**ARTICLE**
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# Britons stun the world by voting for a Brexit

- UK votes 52%-48% to leave the EU on high turnout of 72%
- Pound crashes by 10% against the US dollar and 7% vs the euro
- Result brings down PM and may lead to break-up of UK

Léon Cornelissen,
Chief Economist

**Britons stunned the world and sent financial markets into freefall after voting to leave the European Union in an historic referendum.**

"It was contrary to what the polls and betting markets were predicting, so it comes as a huge shock," says Robeco Chief Economist Léon Cornelissen. "But then it is a narrow margin, so this doesn't mean that the UK will automatically leave the EU, because it is up to the UK government to trigger Article 50 of the Lisbon Treaty which would start the divorce process."

"And given the pro-EU majority in the UK Parliament, which by convention is sovereign, it cannot be ruled out that there will be a general election in the UK. So in the meantime we have huge political uncertainty as well. In the short term we will see an awful lot of uncertainty and the UK will probably lose its triple-A credit rating with S&P."

'In the short term we will see an awful lot of uncertainty'

### Pound plummets

With only a handful of regions left to be counted, 17.3 million people or 52% had opted to quit the EU after 43 years of frequently troubled membership, while 16 million or 48% wanted to remain. The turnout was high at 72%. David Cameron, who had led the Remain campaign, resigned as Prime Minister once the news was confirmed.

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The pound dropped to its lowest level against the US dollar since 1985 on the news on fears over future trade after leaving the Single Market, a possible recession, and years of discord and uncertainty. By 6:00h London time, sterling had fallen over 10% to USD 1.33 and over 7% against the euro to EUR 1.21. The 10-year British Gilt dropped 30 basis points, and equity futures predicted a 10% fall in the UK's FTSE 100 index when it opens.

'The bigger risk is Italy and the possible rise of nationalism in France and Germany'

In what many see as a very British revolution, voters defied the advice of the Remain camp, which had been supported by all the major UK political parties and the bulk of Parliament, and backed the Brexit camp, which was supported mainly by anti-EU independents and English nationalists.

## Huge shock

Cornelissen says he now predicts a UK recession, the prospect of which was raised during the four-month campaign by the OECD. It predicted long-term economic contraction of between 2.7% and 7.7% in the run-up to 2030, with a baseline scenario of -5.1%, though the Brexit camp dismissed this as 'scaremongering'.

"For the UK economy, this is undoubtedly bad news," says Cornelissen. "It was already suffering because of the Brexit uncertainty, demonstrated by the UK's increasing current account deficit which has risen to 7% of GDP, which is enormous for a developed economy. So the UK is now vulnerable to capital flight, and that makes the plunge of the pound an understandable reaction."

"Investments for the time being will continue to suffer. Consumer confidence will also be damaged by the turmoil in the markets, so a recession in the UK does look likely. Business sentiment in Europe could also be hampered due to the rising fears of contagion – we could now see exit votes called by other Euro-skeptic parties across Europe. The first indication of the political fallout will come this weekend with general elections in Spain. The bigger risk is Italy, and the possible rise of nationalism in France and Germany. This is all generally bad for the business climate."

## Break-up of the UK?

The result is set to have major repercussions for the future of the UK, since Scotland and Northern Ireland voted to remain. England and Wales both voted to leave, though voters in the capital city London were significantly in favor of remaining. Commentators now predict a second referendum for stanchly pro-EU Scotland to secede from the UK.

David Cameron's resignation will lead to an election for a new leader of the ruling Conservative Party, which may well be former Mayor of London Boris Johnson, who was a major force in the Brexit camp. Nigel Farage, leader of the anti-EU United Kingdom Independent Party (UKIP) may also get a role in a future government. "So in fact it would be up to a new government to trigger Article 50, and they may prefer to wait a while, given the slim majority."

"All districts in Scotland voted for Remain, and the ruling SNP called for Scotland to stay in the EU, so this makes a new referendum likely. It will also be destabilizing for Northern Ireland. So it could lead to the break-up of the UK. This further weakens the UK government's negotiating stance with the EU."

'The EU will certainty play hard ball; it won't want to encourage further exits'

## New trade agreements

It is also uncertain what type of trade agreement a future UK government will be able to negotiate with the EU following its exit from the Single Market. The country must also figure out what to do with the millions of EU citizens living with the UK under freedom of movement rules, and the further millions of British expats living in the EU.

"Once the referendum result is enacted by Parliament, the UK faces a lengthy divorce from the EU, with a minimum of two years before full separation is achieved," says Cornelissen. "These negotiations will be very difficult, and it is unlikely that we'll see a result in the two-year deadline once Article 50 is triggered."

"The EU will certainty play hard ball; it won't want to encourage further exits, so the UK will have to pay a price for life outside the EU. Of course if the new UK government opts for the Norway model then it would be easy to make a deal with the EU – but remember that Norway pays a contribution to the EU, and actually it pays even more per head than the UK does. Norway also has to accept free movement of labor; on many levels they are essentially part of the EU but without fisheries and agriculture. So if this comes to pass, then the whole Brexit referendum won't have made much difference, and will be very difficult to sell to the UK electorate."

"A Canada-style trade deal would be more likely, but that would take years to agree, and wouldn't cover all trade. The minimalist option would be the WTO model, but this would incur many tariff and non-tariff barriers and would in economic terms be much more damaging. This referendum will have economic consequences for years to come."

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