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Subsequent challenges facing EU from Euro financial crisis to Brexit and their impacts on the most members interact with UK

التحديات المتتابعة التي تواجه الاتحاد الأوروبي من الأزمة المالية الأوروبية إلى خروج بريطانيا وتأثيراتها على أكبر المتعاملين مع المملكة المتحدة

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Abstract :

This paper intent to study the impact of the Eurozone financial crisis followed by Brexit on the European members as it develops an analytical framework through which the linkage between biggest contributions to the EU budget with the General Government Gross Debt of EU28.

It outlines the most impacted EU countries by Brexit based on the volume of the economic interactions between both parties.

As a result, Statistics refers to deterioration in trade with the largest trading partners of UK, in additional of slowdown in growth of these countries and Fiscal problems and uncertainty caused by the final Britain withdrawal.

Keywords : Brexit, EU, Euro Financial Crisis, EU membres contributions.
JEL Classification Codes: F45, H63, J51.

ملخص :

تهدف الدراسة إلى تتبع تأثيرات خروج بريطانيا الذي تلا مباشرة الأزمة المالية الأوروبية على بعض أعضاء الاتحاد الأوربي خاصة من خلال ايجاد إطار تحليلي للعلاقة بين مساهمات أكبر البلدان الأعضاء في الاتحاد الأوربي في ميزانيته إلى جانب المملكة المتحدة مع الديون السيادية في الاتحاد الأوروبي، وذلك لمعرفة الانعكاسين معا، وهما انعكاسات الأزمة وأثر خروج بريطانيا على هاته البلدان التي تم اختيارها باعتبارها

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أكبر المتعاملين مع هذه الأخيرة اقتصاديا.

إن الإحصائيات التي تشير لحجم العلاقات الاقتصادية والتعاملات البينية بين بريطانيا وأكثر الدول المتعاملين معها في الاتحاد الأوربي تشهد تراجعا في التجارة، والنمو إلى جانب حالة عدم اليقين التي تعرفها اقتصاديات الاتحاد، إضافة إلى المشاكل الجمركية التي ستظهر بعد الخروج النهائي للمملكة المتحدة.

كلمات مفتاحية: خروج بريطانيا من الاتحاد الأوروبي، الاتحاد الأوروبي، الأزمة المالية الأوروبية؛ مساهمات أعضاء الاتحاد الأوربي.

تصنيفات JEL: F45، H63، J51.

1. INTRODUCTION

The European Union as an Economic entity, contains both strong member Economies and weak ones. However, its unity faced serious challenges, from the Eurozone financial crisis in 2010, followed by UK's will to withdrawal from EU (Brexit) which initiated after a referendum on 23 June 2016.

This contributed to the fall of confidence in EU mechanisms to face crises, and that drive the union to launch bailout programs along with restructuring debts that imposes various combinations of fiscal austerity and structural reform on the most indebted member countries. Nonetheless, the biggest member contributors to the EU budget (Germany, France, Italy and UK) endure the rise in contributions to finance the EU plans including the crisis rescue programs, which burden these countries' economies.

On the other hand, Brexit carries several potential impacts on both the UK's Economy as well as the remaining member states of EU27, especially the French, German and Netherland' economies whose have strong trading relation wise the volume of imports and exports between these countries and UK.

Therefore, it looks like the European solidarity is crumbling by the decision of the United Kingdom to leave the Union, so both sides enduring economic consequences of this withdrawal shock. However, that means the EU budget will no longer benefit from the large amounts of UK contributions, and this will lead to the erection of new barriers to the exchange of goods, services, and people with the remaining 27-member states, in that matter we chose the biggest member countries whose affected by Brexit. Accordingly, the following problematic is posed:

EU between financial crisis and Brexit, what is the potential impact on European countries most economically at risk from Brexit?

Objective of the study:

This study seeks to clarify the effect of euro financial crisis on members of EU, and we wish to provide some empirical foundations for the economic process by quantifying the relations between financial contributions and General Government Gross Debt of EU members. Along with highlighting some potential economic impacts of Brexit on both parties UK and EU27, especially on Germany, France, Netherlands based on the volume of economic interaction with UK.

Explores the implications of possible outcomes for the UK and the European Union. As the act of Britain, exiting the EU is likely to occur on October 2019.

Study Approach:

In order to take note of the aspects of the subject of this paper, we will use the descriptive analytical method in the study in which we seek to answer the most important questions of the problem, using some comparing and statistical methods.

Study plan:

This study will cover the following sections: The European Economic and Monetary Union, next section will be: The Eurozone financial crisis and Brexit, followed by this section: Member states contributions to the EU budget in the aftermath of the Eurozone financial crisis and Brexit

And last section of this study will include the most impacted EU countries from Brexit.

2. The European Economic and Monetary Union

The Economic and Monetary Union (EMU), refers to the process of integrating European economies, which supports the establishment of the single market with a free flow of goods, services, people and capital.

The policy framework has two pillars: the single currency – the euro with a common monetary and exchange rate policy – and the European Central Bank (ECB); and the coordination of member states economic policies. The monetary policy for the single currency is managed independently by the ECB. Its primary objective is maintaining price stability in the euro area as a whole. Member states remain in charge of their own economic and fiscal policies, such as taxation and national budgets, however, coordinate their overall policies at EU level.

The euro has been adopted as the common currency by 19-member states. All 28 EU member states should eventually accede to the euro area, except the United Kingdom and Denmark, which have chosen to opt out. To accede to the euro, a member state must adopt the euro after a minimum of two years' participation in ERM II and fulfilment of the convergence criteria (Rakić, 2019).

2.1 The EMU Institutions

Within EMU there is no single institution responsible for economic policy. Instead, responsibility is divided between Member States and various EU institutions. The main actors involved are the following:

2.1.1 The European council

Sets the main policy orientations which feed into the work of the Council, the European Parliament, the European Commission and the member states and is composed of the President of the European Council, the President of the European Commission and the EU leaders (heads of state or government). The European Council meets at least four times a year (Council of the European Union, October 2017).

2.1.2 European commission

Is the executive of the EU, it proposes legislation and implements policy within the competences laid down by the EU Treaties. The Commission has the following general functions: policy-making; Treaty guardianship; policy implementation and delegated powers; management of EU funds; representation in trade negotiations.

2.1.3 The Council

In its configuration of the Economic and Financial Affairs Council (the Ecofin Council), adopts EU legislation, coordinates economic policies at EU level and decides whether a member state may adopt the euro. It is composed of the ministers of finance and/or the economy of the EU member states. The European Commission and the ECB also take part in Economic financial meetings. In general, it meets once a month.

2.1.4 European Parliament

Is the assembly of elected representatives of EU citizens? The representatives are known as Members of the European Parliament (MEPs). The EP debates and passes law; scrutinizes other EU institutions; and debates and adopts the EU's budget (Keep, 21 January 2019)

2.1.5. European central bank (ECB)

Is the central bank for the euro area? It develops monetary policy, with price stability as the primary objective, including by setting the reference interest rates, along with supporting economic growth and job creation (European Union, 2019).

2.2 Economic Performance

This section summarizes the macroeconomic performance of the European Area since the launch of the common currency project in 1999, showing inflation performance, the EUR-to-USD exchange rate along with GDP and fiscal indicators (Dabrowski, 2019)

2.2.1 Inflation, Exchange Rate and the Share in Global Official Reserves

2.2.1.1 The inflation

Performance of the European Area in comparison with the US as a big economy, for the period of 2000-2018, showed that for most of this period, except for 2001, 2003, 2008, 2010, and 2012, the EA had lower inflation than the US. However, until 2012, the EA inflation rate frequently exceeded 2% (the upper inflation target of the ECB). This occurred in 2000-2002, 2004-2005, 2007, and 2010-2012. In several years (2000, 2002, 2004-2007, 2011, and 2016-2017), US inflation also exceeded 2%, the official inflation targets of the Federal Reserve System since 2012. Furthermore, US inflation performance has been slightly more volatile as compared to the EA, especially in the period preceding the global financial crisis (European Central Bank ECB, November 2018, pp. 24-25).

2.2.1.2 EUR exchange rate against the USD between 1999 and 2018

It fluctuated in the range of 0.8 USD to 1.6 USD for 1 EUR, which reflected a divergence in business cycles and monetary policy cycles in the EA. The weakest exchange rate of the EUR (below 1 USD for 1 EUR) was recorded between 2000 and 2003, and the strongest was recorded just before the global financial crisis (2006-2008). Since 2015, the fluctuation band has narrowed and the exchange rate has been oscillating around 1.10-1.2o USD for 1 EUR. Interestingly, in the period of the debt and financial crisis in the EA periphery, the EUR remained relatively strong – between 1.20 to 1.50 USD for 1 EUR (European Central Bank, 2018).

2.2.1.3 The composition of the global official foreign exchange reserves by major currencies:

The EUR occupies the second position after the USD and is ahead other currencies. However, its share did not increase in the period (2010-2018). It fluctuates in the range of 20-20% of total allocated reserves depending on changes in its exchange rate (in the beginning of the 2010s it was higher because of a stronger exchange rate). Central banks' demand for reserve currencies are determined mainly by private sector transactions and their needs and preferences. In turn, the latter depend on the so-called network externalities and depth of financial markets in a given currency and the liquidity and sophistication of available financial Market Union, the EA remains behind the USD currency area (European Central Bank, 2018, p. 12).

2.2.2 GDP growth of EU and debt level:

In 2018, seven countries recorded a very high debt level: Greece (188.1% of GDP), Italy (130.3% of GDP), Portugal (120.8% of GDP), Cyprus (112.3% of GDP), Belgium (101.1% of GDP), Spain (97.2% of GDP) and France (96.7%). Among previously highly indebted countries, only Ireland and Germany managed to substantially reduce their debt levels, unlike the level allowed by Maastricht is around 60% of GDP. In the other hand the Real GDP growth rate of EU(28 country) is only around 02 %, and Germany is one of the lowest growth rate in EU 1.4% in 2018, france 1.5 % of the same year and UK is around the same growth rate as Germany 1.4%.

This situation makes the EA vulnerable which led to financial crises before and it might drive to another future shocks, especially in the case of growth deterioration, banking troubles or increase in market interest rates (Dabrowski, 2019, pp. 18-20).

On the other hand the Gross Domestic Product (GDP) in European Union expanded 1.50% in the first quarter of 2019 over the same quarter of the previous year. GDP Annual Growth Rate in European Union averaged 1.79% from 1996 until 2019, reaching an all-time high of 4.50% in the second quarter of 2000 and a record low of -5.40% in the first quarter of 2009 (Eurostat, 2019). Among EU Member States, the biggest economies are Germany (21% of total GDP); the United Kingdom (15%); France (15%); Italy (11%); and Spain (8%). On the expenditure side, household consumption is the main component of GDP and accounts for 56% of its total use, followed by gross fixed capital formation (20%) and government expenditure (20%). Exports of goods and services account for 46% of GDP while imports account for 42%, adding 4% of total GDP (Trading Economics, 2019).

3. The Eurozone financial crisis and Brexit

3.1 The Eurozone financial crisis

The European sovereign debt crisis crops up at the end of 2009 as an extend of the subprime mortgage crisis in the United States (2007) and follows the global financial and economic crisis (2008) (Anna Ruščáková, 2016).

When the single currency began, Euro members gave control of monetary policy to the European Central Bank (ECB), which sets interest rates for the whole Eurozone. Some large countries, notably Germany, had weak growth and this led to the ECB setting a relatively low interest rate. However, this rate was too low for some booming economies like Ireland and Spain and helped create large housing market bubbles there. Also, by giving up an independent monetary policy and currency, countries with high debt burdens were not able to use certain measures to respond to the crisis that countries outside the Euro (like the UK) could use. These include allowing higher inflation (to reduce the debt burden), directly/indirectly depreciating currency (to promote exports) and buying up their own debt to avoid default.

Borrowing costs for all Eurozone governments converged upon the euro’s creation, so countries like Greece, that previously had to offer a higher interest rate than, say, Germany to attract investment were now able to borrow more cheaply. Likewise, private sector borrowing costs in these countries also fell toward German levels. This fueled a buildup of government debt in Greece and Portugal, as well as private sector debt in Portugal, Ireland and Spain. The implication was that financial markets perceived every country in the Eurozone to have virtually the same risk of defaulting on their loans. Once the global financial crisis began in 2008, countries with high debt burdens and weak Economies, such as Greece, soon saw their borrowing costs rise, confidence in their ability to repay this debt was called into question, making financing it more difficult and expensive. Meanwhile, Germany had accumulated large trade surpluses during this time, partly as a result of lowering its labor costs (through restraint in wage growth) (Trabelsi, 2012).

During the crisis, the debt of many members were so high: Greece (loans totaling €240bn), high public sector debt, generous public sector benefits, chronic tax evasion and weak competitiveness; Ireland (loans totaling €85 billion, including €17.5 billion from Irish Treasury and National Pension Reserve Fund), declining competitiveness and property bubble funded by banks which went bust and were taken over and underwritten by the state, causing government debt crisis; Portugal (loans totaling €78bn), moderately high private and public sector debt, weak competitiveness and growth; Spain (loans totaling €41bn), an ailing banking sector had lent heavily to construction sector before the housing bubble burst; Cyprus (loans totaling €10bn), collapse of the banking sector (massive relative to size of Economy), partly due to links to Greece.The majority of the loans provided to the countries were funded by other Eurozone countries, also with the IMF contributing (Harari, 2014).

3.2 The relationship between UK and EU among the financial debt crisis

The post-crisis situation in Europe has been compounded by sweeping financial changes across the area. EU institutions and the International Monetary Fund (IMF) agree on a rescue package:

the total amount of bailout funds sums up to €245.6bn, The first bailout resulted in a payout of €20.1bn from International Monetary Fund (IMF) and €52.9bn from Government Loan Facility (GLF), during the course of May 2010 until December 2011and then it was technically replaced by a second bailout package for 2012-2016, which had a size of €172.6bn (€28bn from IMF and €144.6bn from The European Financial Stability Facility (EFSF).Portugal receiving €78 billion in rescue loans from the EFSF and other creditors; Greece ended its European Stability Mechanism (ESM) program - after eight years of receiving loans from the ESM, EFSF, IMF, and euro area countries. Together, the EFSF and ESM disbursed €204 billion to Greece, because of the crisis; Also, the ESM made available to Spain up to €100 billion in assistance €100 billion; Ireland became the second country during the euro crisis to enter an assistance program. The total support provided by creditors was €67.5 billion. It was the first assistance package for the EFSF; the EFSF provided €17.7 billion, with the rest supplied by the EU, individual EU Member States, and the IMF (Mechanism, 2018).

The European financial stabilization mechanism (EFSM), allows the European Commission to borrow up to €60 billion on the market under the implicit guarantee of the EU budget, to lend to any EU country in need.

So as one of the largest economies in the EU it is no surprise that the UK is one of the countries asked to pay most towards the EU budget, and the cost of this to the British tax-payer is one of the contentious issues around UK membership of the EU (Begg, 2016). UK payments to EU budget increased starting 2009 when the Sovereign debt crisis hit the Eurozone, which required from the European Commission (EC) to make rescue programs along with the ECB who has helped Eurozone countries to issue and refinance debts, therefore to help the damaged economies to pay their debts and boost their economies.

3.3 Brexit

On 23 June 2016, the UK held a referendum on its membership of the EU, with the majority of voters choosing to leave the EU (51.9% of the vote versus 48.1% voting to remain) (Walker, 7 November 2018). Whether or not the UK eventually leaves the EU, the economic fall-out is already considerable, including the fall-out for EU member countries.

The consequences of UK’s vote to leave the EU: The UK Government publishes the Great Repeal Bill White Paper in 30 March 2017, later that year First round of UK-EU exit negotiations began and that led the government to publish the first collection of technical notices providing guidance on how to prepare for a no-deal Brexit in 23 August 2018. At the end of 2018 in the last budget when the UK leaves the EU (on the given time), it cost £500m for no-deal Brexit preparations (Walker, 7 November 2018, pp. 7-26).

The failure to come to a withdrawal agreement with the European Union is by far the greatest risk in the short term. The analysis suggests that a no-deal scenario could subtract over 2% from real GDP over two years. The lack of details on the future relationship between the United Kingdom and the European Union or the extension of the transition period, and the resulting uncertainties, could incite businesses to delay investment plans further. By contrast, prospects of maintaining the closest possible economic relationship with the European Union would lead to stronger-than-expected economic growth (OECD, 2018, p. 205).

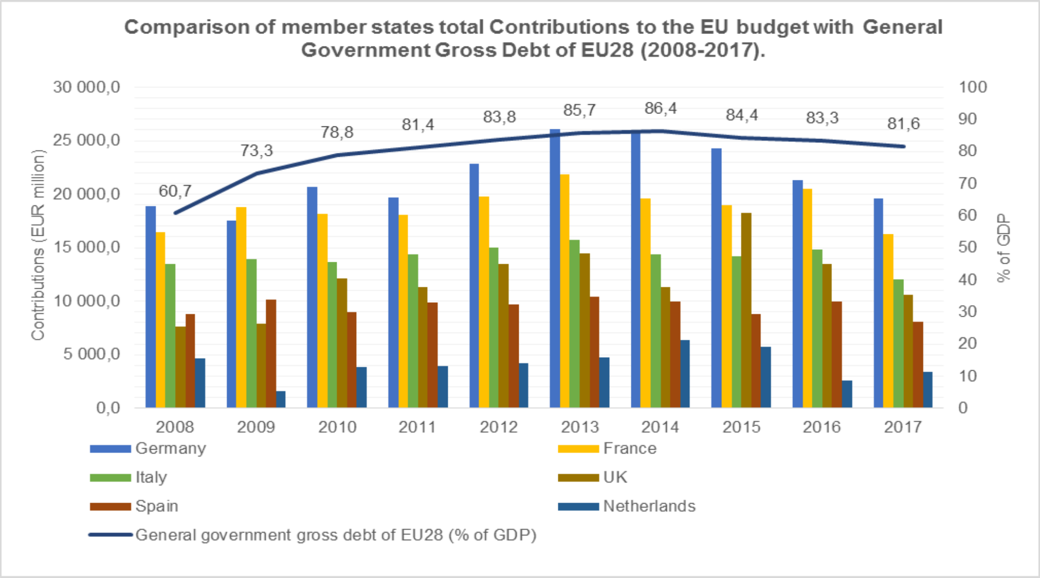
We will set out how the British economy already being affected by the prospect of this departure and how the effect of Brexit on other members of EU Economic.

4. Member states contributions to the EU budget in the aftermath of the Eurozone financial crisis and Brexit

A Brexit would entail very high costs for some of the remaining EU member states: On one hand, the UK’s eliminated net contribution for financing the EU would need to be compensated for, hence the percentual increase in gross contributions for the individual member states will rise by circa 8%. On the other, access to markets in the United Kingdom would also worsen for companies in the EU. However, these costs would differ widely depending on the countries’ intensity of economic relations with the UK. Germany would need to transfer an additional €2.5 billion to Brussels to compensate for loss of the UK’s financial contribution to the EU budget if the contribution mechanism is not changed (Ulrich Schoof, 2015).

United Kingdom’s net contribution has grown over the last few years. One key element of the Brexit debate is that net payments have increased sharply since the global financial and economic crisis in 2008. This reflects the fact that the long-term recession in many euro zone countries has reduced their contributions to the EU budget. The net contribution has increased from approximately €6 billion to around €10 billion since 2010. This corresponds to an increase of 0.33% to 0.55% of the Gross National Income (GNI) (Ulrich Schoof, 2015, p. 28).

Fig.1. Comparison of member states total contributions to the EU budget with General Government Gross Debt of EU28 (2008-2017)



Source: Compiled by authors based on Eurostat

When the Eurozone sovereign debt crisis started to strike many member countries, The EU interference to help funding rescue programs in the benefit of indebted countries. Anyhow, that reflected on the increase of contributions to the EU budget from Germany (from almost 19bn€ of total contributions in 2008, jumping to over 26bn € in 2013 along with the rise in debt because of the financial crisis, reaching over 19bn€ in 2017 as the biggest contributor to the EU budget over time); France (from above 16 bn € of total contributions in 2008, bouncing to its highest amount 22bn € in 2013 during the crisis period to16.2 bn€ in 2017 after Brexit shock); Anyhow, Italy was the third biggest contributor over time by 13.4 bn€ in 2008 reaching it's biggest contribution in 2013 by 15.7 bn€ to reach 12bn€ in 2017); Thus, UK's government contributed 7.8 billion€ in 2009 when the government Gross Debt of EU28 reached 73.3%, then jumped to double by the increase of debt (85.7%) to 14.5 billion € in 2013, afterwards the contributions get to its highest point in 2015 (18.2 billion €) along with the debts that reached 84.4% continuing about the same level till 2015, however, in 2017 contributed by

10.5 bn€.

5. The most impacted EU countries from Brexit

The exit negotiations of UK from EU is already affecting trade flows between the UK and the EU. We will talk about current trade flows and possible effects of Brexit on intra-European trade.

5.1 A free internal market:

At present, EU countries including the UK, fully benefit from the EU's Single Market. This includes the absence of duties and quotas for EU Member States doing business and trading throughout the EU. The principle of free movement of people also facilitates access for workers and services. In addition, simplified customs procedures reduce the administrative burden for companies trading within the EU to a minimum (Velthuijsen & Bernard, 2016).

5.2 Countries most impacted by Brexit

Among the top-10 trading partners of the UK in 2015, seven countries are part of the EU. In the same year, about 44% of UK export was directed to EU Member States, while approximately 53% of total imports originated in EU countries. Countries that have deep trade ties to the UK are also most vulnerable to immediate economic impact when the UK leaves the EU; Although Germany is the UK's largest trading partner -as we will mention after in this paper- in the EU by volume, Ireland is by far the most dependent on UK trade in terms of shares of total imports and exports (Velthuijsen & Bernard, 2016); Also on 2014 the export and import shares for goods and services sectors between the EU27 member states and the UK, as well as top 3 export and import sectors for each EU27 member state with the UK all in the year of 2014. EU27 countries differ with respect to the shares of goods exports destined for the UK between 0.6% in Greece and 18.6% in Ireland. The EU27 average is 3%. The share of goods imports from the UK varies between 0.5% in the Slovak Republic and 20.6% in Ireland. On average, EU27 states show an import share with the UK of 2.2%. For services trade the picture looks slightly different. Export shares of EU27 countries with the UK in services sectors range between 0.14% in Lithuania and 15% in Malta. The Irish export share of services with the UK is the second strongest with 2.9%. The EU27 average of services export shares with the UK is 0.5%.

Similarly, services import shares amount to 0.6%. The lowest services import share with the UK has Spain (0.2%); the largest has Luxembourg with 13.4%. The top three export and import sectors for EU27 members with the UK are dominated by wholesale services, the automobile sector and chemicals (Gabriel Felbermayr, 2017, p. 3).

Among western European countries, Belgium, the Netherlands and Germany export significantly more to the UK than they import from the UK. Depending on the price elasticity of the export products, these countries might witness a deterioration of their terms of trade with the UK. Post-Brexit outcomes, which significantly increase the cost of trade between the UK and the rest of the EU, will be damaging for both sides. Within EU countries that export the most to the UK, relative to the size of their economies, Ireland sits at the top of this list, followed by Cyprus, the Netherlands and Belgium. While German export volumes are the largest in Europe, due to its sheer size, Germany has many other important export destinations which could compensate for a decline in UK bound exports post-Brexit (Velthuijsen & Bernard, 2016).

Fiscal costs for EU27 countries would increase with Brexit. Assuming no adjustment in the European expenditure structure and that the fiscal gap in the EU budget is filled proportional to Gross National Income, Germany would have to contribute an additional 4.6bn Euro and France an additional 2.1bn Euro to the EU budget. Net recipients would receive lower transfers.

In Poland this would amount to 0.1% of GDP. The consideration of fiscal costs leave the UK slightly better but the EU27 worse off. In the unlikely event of no more UK net payments to the EU budget, the EU as a whole reports a net loss of 43.5bn Euro in the World Trade Organization "WTO" scenario (Hard Brexit) , 11.3bn Euro of which are allotted to Germany alone.

Another fiscal issue not discussed is the impact of Brexit on fiscal competition. One concern voiced by high tax countries in the EU like Germany or France is that the UK might try to become a tax haven and lure investment and jobs away from other countries. As a matter of fact, EU membership does not prevent countries from cutting corporate tax rates or other taxes to very low levels. The UK corporate tax rate is already the lowest in the (Group of seven countries) G7 and one of the lowest in the EU. It is probably more relevant that the UK, after leaving the EU, will no longer be subject to European state aid rules. Currently the EU uses the instrument of state aid control to crack down on tax rules, which allow multinational companies to avoid paying taxes in the EU. The case of Apple in Ireland is the most striking example. Therefore, rather than cutting headline tax rate, the UK might become a place for special tax regimes tailored to the needs of multinational companies, intensifying international competition for tax bases and book profits. Those who dislike tax competition will consider this as an additional cost of Brexit while those who welcome tax competition as a means of limiting the taxing powers of states will see it as a benefit (Gabriel Felbermayr, 2017, p. 28).

UK imports from other EU27 states by 18.2% (59.7%) for goods (services). This illustrates those reductions in tariffs and the harmonization of standards by the EU have had a clear positive impact on trade relations. These benefits from European integration – on both the UK and the EU side are now at risk due to Brexit.

Brexit would in fact lead to a considerable decline of goods and services trade between the UK and the EU27 countries. Under a hard (soft) Brexit, UK exports to Germany drop by 50% (24%), with comparable trade effects for other EU27 countries. German exports to the UK fall by 33% (9%). Overall, services exports are the most pronounced. UK wholesale trade and road vehicles suffer the strongest drop in exports to Germany in values from a hard Brexit, while the financial services sector dominates in percentage terms. German wholesale trade to the UK involves the largest trade effects in percentage changes, but road vehicles exports lose the highest amounts followed by machinery and pharmaceuticals. When looking at value added effects from Brexit, we find that three-quarters of German economic losses stem from manufacturing industries (Gabriel Felbermayr, 2017, pp. 29,32).

Germany and Brexit:

Trade volume between Germany and the UK amounted to EUR 121.5 billion in 2017. About 750,000 jobs in Germany depend on trade with the UK. To date, German companies have investments in the UK with a value of over EUR 140 billion, and maintain about 2,500 places of business in the UK with nearly 400,000 employees. There are 1,400 British companies in Germany, with about 240,000 employees; In 2018 Exports of goods and services to UK is 91%, however Imports of goods and services from the United Kingdom is 26%. In additional, German Office/place of business in the United Kingdom 25%, plus Germany employ from British nationals 19%. German trade with the United Kingdom is already decreasing significantly; one in every 12 companies is currently planning to shift its UK investments to other markets. In addition, The UK recorded the largest trade deficit in goods only was with Germany (-£32 billion) in the same year (Ward, 2019).

There are estimations by Chambers of Commerce and Industry say that Brexit would affect at least 30.000 German companies export to UK. Furthermore, around 40.000 companies will have to deal with custom declarations because they import from UK Companies (Kevin Heidenreich, 2018, p. 9).

Foreign investments are increasingly spreading their investments across different continents in order to better protect themselves against risks. By far the most popular investment region remains the euro zone. But uncertainty is also rising in the common domestic market in view of Brexit and the gloomy economy and that caused the investment balance in the common currency area to falling from 29 to 17 points, in the rest of the EU from 38 to 25 points. The economic slowdown is forcing companies to look more closely at their costs again. On, the other hand, Great Britain as an investment location is losing considerable attractiveness. Only slightly more than 10% of all investments are to be made in the UK in the coming twelve months. (Gewinnus & Weishäupl, 2019, p. 11).

A must to look at the GDP growth of Germany which decrease to 1.5% in 2018- well below the EU average of 2.1%- comparing with 2017 was 2.5% and 0,5 % in 2019 (eurostat, 2019).On the other hand, 79% of German companies, even those without direct trade relations with the UK, have already considered the potential impact on their business. Even without a direct supply relationship with British companies or investments in the

United Kingdom, Brexit may affect companies indirectly via supplier structures, primary products or customer relationships.

A no deal Brexit will lead to chaos. The consequences will depend on the duration of such a no deal scenario. The projections are consistent with the scenario in which the UK leaves the EU by October with an EU deal, as well as a situation in which this is delayed beyond this date. The uncertain Dutch government spending implies both a positive and negative risk for economic growth in 2019 and 2020.

Netherland and Brexit:

The Netherlands are the country with the fifth largest loss from Brexit (Gabriel Felbermayr, 2017, p. 26). due to been one of UK's major trade partners that made it up to 44 bn£ (6.9% of all UK exports) along with 49.1 bn£ in 2018, However the UK recorded a deficit in trade reached (5bn£) in 2018 (Ward, 2019).

France and Brexit:

The impact will, however be modest. In the short term, there will be some market turbulence and a deterioration in the business climate, and in the medium term, growth will be impacted by a slowdown in exports and foreign investment. That negative impact on French growth measured, estimated at around a cumulative 0.4% of GDP in 2016-2019 if the exit is accompanied by a free trade agreement (FTA), and around 0.6% with no FTA (ELUERE & MARTIN, 2016). UK exports to France was 42.1 billion £ in 2018 represent 6.6 % of UK exports, also UK imports to France was 42.8 billion £ in the same year represent 6.4% of UK imports (Ward, 2019, p. 14).

the impact on France trade is noticeable for example the amount of gas 'at risk' is substantial, possibly up to 30% of French demand, or even as much as 40% when taking LNG (La Commission de Régulation de l'Energie) imports into account. Therefore, in extremis, the French consumer stands to lose out both directly, due to possible gas shortages, and indirectly, due to increased utility bills (Heather, 2019, p. 3). Also, the fact that France is experienced a period of recovery from Euro financial crisis 2010, -cited previously in this study- that is so far gradual and fragile. A number of obstacles is penalizing growth, including the structural competitiveness deficit, which will be absorbed only progressively, along with high unemployment rate.

6. CONCLUSION

The UK government's struggle to negotiate the withdrawal agreement with the EU, and setting out the terms to leave in a managed way on 31/10/2019 as a dead line. However, there is a bill to pay for this exit besides the impacts on the EU and most countries related economically with UK. Thus, the results of this study about these impacts are brought out in the following conclusions:

- Analysis claims That the EU budget is not a Eurozone instrument, It is not designed to cushion economic shocks that may put the currency union at risk. That would require a common unemployment insurance or flexible investment fund, for example. Even the European Stability Mechanism is outside the EU budget. It is difficult to integrate new tasks within the budget. Most EU funds are allocated to specific member states and areas of responsibility at the beginning of any MFF. Therefore, it is difficult for the EU to supply funds rapidly to meet unanticipated challenges. This was seen, for example, in the euro crisis.
- An ambitious free trade agreement would help to reduce the losses from Brexit, for all European parties involved, that agreement could be reached before the withdrawal of the UK from the European Union, guaranteed all the trade of many countries in EU with the UK, On October 2019. Otherwise, the situation will concern some top countries as Germany, France and Netherlands, who set up their trading companies in the UK, as the British fiscal regime was far more conducive to their activities than that in the countries mentioned.

-Nevertheless, as companies based in the UK will not be able to operate in France, Germany, Netherlands or other members of EU they will need to find alternative solutions that cause minimum disruption. If they were to change the entity owning the contract from UK to an EU one, they would face the risk of the other partner wanting to enter into endless renegotiations.

-As results of Brexit on these countries economy, we forecast a slowdown in investment of these countries; In the other hand UK economy will obviously be affected by Brexit, via a number of channels, such as a sharp fall in sterling, which may improve the competitiveness of UK exports, but will also markedly increase the cost of imports and worsen an already large trade deficit; a drop in consumption due to import inflation; in the longer term, a fall-off in UK exports to the EU; the scale of which will depend on the agreement negotiated with the EU, and a drop in foreign direct investment.

-Brexit will push sterling markedly lower, stock markets will fall and there will be significant shifts in bond rates. The financial markets will see considerable volatility over the coming months. In addition, Brexit has raised a whole series of questions, namely a risk of contagion spreading to other EU countries that might consider withdrawal, and significant uncertainty around the negotiation process, its duration, and final impact.

-Investments leaving the UK will go primarily to Germany and other EU countries.

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