Beat: Politics

Vote to leave the EU would tip Britains economy

New Treasury analysis shows

London, 23.05.2016, 23:11 Time

USPA NEWS - Britain´s economy would be tipped into a year-long recession, with at least 500,000 jobs lost and GDP around 3.6% lower, following a vote to leave the EU, new Treasury analysis launched today by the Prime Minister and Chancellor shows.

Speaking at B&Q in Eastleigh, Hampshire, the Prime Minister and Chancellor set out the Treasury´s analysis of the impact on the nation´s economy over the immediate period of two years following a vote to leave. This analysis shows that such a decision would cause an immediate and profound economic shock across the country, creating instability and uncertainty which would be made worse by the complex negotiations that would follow to agree the terms of Britain´s exit from the EU and its new relationship with the rest of Europe.

Echoing the recent warnings from the independent Bank of England and the International Monetary Fund, the central conclusion of the Treasury´s new analysis is that the effect of this profound shock would be to push the UK into recession and lead to a sharp rise in unemployment. The analysis follows the Treasury´s recent assessment of the long-term impact on Britain´s economy of leaving the EU. That document concluded that the UK would be permanently poorer if it left the EU with a central estimate that GDP would be £4,300 lower in 2015 terms for each household after 15 years and every year thereafter.

The Treasury´s new analysis sets out how the immediate economic impact of a vote to leave would be driven by 3 key factors: 1. The "˜transition effect´: the emerging impact of the UK becoming less open to trade and investment under any alternative to EU membership. 2. The "˜uncertainty effect´: the rise in uncertainty following the referendum and the impact that has on economic decisions by businesses and households. 3. The "˜financial conditions effect´: the extent of financial market volatility

Through a combination of these 3 factors, a vote to leave the EU would have a damaging effect on both the demand and supply side of the economy. The Treasury has modelled two scenarios: a "˜shock´ to the economy and a "˜severe shock´.The impact of a vote to leave the EU: shock scenario
In the "˜shock´ scenario, which uses cautious assumptions and links the size of the transition effect to the central estimate of the UK adopting a negotiated bilateral agreement with the EU, GDP would be around 3.6% lower after two years compared to the forecast for continued growth after a vote to remain.

Average real wages would be nearly 3% lower, which is a pay cut of almost £800 a year for someone working full time on the average wage.

500,000 UK jobs would be lost and the value of the pound would fall by around 12%. Inflation would also increase by over 2 percentage points and the value of people´s homes would be hit by 10% compared to Britain remaining in the EU, with a rise in uncertainty from current levels similar to that experienced in the UK during the early 1990s recession.

In this scenario net government borrowing would increase by around £24 billion, compared with a vote to remain.

The impact of a vote to leave the EU: severe shock scenario
In the "˜severe shock´ scenario "" which represents a credible risk - the size of the transition effect is linked to the estimate of Britain leaving the Single Market and defaulting to WTO membership.

After two years GDP would be 6% lower and 800,000 UK jobs would be lost, compared to a vote to remain. The value of the pound would fall by 15% and there would be a further increase in inflation of 2.7 percentage points, with a hit to the value of people´s homes of 18%.

In this scenario net government borrowing would increase by around £39 billion, compared with a vote to remain.

The Treasury´s analysis published today shows that even in the "˜shock´ scenario, a vote to leave the EU would result in a marked

deterioration in Britain´s economic prosperity and security. A recession would be expected to follow with a significant risk that the outcome could be far worse.

In contrast, a vote to remain in the EU would see current uncertainty fall back rapidly with little lasting impact on the economy.

Prime Minister David Cameron said:

This analysis shows the stark choice facing the British people.

Even in its more cautious estimate, the Treasury finds that a vote to leave the EU would cause an economic shock that would tip Britain into recession and cost at least half a million jobs. The pound would fall, prices in the shops would rise, and the housing market would be damaged.

On 23 June, people face a stark choice: economic security and a vote to Remain, or a leap in the dark which would cost jobs and raise prices."

Chancellor of the Exchequer, George Osborne said:

We´ve spent 6 years dealing with what happens when recession hits this country "" we´ve got one month to make sure we don´t do it to ourselves all over again.

One month to avoid a DIY recession.

The Treasury analysis shows Britain will be stronger, safer and better off if we vote to remain in the EU on 23 June.

The Treasury´s analysis has benefited from a review by Professor Sir Charles Bean, former Deputy Governor of the Bank of England, acting in a personal capacity as an academic consultant to the Treasury.

Professor Sir Charles Bean said:

While there are inevitably many uncertainties "" including the prospective trading regime with the EU "" this comprehensive analysis by HM Treasury, which employs best-practice techniques, provides reasonable estimates of the likely size of the short-term impact of a vote to leave on the UK economy.

New Treasury analysis shows a vote to leave the EU would tip Britain´s economy into a year-long recession.

Article online:
https://www.uspa24.com/bericht-8037/vote-to-leave-the-eu-would-tip-britains-economy.html

Editorial office and responsibility:
V.i.S.d.P. & Sect. 6 MDStV (German Interstate Media Services Agreement): Daren Frankish - HM Treasury

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Official Federal Reg. No. 7442619