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## **BREXIT UPDATE: SANTA CLAUS IS GOING TO BRUSSELS EARLY THIS YEAR**

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**Ready to pay up:** EU officials have stated that the UK has agreed to agreed honour gross commitments worth around €100bn as part of its divorce settlement for Brexit. This was the news last night according to several UK news outlets. The net number will probably come in around half of that once payments to the UK and other deductions are considered. At this stage, though, no UK officials have confirmed this account. While this might present some risk to the reliability of this news, as it follows on from UK Prime Minister Theresa May agreeing to increase the UK's offer – by an unspecified amount - on the Brexit bill when she met with EU Council Leader Donald Tusk last Friday it is probably legitimate. This supports our call for a breakthrough in the Brexit negotiations soon. We expect UK PM Theresa May to present a formal offer on the Brexit bill, EU citizens rights, and the Irish border question at the upcoming 4 December dinner between May and EU Commission president Juncker. We expect the offer to meet the EU's requirement for 'sufficient progress' on the Brexit divorce. If such progress is made, expect the UK and the EU to move negotiations on to potential transitional arrangements and post-Brexit trade at the 14-15 December EU Summit.

**Irish border risk remains:** Before Dublin will allow talks to move on, it wants formal assurance from the UK that no hard border will be introduced between Northern Ireland and the Republic of Ireland when the UK leaves the EU in March 2019. As the post-Brexit UK-EU rules governing migration and trade will be the result of future negotiations - and are thus unknown - promising that the border can remain open is no small feat, to put it mildly. If Dublin were to argue in December that the Brexit divorce discussions had not yet yielded sufficient progress, they could prevent talks moving forward. That the UK has dropped its hard-line view on the Brexit bill - the most contentious issue on the UK side - signals that London is now serious about moving the talks forward. Meanwhile, the lessening of Dublin's own political upheaval strengthens this prospect. Expect the UK to strike the necessary compromise with Dublin to settle the Irish question soon.

**Markets could get an early Christmas present:** Progress to transitional and trade talks at the 14 December EU summit would be taken well by markets. It would underpin a rebound in sterling and add some upside risk to our near-term growth calls for the UK (1.6% in 2018 and 1.7% in 2019). It would also re-enforce our base case for Brexit: By late 2018 we expect the UK to accept a transition deal (possibly similar to the Norway deal minus some financial market privileges) for 2 or 3 years (70% probability). Since it will be difficult to change such an arrangement very much over time, major parts of this arrangement could solidify into the final terms for post-Brexit trade between the UK and the EU. In this base case, Brexit could reduce trend growth to 1.8% from the pre-Brexit rate of 2.2%. The key risk remains that the UK will or opt for a hard Brexit with few follow-up arrangements for privileged access to the EU27 market (30% risk).

For more please see, ['Brexit update: Will there be a breakthrough soon?'](#)



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