

Brexit

Macroeconomic implications

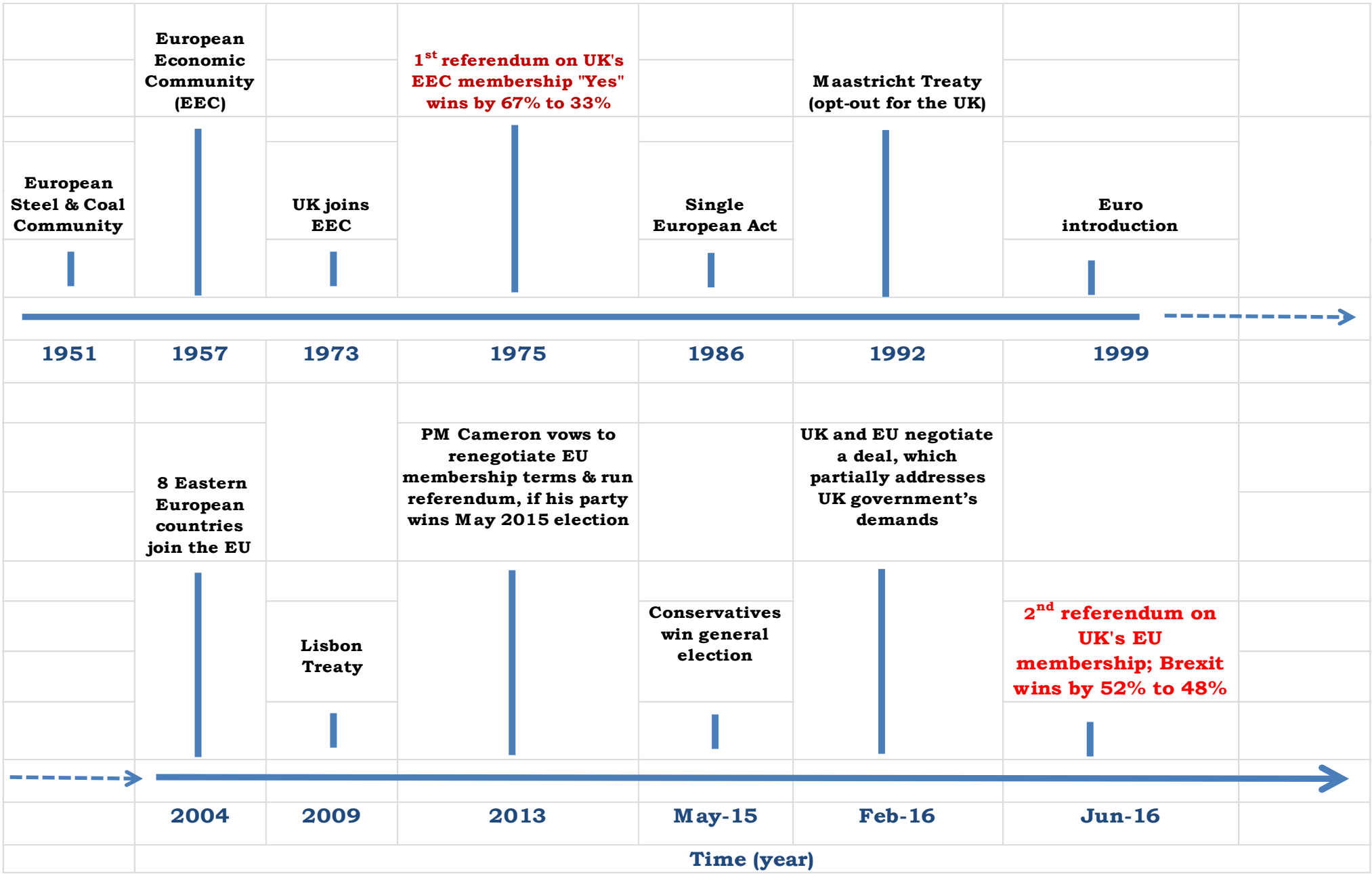
for the UK, the world economy & Greece



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UK's EU membership: partly in and partly out

Favoring single market and enlargement but opting-out from euro & Schengen



Source: Morgan Stanley (2016), Eurobank Economic Research

Brexit calls gain momentum after the outbreak of the euro area crisis

Daily Express the first mainstream national newspaper to support the case (Nov. 2010)

DAILY EXPRESS
THE WORLD'S GREATEST NEWSPAPER  express.co.uk SATURDAY JANUARY 9, 2011 **FREE**

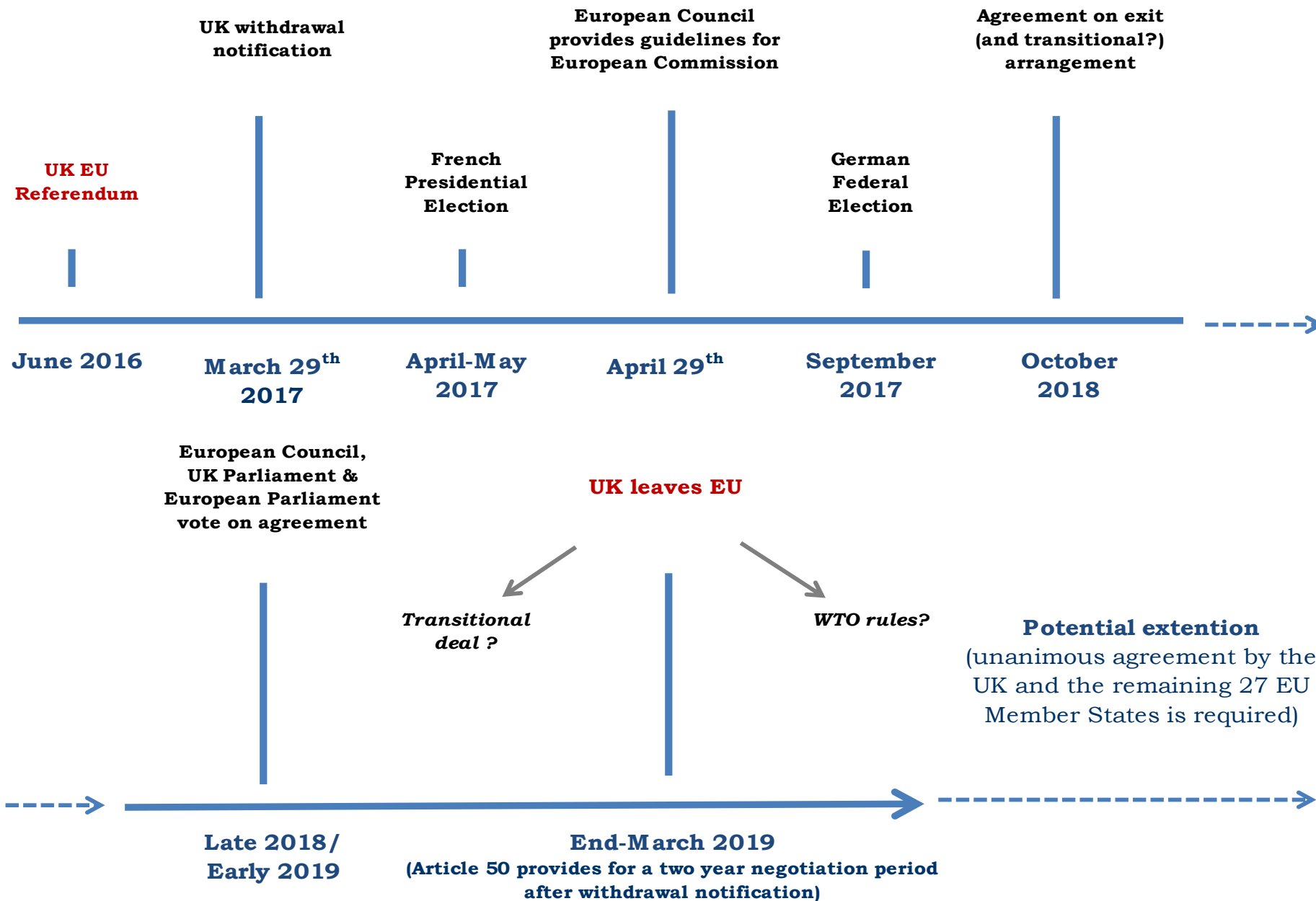
SPECIAL EDITION

GET BRITAIN OUT OF THE EU






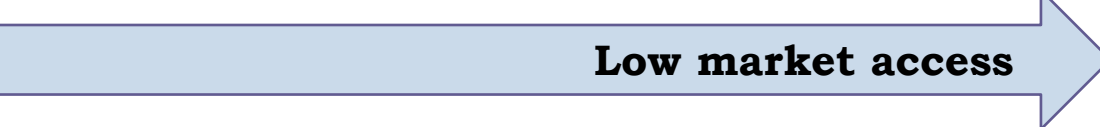
Negotiations may well take longer than 2 years

Unless the UK seeks no special access to the single market



Existing trade arrangements with the EU

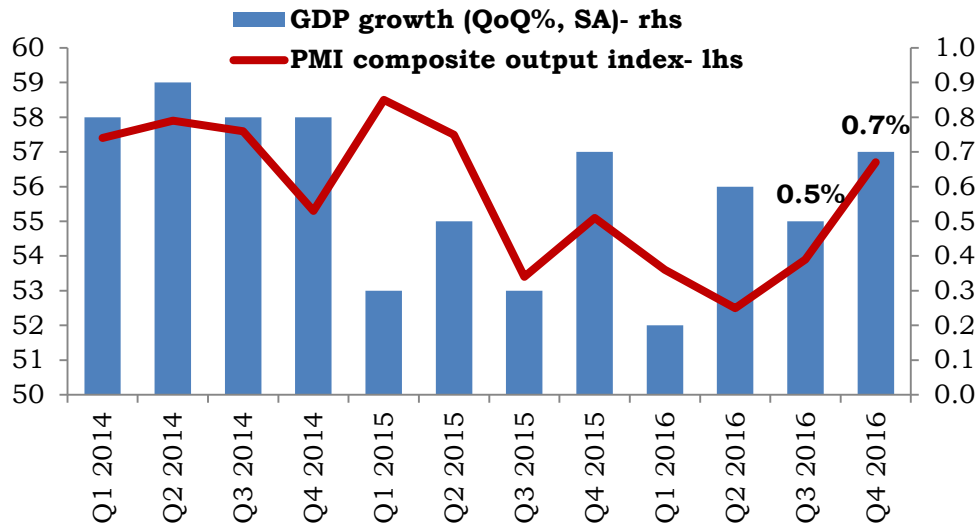
A tradeoff between access to the single market and independence

|   | | | | | | | |
|--|----------------------------|---------------------------|--------------------------------|---|-------------------------------|-------------------------|-------------|
| | Ability to ignore EU rules | Fiscal contribution to EU | Independent immigration policy | Independence to negotiate trade deals with non-EU countries | Ability to influence EU rules | Access to Single Market | Passporting |
| EU membership | Very limited | Yes | No | No | Yes | Full | Full |
| European Economic Area (EEA) Norway, Iceland, Liechtenstein | Limited | Yes | No | Yes | Limited | High | High |
| European Free Trade Association (EFTA) Switzerland | Partial | Yes | No | Yes | No | Medium | No |
| New UK-EU Free Trade Agreement (FTA) | ? | ? | Yes | Yes | No | ? | ? |
| WTO rules | Yes | No | Yes | Yes | No | No | No |
|   | | | | | | | |

The immediate period following the UK's EU referendum

Expectations for economic stagnation in H2-16 proved overly pessimistic...

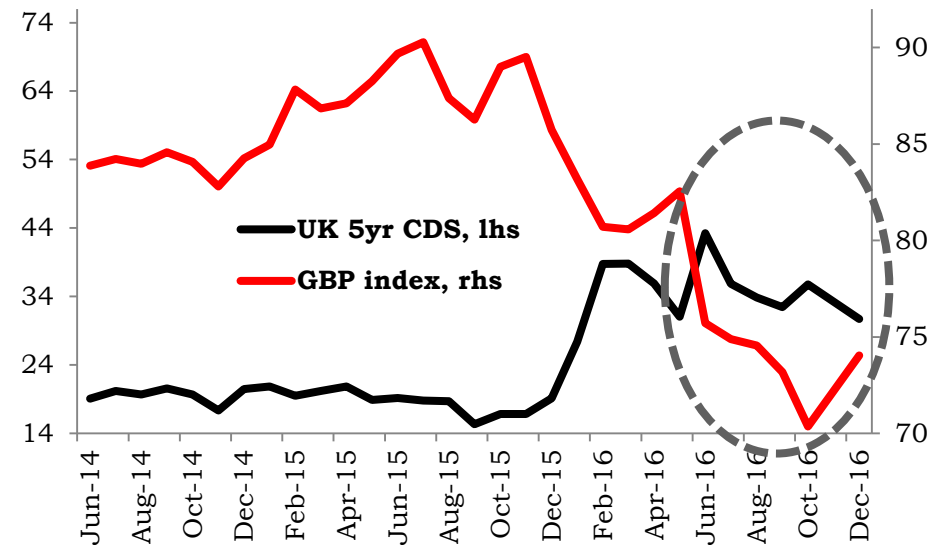
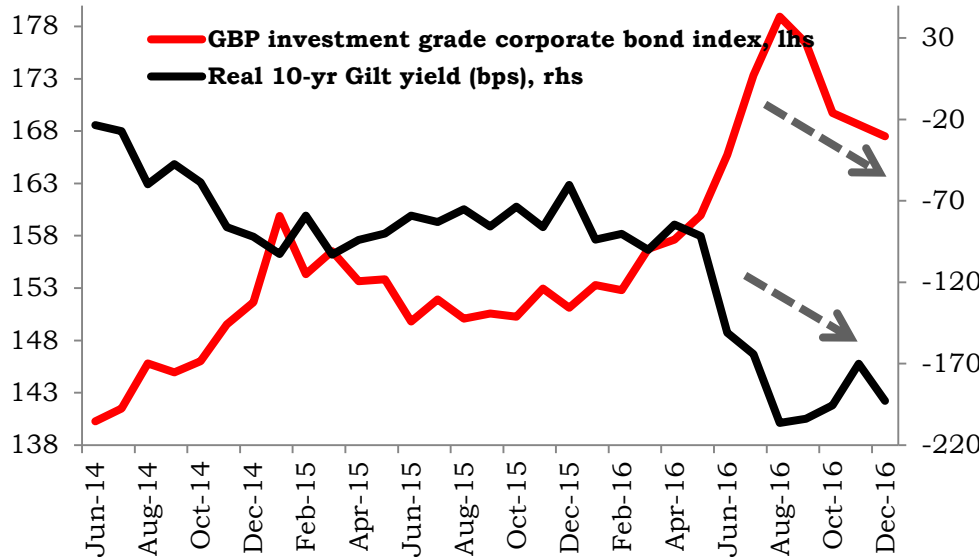
Economy remarkably resilient so far to Brexit uncertainty



□ The UK economy has defied stagnation expectations in the immediate aftermath of the EU referendum

- ✓ BoE's swift policy response
- ✓ Postponement of Article 50 activation to 2017
- ✓ Reduced political uncertainty
- ✓ GBP's post-referendum depreciation

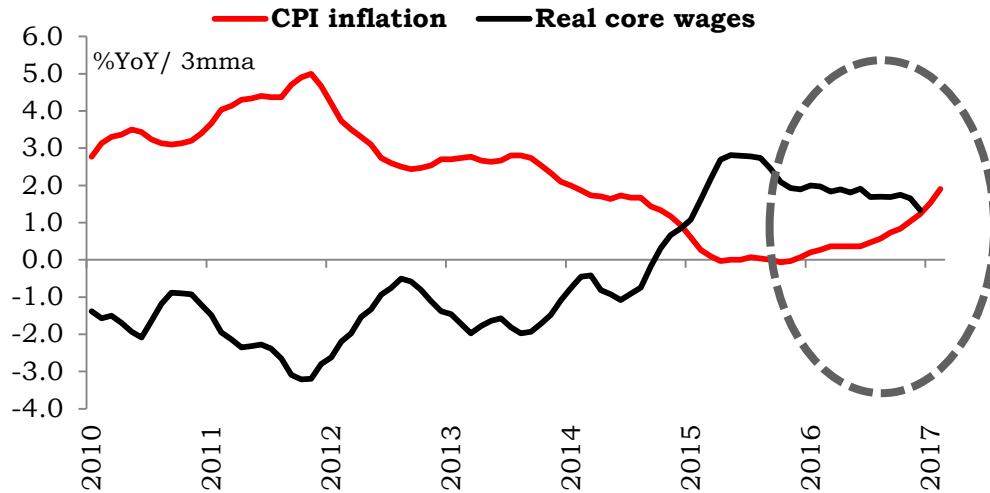
Easier financial conditions & weaker sterling helped to absorb post-referendum uncertainty



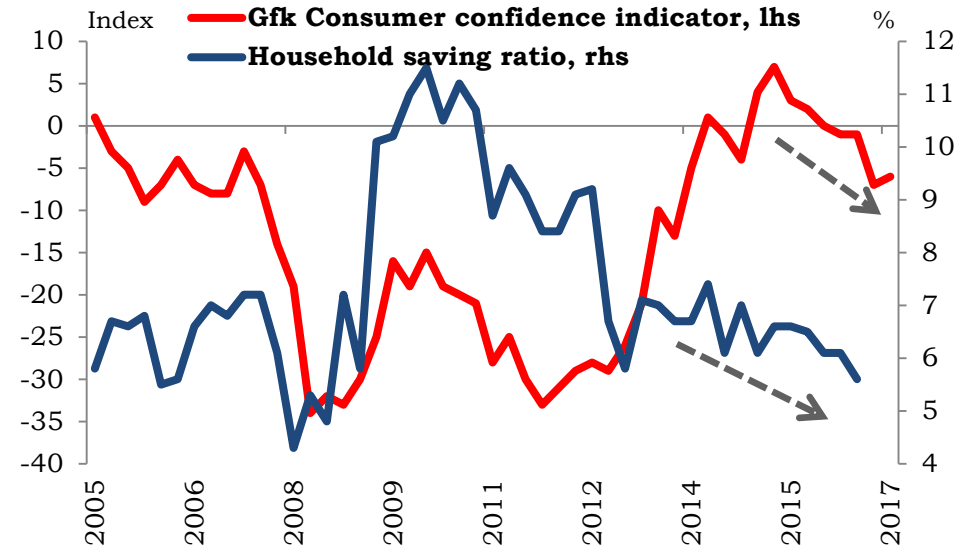
The immediate period following the UK's EU referendum

...but Brexit impact may become increasingly visible after Article 50's activation

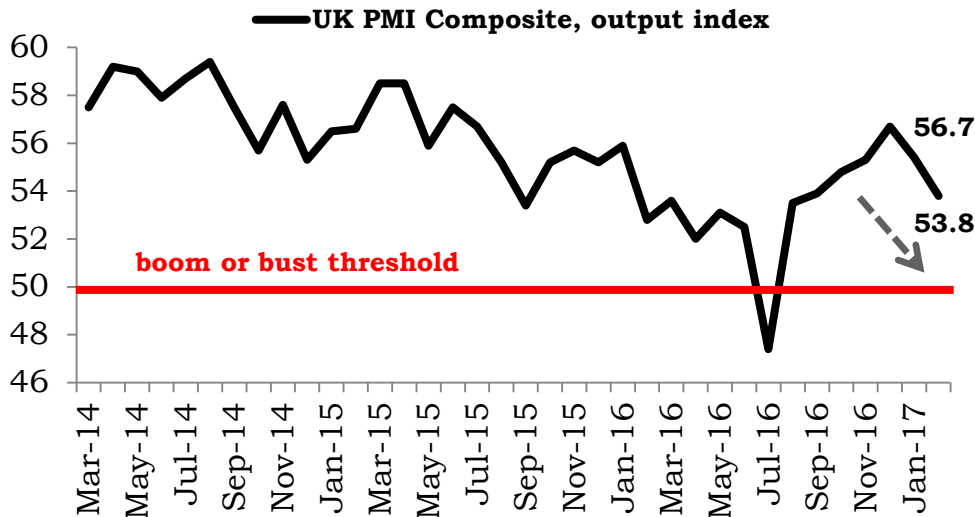
Sterling depreciation has boosted inflation, undermining real wage growth



Consumer confidence negatively affected by slowing real wage growth; saving rate close to record lows



UK PMI: has post-EU referendum rebound come to an end?



□ Brexit impact may become more visible following Article 50's activation

- ✓ Behavior of UK businesses & consumers will need to adjust in a prolonged period of increased uncertainty over the terms of the UK withdrawal & the new UK/EU association agreement

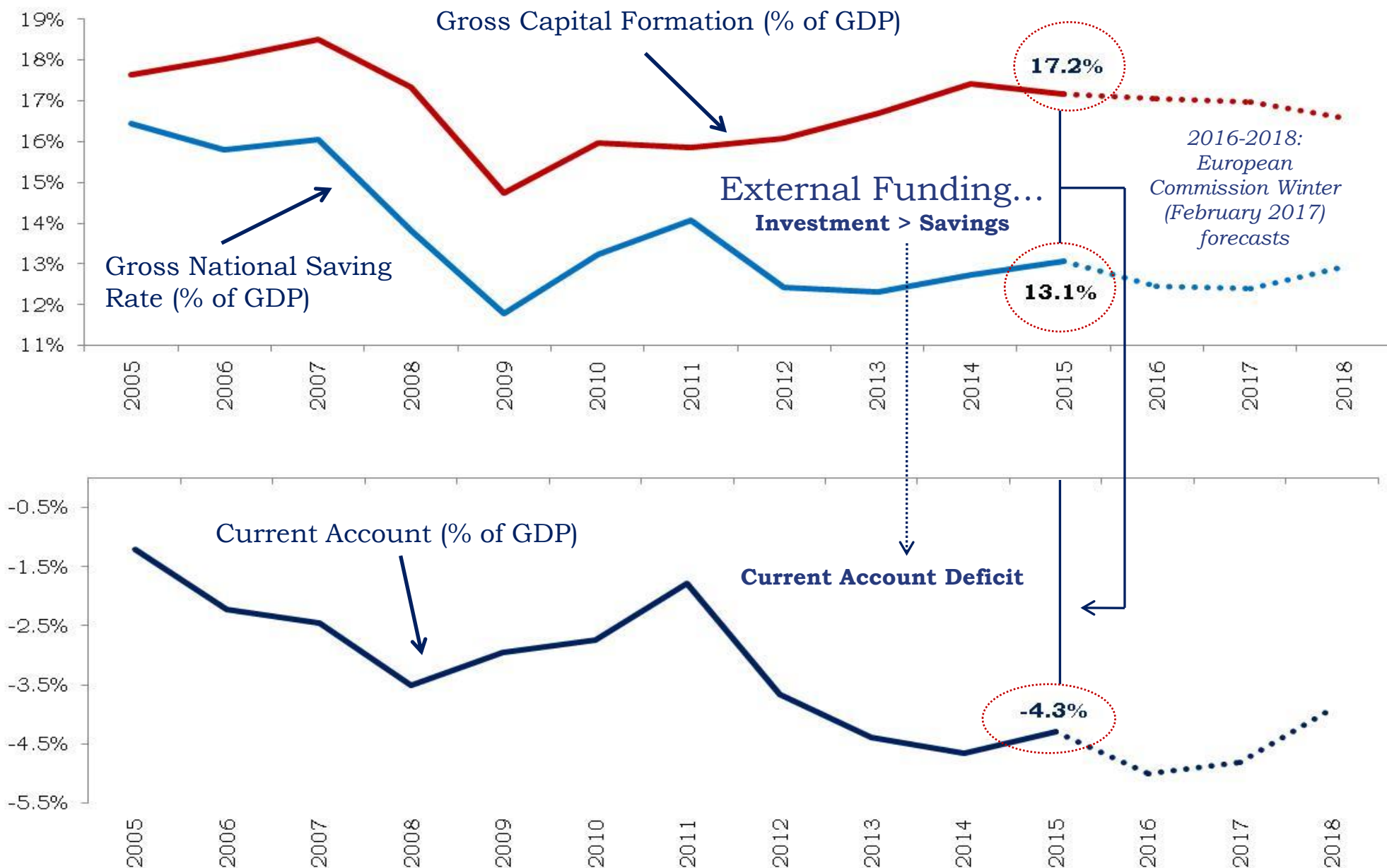
Most studies predict a permanent UK output loss due to Brexit

Direct and indirect effects of reduced trade with the EU; lower labor productivity

| Source | Brexit effect on the UK economy |
|--|---|
| Bertelsmann Stiftung (2015) | -3.0% to -0.6% of per capita GDP (static estimate) -14.0% to -0.2% of per capita GDP (dynamic estimate) |
| Dhingra et al. (2016a, 2016b) | -2.6% to -1.3% on incomes (static long-run trade effects) -9.5% to -6.3% on incomes (dynamic long-run trade effects) |
| HM Government (2016c, 2016d) | -6.0% to -3.6% of GDP (short-run) -9.5% to -3.4% of GDP (long-run) |
| Mansfield (2014) | -2.6% to +1.1% of GDP +0.1% of GDP (most likely scenario) |
| NIESR (Baker et al., 2016, Ebell and Warren, 2016) | -2.3% of GDP (short-run) -7.8% to -1.8% of GDP (long-run) |
| OECD (2016) | -3.3% of GDP (medium-term, up to 2020) -7.7% to -2.7% of GDP (long-run, up to 2030) |
| Open Europe (2015) | -2.2% to +1.6% of GDP (Politically realistic range: -0.8% to +0.6% of GDP) |
| Ottaviano et al. (2014) | -1.1 to -3.1% of GDP |
| Oxford Economics (2016) | -3.9% to -0.1% of GDP (long-run) |
| PwC (2016) | -5.5% to -3.0% of GDP (medium-term) -3.5% to -1.2% of GDP (long-term) |
| Minford (2016) | +4.0% of GDP |

UK's large CA deficit requires substantial inflows for its financing

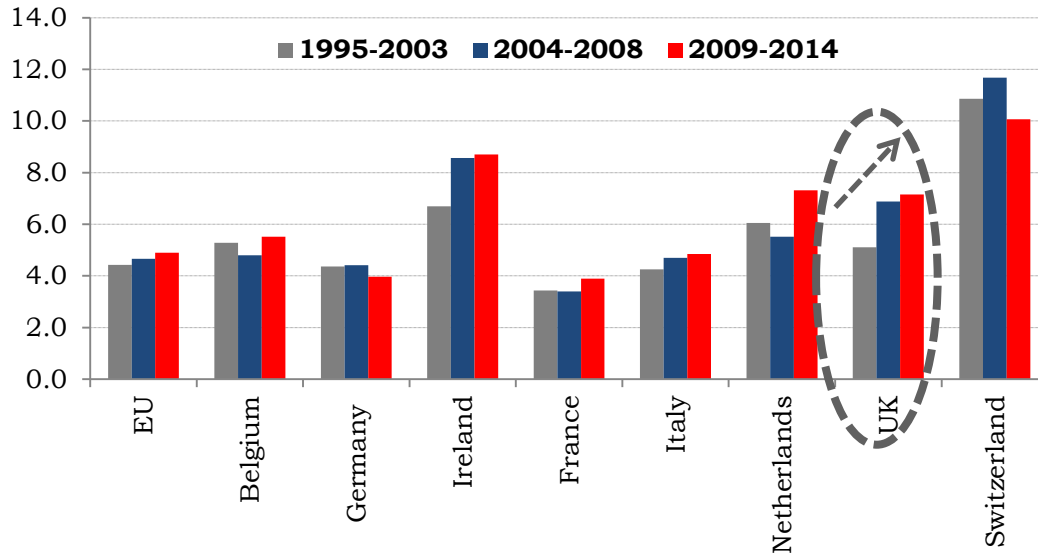
Or else a slowdown in domestic demand (investments) an increase of national savings and/or a permanent exchange rate depreciation to restore external equilibrium



Financial sector: a key component of the UK economy

Highly susceptible to loss of access to the single market (passporting)

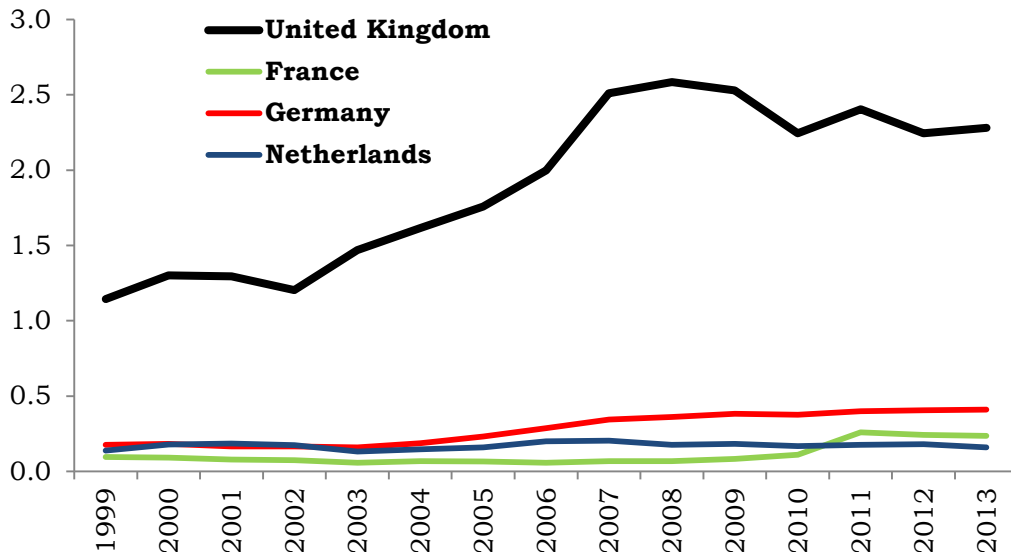
Financial & Insurance activities (share of Gross Value Added)



□ The UK financial sector generates about 8% of national income, c. 50 percent above the EU average

□ UK trade in financial services as a percentage of GDP has risen significantly since early 1990, much faster than in other major EU economies

Exports of financial services (as a % of GDP)

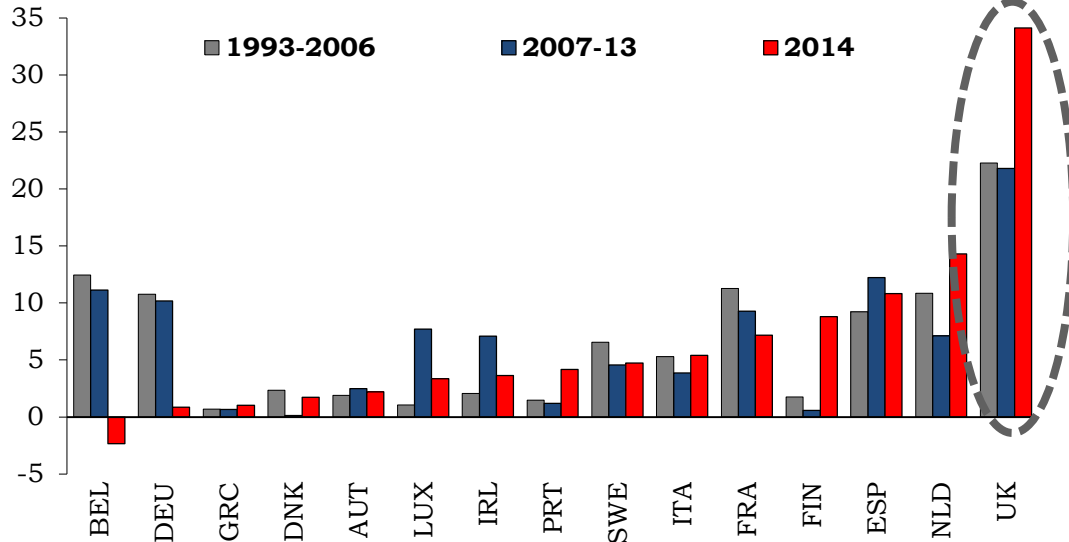


□ The UK financial sector is a key component of the UK economy and highly exposed to a loss of access to the single market

The UK economy is highly dependent on inward FDI

Much of it comes from other EU countries

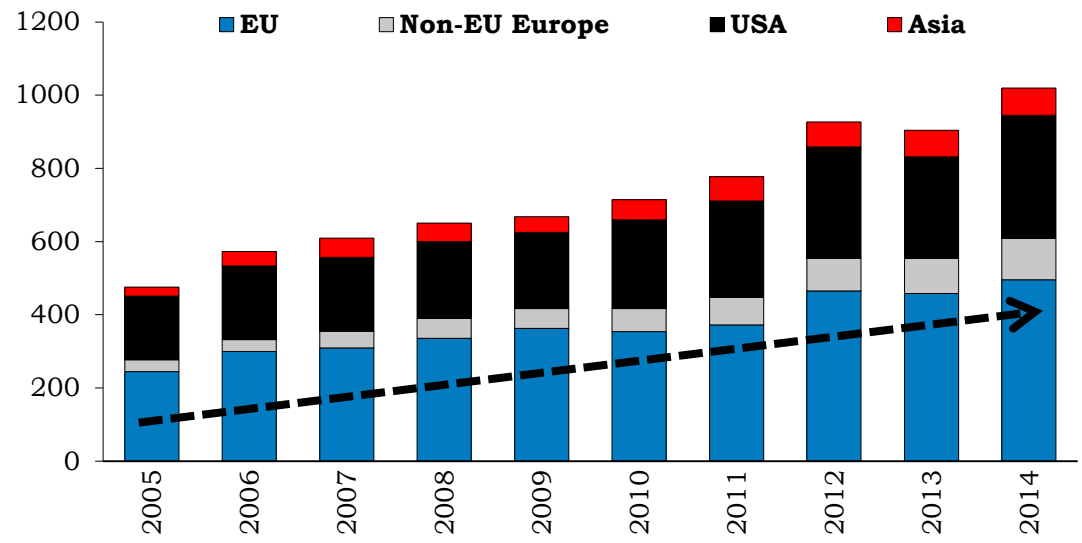
Share in FDI inflows to the EU-15
(annual average %)



□ The total stock of FDI in the UK exceeds 1 trillion GBP, representing around 57% of the country's GDP

□ Almost 50% of it comes from the rest of the EU, with the Netherlands, France, Luxemburg and Germany making the largest contributions

Inward FDI to the UK
By country/region of origin (GBP billion)

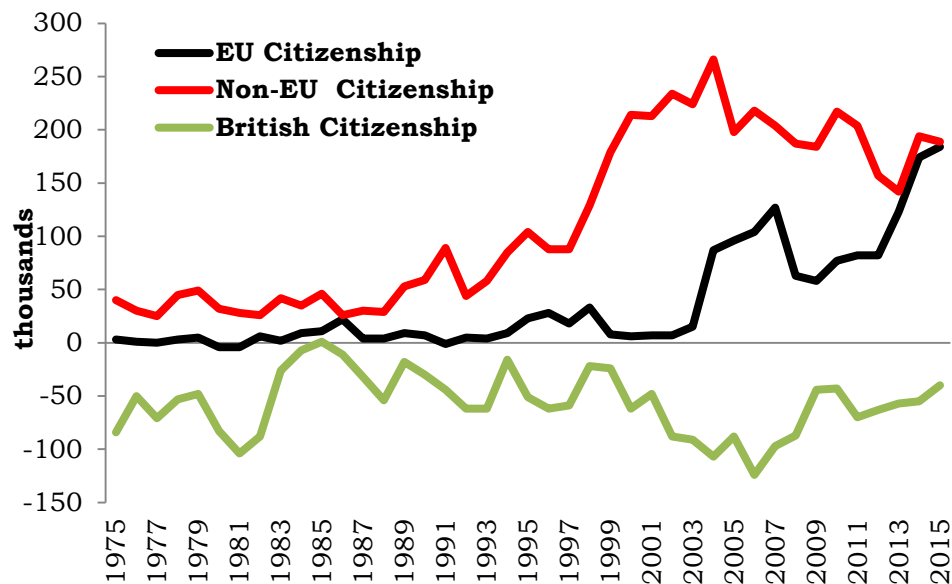


□ If access to the single market were lost, the UK might become a less attractive destination for FDI inflows, with negative repercussions for investment, export capacity and productivity

EU immigration to the UK

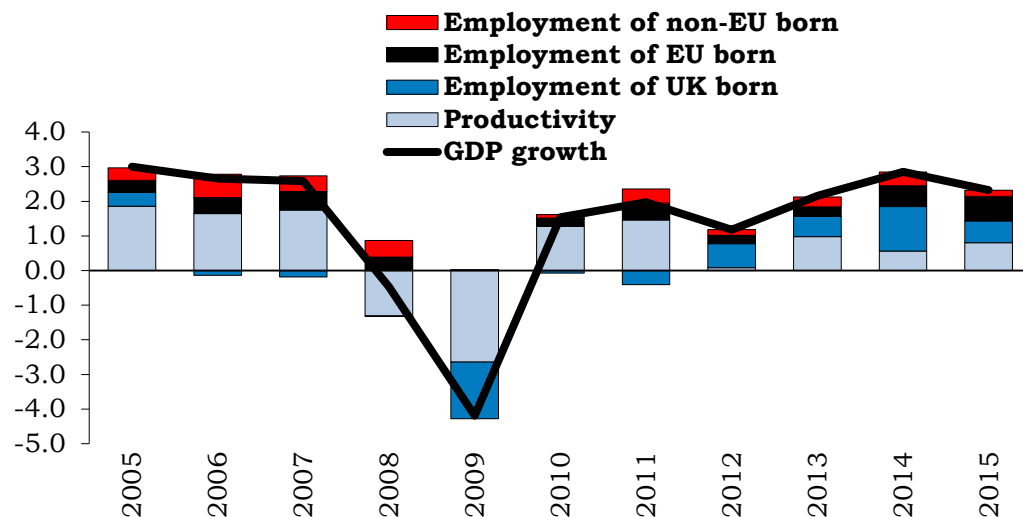
Considerable contribution to UK output & productivity

Long-Term International Net Migration by Citizenship



- ❑ The number of EU migrants to the UK has increased considerably in recent years, accounting to nearly half of net migration flows
- ❑ Empirical analysis suggests that migrants have contributed considerably to UK GDP and productivity growth
- ❑ Special studies on the UK labor market do not provide conclusive evidence that EU migrants have caused job losses and lower wages for UK natives

Real GDP growth-contributions (in pps)

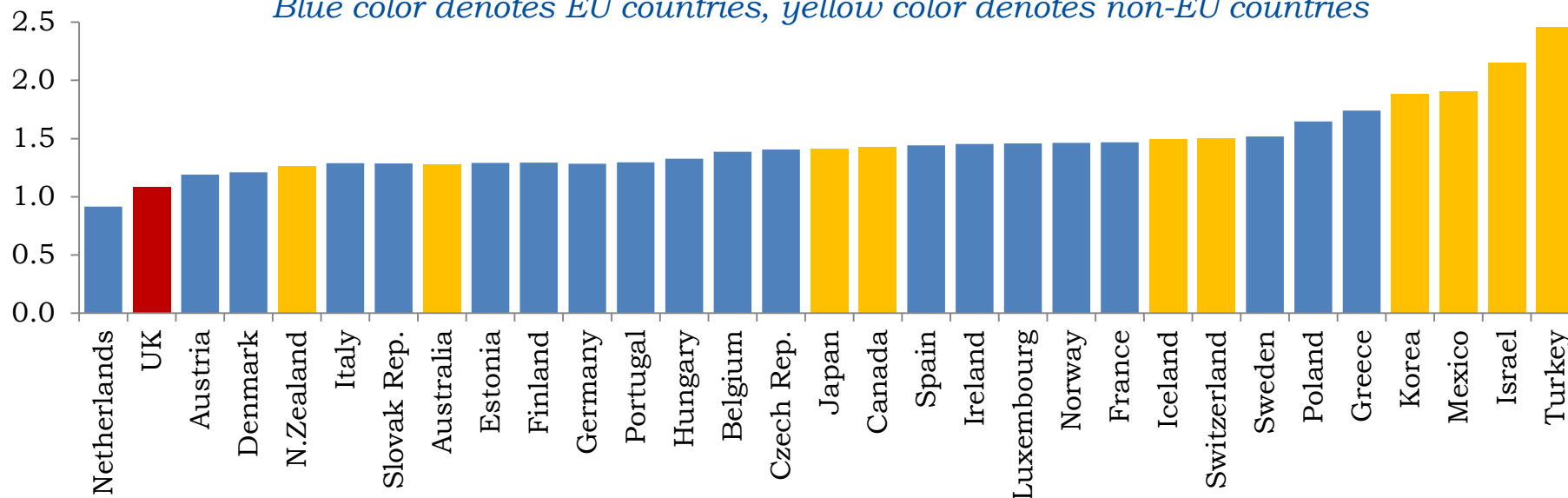


UK is already among the least regulated markets in the developed world

How much room for additional gains from “de-Europeanising Britain”?

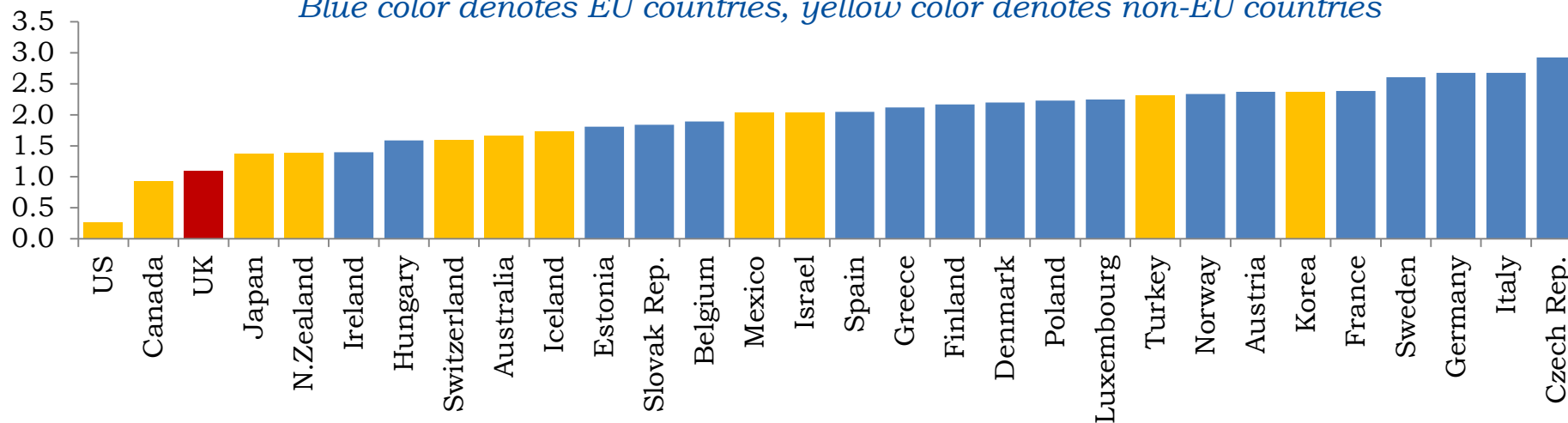
OECD Product Market Regulation Indices Comparison, 2013

Blue color denotes EU countries, yellow color denotes non-EU countries



OECD Strictness of Employment Protection - individual dismissals (regular contracts), 2013

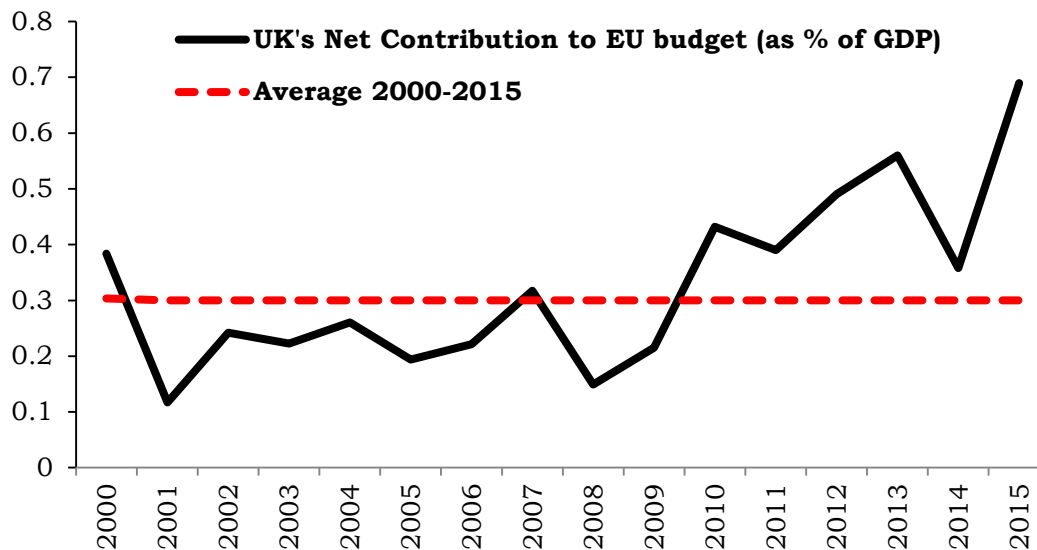
Blue color denotes EU countries, yellow color denotes non-EU countries



UK's contribution to the EU budget among the lowest as % of GDP

How large might the gains from Brexit be?

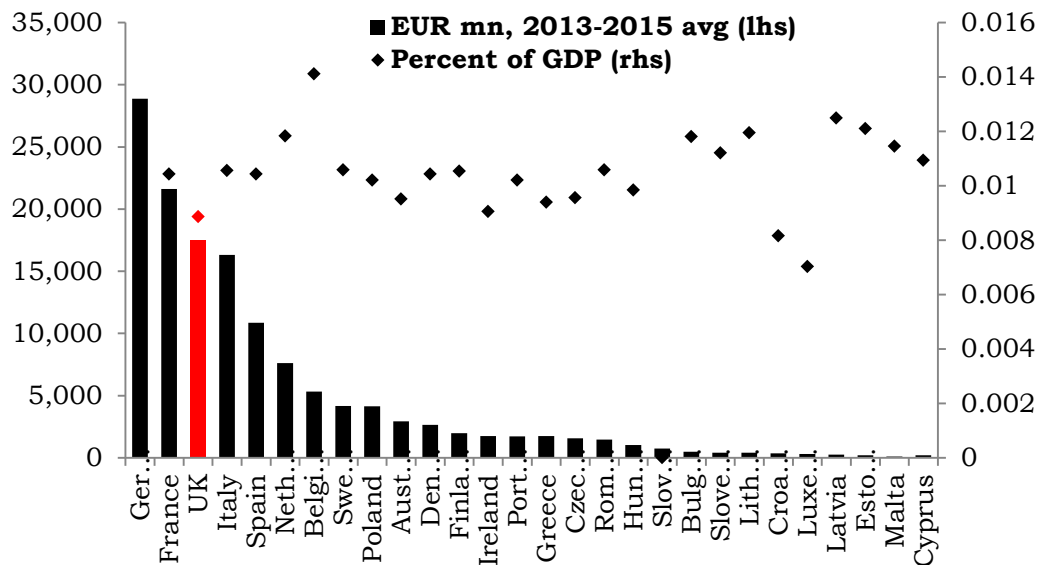
UK is a net contributor to the EU budget



□ UK's net contribution to the EU budget has averaged €5.5bn per annum (c. 0.3%-of-GDP) in 2000-2015, lower than that of Austria, Denmark, Finland, France, Germany, Italy, the Netherlands and Sweden

□ If the UK were to retain some access to the single market it would find it difficult to avoid payments to the EU budget (e.g. the Norwegian and Swiss models of association come with fiscal costs)

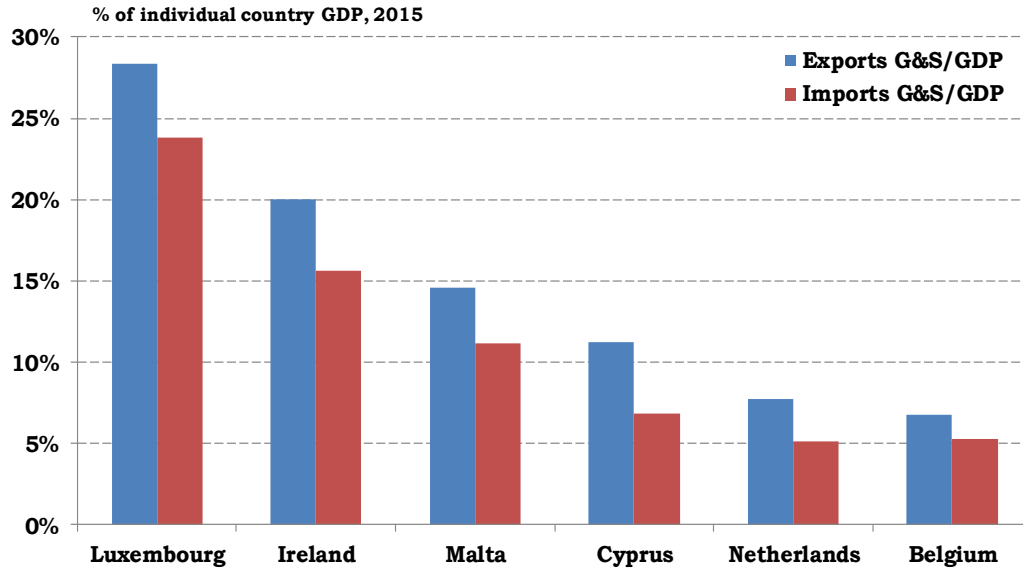
Nominal gross contribution to the EU budget



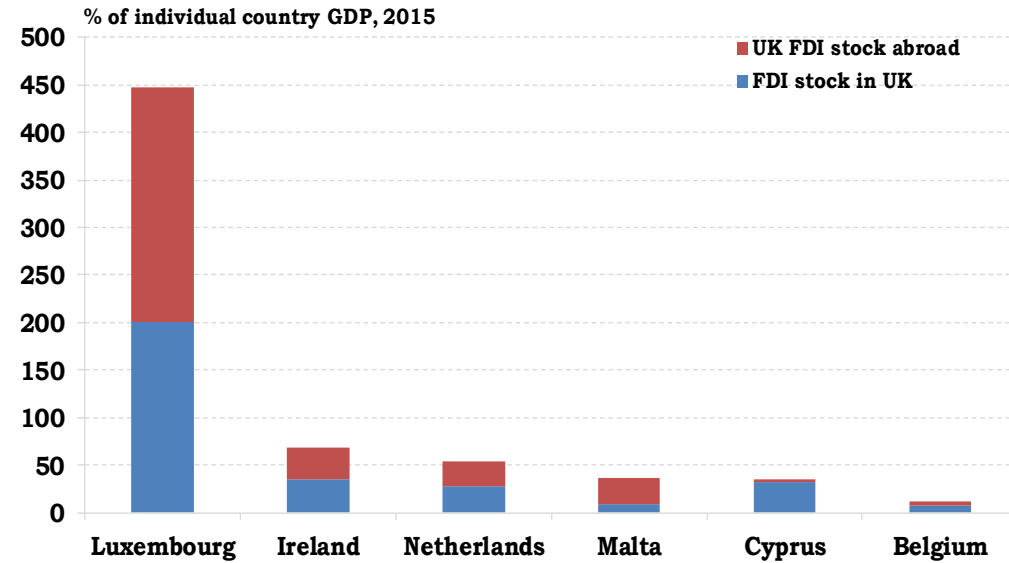
Brexit: implications for the EU-27

Luxemburg, Ireland, Malta, Cyprus, the Netherlands and Belgium are relatively more susceptible to Brexit risks

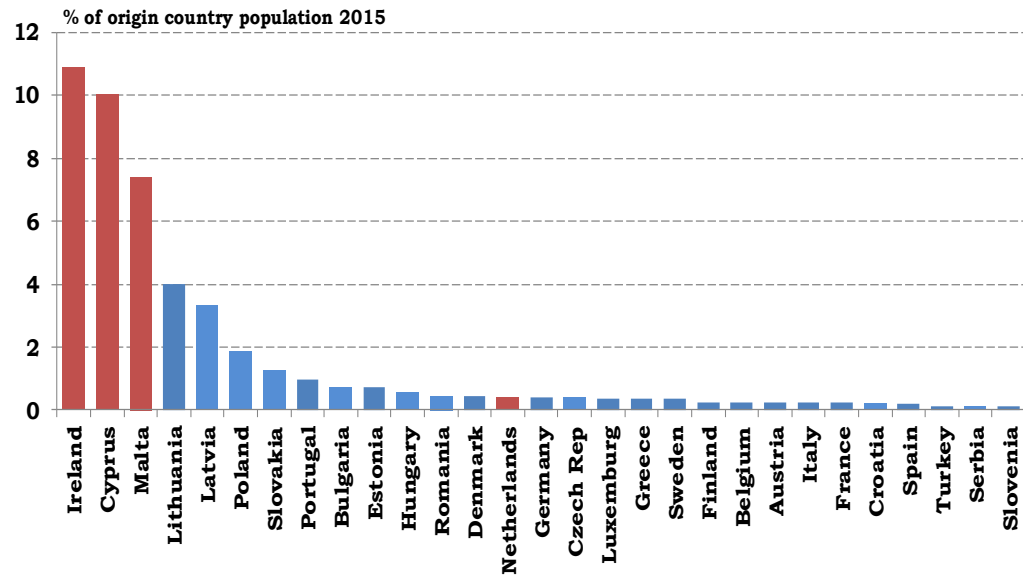
High direct trade ties with UK



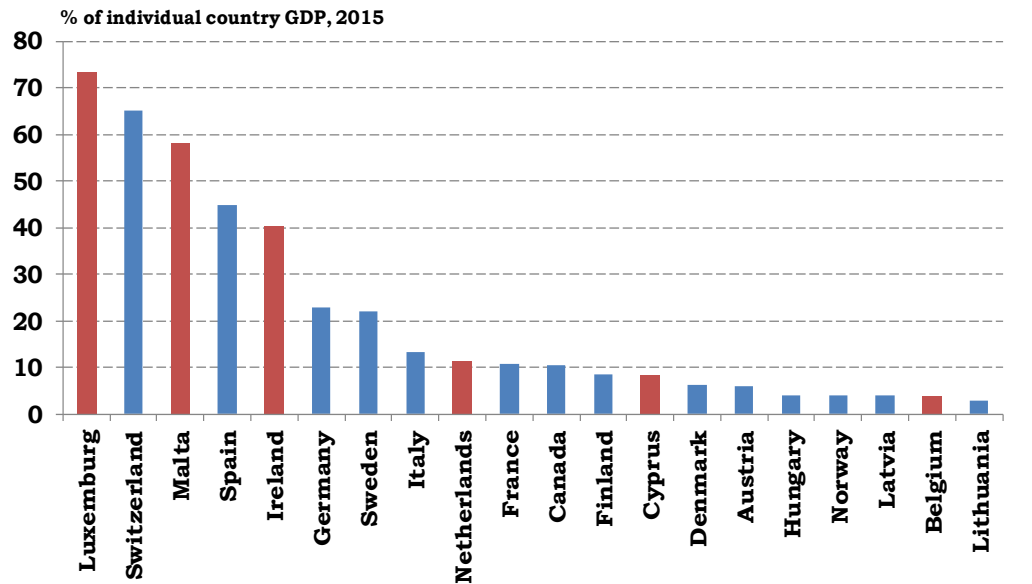
High FDI exposure



Migrants in the UK



Financial Sector Claims (ultimate risk basis)



Greece's overall external trade balance in goods & services with the UK

Based on FY-2015 data

Greece's external balance of services with the UK (2015)
(surplus +€2,678 mn)



Total balance
(+€2,525mn or
1.4% of GDP)

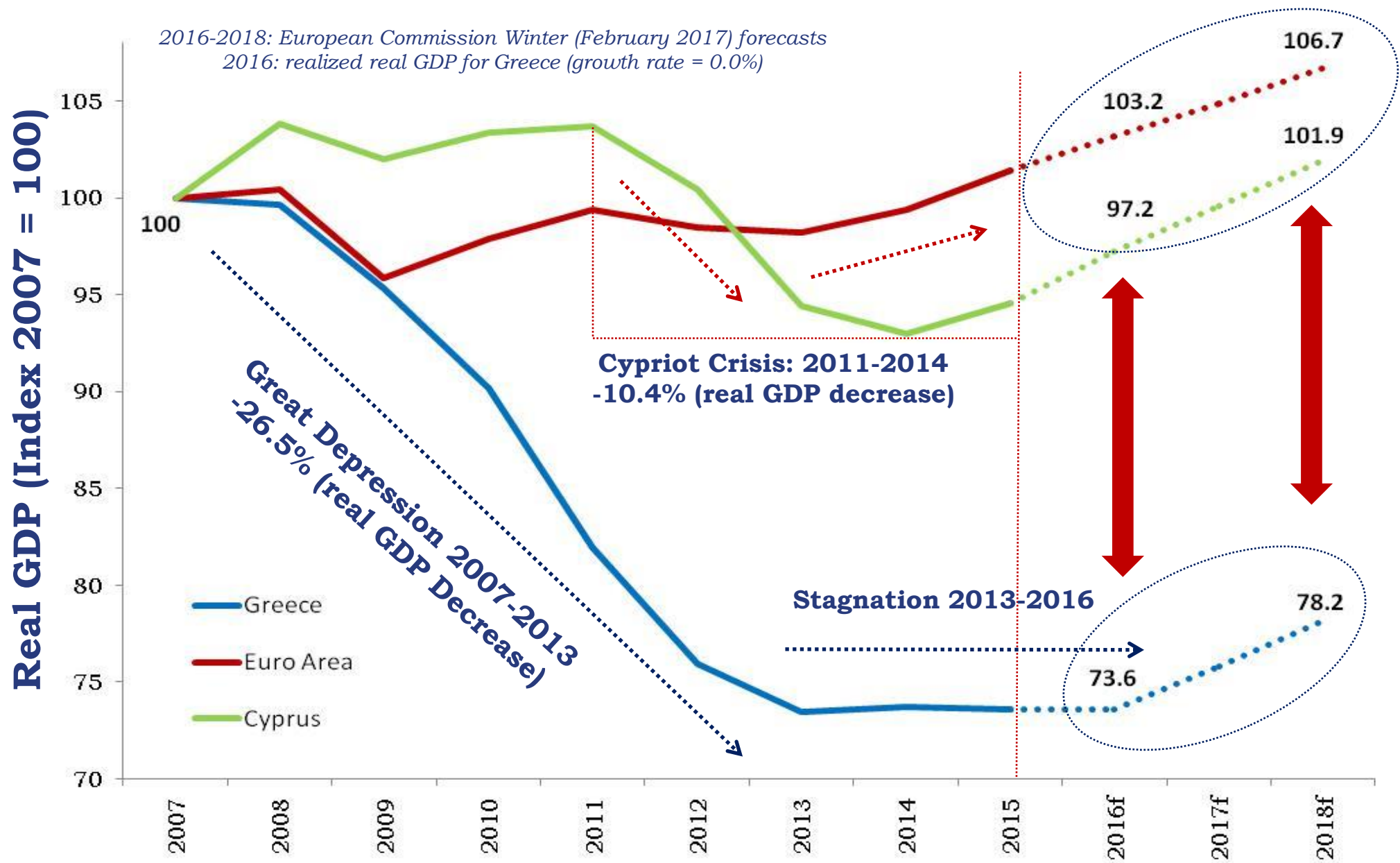


Greece's external balance of goods with the UK (2015)
(deficit -€153.4 mn)



Greece 2007-2016

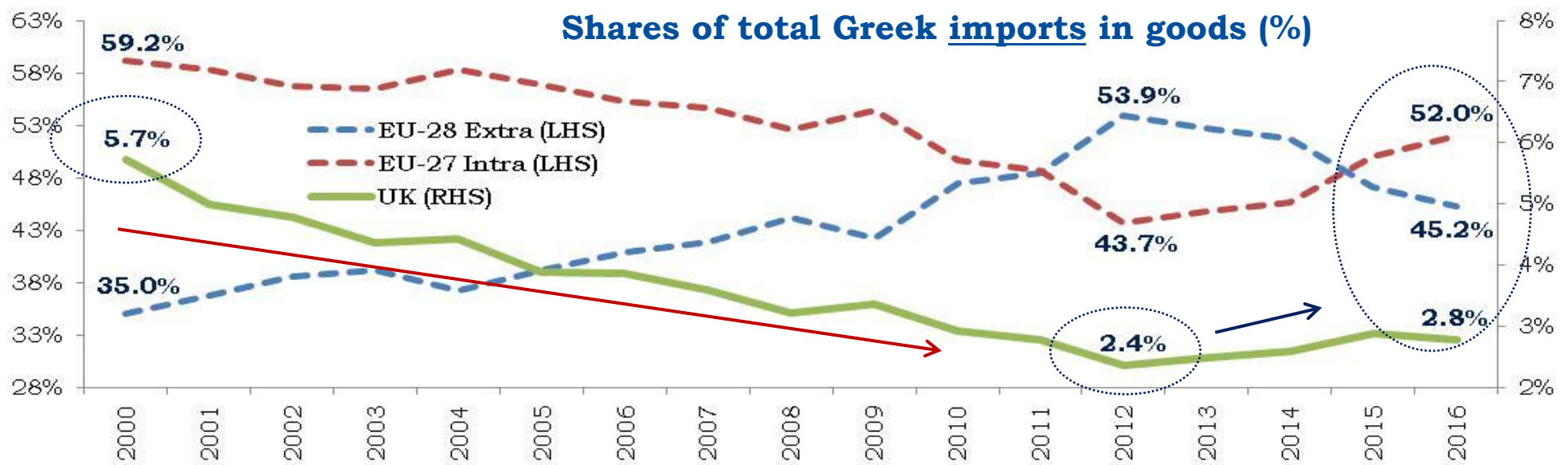
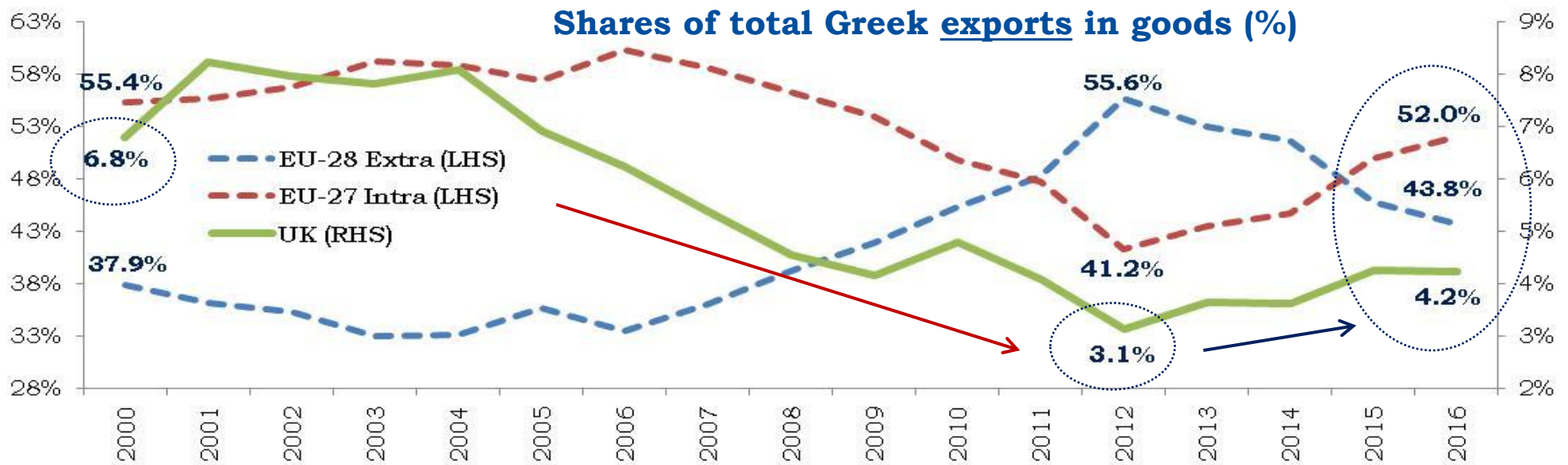
From a "Great depression" to a "Great stagnation"?



Appendix

Greece: relatively low direct merchandise trade linkages with the UK

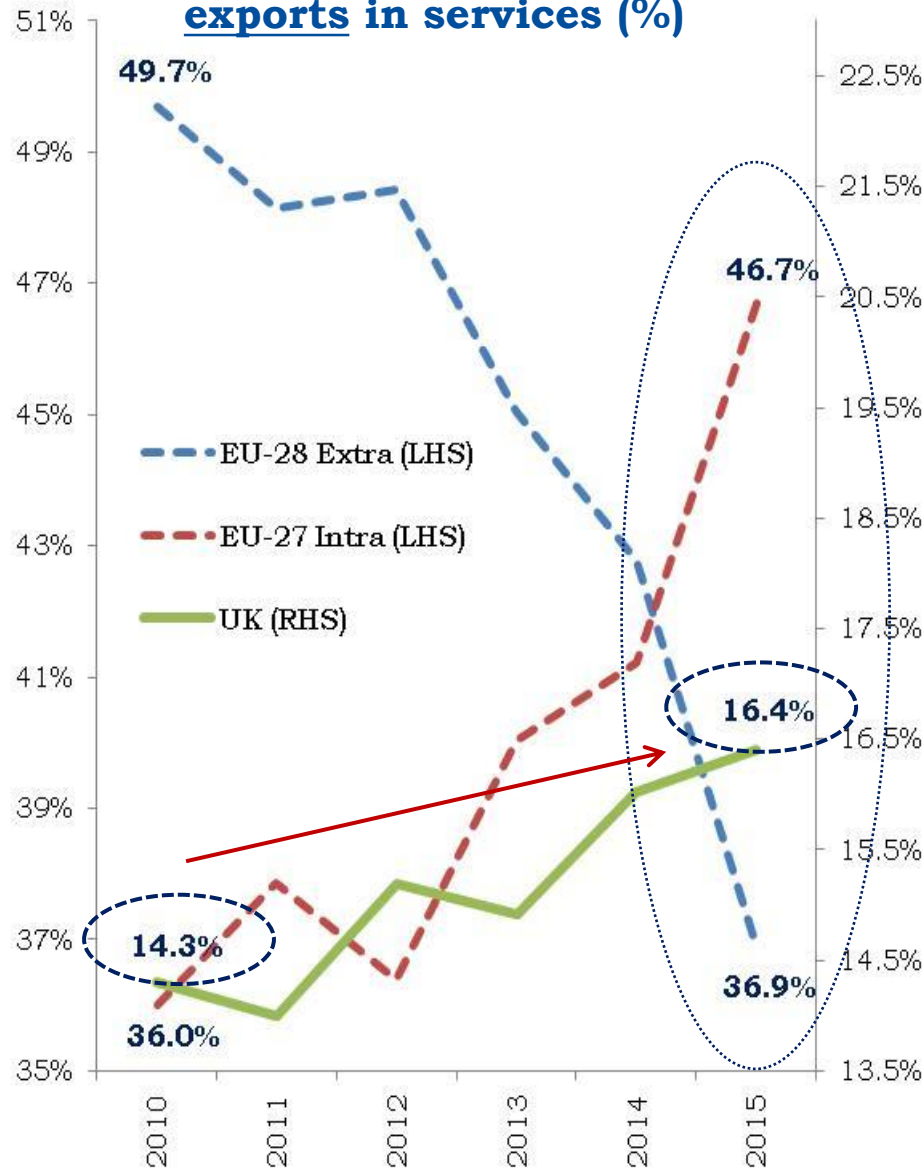
Main Greek exports: food & live animals; chemicals & related products; manufactured goods classified chiefly by raw material



Relatively strong trade ties between Greece and the UK in services

Mainly, travel and transportation services

Shares of total Greek exports in services (%)



Shares of total Greek imports in services (%)

