



FINANCE COMMITTEE

Paris, 1 June 2016

THE RAPPOREUR GÉNÉRAL OF THE SENATE FINANCE COMMITTEE EXAMINES THE ECONOMIC AND BUDGETARY CONSEQUENCES OF A POSSIBLE "BREXIT"

To leave or not to leave the European Union, that is the question British citizens will have to answer in the referendum to be held on 23 June. In this perspective, the Rapporteur Général of the Senate Finance Committee, Albéric de Montgolfier (Les Républicains – Eure-et-Loir), presented an information report on Wednesday 1 June 2016 examining **the economic and budgetary consequences of a possible exit by the United Kingdom from the European Union ("Brexit")**.

After a thorough analysis of alternatives for the United Kingdom to the European Union, including membership of the European Economic Area (EEA), the signing of a bilateral agreement or no agreement, **the rapporteur général highlighted the fact that a "Brexit" would have limited benefits for the UK economy** – whether this be in terms of the ability to increase "deregulation", reduce the contribution to the EU budget or the new-found freedom to independently negotiate trade agreements with third countries.

Similarly, by comparing the main economic studies available to date, he has shown that a British exit from the European Union would have overall negative economic consequences. Thus, **in the long term, it would have an impact on British gross domestic product (GDP) of between -1.6 and -4.1%**, corresponding to a loss in income per capita of between 800 and 2,000 pounds per year - i.e. approximately between 1,050 and 2,600 euros.

The effects on other Member States would depend on their economic proximity to the United Kingdom. Thus, Ireland would be one of the most seriously affected countries. However, according to the Bertelsmann Foundation, **France would be less affected by a "Brexit" to the extent that by the year 2030, the level of its GDP per capita would be 0.06 to 0.27% lower than it would be if the UK remains in the EU**; this translates into a loss of income per capita of between 30 and 130 euros. Albéric de Montgolfier concluded that countries such as France or even Germany had *"less to fear from the direct economic consequences of a "Brexit" than from the indirect impact of the United Kingdom leaving. A Brexit could greatly weaken the cohesion of the European Union with possible departures by other Member States ultimately having a much more serious effect.*

Whereas the budget issue has taken centre stage in the "Brexit" debate **the potential savings the UK would make from withdrawing from the European Union must not be overestimated.** Indeed, the British authorities could be forced to provide central financing for a large share of the expenditure in the UK that is currently borne by the EU budget. In addition, maintaining extended access to the single market for the United Kingdom may require, in return, a financial contribution from the UK as is the case of the countries in the European Economic Area (EEA) or Switzerland.

In all, **the budget savings the United Kingdom could make if it left the Union would, at most, be equal to the amount of its net contribution to the Community budget** – i.e. about 8.5 billion euros (0.3% of GDP). Nonetheless, **these savings would be cut down to 760 million euros (0.03% of GDP) if it joined the EEA on the Norwegian model and 4.6 billion euros (0.18%) if the British authorities were able to negotiate a bilateral relationship similar to**

that existing with Switzerland.

However, **everything points to the savings thus made being offset by the deterioration to public finances resulting from the ensuing economic slowdown.** As regards this, the information report says that, for the United Kingdom, *"the effects [of a Brexit] on the public balance in 2020 could be assessed, in the context of a free trade- agreement, at -1.2 points of GDP and at -1.9 points of GDP if trade was governed by WTO rules"*.

Regardless, **a withdrawal by the United Kingdom from the European Union could have a significant cost for the other Member States.** However, bringing the 'British rebate' into question would alleviate the budgetary implications for countries not benefiting from the 'rebate on the rebate', such as France, Italy or Spain. For this reason, **assuming the United Kingdom ceased to participate in the budget of the Union, France's contribution would increase by 1.2 billion euros (+ 5.6%)** – compared to 2.8 billion euros (+12.7%) for Germany. **In the event of the United Kingdom joining the European Economic Area and contributing to the budget of the Union under the same conditions as Norway, France's contribution would even be reduced by EUR 220 million (-1.0%),** while that of Germany would increase by over 960 million euros (+3.6%).

As a result, **the impact on France's public balance arising out of a change to its contribution to the budget of the Union after a possible 'Brexit' could be between -0.05 and +0.01 points of GDP.** This could even reach -0.07 points of GDP if the "rebate on the British rebate" is not brought into question. Yet, due to the slowdown in growth caused by a British exit, **the loss of government revenue for France could be between 10 billion (0.4 point of GDP) and 20 billion euros (0.8 points of GDP) in 2020,** when compared to its estimated level if the UK voted to remain.

Given the adverse consequences of a "Brexit" on France's economic and budgetary situation **Albéric de Montgolfier stressed the need for France to play its cards right if such an event were to occur.** Thus he noted the advantage there would be in facilitating the installation in France of companies – particularly financial firms – seeking to leave a United Kingdom that is no longer in the single market. This concern should be uppermost in the mind both when negotiating the conditions of the British withdrawal and when defining the reforms carried out at the national level and the development of standards championed by the French authorities on a European level, especially in the area of financial regulation. In addition, **the rapporteur général recalled how judicious it would be, if the United Kingdom were to leave the Union, to bring the effects of the 'British rebate' into question as regards the weight of the contribution by the remaining Member States to the European Union budget.**