

## It may be better not to know how disorderly Brexit can be

Prof Costas Milas, Management School, University of Liverpool, UK

**The Financial Times** (letter). 24 July 2019. Available from:

<https://www.ft.com/content/b99aead4-ad5d-11e9-8030-530adfa879c2>

Gerard Lyons (“New UK prime minister must be realistic about the economy”, July 22: <https://www.ft.com/content/8f2e34e2-aa45-11e9-90e9-fc4b9d9528b4>) notes that a no-deal Brexit “would be an economic shock but Britain can cope”.

Most of us would have to agree that, one way or another, the UK economy will eventually absorb the negative shock of a no-deal Brexit. That said, two pressing questions need prompt answers.

First, why would the UK want to inflict on itself a fairly huge (short to medium term) economic pain when it can definitely avoid it by either agreeing to a version of Theresa May’s deal or by negotiating a short-term extension (before the October 31 deadline) which would then lead to another (but again not that different) Brexit deal?

Second, and equally important, how bad will the economic pain be in case of a no-deal Brexit? Notice that the latest Bank of England financial stability report points out that the 2018 stress test of the UK banking sector was sufficiently severe to deal with a disorderly Brexit. The assumptions of the test involved, among others, a 4.7 per cent fall in gross domestic product, a 27 per cent drop in the sterling effective exchange rate and a rise in the bank rate to 4 per cent (presumably to defend our currency and stave off inflationary pressures). Nevertheless, recent comments by Bank of England policymakers, including Gertjan Vlieghe, suggest the very possibility of a near-zero interest rate in case of a no-deal Brexit.

Consequently, it makes sense for the BoE to assess the implications for the banking sector and our economy of a stress test involving a bank rate cut to zero rather than a rise to 4 per cent. Would, for instance, the banking sector be able to absorb a potentially huge drop in bank deposits as customers will surely be looking for alternative returns outside a sinking (at least in the short term) UK economy?

I would not like to experience this unnecessary event just to reassure myself that a no-deal Brexit would not be, in the words of Mr Lyons, “an end state”.