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“Brexit”: What to Expect?

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Abstract. The question of the exit of Britain from the membership of the European Union has become widely discussed for the last two years, because the leading and developing countries are interested in this issue from both political and economical sides. The purpose of the given work is the analysis of probable economic consequences of “Brexit” for Britain and also for Asian countries, such as China and Japan. The result of the work is the conclusion that Britain has stumbled on the duality in problem solving of the exit from the European Union; we can find drawbacks and advantages in all searching spheres of this topic. Economic measurements collapsed after the day of referendum and it is unknown what else the British economy and the whole world economy can expect after the exit the country from the European Union. The main tool of my research was the informational agency Bloomberg, which has the huge amount of data on this subject.

Keywords: “Brexit”; British economy; referendum; trade barriers and duties; inflation rate; currency quotations; yuan.

Брексит: что следует ожидать?

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Аннотация. Последние два года вопрос выхода Великобритании из состава Европейского союза стал широко обсуждаемым, так как интересуют с политической и экономической сторон как лидирующие, так и развивающиеся страны. Целью данной работы является анализ возможных экономических последствий Брексита для Великобритании, а также стран Азии, таких как Япония и Китай. Результатом работы стал вывод о том, что Великобритания столкнулась с некой двойственностью решения вопроса выхода из состава Европейского союза, по каждой сфере исследования мы можем найти плюсы и минусы Брексита для Великобритании. Экономические показатели Великобритании потерпели коллапс после народного голосования, и неизвестно, что еще ожидает британскую и мировую экономику после выхода страны из Евросоюза. Основным инструментом исследования послужило информационное агентство Bloomberg, которое содержит большой массив данных по данной тематике.

Ключевые слова: Брексит; экономика Великобритании; референдум; торговые барьеры и пошлины; уровень инфляции; валютные котировки; юань.

To begin with, the word “Brexit” comes from the shorthand way of saying that the United Kingdom is going to leave the European Union.

Euro skeptical moods in United Kingdom were strong even when Single Europe did not exist. But there is the difference in opinion among the British population. David Cameron supports preserving membership in the EU: in his opinion, it is a question of an economic safety and economy and it is not the good idea to refuse the single market constituting a quarter of world economy. Previous British Prime-minister David Cameron shares his point of view in one interview: *“The isolationism policy never did well to our country. When we turned a back to Europe, we were sorry about it sooner or later. If we leave the EU, then we will take a step to uncertainty”*.

It is obvious that “Brexit” is considered to be the catastrophe for all European Union: against the background of migratory crisis and economic problems it is awfully to allow losing of such global financial center as Great Britain. Great Britain has such kind of problem duality dealing with the question of exiting the EU in terms of membership contribution, migration, economic stability and trading balance. [1]

Judging be membership contribution, on the one hand, the profit on access to European Single Market considerably exceeds expenses on membership in the European Union. The EU provides to Britain return of investments in an approximate size 10:1. The annual contribution of Great Britain to the European budget is equal to 340 pounds sterling from a family and growth of trade, investments and reduction of prices pays back this contribution at the rate of 3000 pounds a year on a family, thanks to membership in the European Union. However, on the other hand, Britain will be able to cease sending billions of pounds annually to Brussels and instead of this to begin to spend them for own needs, such as health care, education and scientific research. European membership costs to the British business more than 600 million pounds sterling a week.

Immigration is useful thing for the economy as the European migrants make a net contribution to the budget of Great Britain — in general, they pay more taxes, than receive governmental benefits. And it is the good argument to remain in the EU. But Great Britain would like to return the complete control over the borders leading to decrease

in number of migrants. It will create expanded employment possibilities for the British workers. However, as soon as Britain breaks off the relations with the EU, France will cease to constrain migrants in Calais. Now there are from 3 to 4 thousand illegal immigrants in Calais from the countries of Africa and Asia.

Membership in the European Union does the British economy stronger. The EU supports business of Great Britain, creates workplaces and provides lower prices for consumers. If Britain leaves the EU, investments will fall and millions of people will lose work as global manufacturers will transfer the transactions to more profitable member countries of the European Union. According to calculations of Confederation of the British industry, an exit of Great Britain from structure of the EU will cost the United Kingdom 100 billion pounds sterling; it is about 5% of GDP of the country, and reducing 950 thousand workplaces by 2020. The budget will lose 45 billion euros tax revenues (that is equivalent to 7% of the VAT).

Additionally, the European Union is the number one trading partner for UK. Great Britain participates in the European commercial transactions with more than 50 countries worldwide and gets profit with more advantageous conditions that are connected with membership in the European Union. Exit from the EU will create large risks as trade barriers and duties will be entered. Trade with the EU, certainly, will continue. Britain can achieve free trade with the European Union, without being at the same time obliged to observe the European laws. Great Britain will be able to benefit from freedom of own trade agreements with other countries, in particular with quickly growing export market of China and India. [1]

However, despite of advantages and disadvantages of Brexit, the most British people voted for leaving the European Union, the votes were divided as 51.9% for to leave and 48.1% for to remain on the referendum which took place in June 23, 2016. The possibility of exiting the European Union is described in Article 50 of Treaty of Lisbon. As for the latest news, Teresa May send official letter to the European Council with the statement of final decision of leaving the EU in March 29, 2017. So, the process of “Brexit” has started.

The rate of the British pound currency quotations dropped against the American dollar by 10% (as it is shown on Figure 1), having decreased from a mark 1.5 to 1.32 — such fall was not even during

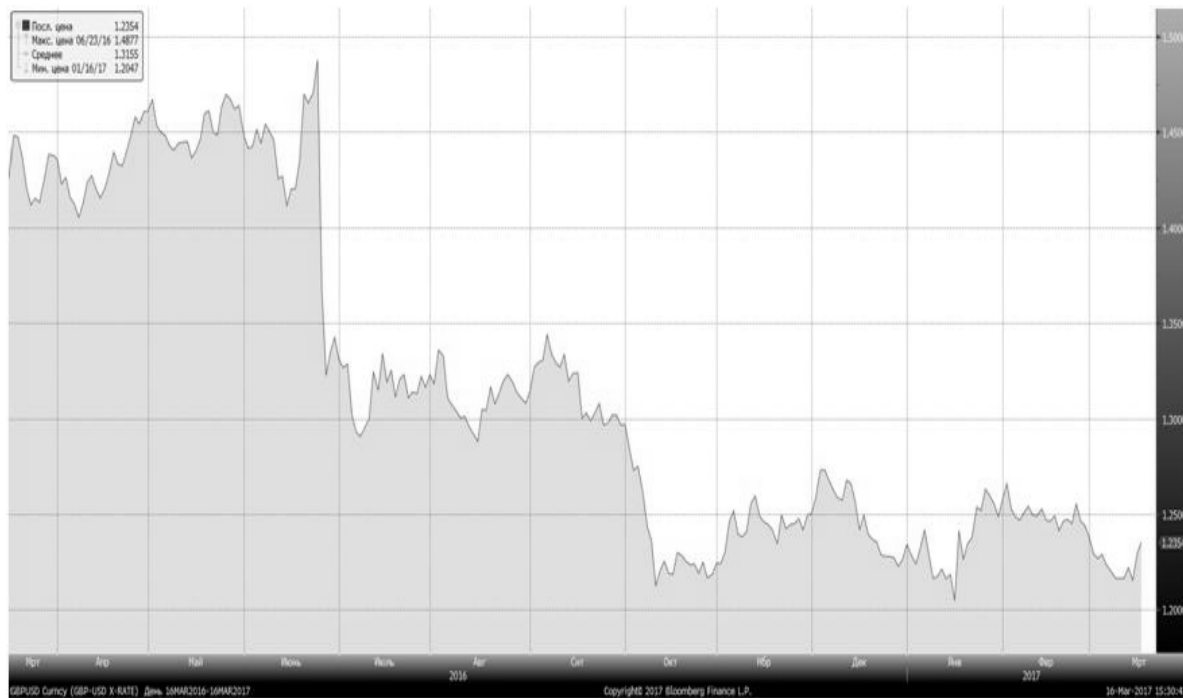


Figure 1. Pound slumping the day after the referendum (GBPUSD)

Source: Bloomberg Information Service.

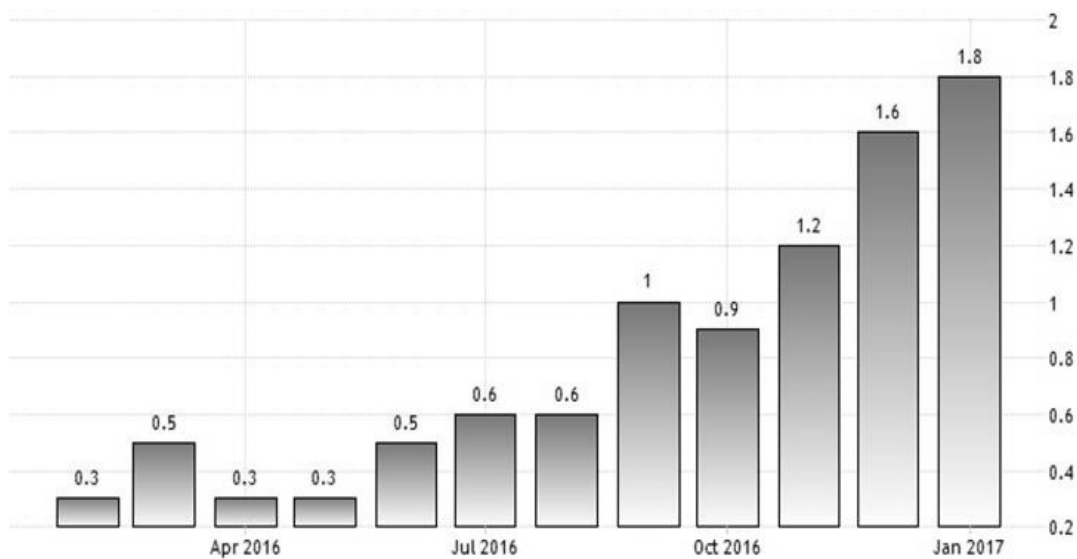


Figure 2. Inflation rising due to the currency depreciation

Source: tradingeconomics.com.

the global financial crisis. The British pound sterling for the first time since March 2009 fell below a mark of 1.4 dollars for pound.

The next economic indicator which was suffered by referendum is the inflation rate. In September 2016, the index of annual consumer price inflation raised to 1%. The changes are shown on Figure 2. It is the highest jump of inflation in the last two years. In comparison with August 2016, goods and services rose in price for 0.4%. Most of all the prices of clothes, fuel and the real estate grew.

The September 2016 jump of inflation demonstrates that the prices will grow even more because of the collapse of pound sterling. According to forecasts of the Bank of England, inflation next year will exceed a target indicator in 2%. On this background, delay of economic growth is predicted. [2, p.9]

“Brexit” provoked sharp decrease in the European stock markets. News about a victory of supporters of “Brexit” rendered strong depressive effect on the European stock markets. The Eurostoxx50 index decreased by 8.5%. The Frankfurt exchange



Figure 3. Chinese yuan versus pound sterling (GBPCNH)

Source: Bloomberg Information Service.

was closed with loss in 6.82%, Parisian exchange market lost 8.04%. The London exchange opened with falling results almost of 7%.

Shares of the British banks, such as Barclays, Lloyds, suffered the greatest losses. Following the results of the next day after referendum of their loss constituted from 15 to 18%.

Asia also reacted on “Brexit” by falling of the main quotations. The Japanese Nikkei dropped more than by 8%, it is the most essential recession after an earthquake and a tsunami which were in 2011 brought to 10% fall of the markets. Great Britain risks of losing the Japanese investors become higher after Brexit. The most part of the Japanese financial institutions and companies, including Nissan Motor Co, chose Great Britain as the European headquarters. Nearly a half of investments of Japan into the EU last year went to Great Britain.

China, as one of the leading and rapidly developing Asia countries, has quite dangerous position in terms of exchange rate, that is why it is important to evaluate the influence of “Brexit” on Chinese economy. Why is Beijing afraid of an exit of Great Britain from the EU? [1]

London is the key place in the strategy of Beijing on a gain for yuan of the status of world currency. It is the leading international financial center located

in the EU. A gain for yuan of the status of world currency is one of the most important purposes of the Chinese government. The gain yuan of the status of world currency will allow China to set the tone in the world financial sphere. The collapse of yuan is described in Figure 3.

The exit of Great Britain from the European Union will become serious strike against China both economically and politically. China hopes to influence on the EU policy by means of the more close relations with Great Britain. Also Great Britain gave the opportunity to enter the huge European market to China. Many Chinese companies consider the British economy as rather easy to invest therefore more important for China became the strategy of investment into Europe. Need to mention, that in case of Brexit Great Britain will cut off an exit to China to the market of the EU.

In conclusion, I would like to provide the quote of the President of the Russian Federation about the “Brexit” referendum: “The referendum will have consequences for Britain, for Europe and, of course, for Russia. And if the referendum organization and the following results which have already taken place nowadays are the self-confidence and thoughtless relation to important issues not only for their own country but for the whole Europe, then consequences will have the global character.”

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