



# BREXIT: A SUMMARY OF THE ESRI'S

## **Special Article *Ireland and Brexit***

### **Introduction**

- The UK is deeply integrated with the EU and its decision to exit from this trading block has no parallels in modern history
- The impact of Brexit on the UK economy will be substantial given its strong inter-linkages with the European and global economy
- Ireland could be relatively more negatively affected than other EU countries, because of the openness of the economy and the fact that the UK is its closest economic partner.

### **Key Findings**

- It considers three scenarios: Deal; No-Deal; and Disorderly No-Deal.
- There are two main channels through which the shock hits the Irish economy
  - the negative trade shock will serve to reduce economic activity below where it otherwise would have been
  - the positive FDI shock will help to partially offset some of the overall negative impact.
- The negative impact on Irish output in the long run in the Deal scenario is approximately half that of the No-Deal scenario
- Overall, across the three scenarios, the fall in the level of Irish output below where it otherwise would have been ranges from 2.6% to 5.0%.

### **How the negative impact work?**

- The loss in competitiveness would lead to pressure for price adjustment – downward pressure on wages to help improve competitiveness
- The fall in traded sector output (relative to the baseline) would result in lower labour demand, which then has knock-on impacts for employment and the unemployment rate
- As a result, average wages will be lower than in the baseline scenario
- The combination of lower employment and lower wages leads to lower real personal disposable income for households, and in turn reduces consumption and imports below their baseline levels
- With both output and employment below base in all three scenarios, government revenue from taxes will remain below the baseline and the increase in the unemployment rate would lead to higher government spending on welfare payments
- The net effect is a reduction in the general government balance.

### **Tourism Specific Findings**

- Tourism is not addressed in the study, so there are no sector specific findings.

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