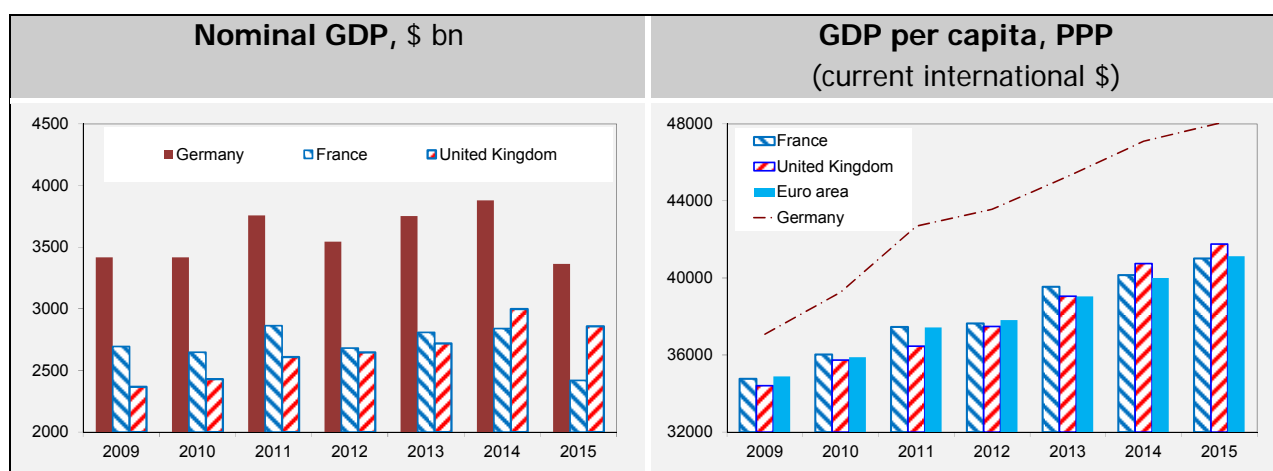


Brexit: Evidences of Neutrality?

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It will soon be a year since the important decision of UK's withdrawal from the EU has been approved. Without denying the risks and challenges of this geostrategic choice, it seems so far that the risks and losses for partner countries have not been confirmed and look rather exaggerated. Let us look specifically at some macroeconomic evidence of *Brexit's* neutral impact on EU economies.

First of all, let us say that for the past 5 years, UK's economic growth rate was significantly higher than the corresponding rates of major continental European economies. Also, UK's economy became second largest economy in the EU (ahead of France), reaching €2.58 trillion in 2015 (almost \$2.9 trillion) (Germany – over €3.0 trillion or approximately \$3.4 trillion) (*Chart "Nominal GDP"*). Despite some weakening of the pound in 2016, the nominal GDP has not changed greatly, and thus the overall balance of value of major European economies has remained unchanged.¹ Accordingly, in the post-crisis period, the UK GDP per capita, PPP, has significantly grown compared to other eurozone countries (*Chart "GDP per capita, PPP"*). So there is reason to believe that the balance will remain in med-term.



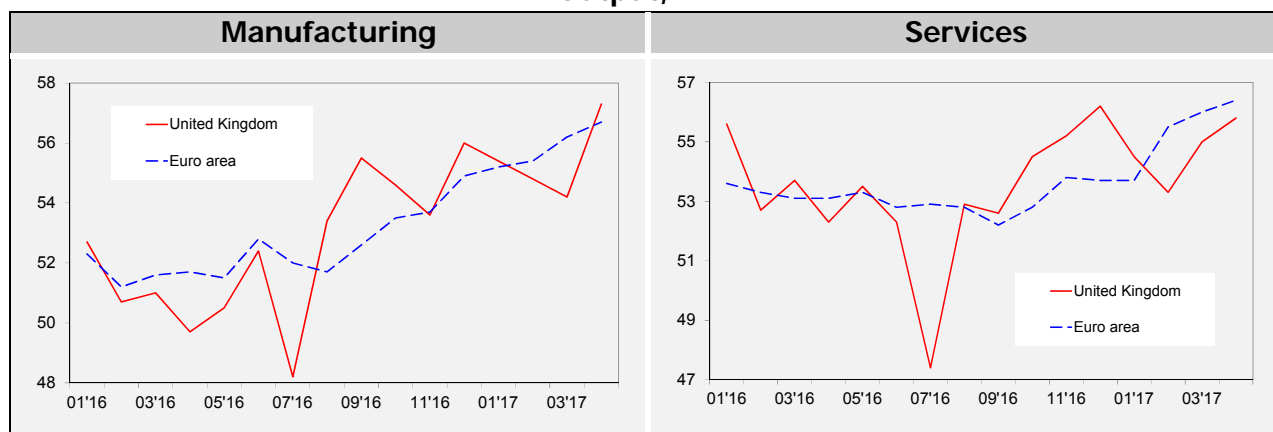
It should be noted that although today it is popular to talk about great losses of EU and UK economies in the process and after completion of *Brexit*, so far, there have not been any significant setbacks in production. Purchasing Managers Index (Manufacturing PMI and Services PMI) in the eurozone has had almost no reaction to Brexit announcement, which is consistent with the positive expectations of the EU and its impact in the medium and long-term perspective.

Only in summer 2016 (right after the decision on *Brexit* was announced), the UK had a short-term deviation from the otherwise stable (moderately increasing) trend, both in the industrial and services sector (*Chart "Output, PMI"*²).

¹ According to the World Bank's Economic Growth 2016, GDP of Germany was \$3.36 trillion (4.54% of the global GDP), UK – \$2.86 trillion (3.85%), France – \$2.42 trillion (3.26%).

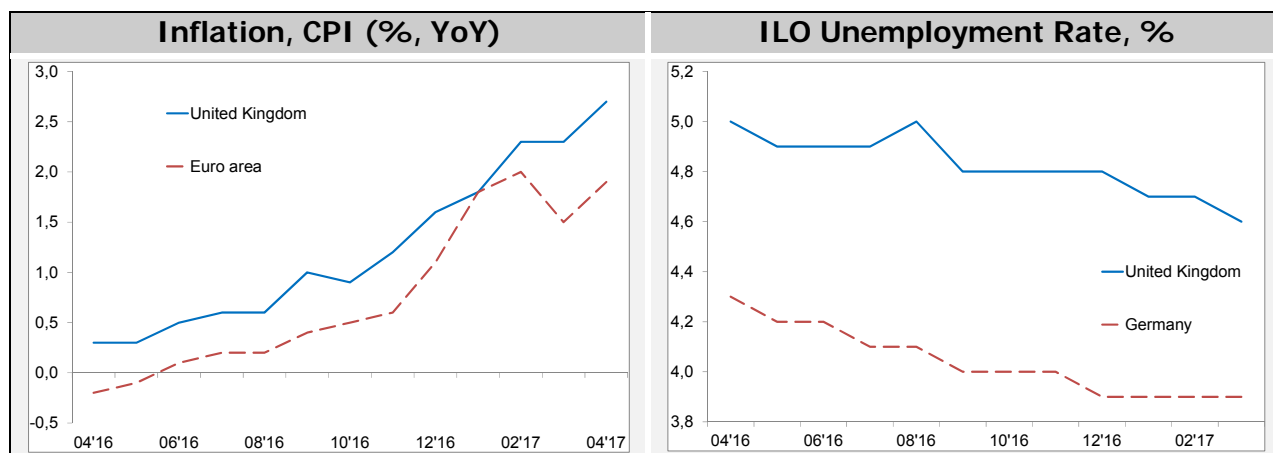
² Selected European Economic Indicators. – Credit Suisse. European Economics, January 2017.

Output, PMI



Moreover, after the decision to start the process of Brexit has been made, production indexes have demonstrated growth. Of course, to some extent, this increase was due to seasonal factors. However, what had an important role was the UK's **certainty in its political decision**. Given the structure of formation of value added (both, in the UK and in major economies of the continental Europe), so far, we do not see any factors of exacerbation of problems.³

Positive trends are confirmed by acceptable inflation rates (foremost, in the part of the end of disinflation) – in many cases, 2-2.5% inflation is seen as the target (or desired) level. The level of unemployment keeps going down both, in the UK, and in major countries of the continental EU (*Charts "Inflation", "ILO Unemployment Rate"*).



For a long time, UK's current account deficit has been a reason for concern of the country's government, including, due to the conflicting nature of its (deficit) factors and components. Thus, the recent deterioration of UK's trade balance with rather high rate of real GDP growth is essentially associated with the strengthening of the pound (in 2014 – it reached its peak level in the past decade) in international markets. Thus, the weakening of the pound in 2016 and retaining certain stability in 2017, can ensure certain competitive advantages for British exporters and improve the trade balance.

³ The situation could possibly change after a clear political action sequence is formed, but this will only become clear in the fall of 2017. Note **the importance of influence of the political sector** in the EU countries on Europe's overall macroeconomic stability. *First*, the rise to power of radical or populist forces in key countries will mean the increasing instability in the EU's institutional environment (**right now such risks are neutralised**). *Second* – **successful negotiations** on the *Brexit* "divorce" will support the **strengthening** of EU and UK economies (and, thus, the strengthening of euro and pound).

UK's trade balance is characterised by the fact that the value of trade with EU member states is approximately equal to the value of trade with countries outside of the EU (Table "UK's International Trade in Goods"⁴). I.e., trade structure is rather diversified, which may help in the country's refocusing to other markets, should the external conditions (mainly, institutional) of cooperation with the EU become more complicated.

UK's International Trade in Goods

€ billion, 2016

	With EU countries	With countries outside the EU	Total
Export	162	172	334
Import	267	262	529
Balance	-105	-90	-195

By the way, it is here that Ukraine can expect certain benefits or advantages. More trade restrictions in the trade between the UK and the EU means that some niches will turn out "free", and therefore "third" countries with competitive products can try to occupy these niches. Unfortunately, we should admit that Ukraine is extremely poorly represented in the UK market (percentage of Ukrainian goods export to the UK is less than 1% of total exports), which will complicate the country's entry into these markets. Thus, acceleration of structural changes is crucial for Ukraine also in the context of its potential benefits from *Brexit*.

Key processes associated with *Brexit* are most likely to be completed in 2019. This also may become **the period of acceleration of structural changes** (formation of new economic and institutional environment), which will require a change of economic policy of the countries willing to continue active partner relations with the UK.

⁴ de Marin P. An analysis: What Brexit really means. Both for the EU economy and Britain.– <http://cursdeguvernare.ro/an-analysis-what-brexit-really-means-both-for-the-eu-economy-and-britain.html>.