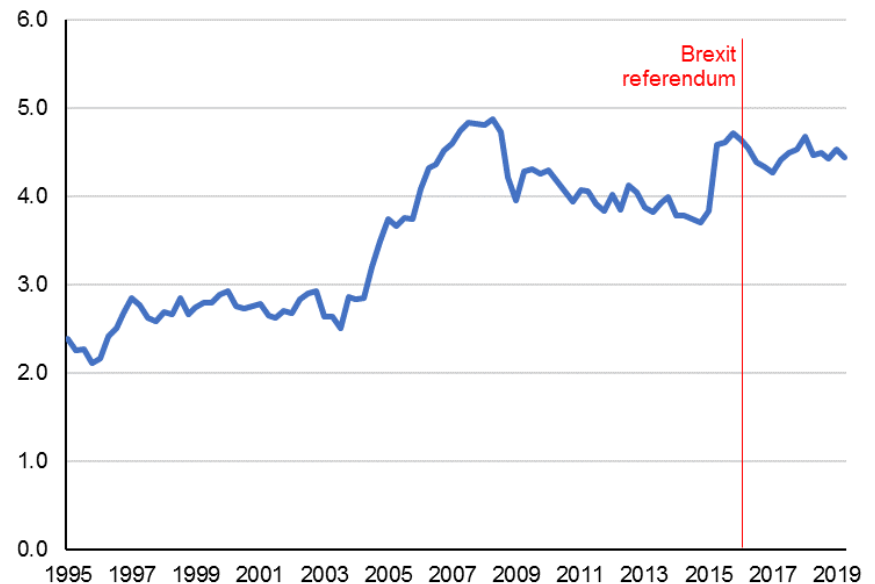
External sector risks as well as external sector strengths

**Current account balance, rolling four-quarter sum, % of GDP**



Source: Office for National Statistics

**Global allocated reserves held in pound sterling, % of total global reserves**



Source: IMF COFER (updated to Q2 2019)

## Brexit and UK credit outlook

Sovereign rating drivers: downside and upside

### Drivers for a rating downgrade

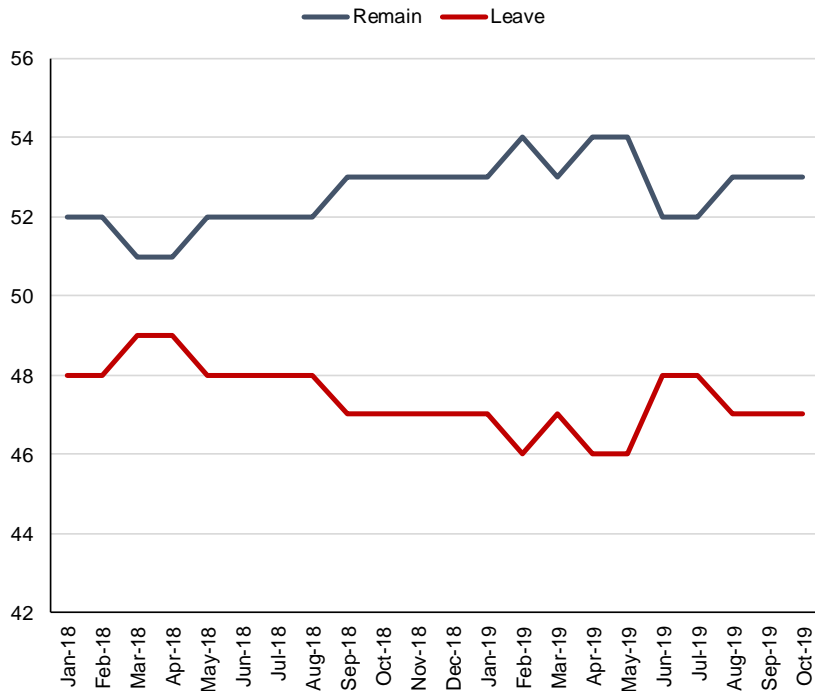
- ↓ An unanticipated “no deal” exit from the European Union
- ↓ There is significant evidence of weakening in the economic and/or fiscal outlooks, leading to higher than anticipated public debt-to-GDP projections
- ↓ External vulnerabilities increase and/or sterling’s reserve currency status is unexpectedly challenged

### Drivers for a stabilisation of the Outlook

- ↑ Brexit-related economic uncertainty resolves as negotiations conclude in a soft exit end-state or as a no-Brexit scenario unfolds
- ↑ Economic and/or fiscal outlooks show material resilience and/or economic and fiscal policy frameworks are bolstered, convincingly setting debt-to-GDP on a sustained downward path
- ↑ External vulnerabilities are reduced significantly

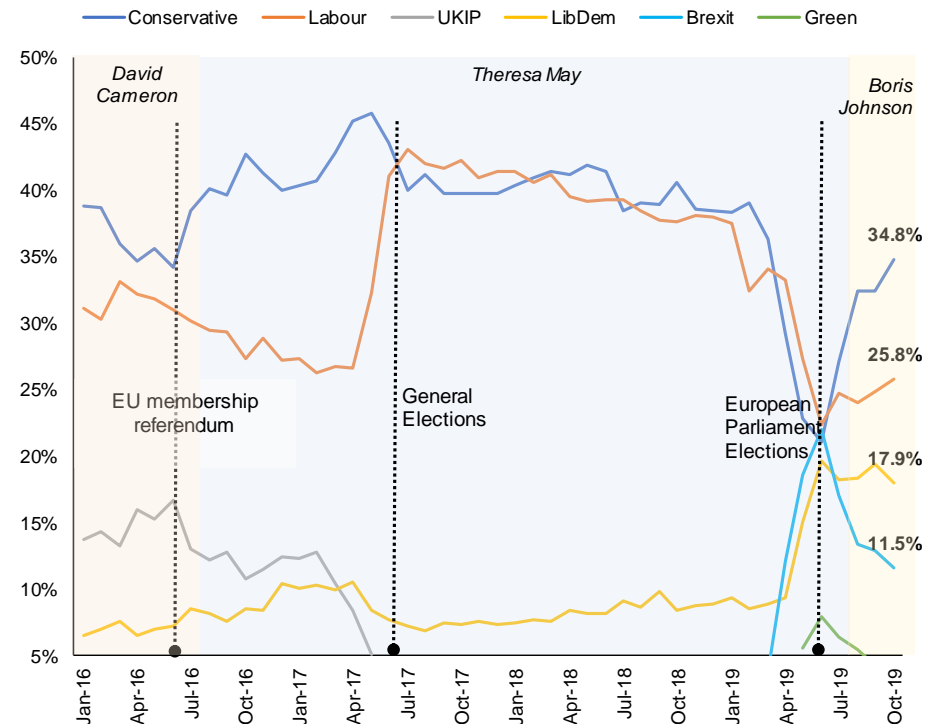
<sup>1</sup>Rating triggers cited in Scope’s [affirmation of the UK’s ratings](#) at AA/Negative, 10 August 2018.  
Source: Scope Ratings GmbH

### Should the United Kingdom remain a member of the European Union or leave the European Union? – poll of polls



Source: What UK Thinks, various opinion polls

### Opinion polling for the next UK general election, poll of polls

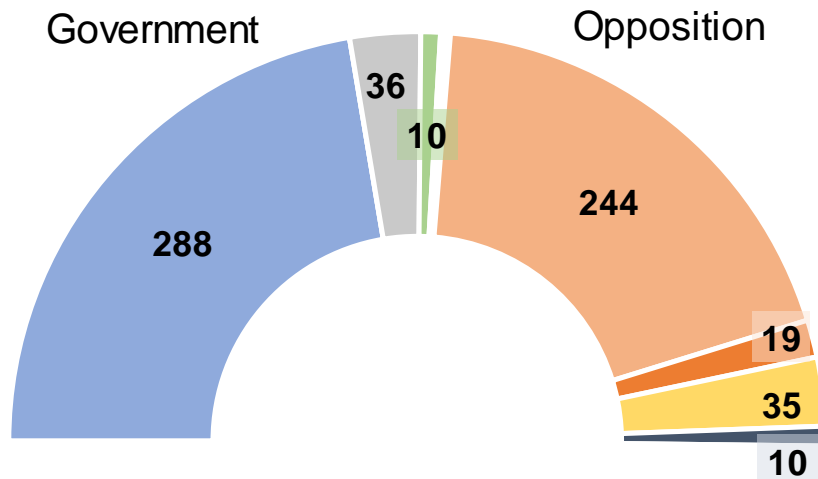


Source: Various polling companies, Scope Ratings GmbH calculations

## Brexit and UK credit outlook

Early elections could accelerate a soft exit from the EU (if the UK had not already exited) or, alternatively, lead to a second referendum

### UK Parliament (Current)



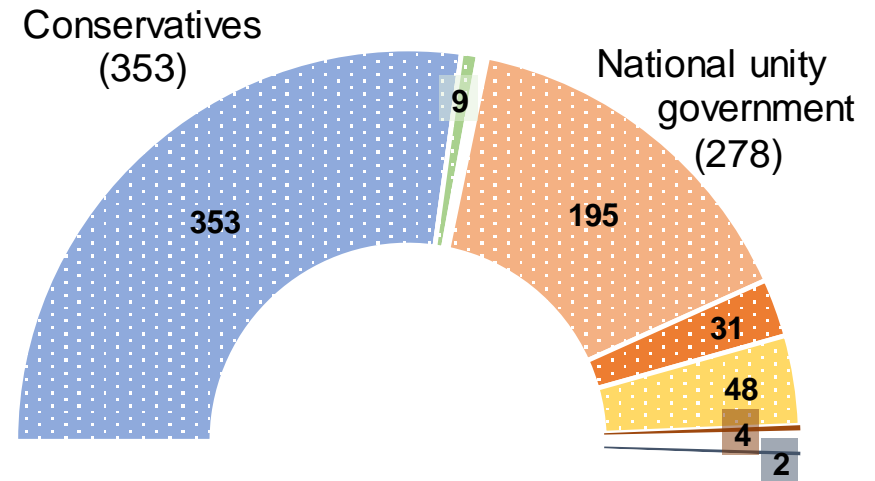
Legend for both diagrams:

- CON
- DUP
- Independents, incl. Tory rebels
- Labour
- LibDems
- Other
- SNP
- Plaid Cymru and Greens

Source: House of Commons

### Elections: Projected Seats

(322 needed for majority)



Source: Electoral Calculus

Seat distributions exclude seats allotted to Sinn Féin (which abstains from taking up its seats in Parliament) and the one seat assigned to the House Speaker.



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20121 Milan



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Haakon VII's gate 6  
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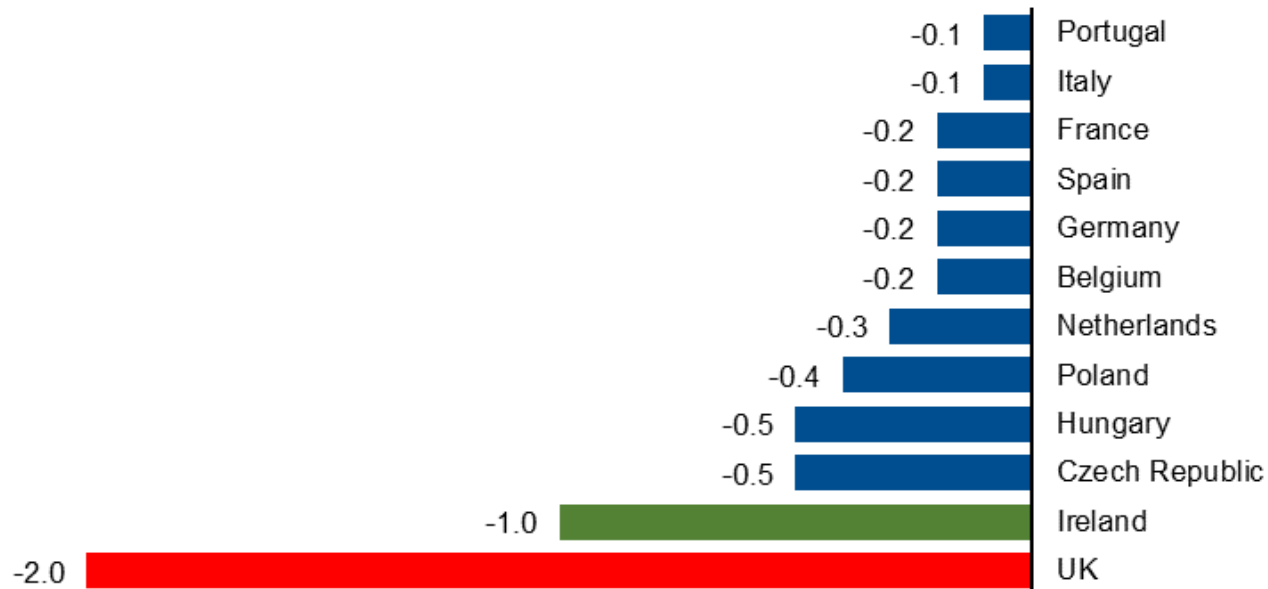
1 Cour du Havre  
75008 Paris



## Brexit and UK credit outlook

Annex: A no-deal Brexit would have an asymmetrically large impact on the British and Irish economies

### Real GDP impact of no-deal Brexit on EU countries by 2020 relative to a baseline forecast, %



Source: Oxford Economics



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