



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

3 January 2019

The Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons Committee Office
14 Tothil Street
London
SW1H 9NB

Dear Nicky

I would like to thank you and the rest of the Treasury Committee for your report; *The UK's economic relationship with the European Union: The Government's and Bank of England's Withdrawal Agreement analyses*. The Government welcomes the scrutiny of our analysis that this report provides.

As promised the Government has provided Parliament with a wide range of detailed information on the economic effect of leaving the EU, as part of our continued commitment to ensure Parliamentarians are fully informed. This work was the result of a collaborative cross-Government process led by the Department for Exiting the European Union with support from HM Treasury and others across Government. The analysis is in line with external estimates and meets the commitments that I set out in my 23 August letter to the Committee.

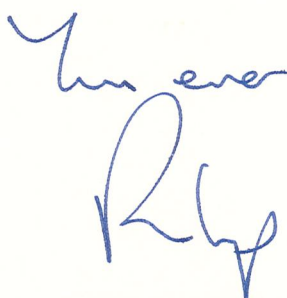
Your report notes that the Government's analysis did not assess the short-term impact of EU exit or the temporary Backstop scenario.

As set out in my letter 23 August letter to the Committee, the economic model used by the cross-Government group to assess the economic effects of different EU exit scenarios is not well suited to analysis of short-term developments. However, the Bank of England published analysis on 28 November at the request of the Committee which assessed how EU exit could affect the UK economy over a five-year horizon.

The backstop is an insurance policy which neither side wish to use; and if triggered, would be explicitly temporary. It would apply only in the event that the future relationship was not ready by the end of the Implementation Period, in order to guarantee no hard border on the island of Ireland. The Protocol provides that, in any backstop scenario, the UK remains able to make arrangements to maintain unfettered access for Northern Ireland goods to the Great Britain market. It also places a duty on the UK and the EU to use best endeavours to facilitate trade between Great Britain and

Northern Ireland in such a scenario. This would be informed by the overall relationship between the UK and EU at that stage. These further discussions reflect the importance of trade between Great Britain and Northern Ireland. They also mean that the precise nature of future arrangements cannot be set out at this stage. As such there is not yet sufficient specificity on detailed arrangements for modelling purposes, and therefore the provisions of the backstop have not been included in the analysis.

Finally, I would like to clarify that the Government's fiscal analysis presents the impact on public sector net borrowing for each scenario in 2035/36, not public sector net debt as suggested within the report.

A handwritten signature in blue ink, appearing to read 'Philip Hammond', written in a cursive style.

PHILIP HAMMOND