



# Economic impact of Brexit on the EU27

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## What scenario for Brexit?

Most studies have focused on two polar cases:

1. Something close to European Economic Area like Norway, = very advance free trade conditions for goods and services
2. WTO membership conditions, = tariffs between EU and UK, and limited services access

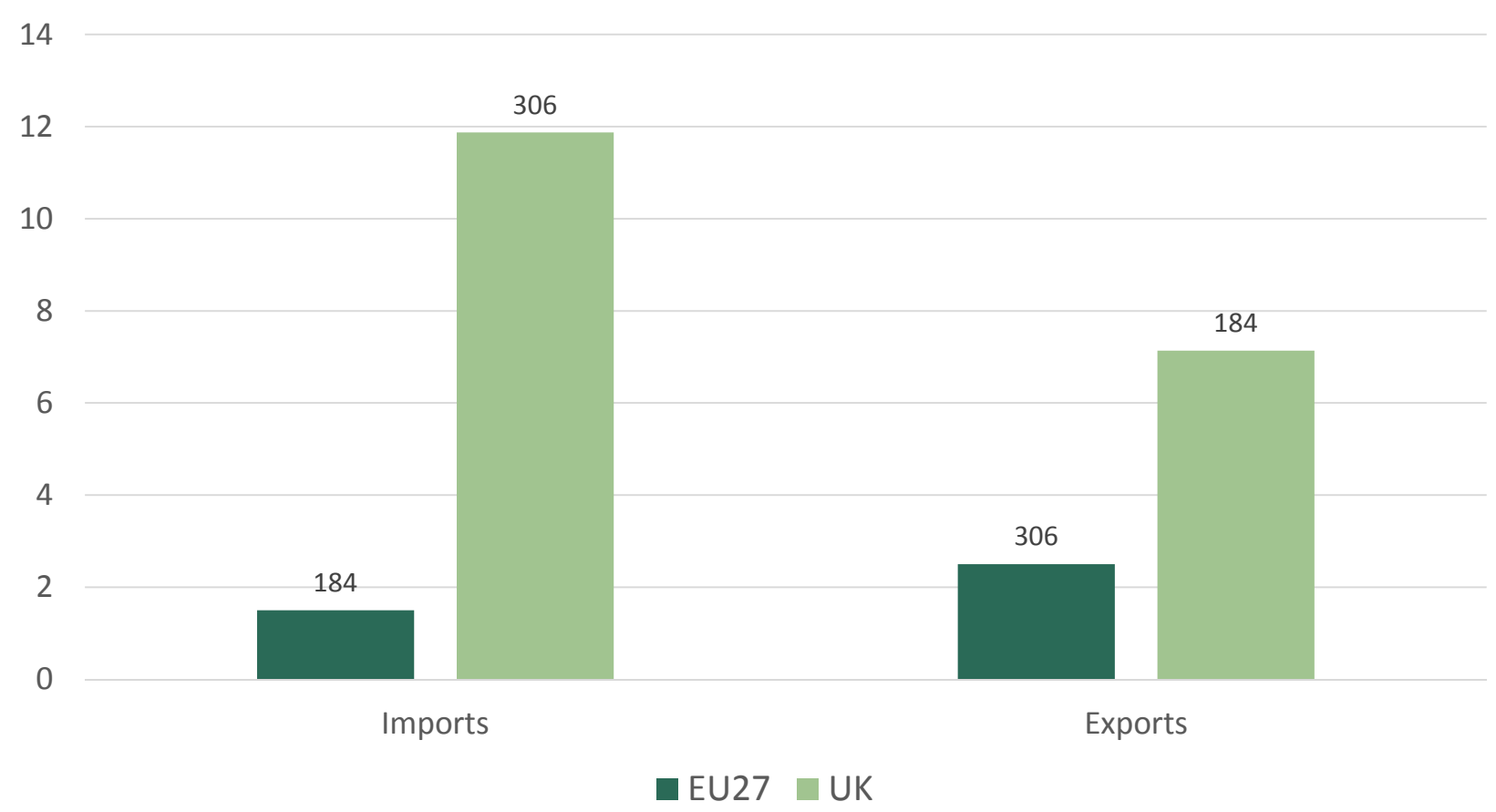
However UK now wants a 'Comprehensive FTA', of which EU has two existing models

3. CETA with Canada, = purely 'international', i.e. with no EU *acquis*
4. DCFTA with Ukraine and others, = with most single market *acquis*

Since UK will remain largely EU-acquis compliant, DCFTA model = most relevant. But whether negotiable with EU unknown

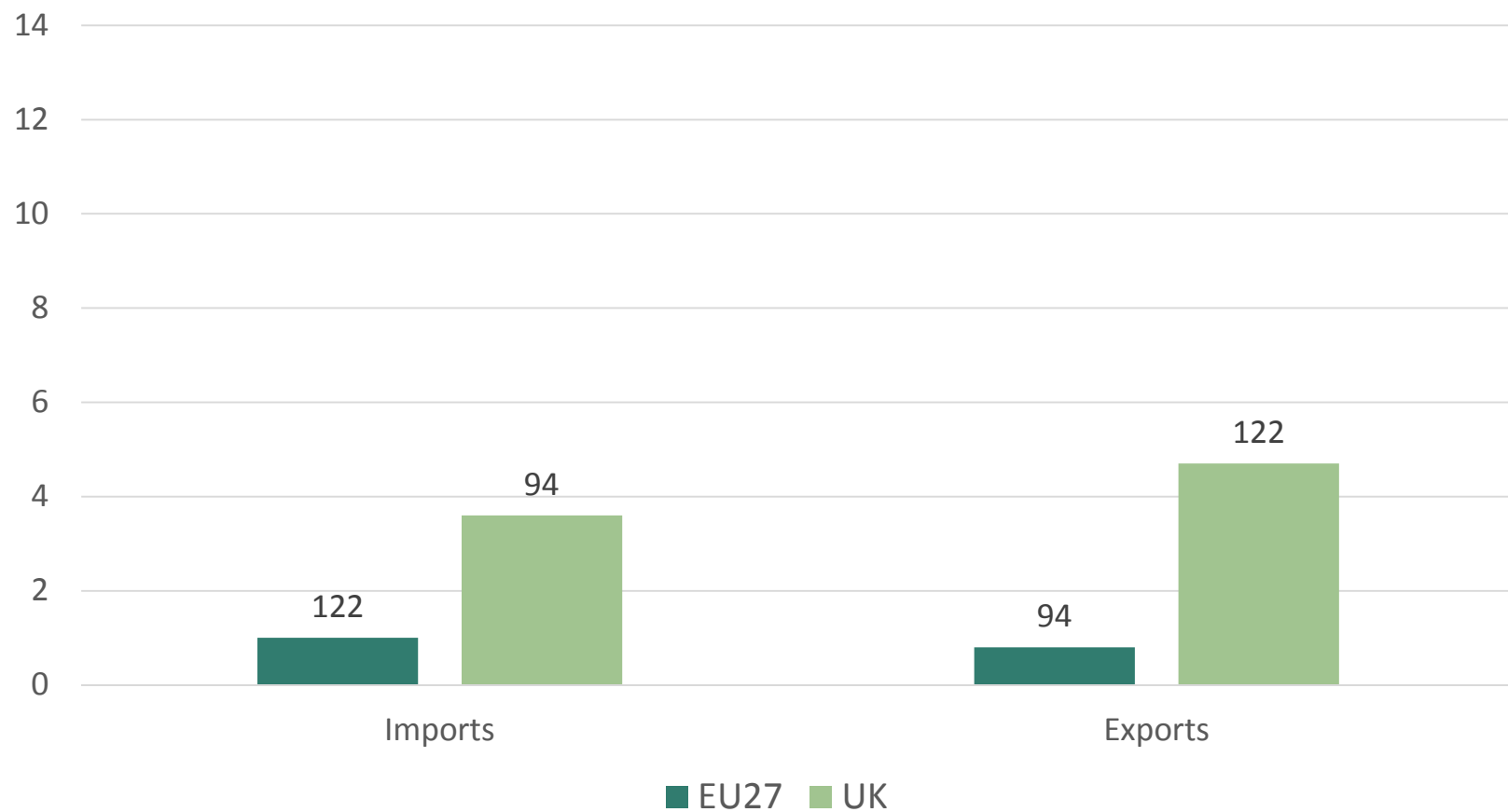
For quantification the DCFTA model would be between 1. and 2.

# UK-EU27 trade of *goods*, in % GDP



Label: value in billion Euro

## UK-EU27 total trade in *services*, 2015

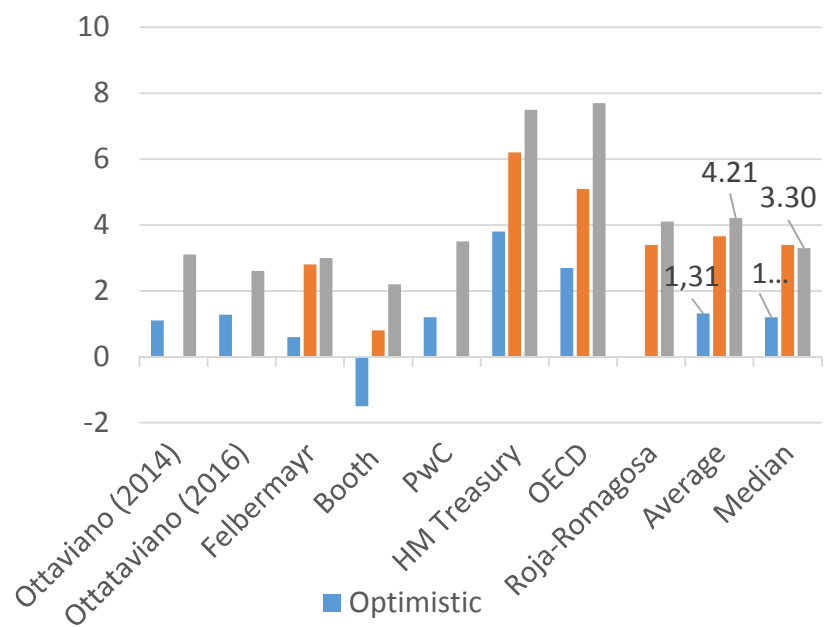


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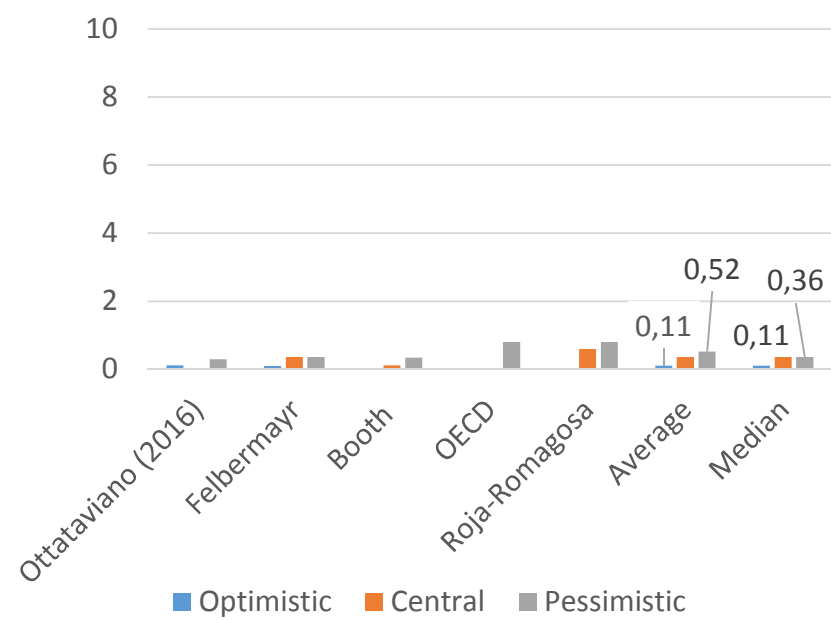
## Big picture results

- Model calculations show impact to 2030 to be insignificant in the aggregate for the EU27... 0.1 to 0.5% of GDP by 2030; i.e. 0.01-0.05% of GDP annually if in 10 annual steps
- ... whereas for the UK it could be significantly negative, 3 to 7 % of GDP by 2030, 0.3 to 0.7% annually if in 10 annual steps.
- However results for some small EU27 member states could be significantly negative, especially Ireland (as UK)
- But beyond the models there are further possible impacts to be considered, even if they cannot be quantified, because:
  - Models assume ordinary policy adjustments, but Brexit = big shock event. Could add negatives for EU27 & euro system
  - FDI relocation from UK to EU could be significant, which could add a positive for EU27, and increase negatives for UK

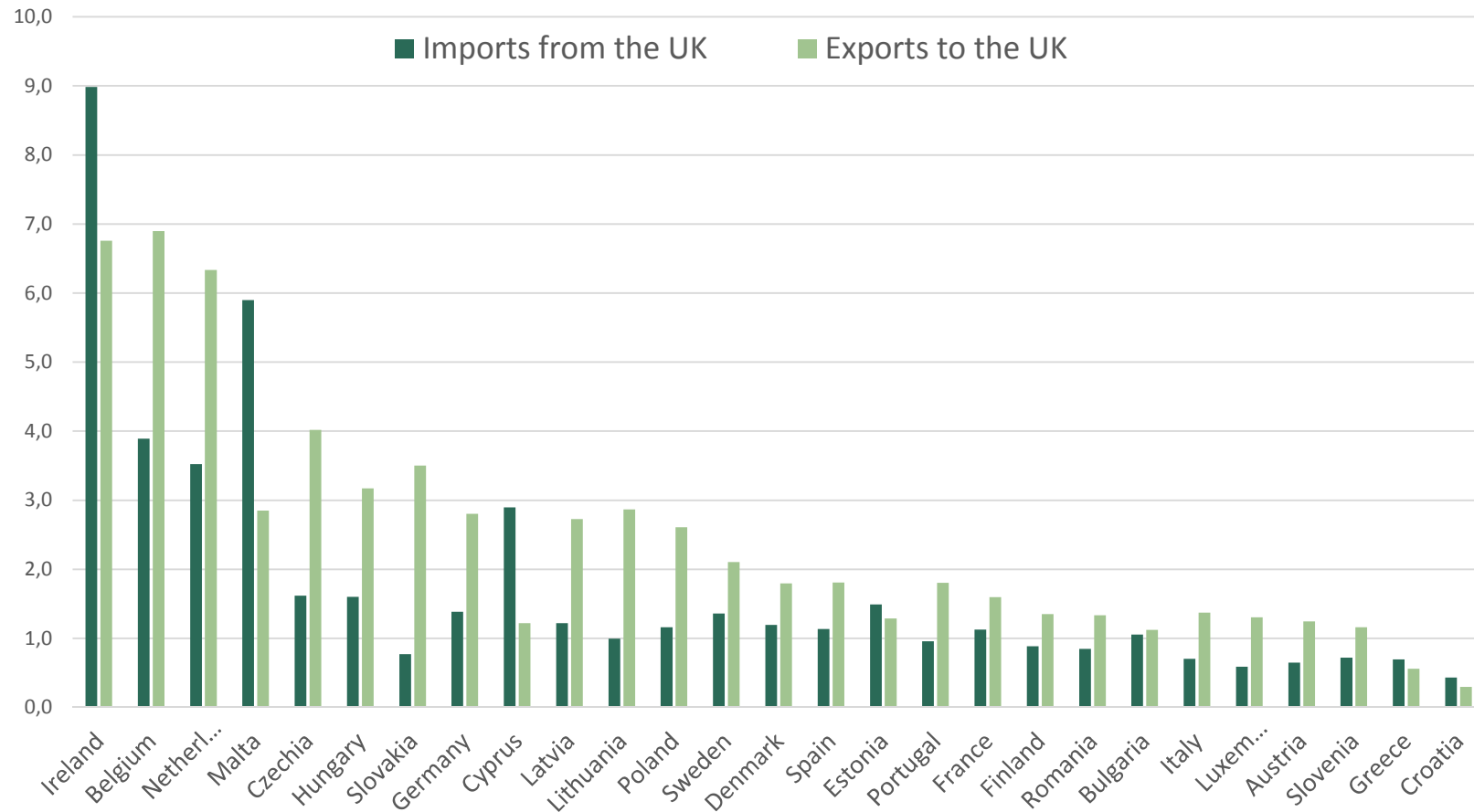
Change in UK's GDP (2030)  
by type of exit scenario (%)



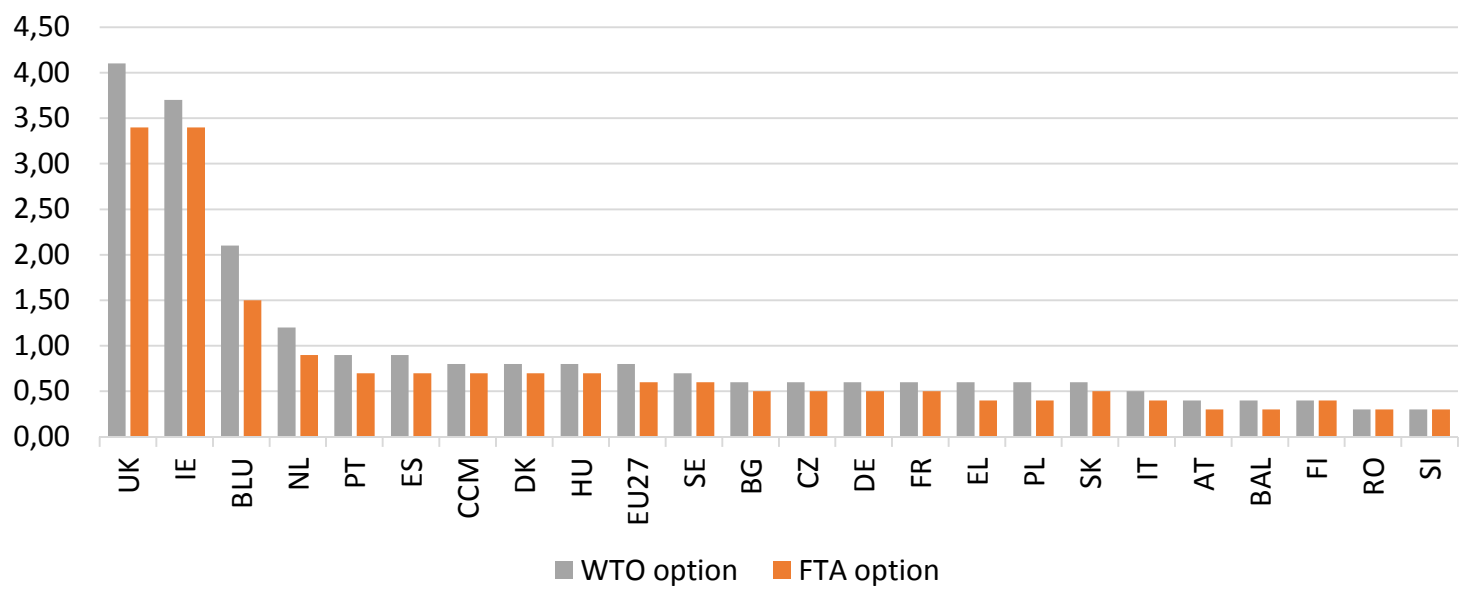
Change in EU27's GDP  
(2030) by type of exit  
scenario (%)



# Imports and Exports of EU 27 with the UK, % GDP



# Losses in GDP (2030) by Member States and type of Brexit scenario (%)



Source: Roja-Romagosa (2016).  
 Note: FTA kicks in after 10 years.

BLU (Belgium and Luxembourg); CCM (Croatia, Cyprus and Malta); BAL (Baltic countries).



# Foreign direct investment

Bilateral FDI between the UK and EU27, total flows and stock, 2015

	Flow				Stock			
	Inward		Outward		Inward		Outward	
	bn Euro	% GDP	bn Euro	% GDP	bn Euro	% GDP	bn Euro	% GDP
EU27	3.7	0.0%	-73	-0.6%	683	5.6%	985	8.1%
UK	-73	-2.8%	3.7	0.1%	985	38.2%	683	26.5%

## Beyond the models (1) - FDI

- Foreign direct investment (FDI): a zero-sum game for competition over location
- UK has been 'location of choice' for EU-market oriented FDI
- EU27 now eager to gain FDI market share, and will surely do so for manufacturing and financial services – but amplitude uncertain
- Will aggravate losses for UK, and tip balance of overall advantage from slight negative to slight positive?
- Ireland the most exposed case. From models Ireland loses as much as UK, but also uniquely well placed to capture UK market share

## Beyond the models (2) – crisis dynamics

- Models assume ‘normal’ conditions for policy ‘adjustments’
- But Brexit a big systemic shock event
- Populist momentum in next elections (NL, F??)
- Special case of Euro system fragility
- Big open questions for how EU27 system responds
  - What if Art. 50 negotiations fail, 2 year guillotine falls, with mutual protectionism?
  - Further disintegration by contagion?
  - Or, stronger resolve to pull together?
  - Risks for EU27: from neutral to (big?) negatives