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IMF slashes UK growth forecasts after Brexit - but Britain will still outstrip Germany, France and Italy

The UK is still expected to outgrow Germany and France despite the Brexit vote

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The International Monetary Fund (IMF) has slashed its forecasts for UK growth following the vote to leave the European Union, yet the British economy is still expected to grow faster than that of Germany, France and Italy next year.

UK GDP growth is now expected to slow to 1.3pc in 2017, some 0.9 percentage points below what had been pencilled in in the IMF's previous round of forecasts. With the exception of Nigeria, the UK’s 2017 growth forecast received the sharpest downgrade of any of the 16 economies assessed by the IMF.

Maury Obstfeld, the IMF’s chief economist, said that the UK’s decision to withdraw from the EU had added “downward pressure to the world economy at a time when growth has been slow”.

He said that “the direct effects specifically due to Brexit are greatest in Europe, especially the UK”.

Despite the downgrade, economic growth in Britain will still outstrip Germany and France, whose economies are expected to expand by 1.2pc next year. The UK will also beat Italy, where GDP is forecast to rise just 1pc.

The figures were part of a wider IMF report on the global economy. The fund's economists said the result of the EU referendum would contribute to slower global growth both this year and next. Economists now anticipate world GDP growth of 3.1pc this year, and 3.4pc in 2017, having shaved 0.1 percentage points off both estimates.

Mr Obstfeld suggested that global growth had begun to turn a corner, with “some promising signs” in the first half of 2016. However, he concluded that “Brexit has thrown a spanner in the works”, threatening to undo much of this progress.

Mr Obstfeld said that the impact of Britain leaving the EU would not be limited to a couple of years, and that it would “play out gradually over time”.

The fund’s growth projections were based on there being no major trade barriers erected between the EU and the UK after Britain leaves the bloc. They also assume there will be no serious financial disruption, with, at most, limited political fallout. If the outcome is less optimistic, then the UK could fall into recession, the IMF said.

A spokesman for the Treasury said: “The decision to leave the EU marks a new phase for the British economy.

“Our absolute priority is to send a clear signal to businesses both here and across the world, that we are open for business and determined to keep Britain and attractive destination for investors from overseas.”

The IMF’s update came as Moody’s warned that the UK’s growth prospects “could be materially weaker” if the Governments fails to agree a strong trade arrangement with the EU.

The ratings agency cut the UK's credit rating outlook to "negative" in the aftermath of last month's referendum, arguing that the vote could bring about "a prolonged period of uncertainty".

Kathrin Muehlbronner, a Moody’s senior vice president, said that the UK's rating “could be downgraded if negotiations with the EU are protracted” and suggested that the UK could lose trade access to the bloc’s remaining 27 members.