



June 23, 2016

A darker Europe

David Folkerts-Landau
Group Chief Economist

Deutsche Bank AG
Deutsche Bank Research
Frankfurt am Main
Germany
E-mail: marketing.dbr@db.com
Fax: +49 69 910-31877
www.dbresearch.com

What this victory for the Leave campaign ends up meaning for the future of Britain is debatable. What is not in doubt is that Europe without its brightest star will be a darker place.

Adding to the gloom is the fact this was avoidable. Britain voting to go it alone mirrors a wider distrust in the European project – a manifestation of its weak economic situation. Had reforms begun earlier, and if ever-looser monetary policy hadn't made it easy to avoid difficult decisions, the European Union would be more prosperous and attractive to voters today.

Therefore it would be wrong for pro-Europeans to think that without Britain they can now eschew reform. The European Union is a magnificent project, but deep-seated issues undermine the sustainability of its major achievements. Europe's structural flaw is a single currency without a common fiscal policy or integrated capital and banking markets. It only holds together thanks to unprecedented central bank monetary expansion. This is unsustainable.

Britain and Europe need each other irrespective of the referendum. Brussels would be mad to inflict punitive measures on Britain as a warning to other member states. This must be the most amicable of divorces, with each side cooperating maturely and without rancour. Britain needs a strong and vibrant Europe, to which 45 per cent of its exports end up. Europe needs Britain's creativity, worldliness and buzz. Both need each other for their long term security too.



© Copyright 2016 Deutsche Bank AG, London Branch. All rights reserved. When quoting please cite "Deutsche Bank Research".

Opinions, estimates and projections constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof if any opinion, forecast or estimate contained herein changes or subsequently becomes inaccurate. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018). This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Inc. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.

For further information about Deutsche Bank please visit www.db.com
For further information about Deutsche Bank Research please visit www.qm.db.com