

# BREXIT

## How could it impact the UK?

### Fears of Brexit affect the attractiveness of the UK



#### Decrease of portfolio investments

Fears of Brexit account for 40% of the fall: -GBP34bn out of the total -GBP85bn

#### 2016 growth could decelerate

Slowdown to +1.9% (from +2.3% in 2015)



#### The Bank of England will keep interest rates on hold in 2016

until the end of the year given the subdued inflation and what a Brexit would mean in terms of monetary policy stance (exchange rate effects and financial stress)

### Impact on the UK over 2017-19: 2 scenarios

#### Soft leave scenario (with a Free Trade Agreement)

#### Hard leave scenario (without a Free Trade Agreement)

-2pp 2017-2019 cumulative impact (-2.8 pp in real terms)	 NOMINAL GDP GROWTH	-4pp 2017-2019 cumulative impact (-4.3pp in real terms)
Depreciation by 10% in 2019	 GBP	Depreciation by 20% in 2019
Growth slow down to +1.2% in 2019	 FIRMS' TURNOVER	Down by -1% in 2019
Decrease by -1pp in 2019	 FIRMS' MARGINS	Decrease by -2pp in 2019
+1,500 additional bankruptcies (2017-2019 cumulative)	 BANKRUPTCIES	+1,700 additional bankruptcies (2017-2019 cumulative)

### Interactions with the Eurozone: What would change?



#### TRADE IN GOODS

- The GBP depreciation and lower GDP growth would trigger a **fall in UK imports**



#### TRADE IN SERVICES

- Changes in regulation and additional administrative costs could imply **lower activity for European companies operating in the UK**
- UK-based subsidiaries in the financial sector would **no longer access euro financing** through the European Central Bank



#### INVESTMENT

- EU countries could be inclined to **invest less in the UK** post EU-exit and conversely
- In the medium-term however, there could be **increasing opportunities for EU countries to attract lost UK investments**, as well as new inflows

[www.eulerhermes.co.uk](http://www.eulerhermes.co.uk)

For more information, read the Economic Insight: [Brexit: What does it mean for Europe?](#)

