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The Potential Implications for the Scottish Economy of the decision to leave the European Union

Introduction

1. We welcome the opportunity to discuss with the Economy and Fair Work Committee the potential implications for the Scottish economy of the decision to leave the European Union.

2. Much of the debate, thus far, has understandably been on quantifying the potential scale of the challenge posed by Brexit. But as we move ever close to the UK’s exit from the EU, it is vital that discussions begin to focus on the practicalities of what Brexit might mean for businesses, sectors and individuals.

3. In our view, this should include –
   i. Understanding the trade-offs from the specific terms of the negotiated exit from the EU;
   ii. Identifying the sectors and areas of the economy – e.g. elements of international investment, the labour market etc. – most likely to be impacted by Brexit;
   iii. The policy opportunities that may open up – both at the Scottish and UK level – from no longer being bound by EU commitments and obligations; and,
   iv. Reassessing existing policy priorities and commitments, and crucially the delivery of the government’s Economic Strategy, in a world where Scotland is no longer part of the EU.

4. In evidence to the European and External Relations Committee on the 28th July 2016, we set out some key areas we believe to be of greatest importance in understanding how the EU referendum outcome may impact on the Scottish economy. We grouped these into short and long-term considerations.

Short-Term Considerations

5. The key issue in the short-term is economic uncertainty. At the UK level, the decision to leave the EU was clear. However, the exact terms of exit remain unknown.

6. In response, businesses may postpone expansion and investment plans. But we should be wary of expecting to see any immediate changes. Most businesses will not – and cannot – change plans overnight and many will await clarity over the likely outcome of any negotiated settlement.

7. After an initial period of instability, the UK Government has brought a degree of relative calm back to the political environment and a dedicated policy response is expected in the Autumn Statement. The Bank of England has cut interest rates whilst the Scottish Government has announced plans to
accelerate capital spending in addition to a new £500 million Scottish Growth Scheme to support private investment. These are all welcome.

8. Most of the evidence since the referendum points toward businesses being in ‘wait and see’ mode. Given the potential risks faced in late-June/early-July, this should be seen as a positive.

9. The most obvious impact has been the sharp fall in Sterling. This presents both an opportunity (i.e. in terms of export competitiveness) and a challenge (i.e. in terms of rising import prices).

10. Like most other independent forecasters, we believe that the economy will continue to grow in the near term but do so more slowly than would otherwise have been the case. However, as the UK Chancellor has made clear, the next couple of years are likely to be challenging.

11. The Committee may wish to consider what additional short-term actions may help support the Scottish economy through this period of adjustment.

Long-Term Considerations

12. Over the long term (i.e. 10+ years), most economists are confident about what the key issues are from the decision to leave the EU (both positive and negative).

These include –

- The nature of future trading arrangements – both with the EU and 3rd countries – and crucially the relationship with the EU Single Market and Customs Union;
- The implications for international investment and access to EU capital markets;
- The different challenges/opportunities for particular sectors in the economy and/or regions of Scotland;
- The implications for the labour market – including access to skilled migration and the outlook for labour market regulation;
- The fiscal impacts both in terms of potential savings from reduced (or zero) net contributions to EU’s Budget and reduced access to EU funding streams;
- The potential changes to devolved competencies; and,
- Any ‘dynamic’ effects – that is, whether or not a different relationship with the EU will have implications for productivity, competition and innovation.

13. Our report for the Culture, Tourism, Europe and External Relations Committee modelled the potential implications for Scotland both in terms of the overall economy, and crucially, sought to identify those sectors most immediately exposed to the decision to leave the European Union.

14. We think that it would be helpful for the Committee to consider in greater detail what Brexit might mean for particular sectors/regions (both positively and negatively) and to analyse what policy support may be required.