

«High Level Research»
Italy-UK Bilateral Meeting
Anacapri – Ex Osservatorio Svedese
4 - 5 October 2017



Brexit and the EU

a lose-lose effect?


Politics and economics

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***Brexit* Timeline:unknown**

- 
- June 23rd, 2016: Brexit referendum – “leave Wins”
 - March 30th, 2017: UK notifies European Council with Article 50
 - June 19th, 2017: negotiations begin
 - October-December 2017: divorce principles agreed ??
 - October 2018: deadline for the agreement ratification process??
 - March-June 2019: possible extension of Article 50 deadline
 - Post Brexit general arrangements with the EU-2019-2023(2025)
 - The swiss scenario 10 Y a for complete agreement



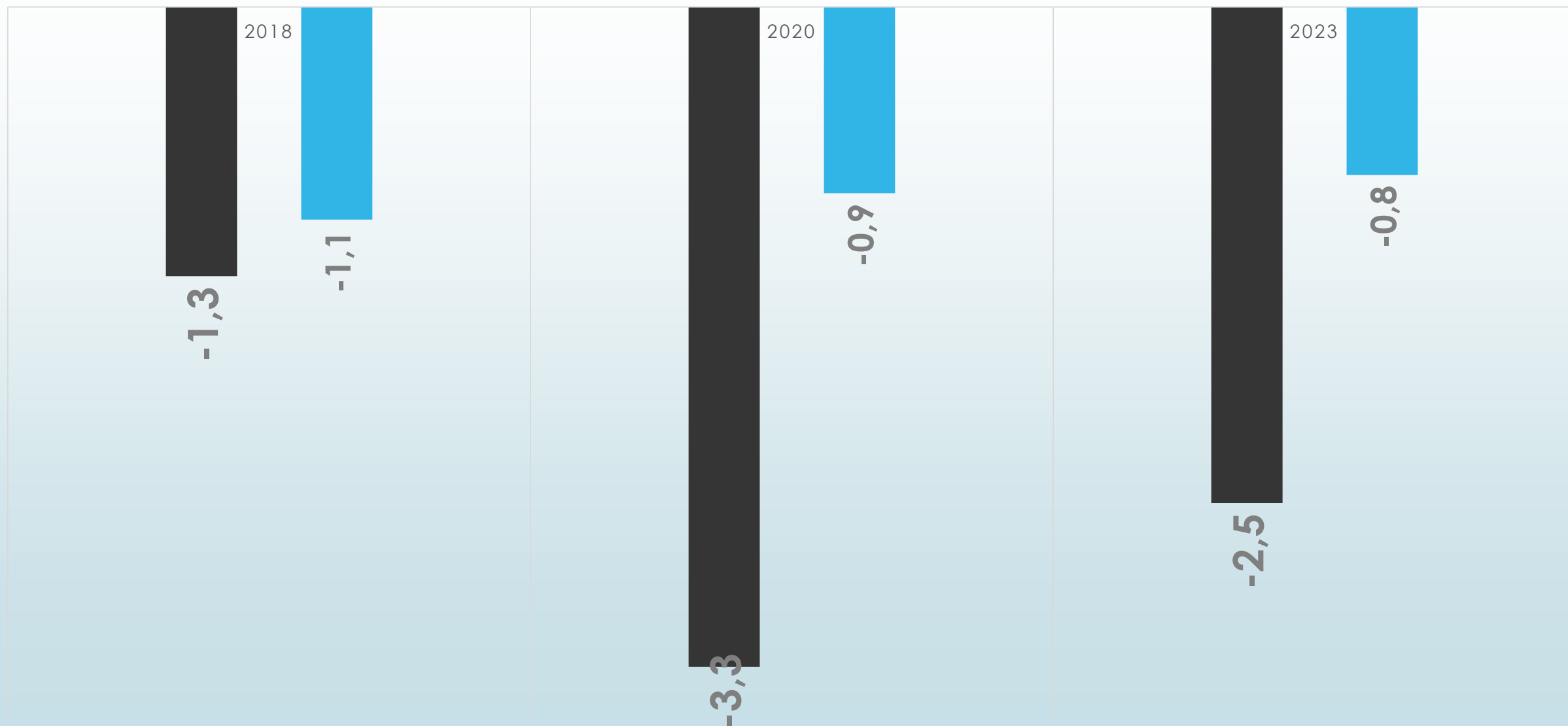
Apparently UK is the main loser
for economic quantities it is true
for political and economic qualities is more complicated

- Italy is not convinced that hard brexit is usefull to EU and EMU
- A different approach to avoid hard brexit :
- Not a general agreement but
- sectoral and functional agreements .
- Defence
- Finance
- Research

Population (ml)		2016
Euro area (19 countries)	minus 19%	340.Ml
European Union (28 countries)	minus 13%	511 Ml
United Kingdom		65 Ml
GDP at Market Prices(trl€)		
Euro area (19 countries)	minus 19%	10.7 tr
European Union (28 countries)	minus 13 %	14.8 tr
United Kingdom		1.9 tr
International Trade (EX+IM) (trl)\$		
Euro area (19 countries)	minus 12%	6.3 tr
European Union (28 countries)	minus 10%	8.3 tr
United Kingdom		800 mil

EFFECTS OF BREXIT ON REAL GDP : UK AND EU

■ United Kingdom ■ European Union excluding the UK



Source: 'The Economic Consequences of Brexit: a Taxing Decision', OECD 2016; graph based on OECD data



Effects of Brexit on Real GDP : UK and EU

- -1,3%: real UK GDP contraction in 2018
- - 3,3%: real UK GDP contraction in 2020
- - 2,5%: real UK GDP contraction in 2023
- -1,1%: real EU GDP contraction in 2018 excluding the UK
- -0,9%: real EU GDP contraction in 2020 excluding the UK
- -0,8%: real EU GDP contraction in 2023 excluding the UK

BANK OF ENGLAND'S TRADE-WEIGHTED STERLING INDEX

January 2005 = 100

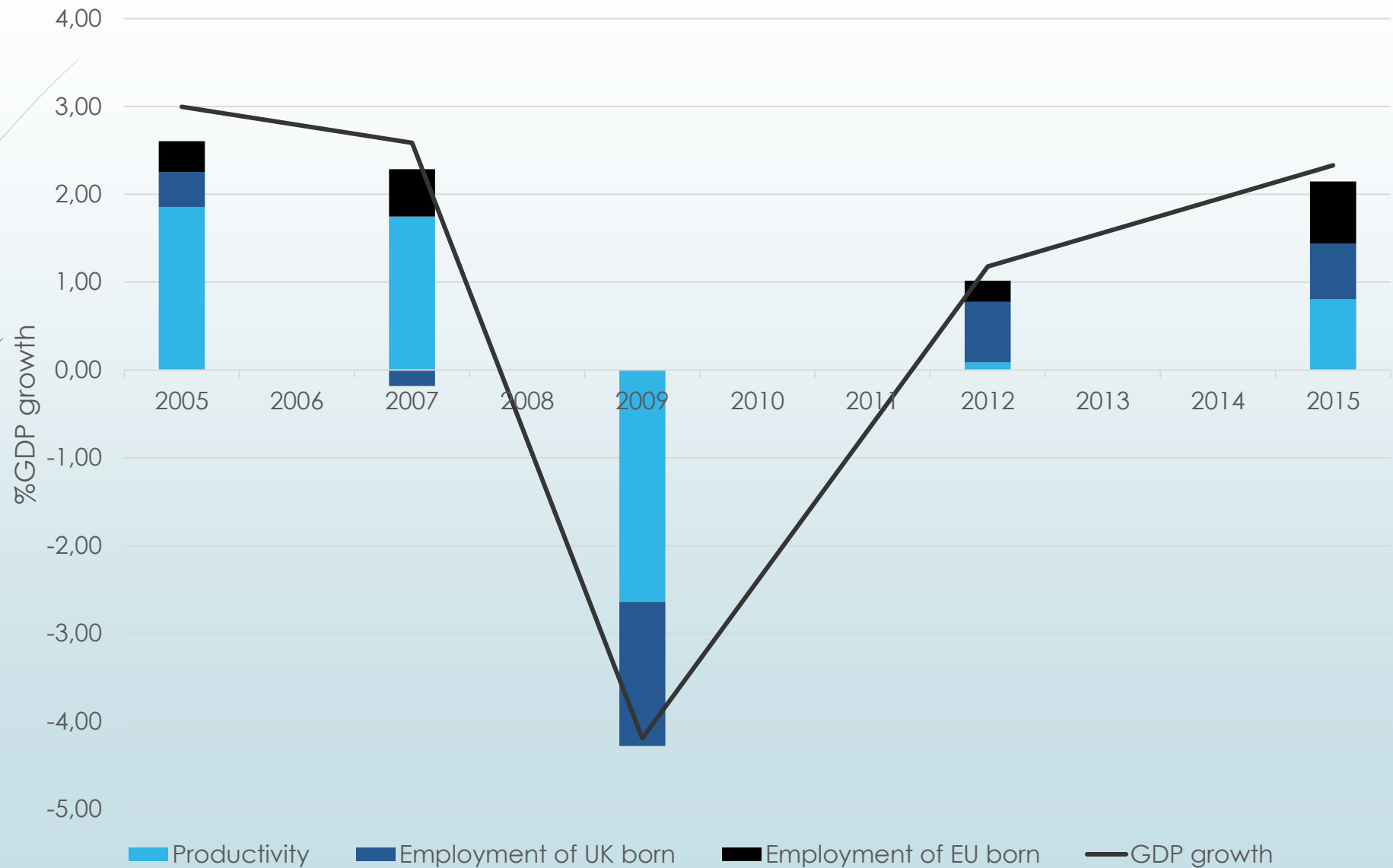


The cost of imports will increase in term of pound

Export and Import UK-EU

- £550bn: UK total goods and services export (underestimated as to services)
- 80%: of UK trade is made up of services; 20% of goods
- £240bn=44% of UK export goes to EU countries
- 53%: the entity of the UK's total imports from the EU
- 12% GDP: the total of UK's exports goes to EU(240bn/2000bn)
- 2-3% GDP: The entity of EU's exports to the UK (310bn/15000bn)
- £310bn: EU's total volume of exports to UK
- £70bn: UK trade deficit with the EU (310-240)-this do not explain everything
- Dependency ratio

Real GDP Growth with Contributions



Source: 'The Economic Consequences of Brexit: a Taxing Decision', OECD 2016 (graph elaboration on OECD data).

European Immigration in the UK

A successful pattern

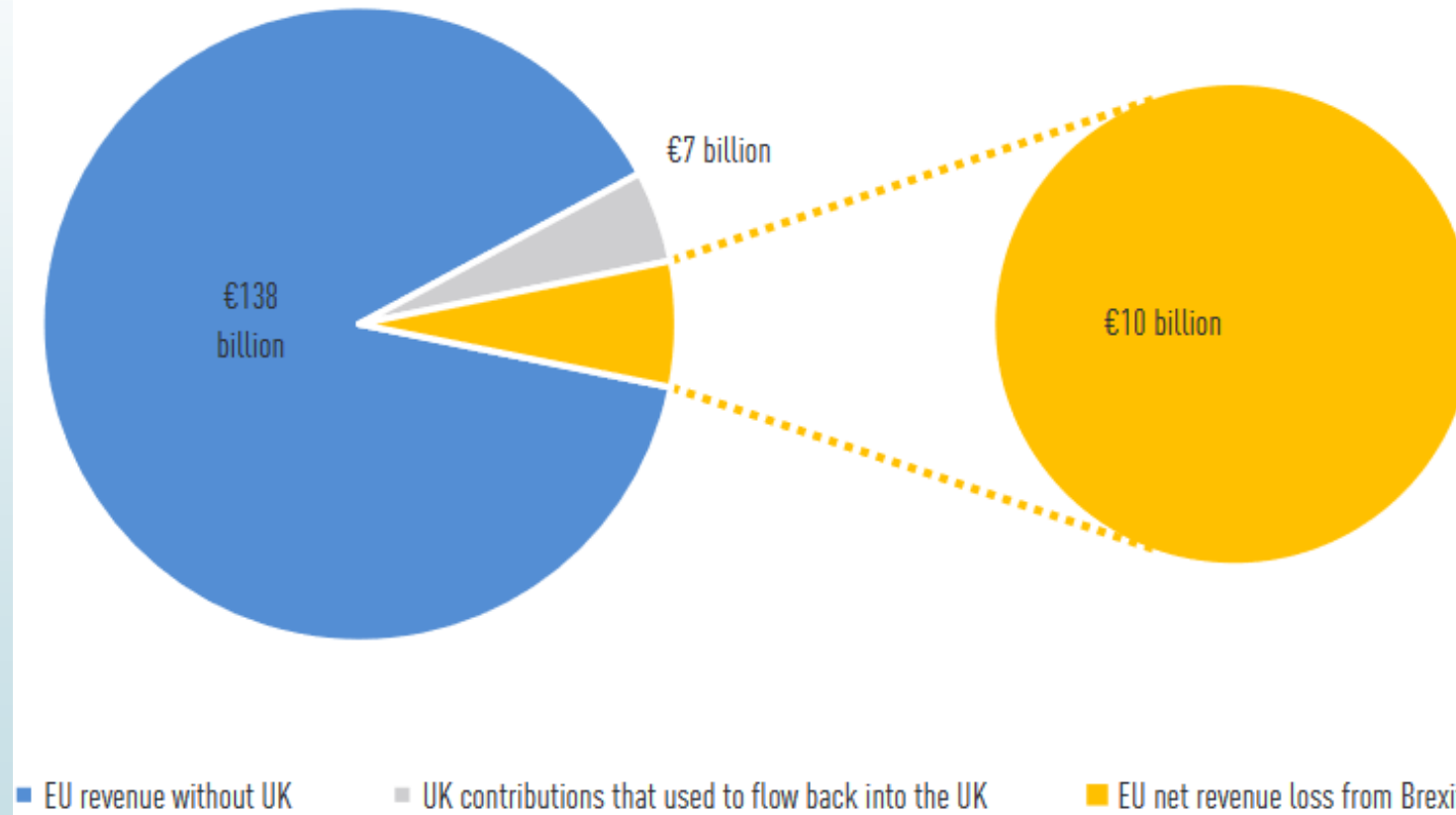
- 2,4mln: EU nationals working in the UK (on a total workforce of 32 mln people)
- 0,35%: UK real GDP growth contribution by EU born workers in 2005
- 0,71%: UK real GDP growth contribution by EU born workers in 2015
- 10 Y increase of 0,36%

- -2,7%: *best-case scenario* GDP reduction by 2030 (100.000/year immigration quota)
- -5%: *central scenario* GDP reduction by 2030 (67.000/year immigration quota)
- -7,5% *worst-case scenario* GDP reduction by 2030 (34.000/year immigration quota)

EU budget in light of Brexit

Opportunities and threats from UK withdrawal

How large would the yearly Brexit gap be?



EU budget in light of Brexit

Opportunities and threats from UK withdrawal

- €10-11bn/year: prudential estimation of UK budgetary commitments until 2020 (net of Thatcher rebate - €3bn/year)
- €24,5-72,8bn: estimated UK exit bill range (controversial issue)
- €5-17bn/year: estimated range of the possible budgetary gap after UK withdrawal
- Hot topics:
 1. Future negotiations of post 2020-2026 MFF;
 2. Potential entrenchments between net contributors (Germany, Austria, Netherlands and Sweden) and rebate beneficiaries

Relocation of the two EU agencies currently based in the UK

The 4-step procedure to decide on the new locations of the **European Medicines Agency** and the **European Banking Authority**:



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EU agencies relocation



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Defence Industry and Investments

Survey of Brexit views in UK defence, aerospace and space industry

Does EU membership have a positive or negative impact on your company?



● Positive
● Neutral
● Negative

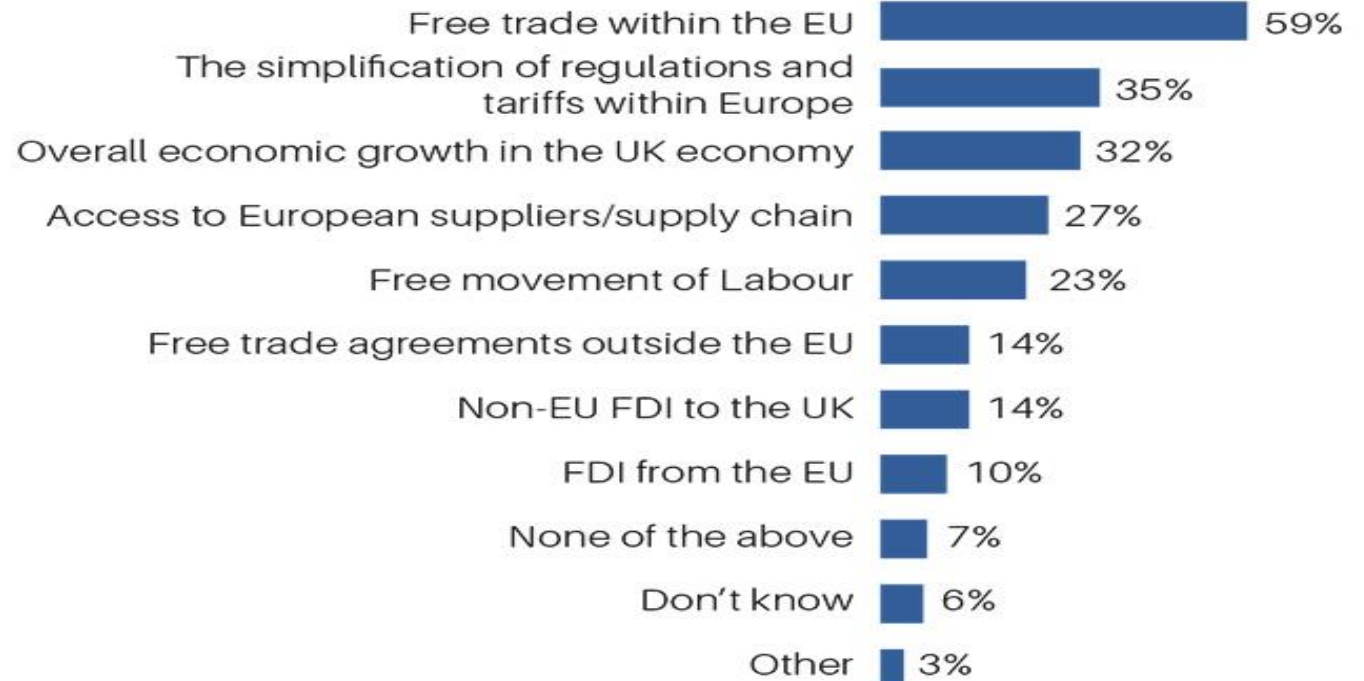
In the event of a referendum, would it be better to remain in or leave the EU?



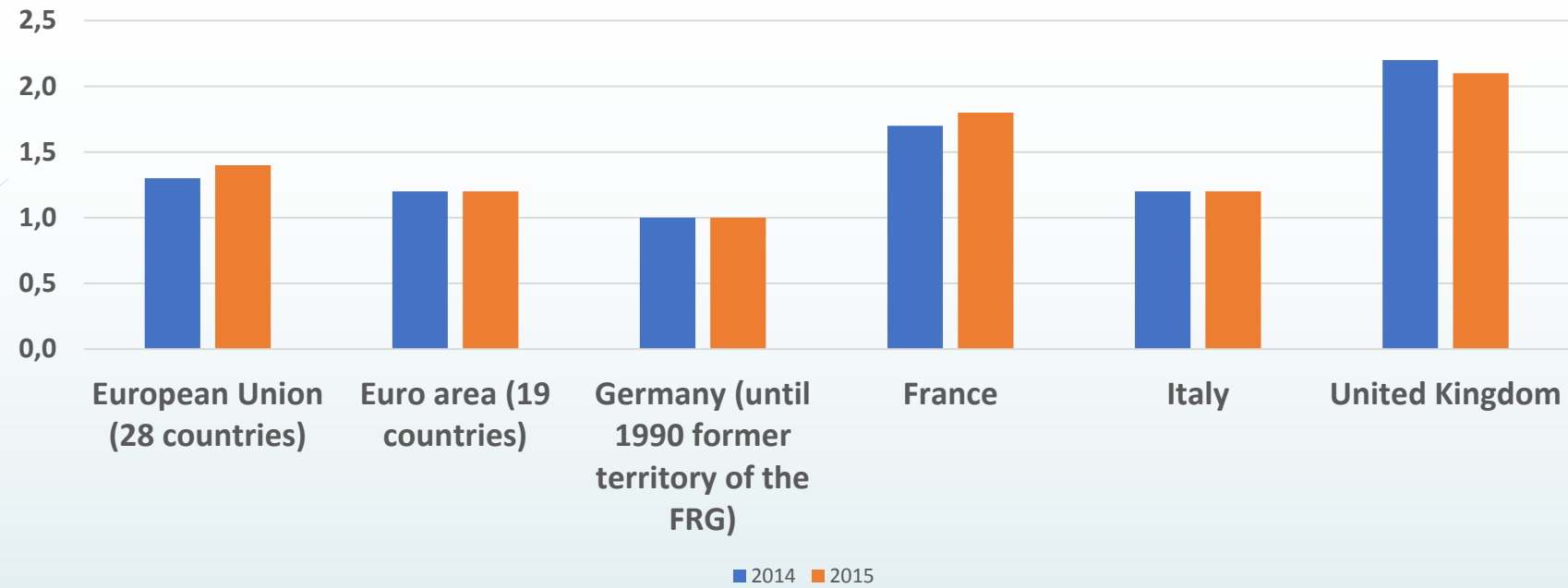
● Better to remain
● Don't know
● Better to leave

Free trade, cross-border simplification and growth are seen as benefits to the UK

Benefits to my business of the UK being in the EU



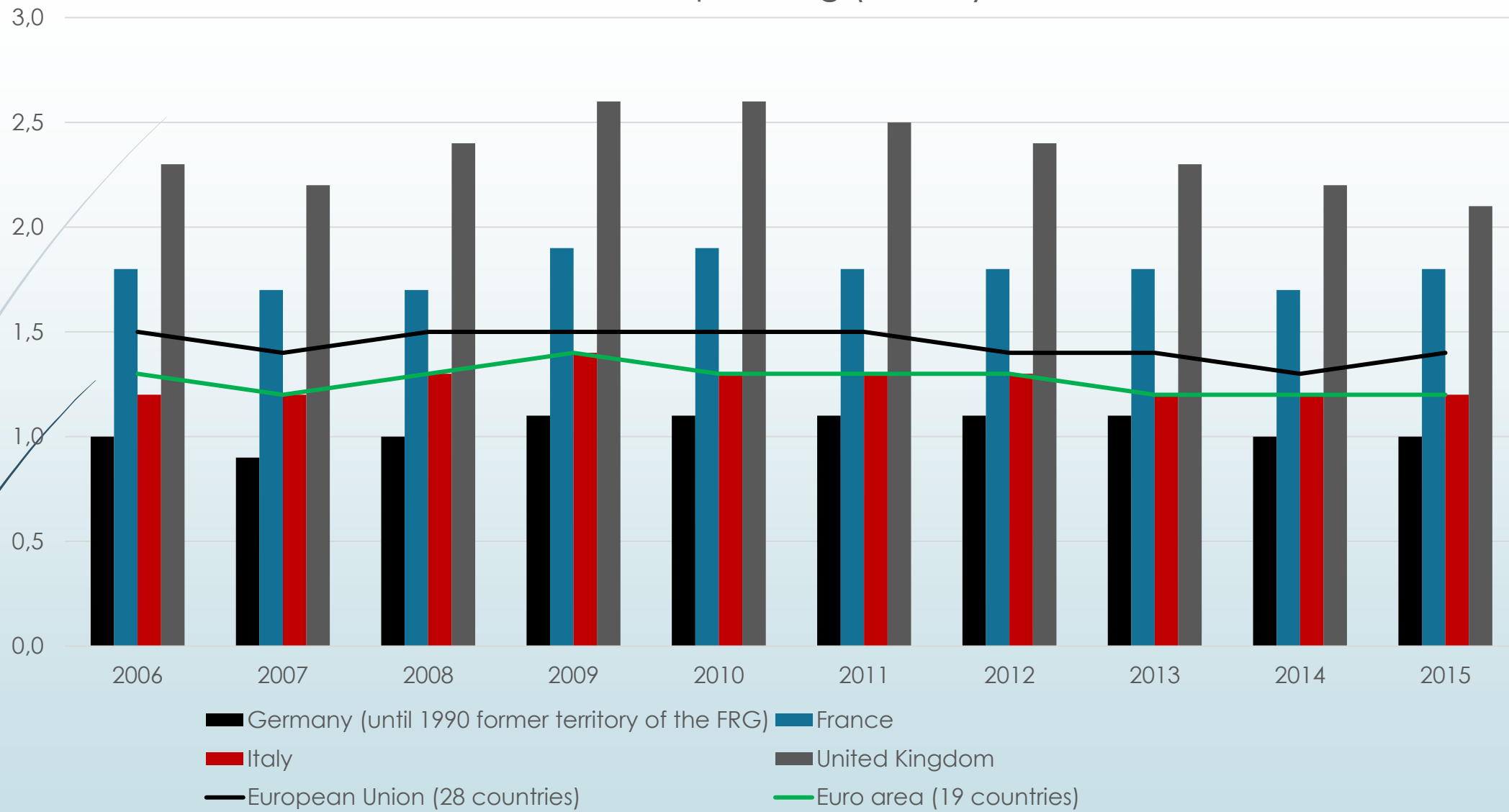
Defence Spending 2014-2015 (%GDP)



Defence and Security

- **20%: UK's share in EU's overall military power**
- **€97,3bn: the annual economic value of EU-UK joint military R&D: Leonardo (former Italian Finmeccanica) owns Selex and Agusta-Westland; Airbus and Thales joint ventures in the UK; Rolls-Royce takes part in the A400M transport-aircraft development (data from Aerospace and Defense Industries Association of Europe, 2015)**
- **2,1%: share of UK's GDP devoted to defence spending in 2016 (the highest, after Greece, in the EU28)**
- **In case of Brexit: the most probable scenario would be a reduction in overall GDP growth, forcing EU member to find alternative budgetary accommodations to fund Joint R&D under EDA**
- **In case of Brexit/2: potential loss of a major defence spender, partially vanishing the pooling and sharing policy recently laid out in the framework of a EU common defense**

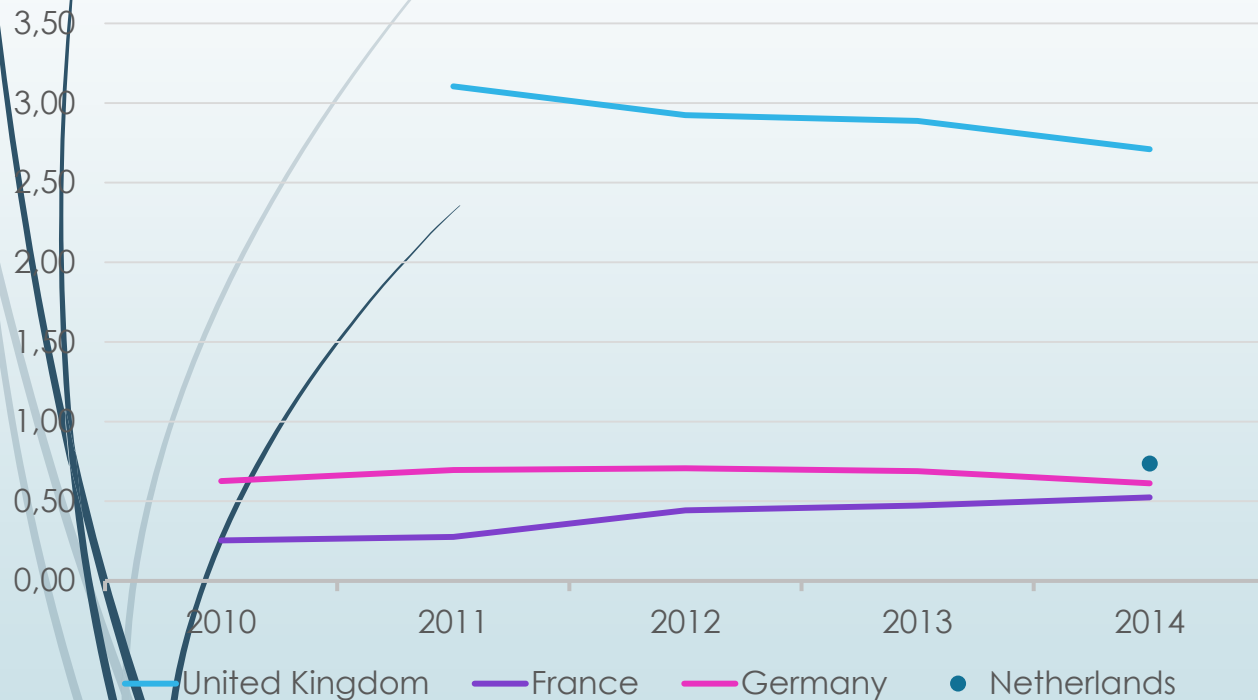
Defence Spending (%GDP)



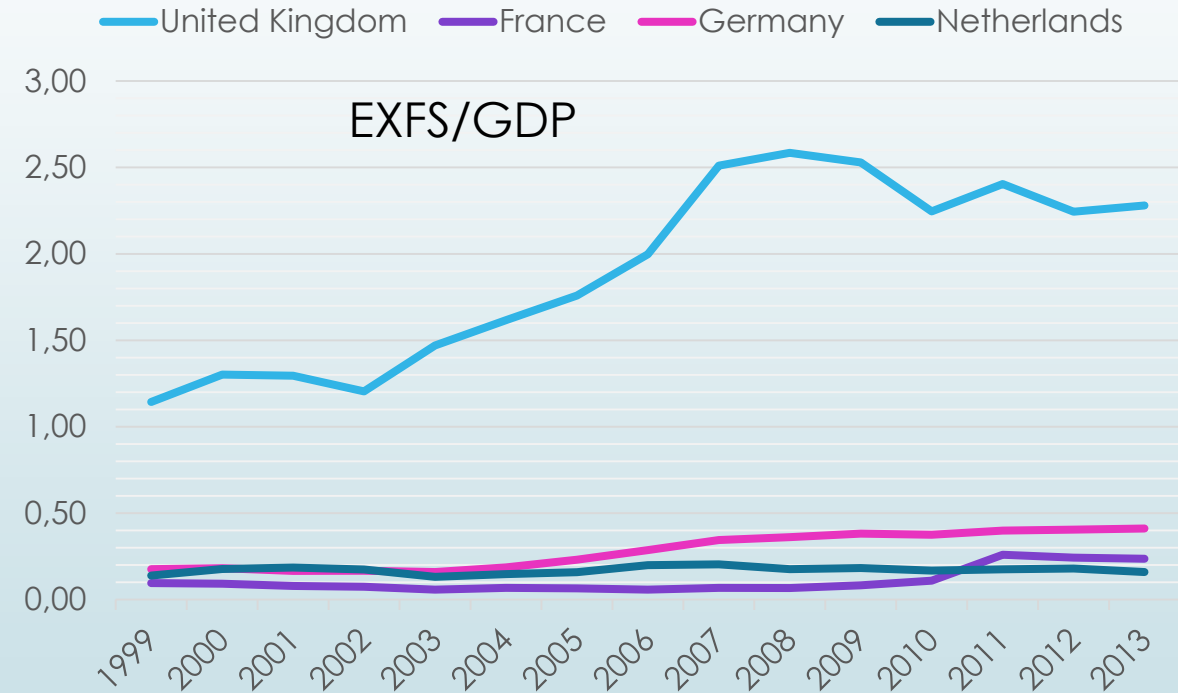
Source: Eurostat, own graph based on Eurostat data

Exports of financial services (% GDP)

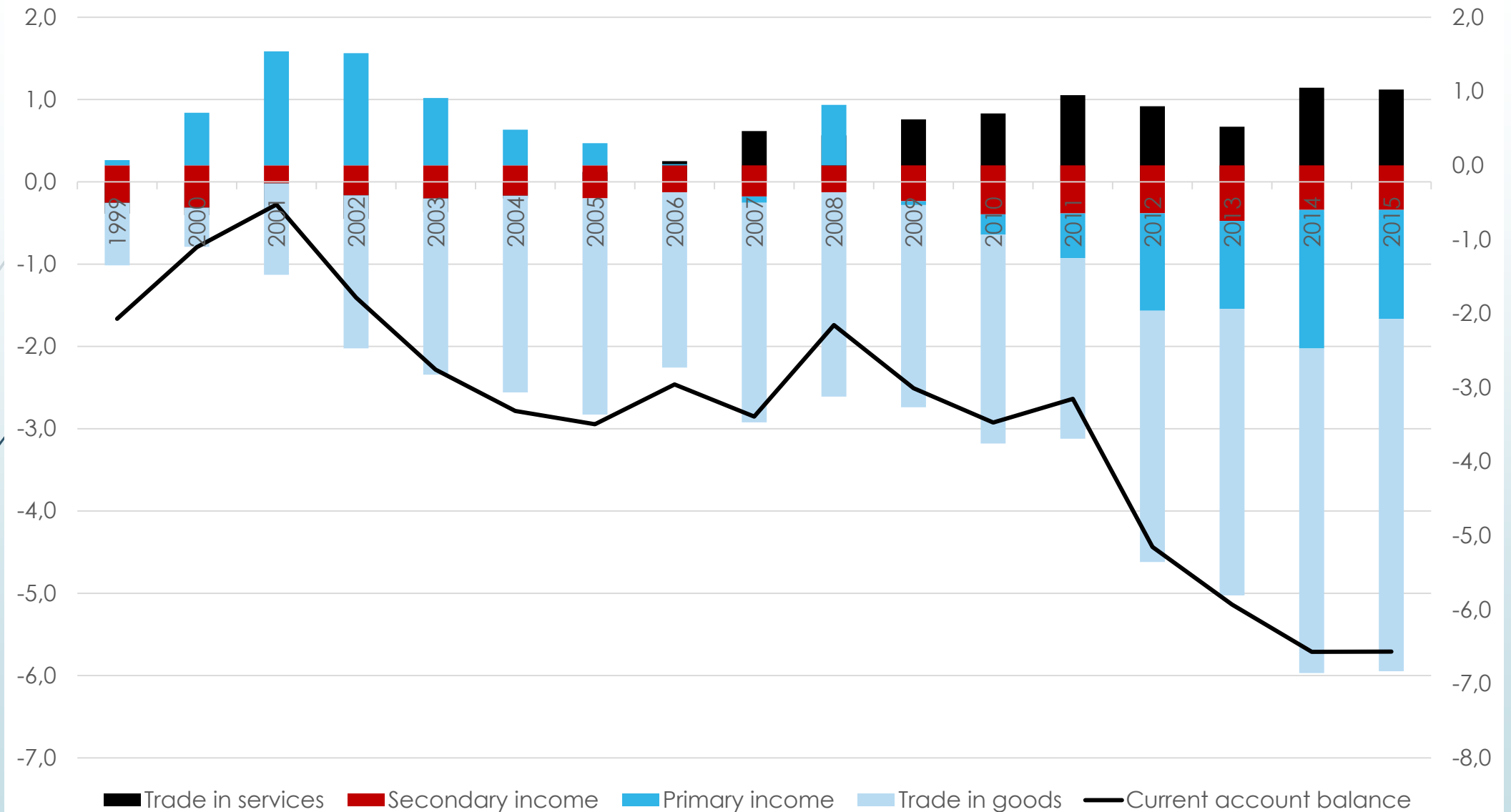
THE CITY IS THE LEADING
EUROPEAN (AND NOT ONLY)
FINANCIAL CENTRE



UK exports of FS took off in
2000s



UK Current Account deficit with EU - surplus in services (% GDP)



Source: 'The Economic Consequences of Brexit: a Taxing Decision', OECD 2016, Graph based on OECD data