Flash Economics

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The cost of leaving the European Union for the United Kingdom.

As the Labour Party takes power in the United Kingdom, it is useful to assess the impact of the European Union exit decided by the United Kingdom electorate in the 2016 Brexit referendum. The United Kingdom had retained its independence in monetary policy, and therefore did not gain any leeway in terms of monetary policy after leaving the European Union.

When examining the various consequences of the United Kingdom's exit from the European Union, we see:

- The absence of a decrease in immigration, on the contrary, a sharp increase from 2021;
- No effect on the savings rate, housing investment, or foreign trade;
- A significant negative impact on business investment and inflows of foreign direct investment.

It is the loss of access to the European single market for companies based in the United Kingdom that has most penalized the British economy after the United Kingdom's exit from the European Union.

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Brexit did not increase the United Kingdom's monetary leeway

During its membership of the European Union, the United Kingdom had maintained an independent monetary policy (Charts 1a/b), and therefore the UK's exit from the European Union (Brexit) **did not lead to additional leeway** in terms of setting interest rates and influencing exchange rates.

Chart 1A
Central banks' key interest rate (as %)

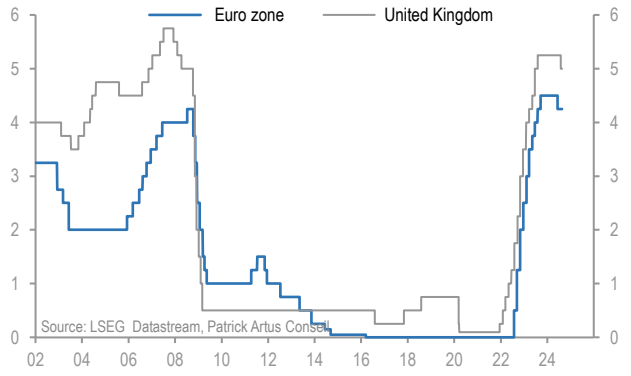
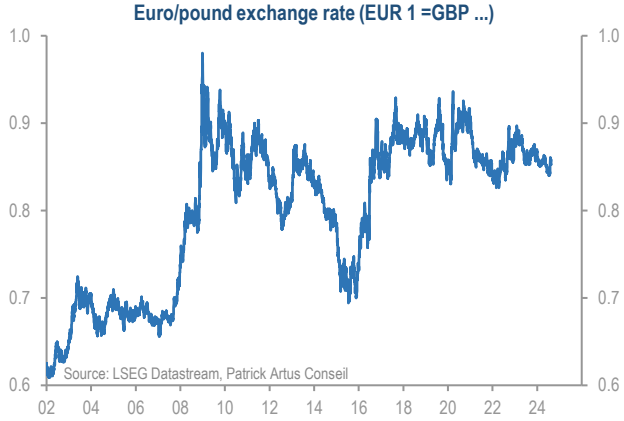


Chart 1B
Euro/pound exchange rate (EUR 1 =GBP ...)



What are the effects of Brexit?

1- On immigration

An argument made by Brexit supporters in the United Kingdom **was that Brexit would allow for better control of immigration. However, in reality, Brexit did not lead to a decrease in immigration;** on the contrary (**Charts 2a/b**) European immigrants were replaced by non-European immigrants.

Chart 2A
United Kingdom: Net immigration
(as % of total population)

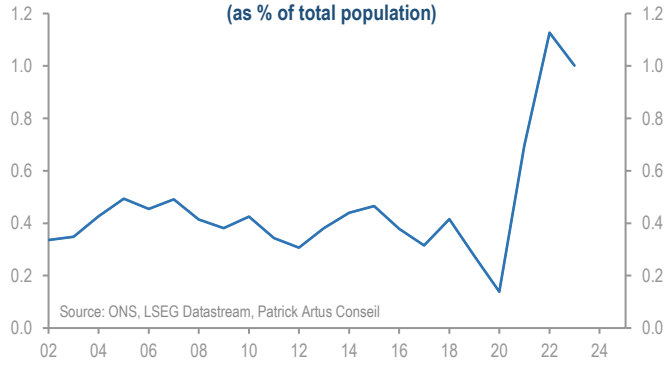
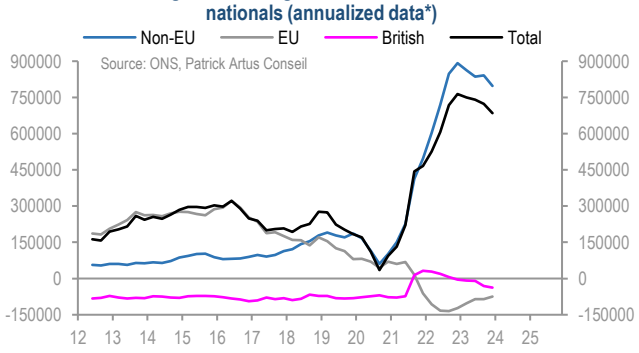


Chart 2B
United Kingdom: Net migration of non-EU, EU and British nationals (annualized data*)

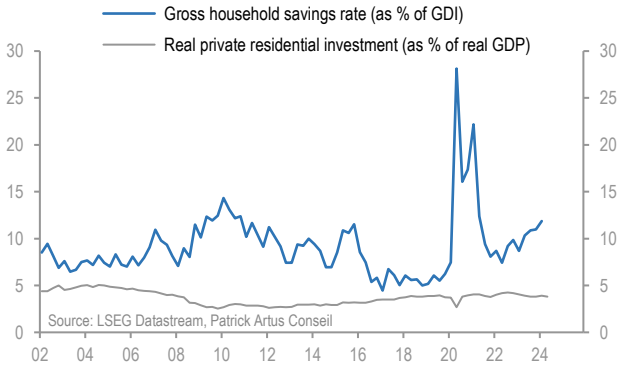


(*) Provisional estimates for 2023

2- On the Savings Rate and Housing Investment

Chart 3 shows the evolution of the savings rate of British households and their housing investments. **There are no significant medium-term effects of Brexit on the savings rate of British households or their housing investments.**

Chart 3
United Kingdom: Gross household savings rate and real private residential investment



3- Foreign Trade

Charts 4a/b show the evolution of the United Kingdom's exports and imports in value and volume. **There are no major effects of Brexit on the level of the United Kingdom's exports and imports,** despite fears of a significant decline in trade with the European Union not being offset by an increase in trade with the Rest of the World.

Chart 4A
United Kingdom: Exports and imports of goods and services (GBP bn, annualised)

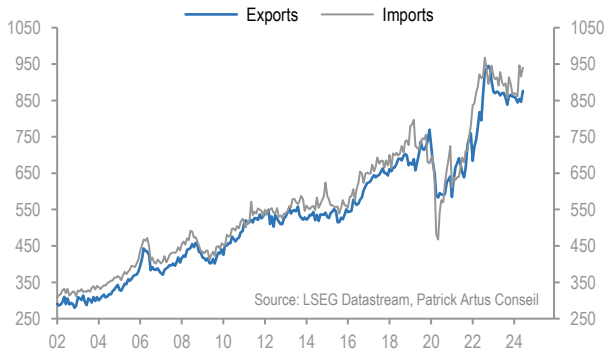
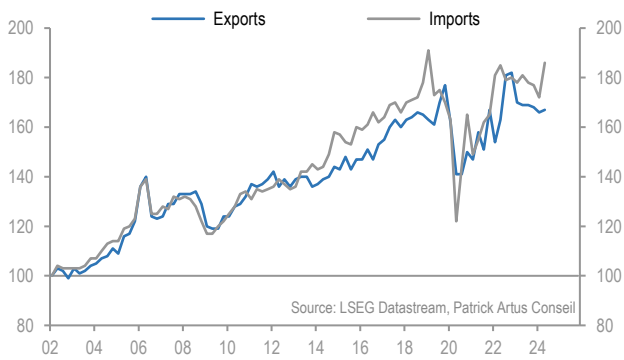


Chart 4B
United Kingdom: Exports and imports of goods and services (in volume terms, 2002.Q1 = 100)



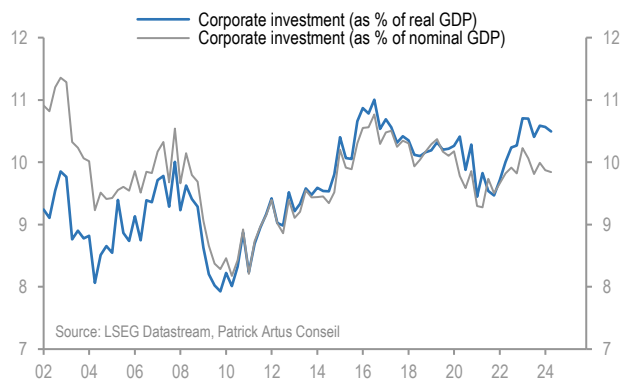
4- Business Investments and Foreign Direct Investments

Charts 5a/b show the **investment rate** (in volume and value) **of British companies,** and **Chart 6 shows the** incoming **foreign direct investments to the United Kingdom.**

Chart 5A
United Kingdom: Corporate investment

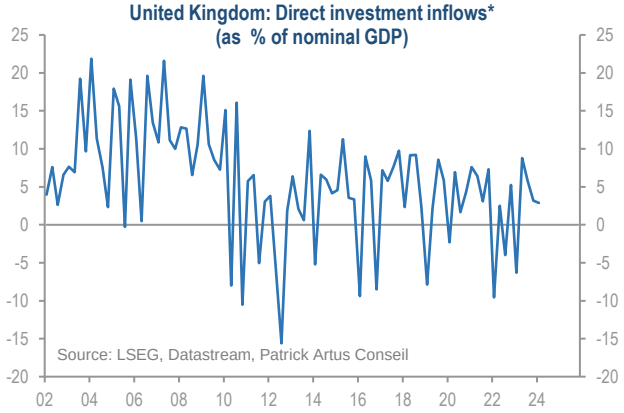


Chart 5B
United Kingdom: Corporate investment*



(*) Excluding nuclear fuel

Chart 6
United Kingdom: Direct investment inflows*
(as % of nominal GDP)



(*) Direct investment inflows are capital inflows leading to an increase in liabilities (in this case for the United Kingdom) and therefore have a positive sign.

One can see **a significant decline compared to their previous trend in business investments** (from both British and foreign companies) **in the United Kingdom.**

This is understandable: it is less attractive to invest in the United Kingdom since it is no longer a gateway to the European Union.

Summary: The essential effect of Brexit is a reduced attractiveness of the United Kingdom for business investments.

Since 2017 (the Brexit referendum took place in June 2016), there has been no significant break in the household savings rate, housing investment, or foreign trade. With the exception of an increase in immigration, the essential effect of Brexit is a significant weakening of business investment in the United Kingdom, as it can no longer serve as a gateway for goods and services to the European Union.

The decline in investment will lead to a decrease in the growth of production capacities, and thus, in the long term, to inflationary pressures (Chart 7) and a decline in potential growth (Chart 8).

Chart 7
United Kingdom: Inflation and core inflation

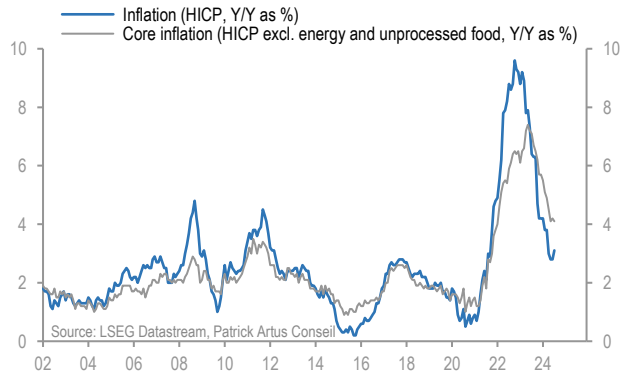
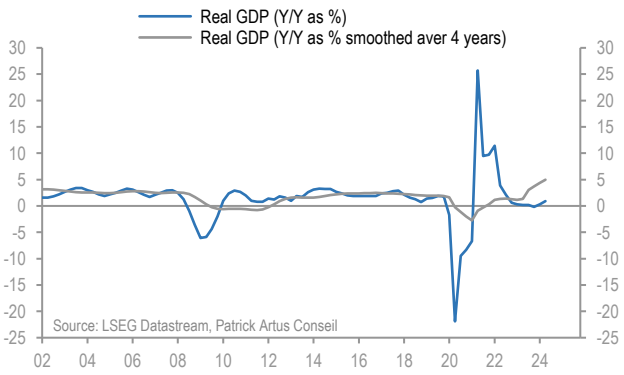


Chart 8
United Kingdom: Real GDP



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