EU budget

Who's to pay for Brexit?

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Brexit means that the EU is going to lose one of the largest contributors to its budget. The UK paid in a total of EUR 15.1 bn in the first two years of the current budget period 2014-2020, second only to Germany. This is a pattern similar to the previous budget period 2007-2013.

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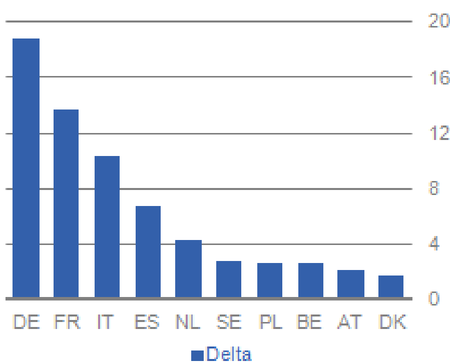
Additional annual payments in EUR 100 m, 0.06% of each member state's GDP



Calculation based on average data 2014-2015

Sources: Eurostat, EC, Deutsche Bank Research

There are two questions arising with regard to Brexit and the EU budget. Firstly, how will commitments ranging beyond the date of Brexit be addressed? The pay-as-you-go pension system for British citizens employed by the European Commission is only one example of these commitments. Secondly, how will the UK's contribution to the EU budget be reallocated between the remaining EU-27 member states? Should net contributors provide additional payments or should net recipients' transfers be cut? This will be just one of the main topics of negotiations between the UK and the EU should the UK leave the Union before end-2020. Even if the UK were to continue contributing financially to the EU budget under new association or cooperation agreements (like the EEA EFTA member states) or to special programmes (like Switzerland), it would remain a controversial issue.

The EU budget for the current period 2014-2020 is set at EUR 1,087 bn. The member states' contributions mainly consist of a fixed percentage share in national VAT income and gross national income (GNI). The main expenditure positions are the common agricultural policy and the regional and cohesion policy, each accounting for one-third of the total budget. What are possible options for reallocation of the EU budget after Brexit?

Scenario 1 is based on a reallocation of the UK's contribution according to the member states' share in total EU-27 GDP. Thus it is closely oriented to the current revenue calculations for the EU budget, where a fixed percentage share in GNI is made available for this purpose (2014: 0.7012%). Each member state would have to pay an additional 0.06% of its GNI to compensate for the UK payment. Thus, the highest additional annual amounts would have to be paid by Germany (EUR 1.9 bn), France (EUR 1.4 bn) and Italy (EUR 1 bn). Furthermore, the net recipients Spain, Poland and Belgium would face a

reduction in transfers by 0.06% of GDP annually. The chart above shows the ten EU member states that would have the highest additional contribution to the EU budget after Brexit.*

Scenario 2 assumes that the UK's contribution will be distributed on the basis of the remaining net contributors, while in scenario 3 the UK's contribution is compensated only by the net recipients.** Scenario 4 is a combination of the latter two options: 50% of the UK's contribution could be compensated by net contributors and 50% by net recipients. The strongest impacts of the reallocation – in total and relative to GDP – are summarised in the following table:

Scenario	Highest absolute additional contribution	Highest relative additional contribution
1	DE: EUR 1.9 bn (0.06% GDP)	0.06% GDP by each member state
2	DE: EUR 3.5 bn (0.12% GDP)	NL: EUR 977 m (0.15% GDP)
3	PL: EUR 1.8 bn (0.43% GDP)	HU: EUR 797 m (0.75% GDP)
4	DE: EUR 1.7 bn (0.06% GDP)	HU: EUR 398 m (0.37% GDP)

The need for renegotiation of the EU budget following the Brexit decision provides the chance to review the budget's non-transparent revenue system. If the UK leaves the EU, the UK rebate would be omitted (2016: EUR 6.1 bn). But there is a plethora of further special rules. There is an annual lump-sum reduction for the Netherlands and Sweden of EUR 605 m and EUR 150 m, respectively. Austria, Germany, the Netherlands and Sweden further benefit from reduced VAT call rates (AT: 0.225%; DE: 0.15%; NL and SE: 0.1% instead of 0.3% - which corresponds to savings (in EUR bn) in 2015 of: AT: 0.1; DE: 3.7; NL: 1.5 und SE: 1.1). These special rules currently apply, but the Council has already approved a new legislative package on budget rules which is awaiting ratification by the member states. These changes would apply ex post facto from January 1, 2014, but the package is similar to the current one in terms of complexity and special rules.*** Furthermore, Brexit could be an opportunity to review the EU budget expenditures. Stronger growth-related use of the EU budget, as called for by the UK, and the tapping of the full potential efficiency of further expenditures would remain important topics given the weak economic performance in the EU member states.

If the UK triggers Article 50 of the Treaty on European Union at the beginning of 2017, it could leave the EU by 2019, two years before the end of the current budget period – though the timeline for the de facto exit of the UK remains highly uncertain. The parallel schedule of Brexit and the EU budget planning is a particular challenge to the Union. A shortening of the budget in 2014-2020 (like in scenario 3 and 4) could result in a termination of ongoing EU projects. Thus, it seems reasonable to seek a transition arrangement between the UK and the remaining EU-27 member states by the end of 2020 to allow for a phasing-out of financial linkages.

1.) * The calculations are based on data from Eurostat and the European Commission for the years 2014 and 2015. We use the average of values for the member states from both years.
2.) ** Corresponding to the member state's share in total net contribution or net benefit.
3.) *** Annual lump-sum reduction (EUR m) DK: 130; NL: 695; and SE: 185 and graded lump-sum reduction (EUR m) AT 2014: 30; 2015: 20; and 2016: 10. Reduced VAT call rates: DE, NL and SE: 0.15%.

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