Press release

Euler Hermes report: Brexit could create £30bn exports black hole

- Export losses following Brexit without a new FTA could reach £30bn by 2019
- Profit margins could fall due to higher input costs and tighter financing conditions
- Up to £210bn of foreign investment could be lost in four years
- Without a Brexit exports forecast to grow by as much as £26bn by 2019

LONDON – 7 DECEMBER 2015 – A UK exit from the EU without a replacement Free Trade Agreement (FTA) may lead to severe structural problems and significant export losses for British companies, according to global trade credit insurer Euler Hermes.

Its latest Economic Insight 'Brexit Me If You Can' sets out three scenarios to assess the impact of a Brexit on British companies. The core scenario suggests the UK is most likely to remain within the EU, minimizing disruption to trade with its 500 million strong customer base and allowing exports to continue to grow by as much as £26bn by 2019.

However, if the UK exits Europe even with a new FTA with the Single Market and all of its global trading partners in place, turnover growth would be halved. In the worst case scenario of a Brexit with no replacement FTA, there would likely be a sharp contraction in the UK economy.

The turnover of British companies could contract by -1% per year on average, compared to a current predicted growth rate of +4% on average after 2017. The report identifies direct export loses, falling margins due to higher import and financing costs, and divestment of Foreign Direct Investment (FDI) as the three main factors in this contraction.

Euler Hermes estimates that a Brexit without an FTA could result in losses of up to £30bn or 8% of UK total goods exports, a gap which, even when offset by trade with Commonwealth countries, would take at least 10 years to fill. Under this worst case scenario, the trade balance deficit, already at a record high level, would widen by £35bn within twelve months of the formalization of the UK exit from the EU.

"A collapse in exports, higher import bills and financing costs and a rush of divestment could cause a perfect storm for the UK economy in the event of Brexit," said Ana Boata, European economist at Euler Hermes. "While some of the risk could be mitigated if a Free Trade Agreement were to be agreed during exit negotiations, our forecasts paint a dismal picture for British businesses in a world outside of the EU."

The report finds that 60% of the UK loss in goods exports would come from four main markets: Germany, the Netherlands, France and Ireland. Businesses operating in sectors where the dependency on the European market is significant, such as chemicals, machinery equipment, automotive, textile, energy and agriculture, would feel the effects most.

With 55% of imports coming from the EU, a Brexit without FTA is predicted to hit profit margins for UK companies through the depreciation of the pound and the introduction of new import tariffs, either from the EU or by the UK in the aim of increasing local production.

Financing costs would also rise as UK-based banks would lose their ability to secure competitive funding from the European Central Bank, while the Bank of England might be forced to raise interest rates to fight the falling value of Sterling whether or not an FTA is signed. Not least, as 40% of the City's trades take place inside Europe, London would lose its pre-eminence as competing financial centers develop from inside the EU.

Ana Boata continued: “Without access to the Single Market, Foreign Direct Investment inflows are also likely to be significantly lower, as foreign companies will benefit less from relocating or expanding into the UK. Overall, we predict that roughly £210bn in investment would be lost during the four years following the referendum, in this worst case scenario.”

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