

Brexit - Causes and possible consequences

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What is European Union (EU)?

Brexit - Causes
and possible
consequences

European Union

Causes of Brexit

Consequences of
Brexit

- ▶ Economic and Political partnership involving 28 European countries.
- ▶ Began after WWII to foster economic co-operation and suppress nationalism.
- ▶ Single market.
- ▶ Has its own parliament and it now sets rules in a wide range of areas - including on the environment, transport, consumer rights and even things such as mobile phone charges.

Advantages of EU

- ▶ Freedom of movement.
- ▶ Freedom to trade goods, services and capital.
- ▶ EU human rights protection.
- ▶ Euro Currency, 19/28 use Euro (Eurozone).

Categorization of European countries

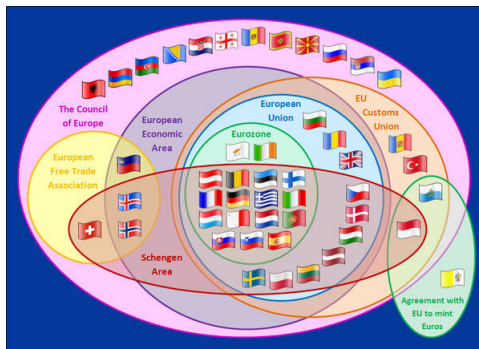
Brexit - Causes
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- ▶ European Union (EU)
- ▶ European Economic Area (EEA)
- ▶ Schengen area
- ▶ Eurozone

European Union

Causes of Brexit

Consequences of
Brexit





- ▶ **Britain + Exit = Brexit**
- ▶ A referendum - a vote in which everyone (or nearly everyone) of voting age can take part - was held on Thursday 23 June 2016, to decide whether the UK should leave or remain in the European Union.
- ▶ 'Leave' won by 52% to 48%. The referendum turnout was 71.8%, with more than 30 million people voting.

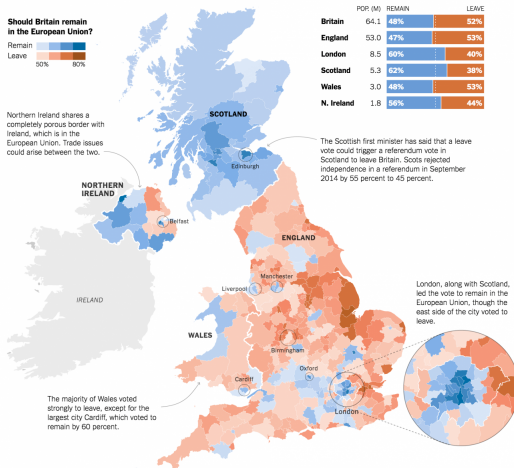
Brexit geographical distribution

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European Union

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Why UK wants to continue being a part of EU?

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It gets a big boost from membership.

- ▶ It makes selling things to other EU countries easier.
- ▶ The flow of immigrants, most of whom are young and keen to work, fuels economic growth and helps pay for public services.
- ▶ More secure as part of the 28 nation club, rather than going alone.

Why UK wants to leave EU?

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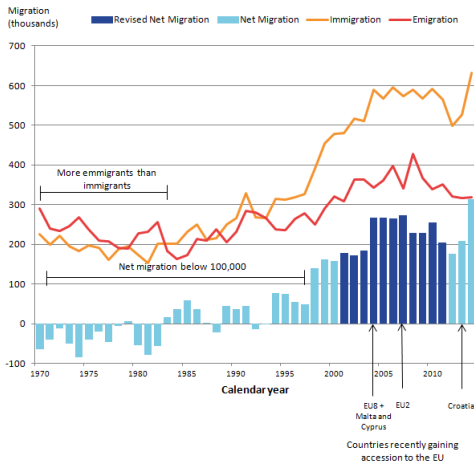
Causes of Brexit

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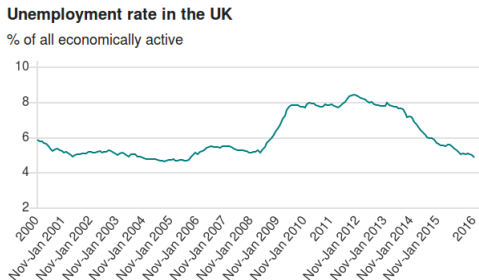
- ▶ Economic policies dictated by EU.
- ▶ EU charges billions of pounds a year in membership fees for little in return.
- ▶ Sovereignty and Democracy - take back full control of its borders and reduce the number of people coming here to live and/or work.
- ▶ Immigration caused a fear of unemployment (**Xenophobia**) among native Britons.

Immigration

- ▶ Immigration has surged in the UK in recent years.
- ▶ The number of foreign-born people living in the UK has gone from **2.3 million** in 1993 (when Britain joined the EU) to **8.2 million** in 2014.



Unemployment rate



- Prime reason for Brexit - rose to all time high in 2013-14.

National Income Accounts Identity

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As we know the 'golden' equation of Macroeconomics is:

$$Y = C + I + G + NX \quad (1)$$

Y - GDP

C - Consumption

G - Government Purchases

I - Investment

NX - Net Exports.

Currency

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Pound plunged against the dollar after vote result

How many dollars £1 buys

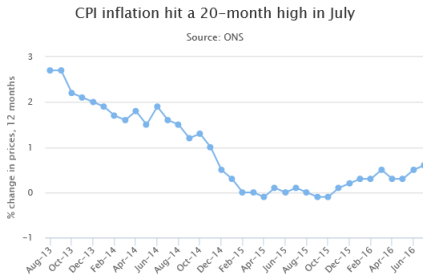


Source: Bloomberg

BBC

- ▶ Pound drops due to uncertainty induced by Brexit.
- ▶ Britain lost its AAA rating.

Consumption ...



- ▶ Although, the CPI inflation hit 20 month high, it is still below what we would expect.
- ▶ Big retailers would have factored in currency risks, when organizing finances.
- ▶ However, in the long run, inflation is most likely to rise, with expected figures of **2%** by mid 2017 and **3%** by the end of 2017.

Consumption ...

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- ▶ Consumers went on a buying spree in July 2016.
- ▶ Sales up by **5.9%** compared to July 2015.
- ▶ This can be explained by the fall in Pound, which in turn encourages foreign nationals to purchase more.

Net Exports

- 50% of UK's exports are to the EU. This in turn, contributes to 14% of the GDP.

Figure: Short term

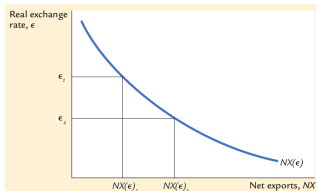
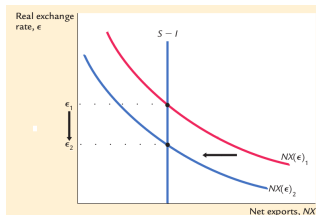


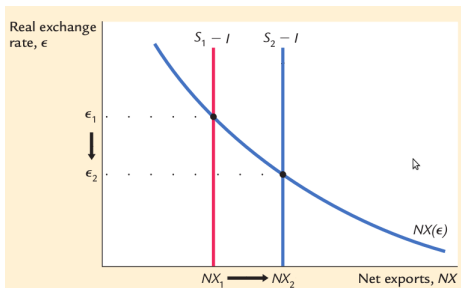
Figure: Long term



Government Purchases

- ▶ The membership amount to be paid by UK to EU is 13.7 billion euros.
- ▶ Now, if Britain negotiates for a 'soft' Brexit, the amount it would pay to the EU would decrease.

Figure: Soft Brexit - Savings Increase.



Investment

- ▶ Britain acts as a commercial gateway to Europe.
- ▶ If strict trade policies are enforced, investors would not prefer investing in Britain, thereby affecting Britain's GDP.

Figure: Hard Brexit - Investment goes down.

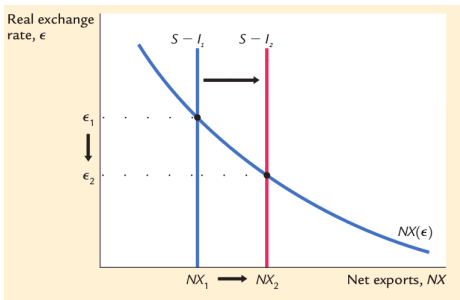
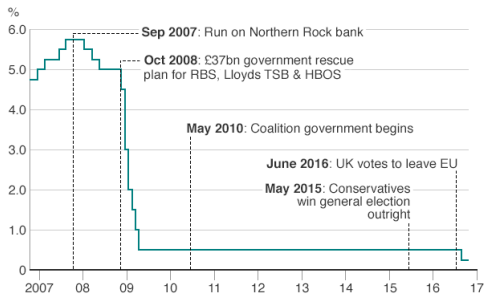


Figure: Interest rates

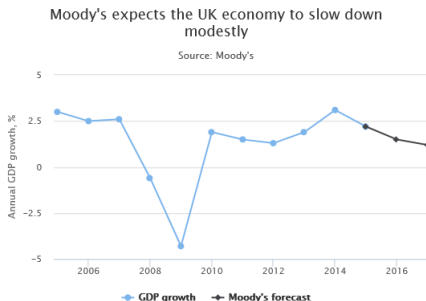
Bank of England base rate Sep 2006- present



Source: Bank of England

BBC

Conclusion



- Post referendum, the employment rose to a record-high of **74.5%**. Unemployment rate sticks at **4.9%**, lowest since 2005.

- ▶ Brexit: All you need to know about the UK leaving the EU
- ▶ Brexit Britain: What has actually happened so far?
- ▶ Brexit boom: The five charts which show Britain has escaped an economic apocalypse
- ▶ The economic impact of Brexit
- ▶ Macroeconomics - N. Gregory Mankiw.