

# UK gives up EU presidency as IMF rows back on recession fears

Prime Minister Theresa May has made it clear that she will not be rushing to invoke Article 50 of the Lisbon Treaty and begin the process of taking the UK out of the EU. "I do not under-estimate the challenge of negotiating our exit from the European Union and I firmly believe that being able to talk frankly and openly about the issues we face will be an important part of a successful negotiation", she said last week.

However, one small step has been made. She has decided that the UK will give up its rotating presidency of the European Union, which was due to begin in July 2017. Mrs May told Donald Tusk, the European Council President, Tusk that it was "the right thing to do given we will be very busy with negotiations to leave the EU". So it looks like Article 50 will be implement early next year.

The uncertainties about both the timing of Article 50 and the details of the exit strategy have been the main reasons for the widely-reported claims of an economic slowdown. However, according to a piece in the Daily Mail, the Bank of England said that it has not found "clear evidence" that a sharp slowdown was underway in Britain's economy after the June 23rd vote to leave the European Union, though around a third of firms it spoke to plan to curb hiring and investment.

The Bank claimed that business uncertainty "had risen markedly" but there was little evidence that consumers were spending less either. "A majority of firms spoken with did not expect a near-term impact from the result on their investment or staff hiring plans. But around a third of contacts thought

there would be some negative impact on those plans over the next 12 months,” However, the Bank was adamant: “As yet, there was no clear evidence of a sharp general slowing in activity.”

Nonetheless, the International Monetary Fund has downgraded its projections for global growth, citing Brexit as one of the reasons. For this year, global GDP would grow by 3.1% instead of 3.2% and 2017's figures were downgraded from 3.5% to 3.4%.

This is based on an assumption that trade talks go well. A piece published by Bloomberg suggests that the IMF would expect to see global growth drop as low as 2.8% in the event of a messy divorce looming. It is hard to believe that our country's economy is of such importance that an impasse on trade talks really would knock 0.6% off the entire world's GDP growth. It is worth remembering that the IMF has not always been terribly accurate in its forecasts in the past. In 2013, the institution did own up to being totally wrong over the scale of Greece's financial woes and some commentators have asked the question as to whether the IMF ever gets anything right.

However, one prediction worthy of comment is that the IMF still reckons we will not only escape recession but record a faster rate of growth this year than the Eurozone. Certainly, the UK's economic fundamentals appeared to be pretty sound in the immediate run-up to the referendum and although the pound has fallen in value since June 23rd, the Bank of England's failure to find any evidence of a serious economic downturn is unsurprising. No stimulatory measures were taken at last month's Monetary Policy Committee and it is possible that nothing much will happen next month either.

There are plenty of stories doing the rounds about optimism falling in some UK businesses, but if Brexit is managed successfully – and the delay in invoking Article 50 suggests that a detailed strategy will be developed before this takes place – we believe that Brexit will be economically neutral in

the short to medium term and a benefit rather than a disaster for the UK economy in the longer term.

With the referendum now behind us and the summer recess just beginning, news is likely to be rather thin on the ground until the beginning of September. We do, however, intend to send out our usual weekly e-mail throughout this period as there will always be a few things to report.

Before signing off for this week, one further article by our friend Joris Luyendijk deserves a mention. This Dutch author and chat-show host is such an enthusiastic supporter of the EU's federalist agenda that he makes Jean-Claude Juncker seem like a eurosceptic. *The Guardian* occasionally gives him a slot and his latest offering is even more full of bile against our country than usual. The man opposes giving us a reasonable deal and says that the EU must inflict "Project Pain" on us to ensure we face economic disaster. He fears that if it doesn't, other countries may follow us out of the door.

Two points in response. Firstly, he mentions all the distortions told by the leave campaign which he fears could be used as a template in other countries. While we in CIB were uncomfortable about the way the issue of our contribution to the EU was handled, for example, this is nothing compared to the nonsense put out by remainers. At a debate in which I participated, one of my opponents said that we would not be allowed to re-join EFTA. This is pure hogwash. On a different occasion, a former cabinet minister insisted to my surprise that David Cameron would trigger Article 50 on June 24th if Leave won. Instead, he resigned as Prime Minister.

Secondly, while Mr Luyendijk's determination that no other country will leave the EU is shared by most, if not all, of the leaders of the 27 remaining member states, some of them at least are much more pragmatic, including Germany's Angela Merkel. Trade has to continue and punishing us for voting to leave is in no one's interests. Furthermore, Luyendijk's

extremism calls into question the whole purpose of Article 50. If the other countries feel it will be made into essentially a dead letter and that they will be irrevocably locked into something that they may decide at a later date they want to escape from, the EU may well end up facing a violent implosion at some point in the future.

Luyendijk is all aggression and spite when it comes to our country, but this is to hide the weakness of his position. In another piece for *the Guardian*, he admits that in his own country, support for the EU is plummeting. Ambrose Evans-Pritchard made the point over two years ago that “superstate rmonatics are on the back foot almost everywhere.” Of course, if the EU project isn’t about federalism, what is it about? If it is holding together simply through inertia, with the federalist idealism confined to a few people like Luyendijk, it is in grave danger indeed. The arch-federalist former MEP Andrew Duff has lamented that the EU may be destined to remain an association of states committed to “never closer union.” If he is correct, Brexit may well turn out to be a blessing. Our example may enable it to dismantle itself peaceably country by country rather than leaving an ugly mess behind like the Soviet Union or Yugoslavia on its demise.