Press Release

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Euler Hermes research: Brexit could spark sharp rise in UK & EU insolvencies

- An additional 1,700 British businesses could become insolvent by 2019 should the UK leave the EU without a Free Trade Agreement (FTA)
- Belgium, Ireland and the Netherlands would be the worst affected outside the UK, with business insolvencies growth rising respectively by +1.5 points, +2.0 points and +2.5 points in the event of no FTA
- £30 billion in British exports could be lost in 2019 following a Brexit

LONDON – 26 MAY 2016 – A UK exit from the European Union without a Free Trade Agreement (FTA) could lead to a sharp rise in the number of insolvencies for both the UK and a number of its key European partners, according to research from Euler Hermes, the worldwide leader in trade credit insurance. Its latest Economic Insight **'Brexit: what does it mean for Europe?'** sets out two scenarios to assess the impact of a Brexit on the UK and its major EU trading partners.

Even in a 'soft leave' scenario - an exit with a new FTA with the EU post-2019 - UK real GDP growth would fall by a cumulative -2.8pp between 2017 and 2019. Some 1,500 additional companies would become insolvent during the next three years, in addition to the 20,300 total bankruptcies per year currently predicted. In a 'hard leave' scenario of a Brexit - if no FTA is agreed - the impact would be much more severe. UK real GDP growth would fall by -4.3pp in real terms, coupled with some 1,700 additional insolvencies beyond the current forecast.

Ludovic Subran, chief economist at Euler Hermes, commented: "Without a Free Trade Agreement being agreed during exit negotiations, we expect the UK to be in recession by 2019 with significant drops in GDP and sterling, hampering turnovers and profit margins for UK companies. Even if a new trade deal with Europe is put in place, higher financing costs, divestment and a collapse in exports are set to create a challenging business environment."

Euler Hermes estimates that a Brexit would have the most significant impact on the Netherlands, Ireland and Belgium through their strong exports and cross-investment positions with the UK. Across these countries, business insolvencies growth is forecast to rise by 2.5 points, 2 points and 1.5 points respectively by 2019 without an FTA with the EU. France, Germany and the U.S. would also experience a significant impact.

The report finds that the depreciation of sterling and lower GDP growth resulting from a Brexit would trigger a fall in UK imports from across the Eurozone. As a result, cumulative 2017-2019 export losses in goods and services for the Single Market could reach EUR23.5 billion in a scenario of no FTA with Britain. Germany's export market is expected to be heavily affected, losing a total of EUR6.8 billion for goods alone over the period, with EUR2 billion accounted for by automotive manufacturers. Even with a new FTA, the losses in eurozone exports of goods and services would be EUR17.4 billion.

UK export losses could reach £30 billion in 2019 or eight per cent of total goods exports should no new deal be signed - a gap which, even when offset by trade with Commonwealth countries, could take at least 10 years to fill.

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