

Press Release 26/2016

Halle (Saale), 24th June 2016

UK's "No" to EU will be costly for both sides

On Thursday 23rd, the British people have decided to leave the European Union (EU) Their vote not to remain in the European community was surprisingly clear. UK's exit will have both political and economic consequences which are far-reaching for the country itself as well as the rest of Europe. "The reactions of the remaining member states are the crucial key now, especially France's and Germany's" says Reint E. Gropp, President of the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association.

Financial market reactions to poll data before the referendum showed strong financial dislocations in the short-run (see [IWH Online 5/2016](#)). For the financial markets, the vote must have been surprising. Within the past two weeks, the British pound has actually been revalued by 3% compared to the euro. This development will probably reverse now. Many companies already announced to reduce investments in the UK or even skip them completely because the access to the European market is no longer assured. In particular, London as the financial centre of Europe could suffer from the British vote: Previously, bank stocks have reacted substantially on a higher likelihood of a negative vote both in the United Kingdom and the euro area. In the medium term, from a British point of view, many developments will depend on how the negotiations about UK's leaving will proceed. "In the end, hopefully, every party will realize the benefits of a fast agreement," Gropp emphasizes. To "punish" the UK by protracting the negotiations would be inappropriate and, furthermore, not in the interest of the remaining member states. It is still unclear, however, whether the current government will stay in office, which adds a political uncertainty to the already existing economic one.

To what extent will a Brexit impair the economic prospects of the EU? The euro did not react on a higher likelihood of a negative vote and hence seems to stay stable. It depends on the upcoming negotiations to what extent the markets for goods and services, the labour and capital markets inside the EU will stay open for British business. The vote itself will not lead to an exit, but it initiates a leaving process which has to be confirmed by the British Parliament. Generally, there is a high likelihood that at least in the short-run, both sides will suffer deadweight losses. 45% of the overall exported goods and services from the United Kingdom end in the member states of the European Union – contrary to goods and services of the EU where just 6% are exported to the UK. Germany holds a percentage of 7%, which is just slightly higher.

no press embargo

Press contact
Stefanie Müller
Tel +49 345 7753 720
presse@iwh-halle.de

Scientific contact
Reint E. Gropp
Tel +49 345 7753 700
president@iwh-halle.de

Oliver Holtemöller
Tel +49 345 7753 800
ohr@iwh-halle.de

Keywords
Brexit, European Union, euro area, exchange rates, export

Topicality
referendum in the United Kingdom
on June 23, 2016

Halle Institute for Economic
Research (IWH) – Member of the
Leibniz Association
Tel +49 345 7753 60
Fax +49 345 7753 820

Kleine Maerkerstrasse 8
D-06108 Halle (Saale)
Germany

P.O. Box 11 03 61
D-06017 Halle (Saale)
Germany

www.iwh-halle.de

On the long-run, a less economic-friendly climate is expected in terms of a higher number of regulations in the EU. It is currently unclear how the economic relations between the UK and the EU will develop. So far, there are many options (European Free Trade Association EFTA or bilateral agreements), but the decisions will need time. One of the major problems for Great Britain are the trade relations with about 60 countries (e.g. USA, India, China, Japan and Australia) which are up to now based on EU agreements. Hence, they have to be renegotiated individually while the UK is situated in a quite weak bargaining position.

From an EU point of view, there is a risk of further disintegration among the member states. On the basis of article 50 of the Treaty on European Union which regularizes the voluntary exit, every member state is free to leave the union since 2009. After Great Britain decided to withdraw from the EU, the anti-European attitude of other countries could be strengthened. They could even follow the British example. This is why the reactions of the remaining countries, in particular Germany and France, are so essential. A wise and reliable strategy needs to be established and communicated which should be stated collectively by the big member states, namely Germany and France, in a convincing manner. To become sustainable with or without Great Britain, the EU should work on a more intensive democratic legitimation of the European Union's institutions, less regulations in labour and product markets, a reduction of bureaucracy in the EU as well as their member states, the implementation of a capital market union as well as a new prioritisation of EU expenses.

Scientific contact

Professor Reint E. Gropp, PhD
president@iwh-halle.de

Professor Dr Oliver Holtemöller
Tel +49 345 7753 800
oliver.holtemoeller@iwh-halle.de

Press contact

Stefanie Müller
Tel +49 345 7753 720
presse@iwh-halle.de

IWH List of Experts

The [IWH List of Experts](#) gives an overview of the IWH research themes. The institute's [press office](#) will be pleased to establish contact to the respective experts.

The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its three research departments – Macroeconomics, Financial Markets, and Structural Change –, the IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration", the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

The Leibniz Association connects 88 independent research institutions that range from the natural, engineering and environmental sciences via economics, spatial and social sciences to the humanities. Leibniz institutes address issues of social, economic and ecological relevance. They conduct knowledge-driven and applied basic research, maintain scientific infrastructure and provide research-based services. For further information see <http://www.leibniz-gemeinschaft.de/en/home/>.