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DECISION DAY FOR THE UK

On June 23rd, UK citizens can make their voices heard on a major issue that's been making media headlines and providing politicians with sound bites for over a generation. Should we remain within the European Union or leave and make our own way in the world?

The great uncertainty in this debate, universally referred to as Brexit, is the lack of real evidence as to what a vote for either side would mean in practice. Since its inception, no country has ever left the EU, so no-one can accurately predict what the outcome might be. What is clear is if the UK does vote to leave, it will be major world news.

In or out?

Whilst the opinion polls have been contradictory for some months, one element that has been consistent is the number of people who are 'undecided', in some cases more than 20%. With so many voters still undecided, campaigning and news flow ahead of the vote could prove decisive. As ever, it will depend on voter turnout. Based on the demographics of previous elections, the older generation are likely to be there, but will the younger generation bother to vote?

Meanwhile, the vote continues to gain world attention; European leaders have been quick to join the debate and President Obama has made his views known. The British newspapers have entered the fray on both sides, with each title following its own agenda, making it more difficult to separate fact from opinion.

At the heart of the debate there are several core issues that both sides are focussing on.

EU membership and regulation

The net cost of EU membership is around 0.5% of GDP (£9bn). Some argue that the real cost is higher due to increased EU regulation and jobs lost as a result of immigration. The Confederation of British Industry (CBI) believes the direct economic benefits of membership for the UK equate to between £62bn and £78bn annually.

Would the UK be better off free from, what some people believe to be, the stranglehold of Brussels red tape? This is hard to quantify. Regulation would not immediately disappear in the event of a Brexit; if the UK negotiated an agreement similar to that which Norway has with the EU, it would have cost implications and still be subject to regulation of some kind.

Trade

It's estimated that more than 45% of our exports are to EU countries. Britain also benefits from trade deals between the EU and other trading partners. If these arrangements were terminated the impact on UK business could be significant.

Those urging us to remain highlight that the EU Single Market gives the UK access to over 500 million customers. Those advocating exit say that the UK could go it alone and establish its own trade deals. The out campaign also point to the administrative burden placed on small businesses by EU legislation and believe freeing ourselves of this would be a welcome stimulus to industry and commerce.

Inward investment

Both sides acknowledge that in the short term, the uncertainty created by the referendum will slow inward investment. The financial services industry could suffer with some international operators potentially looking to relocate if we leave. Out campaigners suggest that divorced from poorly-performing European economies, the UK could reinvent itself as a strong and independent financial centre that would attract worldwide investors.

Stock markets and interest rates

Some of the recent stock market volatility is likely to be attributed to the uncertainty surrounding the forthcoming referendum – stock markets inherently don't like uncertainty. So, any movement of investments in anticipation of a result could prove counterproductive. Sterling could be weakened by an exit, impacting on UK investments. However, as the majority of the FTSE 100 companies are multi-national businesses and derive their earnings globally, the impact of an out vote may not be as significant as some predict.

If the UK votes to leave, the Bank of England may consider cutting interest rates. Mark Carney has approached UK banks and questioned whether their balance sheets could absorb a rate reduction. The Bank has warned the outlook for financial stability in the UK has worsened ahead of the referendum, commenting that the upcoming vote was *"the most significant near-term domestic risk."* The out campaigners maintain that following a short period of transition the UK economy will be back on track.

Fund manager Neil Woodford has concluded that an exit would not have serious consequences in the longer-term, predicting a 'nil sum game'. He believes that *"the fundamentals of the economy will be relatively unmoved,"* and the vote would have a marginal effect on his investment strategy, given that the major companies in which he invests often have *"absolutely nothing to do with the UK economy."*

Employment

The government predict that in excess of three million jobs directly linked to EU exports could be put in jeopardy by a vote to leave. Exiting the EU would put the economy at risk, deter investment and have implications for the Britons working in other EU member states. Those advocating leaving believe that new employment would automatically be created in an economy freed from the constraints of Brussels bureaucracy, coupled with the new freedom we would have to create our own trade deals with countries like the US, China and India.

Sovereignty and status

Much of the discussion on this topic focuses on Britain's role in the world. Those who want us to remain in the EU believe

that leaving would mean that we'd no longer exert any real influence in Europe or internationally. The exit campaign paints a different picture, seeing the UK as a truly independent nation, in control of its own borders and establishing itself as a major world power in its own right.

Immigration

This issue has been at the heart of the debate. Immigration has increased due to the expansion in the number of EU member states, and the attractiveness of the UK's standard of living.

Whilst there are an estimated 2.4m EU citizens living in the UK, around 2.2m Britons live and work in EU countries, making net immigration lower than some reports suggest. Out campaigners argue that a leave vote will allow the UK to regain control of its borders.

Mixed views

The International Monetary Fund (IMF) recently downgraded its global growth forecast, referencing Brexit uncertainty as a contributory factor. It believes that *"a British exit from the European Union could pose major challenges for both the UK and the rest of Europe. Negotiations on post-exit arrangements would likely be protracted, resulting in an extended period of heightened uncertainty that could weigh heavily on confidence and investment, all the while increasing financial market volatility."*

The Prime Minister supports this view commenting: *"The IMF is right – leaving the EU would pose major risks for the UK economy. We are stronger, safer and better off in the European Union"*. Leave campaigners have rejected the IMF's views, accusing it of downgrading the UK's forecast at George Osborne's request.

According to the CBI, a leave vote would constitute a 'serious shock' for the British economy. Their research warns of a cost of up to £100 billion to the economy and the loss of close to one million jobs by 2020.

What lies ahead?

Clearly, there is much for each of us to consider before we cast our votes on the 23rd. From the EU's perspective, if the UK votes to leave then this might pave the way for voters in other countries to stage their own referenda. It's possible that if the UK wants to opt out, the EU would give way on a number of fronts in a bid to convince us to stay.

On 23rd June, the eyes of the world will be focussed on the UK; this is a major global issue with both domestic and global ramifications.

In reality, however confidently politicians, economists and fund managers may predict the long-term implications of staying in or leaving the EU, nobody really knows.