

## Brexit and Central Europe: The trade, growth and cash risks

From trade to growth to cash, Brexit will have profound implications for central European countries. Read this introductory page to our [Directional Economics Guide](#), 2018 which you can download by clicking on the hyperlink



British Prime Minister, Theresa May and Donald Tusk, European Council President

### The Brexit implications in a nutshell

Brexit will be will be disruptive and divisive for the whole of the European Union. In this article, we focus on its impact on Central and Eastern Europe (CEE) through three key channels: trade, free movement and money.

- In terms of trade, we look at value-added exports to the UK as these better reflect what the CEE actually contributes to European supply chains. While these exports are low in terms of GDP, the Czech Republic, Poland and Hungary look the most exposed in the region.
- Agriculture, autos, textiles and retail trade are the sectors dominant in CEE trade with the UK. Regulatory and logistical barriers pose challenges here.
- Free movement has seen Czech, Hungarian and Polish workers gain a ten-year headstart

on the Romanians in entering the UK. Around a quarter of Poles working abroad live in the UK. Having a more mature presence in the UK should mean the early movers are more likely to receive 'settled status'.

- On the money side, the UK had been funding around 6% of the EU's budget. This contribution will disappear for the 2021-27 round. However, the indirect impact of the UK's departure may be larger. The EU average GDP per capita level will drop after Brexit, propelling the likes of the Czech Republic and Poland above key financial thresholds. EU funding for CE4 economies could drop by anywhere between 12% and 24% in real terms.

Read the whole report [here](#)

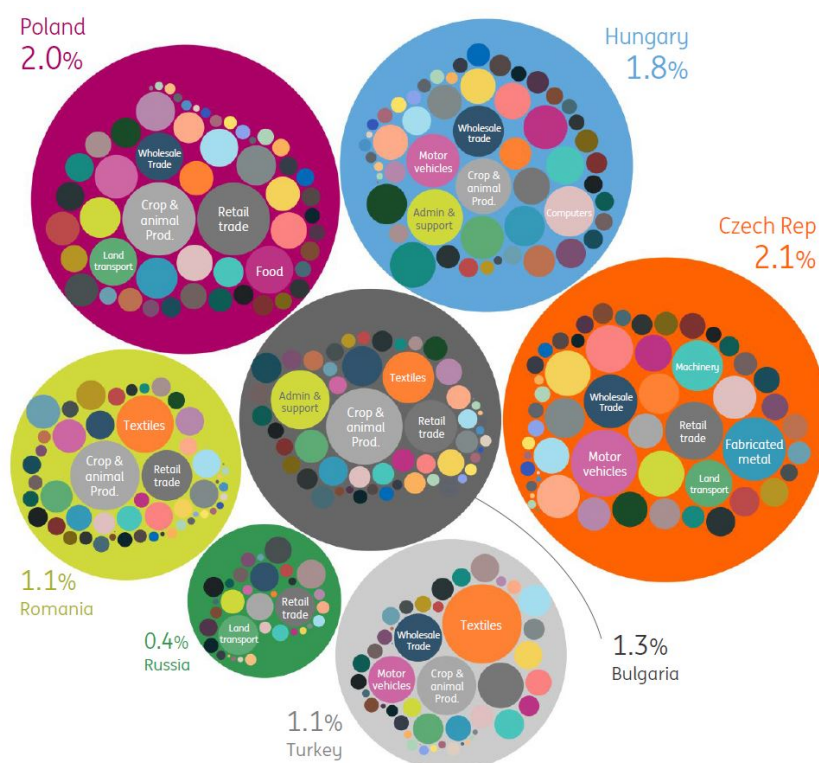
## Those most exposed to UK demand

We are now less than six months away from the UK's departure from the EU. While the implications will be profound for the whole of Europe, Brexit will especially resonate with Central Europe. Here European supply chains will be questioned and to a lesser extent the free movement of people and its impact on remittances from the UK. Brexit will also draw attention to the 2021-27 EU budget round, where the loss of the UK's contribution will be painful, but, additionally, the application of new objectives should deliver substantial changes to developmental budgets.

Our main thematic article in this Directional Economics focuses on these core issues. In terms of European supply chains, our trade team together with our CEE economists examine the value-added contributions of European exports coming into the UK. After the Netherlands, it is the Czech Republic, Poland and Hungary with the largest relative exposures to UK demand. While these exposures are still relatively small in GDP terms, they do centre on a few key industries such as the auto sector, agriculture and textiles, as well as services. The ability to keep these industries within a single market, let alone a customs union remains uncertain and places a heavy burden on the need for a UK transition period into 2020, if not longer.

## How EMEA jobs are tied to trade with the UK

Percentage of country's total employment related to value-added exports to the UK. Source: ING, WIODD



## What about cash, what about the EU budget?

Poland has the biggest share of its ex-pats working in the UK and sends the largest share of remittances out of the UK. However, Polish workers enjoyed the first wave of EU enlargement in 2004 and look more likely to receive 'settled status' in the UK after Brexit. The same may not be true for Romanians, where full access to the labour market was only granted in 2014. That said, remittances from the UK are only a small share of GDP.

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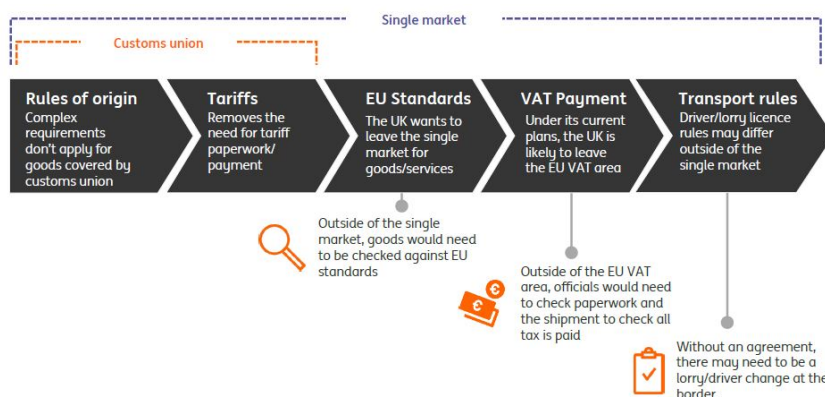
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The larger implication of Brexit on Central Europe will be what it means for the 2021-27 EU budget. Currently, the UK contributes around 6% of the EU's budget. The indirect impact could be bigger, however. The UK's departure will see average GDP per capita levels decline in the EU, depriving some countries of funds as their GDP per capita levels rise above the new EU average. This could impact the Czech Republic, Poland and Bulgaria. In spite of Brexit, we expect growth in Central Europe to soften rather than slow sharply from the above-trend readings posted earlier this year. That should allow the Czech Republic and Romania to continue in their tightening cycles and Hungary to start. Despite growing market expectations, we doubt a Polish MPC tightening cycle will

get off the ground in 2019 – and probably not in 2020 either

## How Brexit may increase border frictions



## Slowdown in Turkish demand

Away from the CE4, sharply higher interest rates and leading indicators suggest Turkey's growth rate will slow sharply over coming quarters. The slowdown in domestic demand will certainly help narrow Turkey's external imbalances, but the persistence of inflation means the TRY will struggle to deliver more of a recovery in nominal terms. We expect Russian growth to continue to run at meagre levels, constrained by external uncertainties and tight fiscal policy. Unless the government is successful in reigniting full-scale investment growth, its budget policy framework may prove unsustainable. As always, the [Directional Economics report](#) showcases ING's unique macro-economic and strategy footprint across the EMEA region and we encourage you to stress-test our 2019 views.

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