

How the 10 Downing Street race will affect Brexit

Theresa May's resignation has triggered a leadership contest in the Conservative Party, the winner of which would also become prime minister.



Boris Johnson

At this stage, bookmakers have the former foreign secretary and mayor of London, Boris Johnson, as favourite. The hard-line Brexiteer may look to take the UK out of the European Union (EU) without a deal, despite Parliament voting in favour of essentially removing the option. He could do this by failing to comply with the EU's demands that the UK should continue to follow the rules. This presumably would lead to the EU agreeing to terminate the relationship in October, says Azad Zangana, senior European economist and strategist at Schroders.

"If this were to happen, we would anticipate the economy to slow and fall into recession around the turn of the year. While the Bank of England would probably cut interest rates eventually, the expected depreciation in the pound would cause inflation to spike. The household sector has already run down its safety buffer in the form of its savings rate, therefore a contraction in demand is very likely," he says.

Finding the way forward

The mixture of the unwillingness of the EU to re-negotiate, Parliament's lack of appetite for a hard-Brexit and a potentially toughened stance on Brexit by the new PM points towards further political turmoil. It is hard to see how a compromise across various stakeholders can be resolved before 31 October. Ultimately, a political process such as a snap election or a second referendum may need to take place to find a way forward, says Janet Mui, global economist, Schroders Wealth Management.

"As a result of the additional Brexit uncertainty, we expect UK economic activity to face further headwinds. The recent intensification of political turmoil has caused a sell-off in sterling to a four month low versus the dollar.

At the time of writing, sterling has not reacted meaningfully after Theresa May's resignation, hence it is a reflection that the news has been priced in. Going forward, sterling is likely to remain volatile and subject to downside risks in reaction to Brexit headlines," she says.

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