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ECONOMIC EFFECTS OF BREXIT – PRELIMINARY COST- BENEFIT ANALYSIS

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Abstract: On 23 June, the British citizens voted for leaving the full membership in the European Union. It is a historical event for the country, but also results in many economic and geopolitical consequences for Europe and the whole world. Therefore, the goal of the paper is to show the most important short and long-term costs and benefits from leaving the European Union. The paper is to overview the comprehensive context of effects considering the uncertainty of the outcome of negotiations about the withdrawal from the union. In addition to the Introduction and Methodological Notes, the paper shows the short and the long-term costs and benefits, states optimistic and pessimistic scenarios, quantifies the effects where applicable and describes consequences in a balanced manner. Considering the economic results in the post-referendum first quarter, it is concluded that the negative results from Brexit are, for the time being, overestimated.

Key words: Brexit, costs and benefits, European Union, Free Trade Agreement, European Economic Area, foreign trade.

INTRODUCTION

In January 2013 in his speech held in the Bloomberg Club, the British Prime Minister David Cameron announced that Great Britain would hold the referendum on leaving the European Union, which was his pre-election promise as a part of election program, based on which he was granted a new mandate. In the meantime, negotiating with leaders and key countries of the European Union he tried to provide better autonomy and more concessions for his country (in particular as

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regards immigration policy, contributions to the budget and financial services); thereafter his campaign continued to aim at Britain's further full membership in the European Union.

The pre-election polls reflected great uncertainty regarding the electoral body's pros and cons of leaving the EU; the campaign was held between those who were for the Britain's membership in the EU and those who were for exiting the EU. The Europhiles and the Eurosceptics were on the scene, but also the strong opponents of the European Union. As well, the polls reflected that the older population over 55-year of age was for Brexit, whereas the younger population (aged 18-34) was for the Great Britain membership in the European Union. Although the major part of Cameron's government was for the EU membership, even 40% of the Parliament Members from the Conservative Party were for Brexit and also significant parts of the Labour Party, the Nigel Farage's party and some GB regions (Wells, North Ireland, Britain's periphery). In a word, the public was split, the campaign intensive and strong, and the referendum outcome uncertain.

One of the campaign key issues referred to the economic side and economic consequences of the referendum, which resulted in a great number of economic analyses and estimations of costs and benefits aimed at assisting the public, voters, common people and businesspersons to make a final voting decision. Of course, those analyses are also significant for the government, especially for the referendum attendance. The referendum was held in the very specific economic and political moment: the global financial crisis was still present in some parts of the world and Europe, the economic recovery has been weak and uncertain, the protectionist measures have become more intense, growing resistance to economic and political globalism (BRICS, etc.). The European Union is in the political, economic and institutional crisis (weak euro, economic problems in Greece, Spain, Italy, refugees all over Europe, the European varied response to the refugee crisis, triumph of the political forces opposing the European Union), the immigrants from the European Union, especially the refugees, raise dissatisfaction of the Great Britain's citizens, thus increasing a chance for making decision to exit the European Union (Dimitrijević, Fabris, Vladušić, Radović and Jandrić, 2016). Such pre-referendum atmosphere is also supported by the fact that the UN economic importance for the Great Britain has been declining during the last ten years, whereas the importance of other countries has been growing (among them, important roles are taken by China, India, Japan and some countries in the Far East and Asia). In so heated and uncertain atmosphere, the referendum was held on 23 June 2016 with entirely unexpected and historical results, which will surely result in far-reaching economic, political and strategic consequences for the remaining world, but first of all for Great Britain. The referendum results were both unexpected and inevitable: 17. 41 million citizens were for a Brexit or 51.89%, and 16.141 million citizens or 48.11% of voters were for Great Britain staying in the European Union.

This short survey is not aimed at analyzing the impacts on such referendum results, but at making a summary of the most important costs and benefits, as well as challenges, possibilities and consequences of Brexit, first of all to Great Britain, then partly to the other countries of the European Union and to Serbia, too. Our approach has been based on several analyses and research conducted before the referendum by well-known research institutes, renowned economists and businesspersons. Below are only best- known institutes:

- March 2016 – Oxford Economics
- March 2016 Centre for Economic Performance (CEP), LSE
- March 2016 PwC
- April 2016. Centre for European Reform Commission (CER)
- Estimation made by GB Treasury in 2016
- Estimations made by OECD, NIESR, Woodford Investment Management – WIM (February 2016)

There should be emphasized that estimations were also made by famous economists and experts, the IMF and the GB Industrial Union, Stiglitz, Krugman, many well-known economists from the London School of Economics, experts in international trade, finance and foreign direct investments, and also many macroeconomists. Most economists shared the same opinion: the Great Britain's exit from the European Union will result in significant negative consequences for Great Britain, its economic position, competitiveness, macroeconomic performances and standard of living, both on the short and long-term basis. There were a small number of economists who had a positive opinion about the Brexit economic outcome; among them was Professor Patrick Minford, who said that the economic growth could top four per cent. (Minford, Mahambare and Nowell, 2005; Minford, 2015)

At the end of the Introduction, we would like to mention the opinion of two distinguished economists, the Nobel Prize Winners. In his column in The New York Times of 24 June 2016, Paul Krugman wrote: 'The big mistakes of the European Project were the adoption of the euro without careful thought about how a single currency would work without a unified government... the establishment of free labor mobility among culturally diverse countries...weakness of the European economy, which is a prime candidate for 'secular stagnation'. Brexit is probably just the beginning, as populist/separatist/xenophobic movements gain influence across the continent.'

Professor Stiglitz outlined the following: the European Union should stop with austerity policies and accept the policy of aggregate demand, restructure the fiscal policy or accept gradual leaving the euro, then follows 'amicable divorce' with the EU member countries. As well, he pointed out possible consequences on the Great

Britain in the field of FDI inflows and competitiveness in providing the financial services. (Stiglitz, 2016)

METHODOLOGICAL NOTES ON BREXIT COSTS AND BENEFITS

The paper deals with the analysis of costs and benefits for Great Britain resulted from leaving the full membership in the European Union. Costs and benefits will be shown quantitatively, in tables and graphs where applicable and based on available real data. Three aspects of time will be applied: 1) immediately after Brexit, 2) a short-term (1-2 year period) and 3) a long-term (a period of three or several years).

All estimations were made in the circumstances of the great uncertainty of negotiations between the GB Government and the EU, when Article 50 of the Treaty on European Union, which sets out the withdrawal of a member state from the EU, should be activated. The outcome of negotiations and the other GB's trade and economic agreements and contracts will have a strong impact on the GB's economic future and also on estimation of the long-term effects in the sectors of trade, foreign direct investments, position of the City of London, consequences on the GDP, employment and the living standard. Thus, all short-term estimations, and especially the long-term ones, are conditional because they depend on the key factors that are unknown; first of all, the outcome of the post-referendum trade negotiations and negotiations on withdrawal from the European Union. In such context, at least three scenarios are possible for Great Britain:

1. Withdrawal from the EU, but staying in the European Economic Area as Norway;
2. Withdrawal from the EU and entering into bilateral trade agreements with the EU according to the Swiss model;
3. Withdrawal from the EU and agreements according to the rules of the World Trade Organization under the most-favoured-nation model.

In addition to these basic scenarios, there are also mentioned 4) EFTA – European Free Trade Agreement, which is a model similar to the agreement between the EU and Canada that is soon to be signed (opposed by Wallonia region of Belgium), and an option to create the customs union with the remaining Europe. Each scenario has its costs and benefits – positive and negative consequences for the GB's economy; estimations often include both optimistic and pessimistic scenarios. The optimistic scenario is linked to Great Britain and a part of the European Economic Zone, whereas the pessimistic one is linked to Great Britain, which will establish the economic and trade relationships with the EU and the remaining world according to the rules of WTO (World Trade Organisation).

Reasonably, the pessimistic scenario implies higher costs and lower benefits than the optimistic one.

- The key effects of Brexit could be grouped into several most important areas:
- Macroeconomic consequences of Brexit,
- Effects on international trade, balance of payments, export and import,
- Fiscal effects of withdrawal,
- Impact on the City of London as the financial center of Europe and the world – financial effects,
- Foreign direct investments,
- Regulations,
- Real estate market,
- Consumption and living standard of population,
- Immigration and immigration policy, impact on the labor market,
- Industry and other branches of economy,
- British productivity and competitiveness in the global market.

At the end of this section, the basic economic results will be shown in the first three post-referendum months, compared with forecasts and expectations, and a conclusion will be made about the GB prospects in the future. *Some graphs for illustration of the arguments are given in the Appendix at the end of the paper to make reading more convenient.*

In the analysis, the negative expectations predominate regarding the economic effects of Brexit. Nevertheless, we will give the survey made by WIM, which outlines the benefits and lessen the negative effects of the Brexit supporters' triumph. (Woodford, February 2016; Minford, Mahambare and Nowell, 2005; Minford, 2015; Confederation of British Industry, 2013) Those are the basic consequences of Brexit.

What are the key challenges? They are linked to the GB's success in negotiations with the European Union and the other countries for securing a more favorable position of Great Britain in the world. The basic chances and possibilities are based upon comparative and competitive advantages of GB especially in the fields of regulations, trade, foreign direct investments and financial services.

ESTIMATION OF SHORT-TERM AND LONG-TERM COSTS AND BENEFITS FROM BREXIT

1. Brexit consequences before the referendum and immediately after releasing the referendum results (Giles, 2016a; Giles, 2016b):

- The pound has dropped by 10% reaching the lowest value since 1987; the Bank of England injected more than £250 billion, which stabilized the economic situation;
- Share prices in the GB's stock market dropped, a hundred of British major companies suffered a loss of £120 billion;
- Share prices dropped also in Tokyo stock exchange (8%), but also in Sidney, Seoul and Hong Kong stock exchanges (3%-4%);
- Share prices drop is announced also by leading share indices in New York, Frankfurt DAX30, London FTSE100 (whereas the negative expectations on the stock exchanges were monitored by Morgan Stanley, Deutsche Bank, JP Morgan and HSBC Holding);
- Dollar strengthened on the world stock exchanges, which immediately resulted in oil price drop by 6%, although such decline was later reduced below 4%;
- Value of the state bonds issued by Germany and the USA increased because funds were transferred to secured bonds;
- Gold price increased by 8% reaching the top value in the last two decades;
- Many companies postponed acquisition of other enterprises in the Great Britain VB (more than 30 companies in the second quarter were waiting for the referendum results), and more than 100 companies postponed their plans for enlarging the capacities and for new investments due to Brexit campaign;
- The value of signed contracts in the circumstance of uncertain referendum results was reduced in the second quarter from £69 billion to £14 billion;
- Bank of England, but also the other central banks reduced interest rates to prevent stronger recession trends and pessimistic economic expectations.

In the post-referendum period, the bond prices on stock exchanges were stable, the oil price on the world market increased, the pound value did not additionally drop, and the parity against the euro, dollar and the Swiss franc was maintained; the British pound decline produced a positive impact on GB's export (made it cheaper), influenced the GB's market of services including growth of income from tourism. Thus, there could be concluded that the short-term losses due to voting for Brexit have been compensated, no panic occurred and the other markets became stable. Any catastrophic scenario did not develop, and data on the GB's economy in the third quarter show neither recession nor unfavorable macroeconomic indicators.

Estimation of short-term costs and benefits:

Short-term effects of Brexit are summarized in the following Table:

Table 1 - Overview of short-term effects of leaving the European Union

Costs	**Amounts per costs**
GDP decline	1.5% - 3.9%
Pound's depreciation	10% of its value
Possible increase in inflation rate	from 2% to 4%-5% p.a.
Increase in unemployment	from 4.9 to 5.6% or 220 thousand work posts
Loss per household	approx.£750 p.a.
Real income losses	1.5% - 3.9%
Foreign direct investments	decline by 22% vs. present level

1. The short-term effects, as it can be seen, could be grouped into several areas:
   - Macroeconomic effects refer to the following indicators (Dhingra, Ottaviano, & Sampson, 2015; Pain, & Young, 2004; Thompson, & Harari, 2013; Cambridge Econometrics, 2016; HM Government, 2016)
   - A GDP decline in the third and fourth quarters (total growth below 1.5% p.a.),
   - Pound's depreciation (10%-20 % p.a.),
   - Increase in the inflation rate (up to 4%-5% until year-end, prices continue to increase in 2017 due to a worse international trade position of GB); the business uncertainty, postponing the business decision making, especially in the domain of investing;
   - Expected increase in the inflation rate would reduce the real salaries, domestic consumption and household consumption, which would also jeopardize the real annual income of households that influences the consumption;
   - Yields on government bonds dropped, which implies that the holders are less paid;
   - A CEP (2016) estimation indicates that the GDP loss will soon amount to 1.8% - 3.9%, that pensioners will lose 2%-4% p.a. of their real income within a short period of time, and that losses per household will amount to £750 p.a.in case of an optimistic scenario, but according to a pessimistic one those losses will amount approximately £1600 p.a.;
   - Net effect on the fiscal sector could be directly calculated and it amounts to around £ 9.1 billion (which is 0.5 % to 0.7% of the GB's GDP).

Table 2 summarizes concrete and direct fiscal effects of leaving the European Union on the GB's economy.

Table 2 -Net fiscal effects of leaving the European Union (in £ billion)

Contribution to the EU budget	13.7
Value added tax	2.3
Tax refund to Great Britain	- 4.8
Refund against customs duty collection	- 0.8
Net contribution	10.4
Refunding from CAP Fund	- 4.4
Customs duty refund	- 3.0
Net contributions to the EU after CAP and customs duty deductions	6.1

As it can be seen, the GB's contribution to the EU budget amounts to £ 13.7 billion and it is proportionate to its economy. The total net effect amounts to £6.1 billion after tax deduction, payment of customs duty and deduction of subsidy that GB receives from the *CAP Fund (CAP – Common Agriculture Policy), which will be an instant short-term benefit* from leaving the European Union. However, as it will be seen later, this benefit will be probably diminished; if Great Britain successfully finalize negotiations and be included in the European Economic Area (EEA), it will have to pay the membership fee amounting to 80% of its nowadays EU full membership fee. There are also other calculations which indicate that the GB's contribution to the EU amounts to £17.8 billion before customs duty and tax refunding, whereas after refund it amounts to approx. £12.9 billion. On the other hand, the EU funds refund GB the subsidies for science and agriculture in the amount of £6 billion, thus the net effect of leaving the EU amounts to approx. £6.9 billion, which is close to the above-mentioned figure (See: Springford, Tilford, Odendahl and McCann, 2016).

1. Estimation of key long-term effects of leaving the European Union

Table 3 summarizes quantitative estimations of the Brexit effects and costs on the long-term basis:

Table 3–Estimation of the Brexit long-term costs
(Estimation is based on CEP analysis, 2016)

Key indicators	Cost estimation
GDP	6.3 % – 9.5 % (-)
Per capita income	6%-13.4% (-) £4200-£6400 p.a. (-)
Foreign trade volume	£26-£55 billion
Foreign direct investments	22% for 10 years (3.4% of GDP);
	£2200 per household; (-)
Labor productivity	£2500-£5500 p.a. (-)
Employment	Jeopardized 3 million of work posts

The long-term negative effects of Brexit could be summarized even without stating the precise quantitative effects that cannot be precisely estimated (it can be seen in Table 3 which shows the wide scope of possible effects):

- Exit from the European Union will increase costs of goods and services (customs duties, regulations, non-customs barriers), which will result in reducing the foreign trade volume, increase in prices, decline in productivity and potential GDP;
- Lower inflows of FDI will reduce the competitiveness of the GB's economy and productivity;
- Potential decline in the number of immigrants will reduce the labor market, lower inflows of qualified labor force from the EU countries could affect productivity and reduce income from taxes since analyses show that immigrants have made a positive net effect on the GB budget; (They are not consumers of health care and education services, social funds like the GB's citizens, but due to higher qualification they exert influence on increase in fiscal revenues and aggregate demands in the consumption sector. See details under: Springford, Tilford, Odendahl, & McCann, 2016).
- Significant losses are expected in the service industry, especially in the field of finance due to losing the EU full membership status and accessing the single European market;
- Despite the estimation that bonds, insurance, foreign exchange markets, property control will not suffer major losses, the losses from reduced activities of the City of London due to exit from the EU and lost pass porting rights of

financial companies to operate all over Europe will be considerable on the long-term basis;

- If subsidies from the EU were reduced in the field of research and agriculture, the government would possibly try to compensate it to the important interest groups, due to which the fiscal grants would increase as the counterbalance to an increase in fiscal revenues due to non-payment of contribution to the EU budget;
- Deterioration of the country's fiscal position and a possible decline in GDP could increase a share of the public debt in GDP, thus introducing the GB in the zone of huge foreign indebtedness. (See the graphs in Appendix at the end of the paper)

BREXIT IMPACT ON SOME IMPORTANT SECTORS OF THE GREAT BRITAIN'S ECONOMY

I – Impact on foreign trade

The GB's economy is considerably linked to the European Union and the statistics show that around 50% of the GB's goods and 45% of services are exported to the EU! Considering that the EU has free trade agreements with 60 countries more, the EU's share in the GB's export amounts to almost 65% of the total export. If it is expressed in absolute values, the trade with the EU amounts to£130 billion, whereas total exchange with China (including FDI) amounts to £43 billion. Also, many arguments indicate that the EU membership makes no obstacle to an increase in trading with the remaining world, which is obviously supported by the example of Germany that is considerably increasing its export to China. The analysts outline several significant arguments (Springford, et al., 2016; CEP, 2016; Giles, 2016a; Giles, 2016b; Cambridge Econometrics, 2016; Bruno, Campos, Estrin and Tian, 2016; HM Government, 2016) (The foreign trade impact is theoretically based on the so-called *Gravity model* which was developed by J. Tinbergen in 1960, based on which research was conducted by Bruno, Campos, Estrin and Tian (2016)): 1) the EU membership has considerably increased the foreign trade volume of the Great Britain, especially after 1973and accessing the EEZ; 2) the EU membership makes no obstacle to an increase in trading with other non-EU countries and has not reduced the trade volume; 3) according to data, it is obvious an increase in intra-trade (among the EU member countries), whereas there is a declining trend in the so-called extra trade with the non-EU countries;4) among the groups of countries that influence the GB's GDP growth, the largest influence is exerted by the European Union (more than10%), the importance of which is larger than the influence of the USA, China, Russia, India, Canada and Australia together; 5) the

European Union dominates also as a destination of the considerable demands for the GB's goods and services (more than 45% of total demands). Those are the obvious arguments against leaving the European Union.

The key costs that could be imposed due to leaving the EU will depend on the GB's economy status after finalizing the negotiations on withdrawal from the EU, which is the biggest uncertainty regarding the Brexit possible costs, not only in the foreign trade! Those are costs regarding the following: possible customs duties from the EU that will make imported goods more expensive and exert influence on domestic prices, non-customs and technical barriers and standards imposed by the EU, possible quotas and other quantity limits, whereas the indirect effects refer to the GDP decline, decrease in the international competitiveness and productivity of the GB's economy, a possible decline in the number of work posts. What options – scenarios are possible in the negotiations and what are their consequences?

1. Membership in the European Economic Area, like Norway's, implies the following obligations:
   - The free flow of goods, services, labor, and capital,
   - Common employment policy and social policy,
   - Production standards and company law
   - Separate agreements referring to Schengen, security policy, defense, power and protection of the human environment,
   - No participation in common fiscal, agricultural and fisheries policy,
   - There is freedom in entering into trade agreements with third countries outside the European Union.

Important note: As the EEA member state, Great Britain will implement many EU regulations thus making a contribution to the common budget, but it will not be allowed to influence the creation of rules and policies in Brussels as regards most of the EU institutions!

2. Status like Switzerland's, with many bilateral agreements and arrangements with the EU:
   - Free flow of goods and people,
   - Schengen Agreement,
   - Protection of human environment,
   - Research programs and agriculture,
   - There is neither common agriculture policy, nor fiscal policy, as well as common social policy and employment policy,
   - No free flow of financial services,
   - There is a freedom of entering into trade agreements with third countries.

The free trade agreement implies full implementation of the EU regulations, which was one of the major reasons for leaving the EU. The Swiss model includes a huge adverse item for Great Britain, because staying beyond the free flow of financial services, which is extremely important for Great Britain. The agreements based upon the WTO rules are unfavorable since they impose the customs problem and non-customs standard and barriers.

Two important arguments should be mentioned in the analysis of possible effects and obstacles for establishing the favorable trade status of the GB: 1) Power in negotiations and economic power of GB outside the EU is weaker than if being the EU member country. Such weaker power could especially influence the negotiations with the USA, China, and with other BRIC countries; 2). There could be reasonably expected that the EU's negotiating status vs. Great Britain will be very 'tough' lacking goodwill for reaching the favorable agreement due to the fact that Great Britain has left the single market. Therefore, the negotiations can be too long, difficult, and uncertain and their final outcome could be less favorable for Great Britain.

II – Impact on immigration policy

The number of immigrants from the European Union increased from 900 thousand in 1995 to 3.3 million registered ones in 2015, where of 172 thousand are from the EU countries in 2015 and around 191 thousand from the countries outside the EU. It is interesting to point out that among the EU immigrants 29% come from Poland. The EU immigrants are young, educated, they mainly live in London so contributing to the GB's budget, encouraging the aggregate demand and consumption, increasing productivity and improving the qualification structure. At the same time, they increase the labor market flexibility. Research conducted by economists showed (if they are reliable) that neither the number of work posts nor salaries have been reduced for the native British people, and that the real salaries dropped by 8% after 2008 as the consequence of the global financial crisis (Good and detailed analyses of immigration policy impact on the labor market are under Springford, et al., 2016; CEP, 2016). The analysts especially emphasize that there is a difference in quality in the labor force structure of the EU immigrants and the non-EU immigrants in favor of the first ones, whereas the migrant crisis, which disturbs the European unity, does not result from the European Union existence as such.

III – Distribution of costs per social groups

Most of the researches of the Brexit effects show that leaving the EU will mainly affect the middle class, then the poorest population, and at least the richest one. We have already mentioned that a loss per household amounts to £750 p.a. according to the optimistic scenario and up to £1600 according to the pessimistic one. No doubt, in the first years after Brexit a large number of households will become a little bit poorer due to decline in GDP and in real income. According to all scenarios, it is expected an increase in prices of transportation, clothes, alcohol, but not in financial services. If the government continues to subsidize domestic agriculture, the food prices are not expected to increase considerably. Nevertheless, possible increase in the imported goods prices will reduce the living standard of citizens and especially of the middle class.

IV – Effects on foreign direct investments and on the City of London

The importance of the European Union is huge for the foreign direct investments in Great Britain, and also for the financial services of the City as the largest financial center in the world. Below are mentioned only some data and illustrations:

- The export of services from GB to the EU increased from £8 billion in 2004 to £18 billion in 2013 and it was not fundamentally affected by the financial crisis;
- Statistical data show that export of insurance, finance and pension services from GB to the EU increased by more than 3.5 times during the last 15 years (2000–2015);
- Europe (the EU) is the most important partner to GB, since in 2013 its export of all financial services amounted to 41%, and the per cent reaches even 45%;
- Many countries make FDIs in GB as the EU member country taking into consideration the comparative advantages of GB as the country that provides the financial services; therefore GB is the first destination for foreign investors in the European Union;
- Many banks from the USA, Switzerland and other parts of the world are located in GB mainly due to its being the UN member country;
- The FDI inflow from the EU to GB amounted to£25 billion in 2004 reaching the value of £70 billion in 2005. Thereafter, the inflow gradually decreased down to approx. £5 billion in 2013;
- The econometric analyses estimate the exit from the EU could reduce investments in the GB's economy by more than 20%.

In conclusion, although the importance of the European Union as the economic area from which FDIs come and to which the GB's financial services are exported is declining, the European Union is still the most important economic partner to Great Britain, thus the exit from the EU will significantly affect the level of economic activities of these two important sections of the GB's economy.

V – Consequences as for regulations

One of the main arguments of the Brexit supporters was that the European Union is ruled by the Brussels bureaucrats, that huge regulations make the economic activities very difficult, impose barriers to the GB's economy and make enormous costs, diminish freedom of government and other bodies in reducing the regulations, making the economic activities free and creating more favorable rules within their borders.

Most of the research papers and analyses dealing with regulations point out that even nowadays GB is among the countries with the smallest scope of regulations (together with the Netherlands in the European Union) and that the EU membership does not make any obstacle to register the company in a short period of time, to favorable conditions and stimulative taxes (Springford, et al., 2016; CEP, 2016; Woodford, 2016; Doing Business 2015, 2014). The Appendix at the end of the paper gives the most important graphs illustrating the Brexit economic effects.

As it can be seen, the level of regulations is below developed and less developed countries in the EU, and it is more favorable than the average of the OECD member countries, which are the most developed ones in the world. As well, if GB remains in the EEA, it will have to accept a large number of the European regulations, but this time having no impact on their creation. The lower level of regulations is even nowadays present in the financial markets, the GB's labor market is factually more flexible than in the remaining part of the continental Europe. On the other hand, the EU supporters point out that high-level regulations (more than 90,000 rules and directives in *Acquis Communitaire* – the EU's legal heritage) are necessary to create a single market, which is to be arranged according to the rules aimed at providing the unique standards and free inflows of labor, capital, goods, and services. Critics say that arguments regarding regulations underestimate the benefits that GB has from the European regulations and also relate to the issues of the unique 'passport' for financial services (Switzerland does not have such approach), using the European funds in agriculture and science, the benefits from social and labor policy, unique regulations in the field of technical standards, protection of human environment, etc. The announced deepening of the European integrations, which will probably result in the GDP 3% growth (the GB will be excluded from it in the future), is not possible without additional regulations, but it will generate the additional benefits. According to the CER's Report many arguments expressed by the critics of the European regulations are not exact: the European radon legislation does not generate any additional costs to the GB's economy, unsuccessful strain offers have resulted from the GB economy's weakness, but not from the EU regulations, the EU harmonization is not too rigid, so it gives freedom to the member countries. In any case, even after the GB's exit from the

European Union, it will be obliged to implement most of the European rules and regulations (See more details in graphs and illustrations in Appendix).

KEY ARGUMENTS OF BREXIT SUPPORTERS AND ECONOMIC TRENDS OF THE GREAT BRITAIN ECONOMY IN THE THIRD QUARTER OF 2016

The most important benefits could be grouped into several basic arguments (Springford, et al., 2016; CEP, 2016; Woodford, 2016; Pain and Young, 2004; Giles, 2016a; Cambridge Econometrics, 2016; HM Government, 2016) (For this section of the paper it is of special importance the research conducted by Woodford (2016)):

1. Benefits from reduced EU regulations and from the GB's freedom to regulate the level and contents of its regulations in economic cooperation with the world;
2. Savings of at least 0.5% of GDP p.a. due to smaller contributions to the EU budget;
3. Possibility of establishing new trade agreements which can be favorable for Great Britain;
4. Better managing the immigration policy and the refugee crisis and an option to select immigrants based on the qualification level;
5. gradual lessening of the EU importance in the fields of investments, foreign trade, financial services provided for the EU market, and growing importance of China and other BRIC countries.

Since 2012 the number of immigrants in the Great Britain has doubled (in March 2015 the number of refugees reached183 thousand), which additionally increased fear of the British voters and deteriorated earlier neutral estimations of the immigration effects. An option of better selection of immigrants due to full autonomy in creating the immigration policy can improve the GB's productivity and competitiveness without jeopardizing the work posts or wages of the native British population according to the Brexit supporters' opinion.

In the case of optimistic negotiating scenario (EEA), Great Britain will benefit from both sides: from the member countries and from other countries, with which it would have more favorable trade arrangements (the USA, China, India, Russia, Australia, Canada, etc.). There is a two-year deadline for the new negotiations on withdrawal from the EU and for the new arrangements. Declining EU importance and growing the non-EU countries importance for the GB's economy develop optimism that even the scenario with the WTO rules would not be catastrophic. The newly achieved freedom and more favorable agreements with the remaining world will, in due course, compensate the starting negative impacts of leaving the EU, thus the foreign trade losses will be relatively small.

The City will be vulnerable for a short period of time (stock exchanges, real estate, banks, and pound's exchange rate), but great importance of four significant fields (foreign exchange markets, bonds, insurance, and property management) will still remain without bigger consequences of Brexit. The City has numerous competitive advantages: competitive and reliable flat system, the English language, favorable and adjustable business surrounding, many experts, agencies and companies in the field of financial services available to the business partners, complete market infrastructure, London's openness and integrity of business people in the finance field.

The EEA membership will lessen the consequences on increase in prices (imported and domestic goods), whereas it will contribute to retaining the competitive position and high productivity of the GB's economy. Good agreements with the UE and other countries after the withdrawal with well-known comparative advantages of the GB market will not considerably reduce FDI, especially for the reason of the non-European countries' increasing share. There will be the positive consequences on fiscal revenues, but the revenue volume will not be too big.

Possible losses in the real estate trading could be compensated by good agreements after leaving the EU and their negative impact on aggregate demand and consumption is overestimated.

The total losses in the GB's economy are overestimated; such estimation is uncertain due to the unknown outcome of negotiations and cannot be based on economic trends and data. The negative macroeconomic effects could be compensated with positive effects due to the GB's orientation to remain growing world economy. The positive effects of immigration, fiscal and free trade policy, with fully domestic regulations, could be sufficient to neutralize the long-term negative effects of lost access to a single market. The financial service industry and FDI will not suffer any considerable loss and will be, in due course, compensated with a small positive effect.

Let us see the first economic reports on the GB's economy in July, August and September (the first quarter). The basic data were taken from The Guardian (Katie, 2016; but also texts of 8 July and 22 July 2016), which was more inclined to Brexit supporters, but data were taken from the official British statistics. The Report of 18 October states that the unemployment increased, the private consumption did not decline, whereas a weaker pound had a positive impact on an increase in income from tourism. The inflation rate stabilized amounting to 0.6%, which is below the target level of 2%; the prices of houses are steady, but the investments are uncertain. The employment rate of 74.5% is high and does not indicate any post-Brexit crisis. The Bank of England's forecast that Brexit will produce the loss of 250 thousand work posts and increase in unemployment rate from 4.9% to 5.6% has not been realized yet. The retail volume increased by 1.4%, which is more than the forecasted

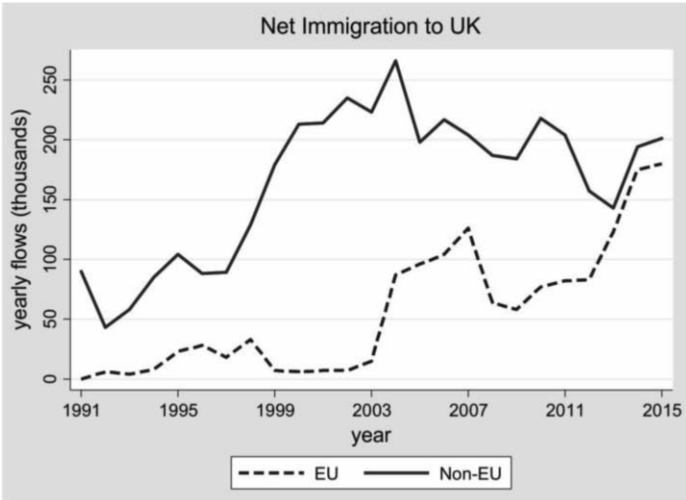
0.2% points. In August the Bank of England created the anti-recession package of measures, the interest rate is low and stable, prices are steady, unemployment declines, whereas the real estate prices remain steady. There is not even a trace of tragic events and the key indicator is the GDP growth in the third quarter by around 0.6%, which will generate the annual growth of around 2%. The above mentioned indicated that the GB growth will be one of a more dynamic among the EU member countries. The research of the business climate barometers shows an improvement in market expectations, which is also supported by polls of households' attitude. The pound weakening has not continued, which has a positive impact on export, although it makes the imported goods a little bit more expensive. Major economic indicators show that either loss was overestimated or growth was higher than expected. Surely, there is no panic, catastrophe or disturbing results, also the bond markets have stabilized. Interest in new trade agreements has been expressed by India, Australia, New Zealand, Ghana and Mexico. The British public is mostly worried about the fact that 330 thousand immigrants are expected until the year-end.

CONCLUSION

The paper presents the most important costs and benefits concerning the results of the referendum on leaving the European Union. The consequences and the effects are presented on the short and long-term basis according to optimistic and pessimistic scenarios and analyses, which were not inclined to Brexit and also those that were inclined to Brexit. As well, the possible quantitative effects are presented, whereas key uncertainty refers to the results of negotiations on withdrawal from the European Union, designing the new trade agreements and regulating the economy, which will now be mostly the Britain's. The cost level will surely depend on the Great Britain being the EEA member or not, and on which withdrawal scenario will be applied. Therefore, the Brexit effects cannot still be precisely estimated. In addition to possible costs in the key sectors, there are also conveniences, benefits and facilities offered by the new status of Great Britain. First data three months after Brexit do not indicate any crisis, panic or recession. Moreover, the economy is stable, uncertainty has been reduced, whereas consumption, employment and GDP grow. In conclusion, the starting short-term negative effects of Brexit were overestimated, but more precise conclusions can be made only after expiry of the post-referendum second and third quarters. Estimation of the long-term effects requires a period of several years, whereas the first estimations are possible in two years. If morning glory shows the day, Brexit could prove to be a smart decision of the British voters, who are the first to leave the EU ship that is slowly sinking.

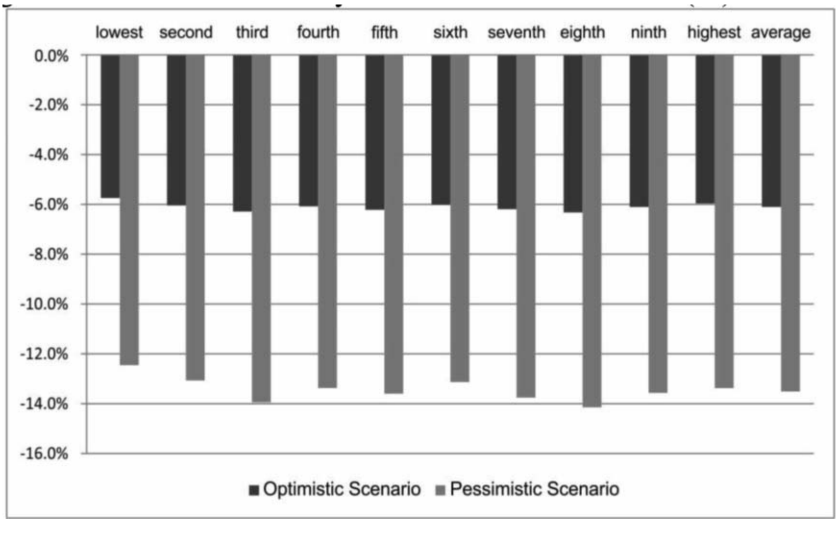
APPENDIX – GRAPHS ILLUSTRATING THE ECONOMIC EFFECTS OF BREXIT

Figure 1. Net immigration to the UK, 1991–2015



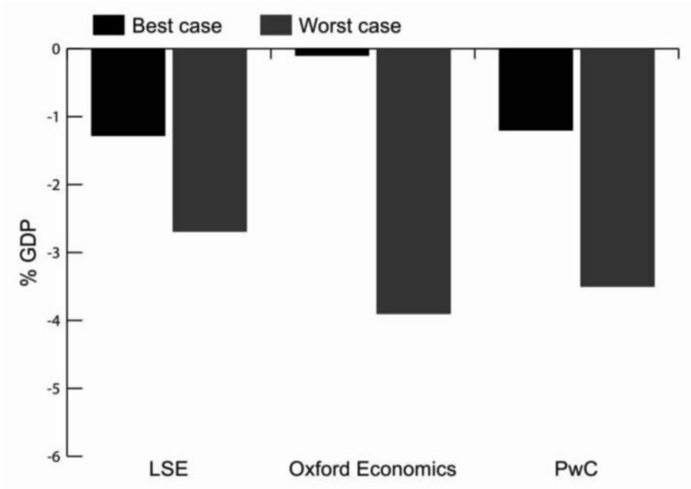
Source: (Centre for Economic Performance (CEP), June 2016, p. 35)

Figure 2. Long-run real income losses by household income decile (%)



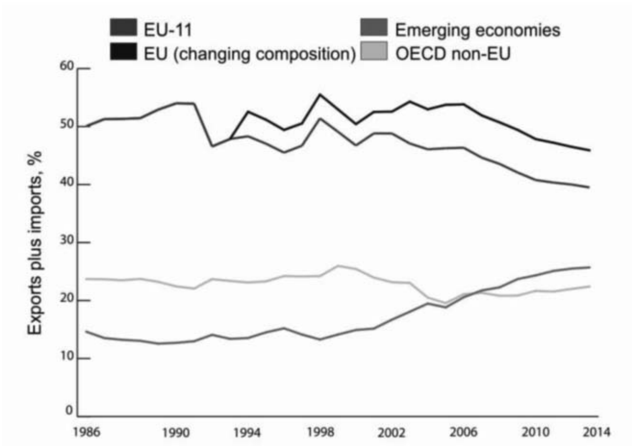
Source: (CEP, June 2016, p. 59)

Figure 3. Three Brexit forecasts



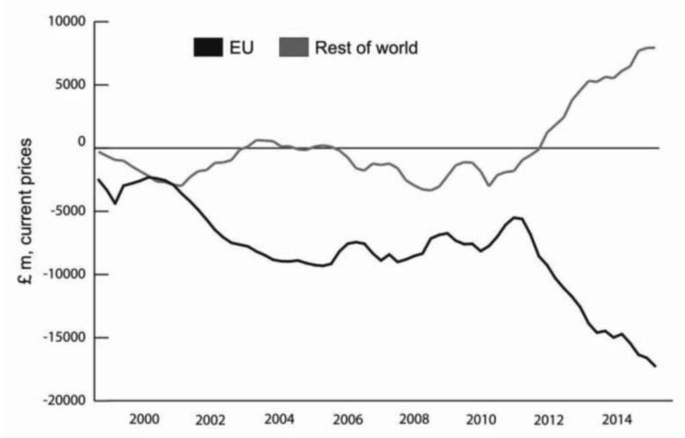
Source: (Springford, Tilford, Odendahl, & McCann, April 2016, p. 12)

Figure 4. Trends in UK goods trade with the EU and the rest of the world



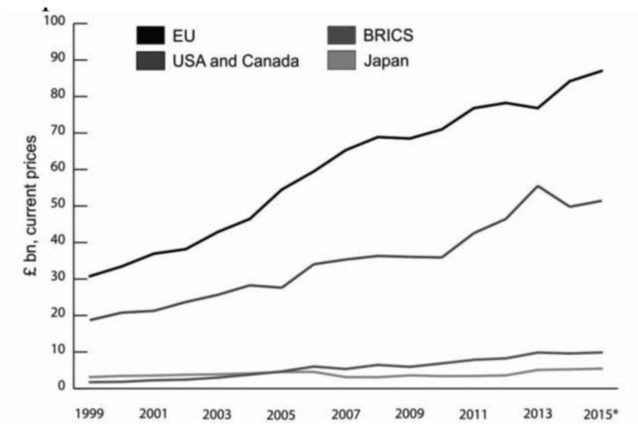
Source: (Springford, et al., April 2016, p. 27)

Figure 5. UK trade balances



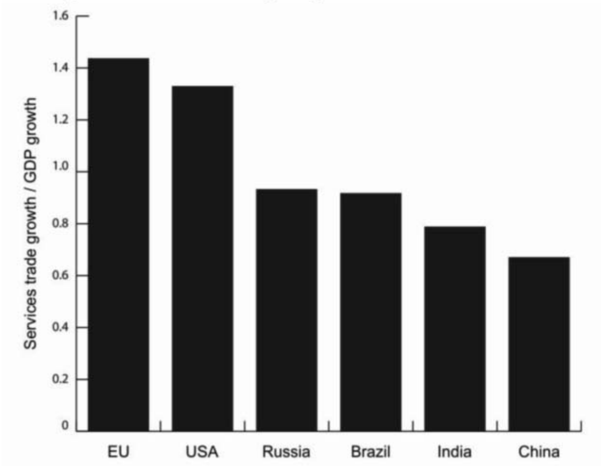
Source: (Springford, et al., April 2016, p. 39)

Figure 6. UK services exports



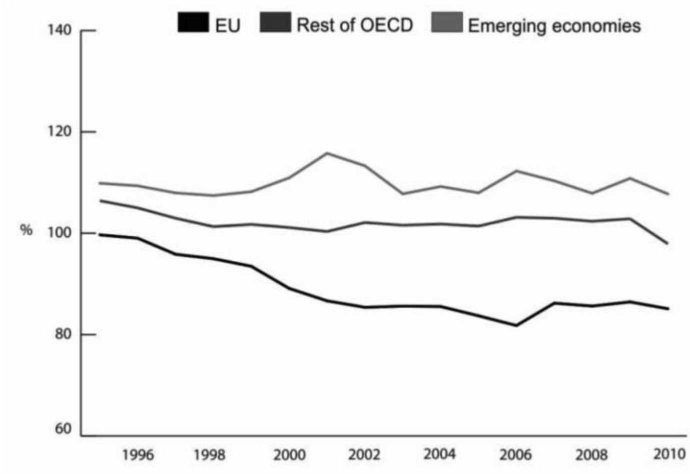
Source: Source: (Springford, et al., April 2016, p. 37)

Figure 7. UK services trade growth with major partners, 1999-2015



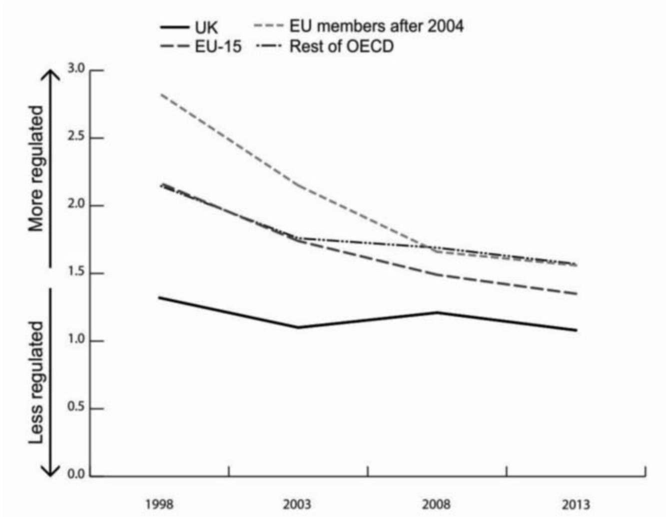
Source: (Springford, et al., April 2016, p. 37)

Figure 8. Trade costs between Britain and the EU, the rest of the OECD, and emerging economies



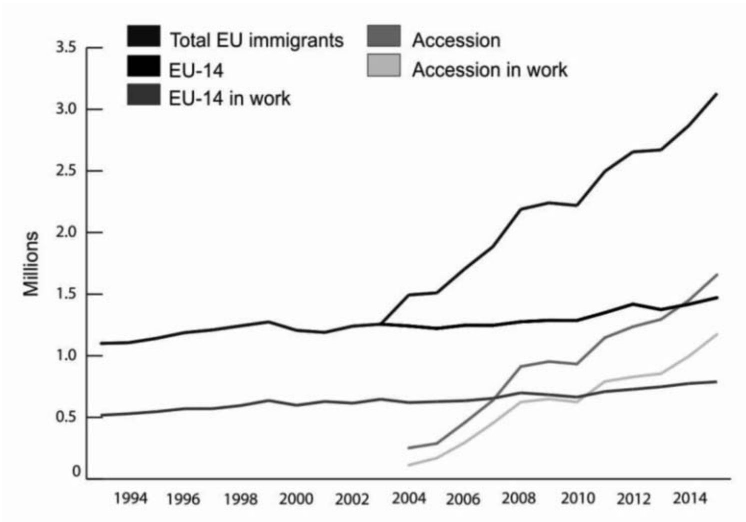
Source: (Springford, et al., April 2016, p. 49)

Figure 9. Levels of product market regulation



Source: (Springford, et al., April 2016, p. 60)

Figure 10. Rapid growth in EU immigration from 2004.



Source: (Springford, et al., April 2016, p. 88)

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EKONOMSKE POSLEDICE BREXITA – PRELIMINARNA ANALIZA TROŠKOVA I KORISTI

Apstrakt: Građani Velike Britanije su 23. juna na referendumu izglasali izlazak iz punopravnog članstva Evropske unije. To je istorijski događaj za samu zemlju, ali nosi brojne ekonomske i geopolitičke posledice za Evropu i čitav svet. Stoga je zadatak rada bio da prikaže najvažnije kratkoročne i dugoročne troškove i koristi od istupanja zemlje iz Evropske unije. Cilj rada je sagleda što je moguće širi kontekst ekonomskih efekata uzimajući u obzir neizvesnost u pogledu ishoda pregovora o razdruživanju. Pored uvoda i metodoloških napomena, rad prikazuje kratkoročne i dugoročne tropkove i koristi, navodi optimistički i pesimistički scenario, pokava da kvantifikuje efekte, tamo gde je moguće i da posledice prikaže na balansiran način. Osnovni zaključak, koji uzima u obzir i rezultate privrede u prvom tromesečju posle referenduma, jeste da su negativni efekti Brexita, za sada, precenjeni.

Ključne reči: Brexit, troškovi i koristi, Evropska unija, Zona slobodne trgovine, Evropska ekonomska zona, spoljna trgovina.