What Brexit could mean for the UK economy
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Reuters

Britons have voted to leave the European Union, a decision which leaves the world's fifth-biggest economy facing deep uncertainty about its growth prospects and its attractiveness to investors, and which could hurt other economies in Europe and beyond.

The vote is expected to deliver at least a short-term hit to growth in Britain and might push it into recession.

It could prompt the Bank of England (BoE) to cut interest rates to zero and test the willingness of creditors to keep on funding Britain's current account deficit.

Further ahead, the implications of the vote will depend on what kind of trading relationship Britain can strike with the EU, which accounts for nearly half the country's exports.

Below is a summary of the economic implications of the vote:

Economic growth

- Britain's economy would grow more slowly outside the EU than if it stayed in, according to a raft of projections made in the run-up to the referendum by the government, the BoE, think-tanks, international organisations and hundreds of academics.

- Finance minister George Osborne has warned of a "DIY recession" and the BoE has said a "material slowdown" could result after a Brexit. Its governor Mark Carney has said the economy could go into a two-quarter contraction.

- Ratings agencies said the expected slowdown in growth following the vote was negative for Britain's credit ratings.

- Politics could also weigh on the economy: Prime Minister David Cameron has said he will step down by October and there has been no news so far of Osborne's future. There is also the possibility of another independence referendum in Scotland, which voted strongly to stay in the EU.

- A small group of pro-Brexit economists has said leaving the EU will boost growth in the years to come although at least one of them predicts a shallow downturn first.

- The fall in sterling, which today hit its lowest level against the dollar since 1985, could help exporters - although demand in many countries around the world remains weak.

- The OECD and the IMF have said a Brexit will hurt the rest of the EU and affect other countries further afield. The OECD has said output in the EU, not including Britain, will be around one percent weaker by 2020 than otherwise if Britain left bloc, a palpable hit for a region which is growing only weakly.

- The OECD has said there could be deeper economic fallout if a Brexit undermines confidence in the future of the EU, a scenario not included in its forecasts.

- US Federal Reserve chair Janet Yellen said last week the referendum could have consequences for the global economy and financial markets, potentially meaning that next US rate hike is pushed back.

Monetary policy

- BoE governor Carney responded to the vote quickly, saying the central bank was ready to provide 250 billion pounds of additional funds to support markets. He also said the Bank will consider additional policy responses in the coming weeks. Before the vote, Carney said it was too simple to assume the Bank will cut interest rates from what is already a record low of 0.5 percent to cushion the economy after a Brexit vote. The BoE says it would have to weigh up slower growth against higher inflation caused by a weakening of the pound.

- That means any decision to change interest rates might not take place for several weeks, possibly not until August when the BoE is due to publish its latest detailed view on the economy.

- Seventeen of 26 market economists polled by Reuters in April expected the BoE's next move after an exit from the EU would be to cut rates rather than raise them.

Twin deficits

- Britain racked up its biggest current account deficit on record last year, equivalent to 5.2 percent of economic output. The shortfall reflected higher flows of dividends and debt payments to foreign investors than similar flows into the country as well as its wide trade deficit. Carney has said a Brexit could test the "kindness of strangers" who fund the balance of payments deficit.

- Finance minister Osborne said during campaigning for the referendum that he would have to raise taxes and cut spending if Britain voted to leave the EU to prevent the slowdown in growth from hurting his push to bring down Britain's still large budget deficit. After Cameron's resignation, it was not clear if that plan would be maintained.

Sterling and gilts

- Sterling plunged to a 31-year low today, its biggest fall in history. George Soros, the billionaire who earned fame by betting against the pound in 1992, said it could go as low as $1.15. Today it was trading at around $1.39.

- Gilt yields struck new record lows, with the 10-year yield touching 1.018 percent. Strategists think it could fall further, below one percent.

Jobs

- Most forecasters have said Britain's unemployment rate - now at a 10-year low of five percent - would rise after leaving the EU, although after the financial crisis Britain managed to avoid job losses on the scale seen it other countries.

- As seen after the crisis, wages will probably bear the brunt of any post-Brexit slowdown, according to the International Monetary Fund. Britain's National Institute of Economic and Social Research think tank estimated real consumer wages will be between 2.2 percent and 7.0 percent lower in real terms by 2030 than if Britain had stayed in the EU.

- By contrast, Economists for Brexit has said Britain's labour market could become more dynamic through the repeal of onerous EU regulation and the elimination of some of the EU'shighest import tariffs such as on food, boosting productivity and living standards. But cutting back import tariffs could expose some sectors of the economy to fierce competition.

Trade

- World leaders from the United States, Japan, Germany and France have warned Britain that leaving the EU would hurt its standing as a global trading power.

- US president Barack Obama said Britain would join "the back of the queue" for talks with the United States. This week French President Francois Hollande said leaving the EU would put at risk Britain's access to the single market.

- Pro-Brexit economists have dismissed the warnings as scaremongering and they say Britain could forge trade deals with the EU and countries beyond and could also cut import duties on its own if no deal was forthcoming.

- *Reuters*

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