

## The economic impact on the United Kingdom of a customs union deal with the European Union

**GDP to be 3% lower in the longer term than it would have been had the UK stayed in the EU, new NIESR report reveals**

**\*STRICTLY EMBARGOED UNTIL 00.01am Thursday 9<sup>TH</sup> May 2019\***

A new NIESR report out today, *'The economic impact on the United Kingdom of a customs union deal with the European Union'*, by Dr Arno Hantsche and Dr Garry Young, provides estimates of the economic impact on the United Kingdom of leaving the EU to form a UK-EU customs union. Main points are:

- GDP in the longer term is estimated to be around 3 per cent lower in a customs union than it would have been had the UK stayed in the EU. This is equivalent to a loss of over 2 per cent in GDP per head, worth around £800 per person per annum to people in the UK.
- The lower level of GDP would mainly be a consequence of higher barriers to trade in services as a result of being outside of the European single market.
- A smaller economy would generate less income with which to pay for public services. The authors estimate that there would be an effective revenue shortfall of around £13 billion a year that would need to be raised either by additional borrowing, higher taxes or reduced public spending.
- GDP in each region of the United Kingdom would be reduced by a broadly similar amount, ranging from 2½ per cent to 4 per cent, relative to what it would have been with continued EU membership.

The estimates presented represent the Institute's considered view of the economic impact on the United Kingdom of a customs union deal with the European Union, but the estimates are uncertain as there is no historical precedent of a country leaving a major trading bloc such as the EU.

Garry Young, Director of Macromodelling and Forecasting, said: *'Leaving the EU for a customs union will make it more costly for the UK to trade with a large market on our doorstep, particularly in services which make up 80 per cent of our economy. This inevitably will have economic costs, with widespread implications. We estimate that all regions will be adversely affected and that there will be fewer resources available to pay for public services'*.

Summary table: Impact on macroeconomic outcomes ten years after EU exit (Customs union scenario relative to Stay scenario)

	% difference	£ (2016 prices)
GDP	-3.1	-£80 billion
GDP per head	-2.3	-£800
Tax revenue	-2.9	-£26 billion
Effective revenue shortfall	-1.5	-£13 billion

Source: NIESR. The Stay scenario is an estimate of how the economy would develop if the UK were to stay in the EU.

Note: The effective revenue shortfall is smaller than the reduction in tax revenue because it accounts for reallocated EU budget contributions and the effects of a lower population on spending.

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#### Notes for editors:

The full report, entitled '*The economic impact on the United Kingdom of a customs union deal with the European Union*' is available [here](#).

This report has been prepared for the People's Vote campaign by the National Institute of Economic and Social Research (NIESR) and been undertaken solely to provide public information.

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For further information or to arrange interviews, please contact the NIESR Press Office or Luca Pieri on 0207 654 1931/ [l.pieri@niesr.ac.uk](mailto:l.pieri@niesr.ac.uk)

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