The Impact of Brexit on the Financial Markets

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Introduction

Brexit refers to Britain's exit from the European Union. The European Union currently has 27 member states. The United Kingdom formally left the EU on January 31, 2020, after the original March 29, 2019 departure date was postponed. A transition period then continued until December 31, 2020, while the UK and EU negotiated their future relationship. The following discussion reflects the negotiations and expectations surrounding Brexit before withdrawal was completed. The overall effects of Brexit and the concessions negotiated by the parties have continued to influence financial markets.

The border between Northern Ireland, which is part of the United Kingdom, and the Republic of Ireland, an EU member state, was a central issue in the negotiations. Northern Ireland did not remain part of the EU, but special post-Brexit arrangements were developed to avoid a hard land border and manage trade in goods. This issue should therefore be understood as a historical and continuing implementation question rather than uncertainty about whether Northern Ireland itself would remain in the European Union.

Discussion

Foreign Direct Investment and the UK

According to Dhingra (2016), the decision regarding where to invest is determined by a number of factors. Investors are attracted by firms that are big in size and operations to a great extent. The characteristics that the UK market offers make it a very lucrative market for FDI. With the exclusion of the UK from the EU, the impact on investments and trade costs is likely to happen. The reasons for which the FDI of the UK might get disturbed include the increase in the coordination costs that multinational companies bear, which tend to increase, and the companies operating shall face different regulations and difficulties due to the strict migration controls.

The Economic Consequences of Brexit

The prospects cited by Kierzenkowski (2016) were negative. Brexit is expected to leave a negative shock on the UK economy. It is negative not only for the economy of the UK but also for other OECD countries. There are several channels that contain the highest probability of transmitting these negative shocks. It also depends on the time horizon, and the intensity might increase as time passes. In the short run, it is expected that the UK economy might face tough financial conditions and a low level of confidence. However, in the long run, when the process of the exit formally ends, the effects can be seen more visibly. These may revolve around trade barriers, and labor mobility might face restrictions as well. The structural changes through a variety of channels, such as immigration and capital, may cause the country to forgo a huge part of its GDP.

The Potential Impact of Brexit on European Capital Markets

The European and the UK capital markets enjoy a high level of interconnections. The Brexit shall cause these interconnections and interdependence to be unpicked. This can be a costly and lengthy process. Further, both enjoy the economies of scale and the benefits offered by the single market, which offers lower costs. Not only this, the framework of the EU is consistent, which provides many benefits to its members, such as an increased labor force due to free movement and a reduction in complexity and costs. The UK, as a third country, might tend to face increased regulation to access the single market, and its influence might shatter (Wright, W. 2016).

According to Belke (2018), the key financial markets will remain unstable continuously due to the uncertainty caused by the policy changes caused by Brexit. In addition, the real economy of both countries shall also contain the potential that it might damage the other countries of Europe along with the UK. The study also shows that the GIIP economies outside the UK tend to remain the main losers.

Various Sectors of Financial Services and Brexit

According to Ani (2017), there are a number of sectors in the financial services industry that will be affected in the long run.

Research studies suggest that the UK has a huge marine insurance market, ranked third in the global marine insurance market. This market is 40 percent related to the EU. The worth of this market is 18 billion dollars, a huge contributor to the country's GDP. Further, the investment policies of the banks, which are dependent on the decisions of an individual firm's decisions regarding investment policy and allocation, also contain a probability of getting affected. The single market of the EU has the UK to accelerate the trading of foreign currency. Asset management also enjoyed benefits due to the opportunities caused by the single market for them to provide cross-border services.

Conclusion and Recommendation

Thus, there are a number of dimensions through which Brexit may affect the financial markets and economy of the UK. The implications are short-term as well as long-term, as analyzed by the researchers. However, the responsibility lies with the decision-makers of the country to manage the process in an efficient way so that maximum benefits can be achieved out of it.

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