Press Release

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Brexit: UK needs EU transition deal to prevent increase in business failures

- Transition deal with EU necessary to prevent 15 per cent year-on-year rise in insolvencies in 2019
- Election outcome increases economic uncertainty ahead of EU negotiations
- Business investment could fall by 8 per cent in 2019 if no transition agreement is in place

LONDON – 22 JUNE 2017 – A transition deal on goods and services between the UK and the EU is needed to prevent a possible sharp rise in the number of UK business insolvencies in 2019, according to Euler Hermes, the world's leading trade credit insurer.

Euler Hermes defines a transition deal as a bridge solution in which the UK will remain in the Single Market in exchange for continued EU contributions, maintenance of some of the regulations and no migration control until a final trade deal is concluded, perhaps as early as 2021. The company believes a transitional agreement is needed as the UK will officially exit the EU as soon as 2019.

Ana Boata, European economist at Euler Hermes, commented: "The General Election result has tempered the threat of a hard Brexit to some degree, and supports our view that a transition deal is the most likely scenario and that negotiations will lead to a limited free trade agreement. In the short-term, the political uncertainty presented by the result could trigger an increase in financial volatility and further sterling swings, which have epitomized market stress around Brexit."

Its economic insight, 'The Taming Of The Brexit', forecasts a number of scenarios for the UK economy. In the worst case scenario, leaving the EU on World Trade Organisation (WTO) terms after the two-year negotiating period finishes in 2019 could result in 3,300 additional British companies falling into bankruptcy. This 15 per cent rise year-on-year would increase total insolvencies to 25,100 businesses.

However, the research predicts that signing such an agreement with the EU by March 2019 will significantly soften the negative economic impact of exiting the EU. Insolvency levels could rise by just 3 per cent (less than 1,000 additional companies bankrupted) after increasing by 5 per cent and 6 per cent in 2017 and 2018 respectively. Inward investment is forecast to fall by 2.5 per cent, according to the research. Exports would continue to grow at 1.6 per cent in 2019 in real terms, a positive if relatively weak performance, given British companies' dependency on imported goods and the depreciation of sterling.

Failure to agree a transition deal could result in export losses in 2019 of £30 billion for goods and £36 billion for services. In real terms this would mean a drop of 6 per cent for total exports on the previous year, according to the research. The report predicts that the level of inward investment in British companies would fall by 8 per cent.

Ana Boata added: "In the long term the UK will clearly be worse off if access to the Single Market is restricted. Rising financing costs, divestment, a significant decline in exports and further falls in the value of sterling will increase the pressure on terms of payment, turnovers and profit margins of UK companies.

"The new government must endeavour to settle on a transition deal as it will be next to impossible for the UK and EU to finalise and ratify a free trade agreement in the next two years at the same time as finalizing the EU exit. By avoiding legal uncertainty and keeping trading arrangements with the EU unchanged, the UK economy would stay resilient for the duration. It allows more time for negotiations for a positive outcome for the next trade partnership. In our view, this will translate into tariffs on selective goods – 2% to 3% tariffs on average - and some add-ons on services."

Euler Hermes expects the UK would fall into recession in 2019 following a Brexit with no deal (WTO terms), with GDP predicted to contract by 1.2 per cent and lasting for at least 3 consecutive years, according to the findings. A transition agreement would still result in a slowdown, but the economy would continue to grow at 0.9 per cent.

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