

# **“Trade and Macroeconomic Implications of BREXIT”**

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**Roundtable Session**

**“BREXIT – Implications for EU Agriculture and Agriculture Policy  
and Beyond”**

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# Background

- **Prior to June 24 referendum, several studies forecast effects of BREXIT – e.g., UK Treasury, OECD, and LSE**
- **UK Treasury and OECD studies got significant public attention prior to vote – both summarily dismissed as “fearmongering” by “Leave” campaign**
- **Use similar methodologies to analyze potential UK/EU trading arrangements after BREXIT**
- **Both focus on potential short-term and long-term economic impacts of BREXIT**

# UK Treasury Study (May 2016)

- Study focused on near-term impact of UK leaving EU over two-year period after vote
- Evaluated combined effects of *transition* to new trading arrangement, *uncertainty* and feedback from changing *financial conditions*
- Uncertainty driven by 4 processes:
  - (i) terms of UK withdrawal under Article 50
  - (ii) new trading arrangement with EU
  - (iii) new trading arrangements with rest of world
  - (iv) changing UK regulatory/legislative framework

## **UK Treasury Study (May 2016)**

- **Two scenarios: “shock” assuming UK negotiates bilateral agreement with EU, and “severe shock”, assuming default to WTO membership**
- **UK monetary policy: central bank rate held constant**
- **UK fiscal policy: support for economy through “automatic stabilizers” – with implications for borrowing and public debt**
- **Global economic conditions: “severe shock” assumes financial contagion with EU – reducing EU GDP by 1%**
- **Ignores additional downside risks of financial crisis and/or “sudden stop” due to current account deficit**

## **UK Treasury Study (May 2016)**

- **Conditioned on alternative assumptions about long-term effects of BREXIT in 15-year period after referendum – evaluated by UK Treasury (April, 2016)**
- **Gravity and CGE models used to forecast UK will be poorer due to permanent reduction in trade, FDI, and productivity (Tables 1, 2)**
- **Central estimates of long-term reduction in GDP used for “shock” and “severe shock” scenarios**
- **Use CGE model to estimate transition, uncertainty and financial conditions impact on demand, supply and asset prices (Table 3)**

**Table 1: BREXIT effect on UK trade/FDI/productivity after 15 years**

	<b>EEA</b>	<b>Bilateral</b>	<b>WTO</b>
<b>Trade (%)</b>	<b>-9</b>	<b>-19</b>	<b>-24</b>
<b>FDI (%)</b>	<b>-10</b>	<b>-20</b>	<b>-26</b>
<b>Productivity (%)</b>	<b>-2.8</b>	<b>-6.0</b>	<b>-7.7</b>

**Source: UK Treasury (April, 2016)**

**Table 2: Annual economic impact of BREXIT on UK after 15 years**

	<b>EEA</b>	<b>Bilateral</b>	<b>WTO</b>
<b>GDP level (%) - central</b>	<b>-3.8</b>	<b>-6.2</b>	<b>-7.5</b>
<b>GDP level (%)</b>	<b>-3.4 to 4.3</b>	<b>-4.6 to -7.8</b>	<b>-5.4 to -9.5</b>
<b>Cost/capita (£)- central</b>	<b>-2,600</b>	<b>-4,300</b>	<b>-5,200</b>

**Source: UK Treasury (April, 2016)**

<b>Table 2: Immediate impact of BREXIT on UK after 2 years</b>		
	<b>“Shock”</b>	<b>Severe shock”</b>
<b>GDP</b>	<b>-3.6%</b>	<b>-6.0%</b>
<b>Inflation rate (% points)</b>	<b>+2.3</b>	<b>+2.7</b>
<b>Unemployment rate (% points)</b>	<b>+1.6</b>	<b>+2.4</b>
<b>Unemployment (level)</b>	<b>+520,000</b>	<b>+820,000</b>
<b>Average real wages</b>	<b>-2.8%</b>	<b>-4.0%</b>
<b>House prices</b>	<b>-10%</b>	<b>-18%</b>
<b>Sterling exchange rate index</b>	<b>-12%</b>	<b>-15%</b>
<b>Public sector net borrowing (£ billion)</b>	<b>+£24b</b>	<b>+£39b</b>

**Source: UK Treasury (May, 2016)**