

Post Referendum Scenarios

The impact of the UK referendum on EU membership



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Risk Assessment Issues – Brexit: How We Got Here

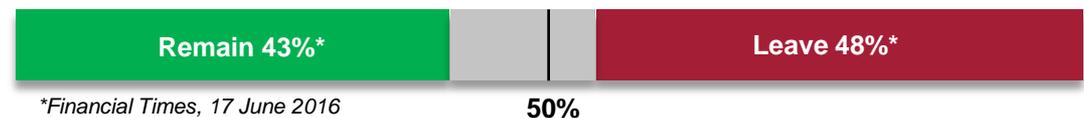
- In the build-up to the UK General Election of 2015, Prime Minister David Cameron used the **Conservative Party manifesto to pledge a referendum on the UK's EU membership** if he was re-elected Prime Minister
- Upon victory, the Prime Minister made good on this promise and announced that a **referendum would be held by the end of 2017**
- At the same time, he started a push to **revise the terms of the UK's membership of the EU**, touring the different Member States in an attempt to garner support
- During this process, **freedom of movement emerged as a key issue**, with the majority of Member States unwilling to agree to any changes that would block the free movement of European citizens
- In February 2016, EU heads of state successfully negotiated a **new settlement for the UK in the EU centering on economic governance, competitiveness, sovereignty, and immigration**
- In view of the 23 June referendum date, the **UK government has issued an array of documents** focusing on the process of a Brexit, the possible alternatives to EU membership, and the likely impact on the UK economy

Odds

Remain 4/9	Leave 7/4
A £5 bet wins £7.22	A £5 bet wins £13.75

*William Hill, 17 June 2016

Polls



Post Referendum Scenario Planning – Remain

Political UK

- Cameron vindicated but must seek to reunite party; challenges likely if close.
- Implementation of new settlement deal
- Build bridges with EU Member States and Institutions ahead of UK Presidency

Political EU

- Relief: precedent-setting exit averted.
- Implementation of Decision but UK weakened influence
- More Europe to counter ‘two-speed Europe’

Macro-economic

- GBP recovers some/all losses
- Spreads on FX hedging reduce
- FDI starts to flow but remains affected

FS regulatory

- UK uses Decision to protect City
- UK influences agenda via EU Presidency
- UK delivers on FS legislation

Political UK

- Cameron legacy planning/successor?
- Party unity vs. EU effectiveness?
- Shape/influence EU but resist more integration – how?

Political EU

- Manage UK demands vs. tangible integration push
- New treaty?
- Single market unity vs. deeper EMU

Macro-economic

- Return to pre-referendum status quo?
- UK remains attractive market.
- UK gains from weak Eurozone

FS regulatory

- Post EU Presidency bounce – UK influence high
- UK supports further Eurozone integration in exchange for FS ‘wins’
- Good outcomes on CMU, CRR, BSR

Political UK

- New leader, new government - new EU policy?
- EU member, clarity on relationship
- Push for another referendum or satisfied with relationship?

Political EU

- New EU institutional set up
- Still EU 28? Or more? Or less?
- Still same EU policy and powers?

Macro-economic

- UK thrives as peripheral member
- UK more attractive than Eurozone?
- Benefits from single market combined with EU economic recovery

FS Regulatory

- City reaffirmed as a global FS capital
- Positive outcomes from EU legislation
- UK benefits from EU/3C trade deals

Short term: 2016-2017

Medium term 2018-2019

Long term: 2020 and beyond

Post Referendum Scenario Planning – Leave

Political UK

- Cameron under pressure to go; uncertainty on new leader/next steps as party divided
- UK formally request to leave EU; divorce proceedings start (2 years min)
- New leader must establish relations with EU – sticks or carrots?

Political EU

- Precedent-set; potential lethal blow to project?
- Punish vs. good neighbour?
- More Europe to counter ‘two-speed Europe’

Macro-economic

- GBP falls
- Market volatility spikes
- Investment/FDI suffers

FS regulatory

- Mitigate UK loss of influence from day 1
- How to protect City given uncertainty?
- Repeal EU FS law? G20 commitments?

Political UK

- Respect mandate to leave; unite party
- Secure ‘fair deal’ for UK with EU
- Negotiate and establish post-divorce relationship

Political EU

- Mitigate risk of further referenda/exits
- Broker deal with UK to benefit EU 27?
- Push on with deeper integration (EMU)

Macro-economic

- Instability/uncertainty reduced?
- Market reaction to UK exit limited?
- UK gains from weak Eurozone?

FS regulatory

- UK establishes transition rules?
- UK implements G20 unilaterally
- UK as third country gains passport/equivalence?

Political UK

- New PM, new government – new EU policy – more eurosceptic
- Control over sovereignty, borders, budget – free to set new path?
- Establish trade deals/economic ties with EU and third countries?

Political EU

- New treaty, new institutions, no UK
- Push for more integrated core
- Still same EU members, policy and powers?

Macro-economic

- UK thrives as non-member?
- UK more attractive than EU?
- Better deal out than in?

FS Regulatory

- City reaffirmed as a global FS capital?
- UK bi-lateral deals with countries
- Secures favourable trade deals unilaterally?

Short term: 2016-2017

Medium term 2018-2019

Long term: 2020 and beyond

Post-Referendum Scenarios

Voting	Remain		Leave	
	>60%	>50%	>60%	>50%
UK direction	Focus on implementation of February 2016 UK Settlement (with four main areas of reform)		No legal obligation to leave, but political obligation to leave. Need to outline a new long term vision	
EU reaction	Relief. Negative sentiment momentum to EU halted	Resentful and fearful issue not resolved	Major blow to EU project credibility	Risk of reprisals but UK without clear mandate
EU direction	Wider multi-speed EU viewed as important as deeper integrated EU. Positive boost to EU project.		Deeper integration agenda is accelerated. Implications for other member states with similar concerns as UK	
EU Treaty	EU Treaties change in 2020 to implement UK settlement (failures here reignites leave camp)		Rapid invocation of Article 50 exit, by 2017	Slower invocation of Article 50 exit clause
UK influence	UK strongest hand to play. € /non€ features prominently	Ambiguous hand. hard to accept the UK agenda	Strong hand. Migration features prominently	Terrible hand! Especially if low voter turnout
EU "Presidency"	Planning for 2017 H2 EU Presidency starts, as first of the next trio of Presidencies		UK will not hold its 2017 H2 EU Presidency and will shift to next in line, Estonia	
UK incumbents	Cameron and Osborne hailed as champions	Cameron limps to victory but weakened	Cameron (resigns) and Osborne defeated	Cameron and Osborne untenable beyond 2016
UK cabinet	Government emboldened	Reshuffle inevitable and news posts for Brexiteers	Reshuffle and leadership challenge	Reshuffle inevitable and posts to Remainers
UK challengers	Johnson and Gove sidelined	May strengthened	Johnson and Gove inherit. May sidelined	Johnson and Gove inherit. May survives

Alternatives to EU Membership



For:

- Single market access
- ## Against:
- Taxation without representation
 - Free movement applies
 - EU budget contributions



For:

- Free trade deal/limited access to single market
 - Control over borders
 - No EU budget contributions
- ## Against:
- Lengthy negotiations
 - No passport for FS



For:

- Control over borders
 - No EU budget contributions
- ## Against:
- Tariff barriers
 - No single market access
 - No passport for FS



For:

- Partial single market access
 - Bi-lateral agreements
- ## Against:
- Limited access for financial services (branch requirement)
 - Free movement applies
 - EU budget contributions



For:

- Customs Union (free movement of goods)
 - Control over borders
 - No EU budget contributions
- ## Against:
- No single market access (no free movement services, capital, people)



For:

- Hybrid solution could see UK attempt to create 'alternative' model
- ## Against:
- Lengthy negotiations
 - Uncertainty of outcome
 - Resistance from EU 27/EEA

Risk Assessment Issues – Global

Political Risk

- Rise of populism and right-wing political parties affecting EU policy
- Important elections in Spain, France and Germany influence future leaders' domestic and EU positions
- Further fragmentation of single market
- 'Two-speed EU' sees political disintegration as other countries hold referenda and question the EU project
- 'Core' around Eurozone integrates further (deepening)
- Possible slowdown of further EU enlargement (widening)

Macro-Economic Risk

- FX risk and market volatility, hitting highly exposed sectors and countries in particular (Ireland, Netherlands, Germany)
- Downside risk to EU/Eurozone growth; longer period of low interest rates, low inflation and QE
- Concerns on strength of Eurozone (Grexit risk; spreads for Italy, Spain, Portugal, France)
- Downside risk to global and Japanese economy

Regulatory Risk

- EU inconsistent international implementation of G20/FSB commitments (TLAC, Basel III, CCP resolution etc)
- Divergent implementation and interpretation of EU prudential law between EU Member States leading to different treatment for third country banks.
- More restrictive visa/free movement/migration/immigration policy
- Trade and Competition issues (TTIP, completion of the single market in goods and services, including digital)