

Brexit and Financial Stability: An Agent-Based Simulation

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Abstract : As the UK and the EU prepare to start negotiations for Brexit, it is important for both sides to comprehend the full extent of the consequences of this process. In this paper, we employ an object oriented simulation framework in order to test for the short-term and long-term effects of Brexit on both sides of the Channel. The relative strength of the UK economy and the banking sector vis-à-vis the EU is taken under consideration. Our results confirm predictions in the relevant literature regarding the output cost of Brexit, with particular emphasis on the EU. Furthermore, we show that financial stability is also an important issue on both sides, with the banking system suffering significant losses, particularly over the longer term. Our findings suggest that policymakers should be extremely careful in handling Brexit negotiations, making sure to consider dynamic effects that may be caused by UK bank assets moving to the EU after Brexit. The model results show that, as the UK banking system loses its assets, the end state of the UK economy is deteriorated while the end state of EU economy is improved.

Keywords : Banking Crises, Brexit, Financial Stability, VBanking

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