Impact of brexit on ireland

> “ Brexit, however, poses a unique and unprecedented challenge for Ireland. We will be more affected than any other EU Member State by the UK’s departure, given the depth and strength of our historic, human, political, economic and cultural ties. Ireland and the UK both joined the European Union in 1973 and the UK has been a trusted partner and close ally at the negotiating table ever since.
> So, while we respect the UK’s decision to leave the European Union, we profoundly regret it.” *Coveney 2018*

Discuss the above statement with reference to the components of Irish Gross Domestic Product

Brexit Background and Investment

In this article we will discuss the above statement using topics such as Brexit background/history, consumption, government expenditure, investments such as housing markets, interest rates and finally net exports. All of the outlined aspects will be impacted by Brexit in the forthcoming years, most of which will have a negative effect to Ireland’s economy, but opportunities will also arise.

On Thursday 23 rd June 2016, a referendum was held in the UK to give the public the choice whether tostay in or leave the EU. This meant that anyone of voting age in England, Wales, Scotland or Northern Ireland had a say. The Vote Leave Campaign won by a margin of 51. 9% in favor of leave to 48. 1% in favour to remain. Aquick breakdown of statisticsshowed that both England and Wales voted to leave the EU by 53. 4% to 46. 6% and 52. 5% to 47. 5% respectively while Scotland and Northern Ireland voted to stay by 62% to 38% and 55. 8% to 44. 2%.

The ‘ Brexit’ campaigners won the referendum by using well known and respected public figures such Nigel Farage, Boris Johnson and Michael Gove, with each of them portraying a different role in the campaign. Farage was the vice chairman of the campaign and a prominent figure in UK politics. He highlighted immigration as the main issue of the vote leave campaign for a multitude of reasons. Firstly, annual legal immigration into the U. K. is now ten times what it was in 1993 and experts believe this vast cultural diversity led to fears of job losses which the vote leave campaign used to drive the vote to exit the EU. One third of those who voted in favor of Britain leaving the EU said immigration concerns were the main reason. 53% said they were motivated by the fact that the U. K. were unable to make their own laws without approval from EU bureaucrats in Brussels. Whilst Farage focused on the issue of immigration to sway the UK’s decision, both Boris Johnson and Michael Gove played pivotal roles. Boris Johnson travelled the country meeting with the public and winning the hearts of many voters. Michael Gove was hugely involved in the Vote Leave campaigns manifest also.

Another factor of the Vote Leave campaign that appealed to many of the voters was the assertion that leaving the EU would free up £350m a week extra to spend on the NHS. A political slogan such as this true or not is the kind that all parties dream of as it is easy to understand and attractive to voters of all ages and ethnic groups. (“ No surprise then that Vote Leave chose to splash it across the side of their battle bus.” – BBC News 24 th June 2016)

Once Vote Leave won the referendum, Article Fifty of the Lisbon Treaty was invoked that allows the UK and EU two years to agree terms of the split.

As highlighted above, many factors led to Vote Leave winning the referendum, meaning Ireland's economy will face several challenges due to fact that Ireland has such strong political, economic and cultural ties with the UK.

The investment sector is one area of the economy that will be hugelyaffected by the UK's decision to leave the EU.

Housing markets will see negative and positive outcomes in the comingyears. The fall in the British pound will mean the number of British buyerswill decrease as the pound dropped to the lowest it has been since 1981. (" AsThe Irish Times reported in February, 60 percent of buyers of plus €1 million homesare international, 40 percent of which are from the UK. The uncertainty aloneis going to severely affect their willingness to buy and the weakening poundtheir ability to be competitive. – Ben Thompson – Irish Home Magazine)

Although Brexit will create challenges for housing markets it will alsocreate new opportunities. It will create inward investment as multinationalcompanies will flock to Ireland as we along with the UK are the two-leadingbase of operations for many companies. Ireland attracts these transnationals through their low corporation taxrate of 12. 5% along with our highly skilled workforce.

Most of the Irish citizens living in the UK were pro-remain, some ofthese people will now return home which will be a huge boost to the economy aswe need skilled workers such as doctors, nurses, IT professionals etc.

Contractors in the construction industry will also need skilled laborersto build the number of houses that will be needed to accommodate these people.

FDI, orForeign Direct Investmentis another area of Ireland's economy that will see some positive opportunities during this time. With the UK's decision to leave the EU its share of new FDI is now in decline. This in turn creates an opportunity for Ireland that cannot be overlooked. The UK has been the favourite investment base for foreign investors in the EU but in the wake of Brexit, Ireland is looking more and more attractive due to its low corporate tax rate of 12. 5% and the fact that is the only EU country where English is the primary language. Also the Irish tax regime is open and transparent and complies fully with OECD guidelines and EU competition law. Despite the UK's intention to cut their corporate tax rate to 15%, it will be possible to secure a greater share of foreign direct investment as Ireland is about to become the only native English-speaking country in the EU.

Financial services headquarter operations may be moved from the UK toanother it may be possible to strengthen our trade with the UK as new trading termswill require to be negotiated with the strength of being a member of the EU.

Whilst it is difficult to take a benefit from a friend's loss, Ireland musthave no issues about taking every opportunity arising in the wake of the Brexitfallout. In our opinion change brings with it opportunity.

Consumption and Government Expenditure

Brexit imposes a lot of impact on Ireland's consumption. There are many potential scenarios for Ireland post-Brexit. The four main scenarios are A

European Economic Area (EEA), A Customs Union (CU), A Free Trade Agreement (FTA) and A World Trade Organisation (WTO) scenario. The most ideal scenario for Ireland and most of Europe, is EEA. This is similar to Norway's agreement. In this situation, trade costs would remain at a similar level and GDP would decrease by 2. 8% versus 7% in the WTO situation. The GDP impact in the CU and FTA scenarios would decrease at the same level of 4. 3% (Thelle and Sunesen 2018). Two components of Ireland's GDP that will be affected post- Brexit are, consumption and government expenditure.

Consumption, in economics, is the spending of goods andservices by households (Devitt 2018). Consumption is one of the components ofIrelands gross domestic product (GDP) that will be gravely affected by Brexit. Inflationaffects consumption in many ways. In 2016, Ireland had a low inflation rate. This was due to a fall in value of the sterling that year, after Britains vote to leave the EU. The spending ofconsumers that year, rose due to the price of imports decreasing which ofcourse, in turn, lowered the prices of the goods imported (Central Bank ofIreland 2017).

With Ireland and the United Kingdom (UK) being so closein proximity, it is true to say that, depending on which type of Brexit takesplace, the effect on imports and exports from Ireland to the UK could be major. The main sector for UK imports and exports is the agricultural sector. This areaof the economy is one that will face many problems post-Brexit. Approximately40% of Ireland exports to the UK are that of food (Mangan 2018). The UK may notmaintain the current EU tariffs on food products after Brexit which could causesevere impact on consumption, thus, affecting Irelands GDP. In the event of arise in inflation due to this, Irelands cost of living could increase which wouldnegatively impact consumption as a whole. In the event of an EEA Brexit, agri-food will cause a decline in Irelands GDP by 1% out of 2. 8%. In the caseof a hard Brexit (WTO), agri-food will reduce the GDP by 1. 9% out of 7% withthe pharmaceutical and chemical sector negatively affecting it the most with2. 6% out of 7% (Thelle and Sunesen 2018). These figures paint a grimfuture for Irelands GDP overall. It is clear, with agri-food having such amajor impact, rural areas in Ireland will suffer the most post-Brexit.

> “ *Production* in the sector would also be negatively affected in all scenarios ranging from -10 per cent (EEA) to -21 per cent (WTO) compared to the 2030 baseline production level. The impact in the CU and FTA scenarios is -11 per cent to -12 per cent” *(Thelle and Sunesen 2018)*

From this statement we can say that, employment inthis sector would decline proportionally, causing major issues for the peopleof Ireland.

Government expenditure is the consumption of the government and local authorities (Devitt 2018). An example of government expenditure would be, the building of a new motorway from Limerick to Galway. Government expenditure can be adjusted and influenced by a fiscal policy. A fiscal policy is an economic policy involving government spending and taxes (Gamez et al 2017). As of today, we are still paying for the mistakes of the Irish government with our outstanding debt being over €201 billion as of the end of 2017 (Department of Finance 2018). In the event of a hard Brexit, Ireland could be forced into recession and history could end up repeating itself. A report published by the fiscal council explained how the government need to

" develop a clear anchor for spending plans if it is to avoid repeating mistakes of the past" (The Fiscal Council 2018). The report showed ways in which Ireland can improve its budget so to aim for a medium-term spending budget. If we are to plan ahead and prepare for all types of Brexit, we need to look at how we can improve our current financial state. The three main tools that need to be developed are; spending ceilings, debt target and rainy-day fund. The current government spending ceilings are unrealistic and not working (The Fiscal Council 2018). Ireland is constantly under-budgeting which means we are unable to foresee any shocks, for example, a hard Brexit. If we want to gain more control over government spending, an improvement in our debt target is imperative. The government has set debt targets; however, this was not seen in the budget for next year. The report prepared by the fiscal council suggests that, the government publish its debt targets so they can be ' assessed over time'. As well as this, the report recommends setting a lower target than 55% of GDP as it is a more realistic goal. Lastly, an introduction of the rainy fund in 2019 could be the solutions to many potential problems post-Brexit. An increase in the current budgeted fund of €0. 5 billion could benefit the state in the long-run, so to prepare for unforeseen events that could occur.

Finally, in the wake of Brexit, another challenge that Ireland will face will be the border between Northern Ireland and The Republic of Ireland. Many firms will be affected by Brexit. Companies that have direct trading with Northern Ireland will face many problems, especially in the event of a WTO Brexit.

> " InterTradeIreland's " Cross-border trade and supply chain linkages" report found that for just over a quarter of Irish firms,

Northern Ireland is the destination for more than 95 per cent of their exports" *(InterTradeIreland 2018)*

From this statement, we can see how necessary amutual agreement on the border is. The introduction of border inspections willpose additional costs for traders in all scenarios. (Thelle and Sunesen 2018). InterTradeIreland advices companies currently benefitting from the cross-bordertrade, to plan ahead for the future and look for different options regardingtrading relationships along with offering their full support (InterTradeIreland2018).

Resources

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- https://www. bbc. com/news/uk-politics-eu-referendum-36574526 (BBC News – EU Referendum 24 June 2016)
- https://www. irishhome. ie/5-ways-brexit-will-effect-irelands-housing-market/ (Estate agent property editor Ben Thompson of Churches Estate Agents reflects on his homeland's shocking decision to (potentially) exit the EU and how it will directly affect the Irish housing market)
- https://eu. usatoday. com/story/news/world/2016/06/28/exploding-uk-immigration-helped-drive-brexit-vote/86424670/ (Exploding UK immigration helped drive ' Brexit' vote Kim Hjelmgaard, and Gregg Zoroya USA TODAY Published 6: 26 AM EDT Jun 28, 2016)
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