

# Brexit Implications

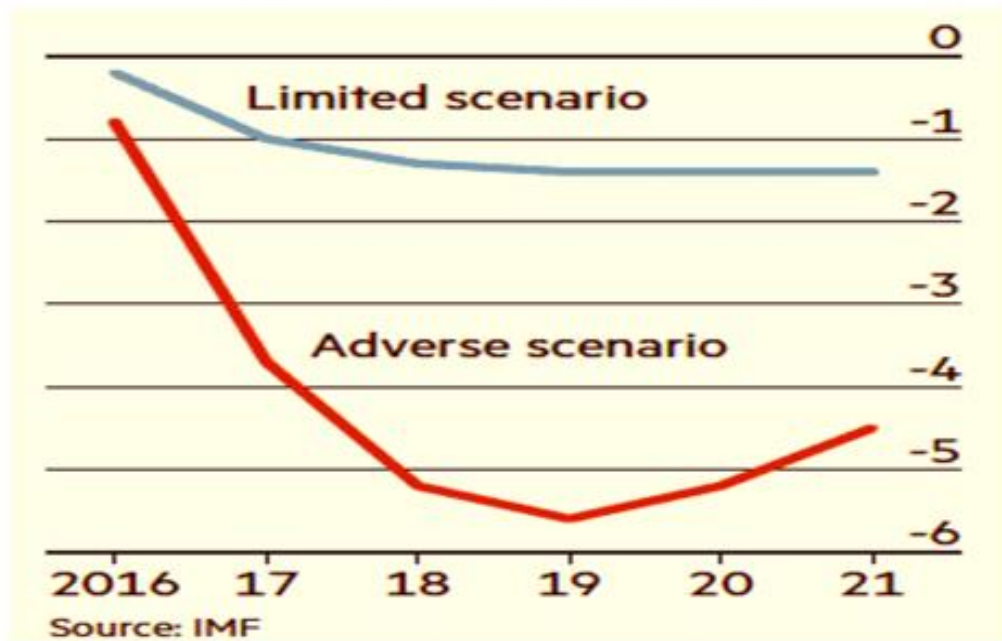
## Implications if “Leave” Wins (See Attached Charts)

- Article 50 of EU would be invoked. It requires a two-year window to negotiate an exit. Most likely the negotiation would be acrimonious. EU would make it difficult for UK lest it gives ammunition to anti-EU parties elsewhere wanting to separate from EU. The negotiation could drag on beyond the two-year window.
- During the negotiation, political and economic uncertainties would mount. PM Cameron might not survive further adding to uncertainties. Financial markets would become more volatile raising risk premiums hurting consumption and investments.
- Over time, both the UK and the global economies would be negatively affected. About 45 percent of U.K exports go to EU while the reverse is only 7 percent. Similarly, 48 percent of FDI into UK comes from EU while the reverse is only 9 percent. Shrinking trade and investment between the UK and EU would hurt economic and job growth. However, the depreciating pound would help UK exports.
- The leavers want to decrease immigration by 7- to 90 percent. This would shrink the growth of the labor force slowing UK economic growth. HM Treasury estimates that UK real GDP could fall by 3.6 percent over 2 years. The rest of the world, including the U.S., would be less affected but still painful.
- In the longer run, the political parties wanting to leave EU gains wings. Denmark, the Netherlands, Italy, etc. could contemplate abandoning the EU membership. EU integration would face significant headwinds with global implications.

## Implications if “Remain” Wins

- If UK votes to remain, it does not mean that everything is back to normal. This is primarily an anti-immigration referendum. Anti-immigration parties such as Independence Party would have more support in the UK politics with more influence in the future. Similar sentiment in other parts of EU against globalization, free trade, immigration and multiculturalism would have received boost.
- Within UK, PM Cameron would have to deal with the issues including job competition, rent increases, schools and housing availability as immigration increases. The UK government would have to enter into another round of difficult negotiations with EU regarding the free movements of goods and people, EU regulation and financial contribution.
- The resulting political, economic and financial uncertainties would adversely affect the UK and EU. The Bank of England would add more liquidity in the economy and delay any increase in the interest rate. UK economic growth would fall by 0.5 to 1 percent over a two-year period.

## Brexit Impact on U.K. GDP



## Brexit

Exports to Britain, 2014, % of GDP

