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## TRADE AND FINANCIAL RELATIONS BETWEEN ITALY AND THE UNITED KINGDOM

Italy's commercial and financial relations with the United Kingdom are on the whole less intense than those with the other main euro-area countries (Table A). The outcome of the referendum on the United Kingdom's membership of the European Union should therefore have relatively smaller repercussions on the Italian economy than on Italy's partners.

Table A

Trade and financial relations between the main euro-area countries and the United Kingdom (as a percentage of GDP)						
	Trade (1)		Portfolio investment (2)		Direct investment (3)	
	Exports	Imports	Assets	Liabilities	Assets	Liabilities
Italy	1.7	1.1	3.9	6.8	1.3	2.2
France	2.5	1.9	11.1	12.7	4.9	2.2
Germany	3.4	2.1	6.5	8.8	2.8	0.7
Spain	2.9	1.8	3.2	7.2	6.0	1.7

Sources: Based on data from the Bank of Italy, Eurostat and the IMF (Coordinated Direct Investment Survey, CDIS, and Coordinated Portfolio Investment Survey, CPIS).

(1) Goods and services in 2014. – (2) Stocks at the end of the first half of 2015; based on data reported by the country holding the assets. – (3) Stocks at the end of 2014; based on data reported by Italy and, for the other euro-area countries, the United Kingdom.

Sales to the United Kingdom make up 5.4 per cent of total Italian exports of goods and 8.4 per cent of those of services. Italy mainly exports transport equipment, machinery, food products, clothing and tourism services (Table B). Bilateral trade in goods is comfortably in surplus for Italy, while in services it is close to balance.

Table B

Trade between Italy and the United Kingdom (billions of euros)						
	Exports			Imports		
	2013	2014	2015	2013	2014	2015
Goods	19.6	20.9	22.5	9.7	10.3	10.6
of which: food products, beverage and tobacco products	2.5	2.7	2.9	0.5	0.6	0.6
textiles, clothing, leather and accessories	2.4	2.7	2.9	0.5	0.6	0.6
chemicals	1.1	1.2	1.2	1.0	1.0	1.0
pharmaceuticals	1.2	1.2	1.1	1.2	1.1	1.1
machinery	2.7	2.9	3.1	1.0	1.0	1.0
transport equipment	2.6	2.9	3.3	1.6	2.0	2.2
Services	6.4	6.9	7.4	6.5	7.3	7.3
of which: transport	0.5	0.5	0.5	0.9	1.0	1.0
travel	2.3	2.6	2.9	1.2	1.3	1.4
financial services	0.9	0.9	0.9	0.5	0.5	0.4
ICT services	0.4	0.7	0.8	0.5	0.6	0.5
other business services	1.9	1.7	1.7	2.4	3.1	3.0
Goods and services	25.9	27.8	29.9	16.2	17.6	17.9
As a % of GDP	1.6	1.7	1.8	1.0	1.1	1.1

Sources: Based on Bank of Italy and Istat data.

In 2014 Italy's exports of goods and services to the United Kingdom were equal to 1.7 per cent of GDP while imports from the UK amounted to 1.1 per cent of GDP, significantly lower than the figures for France, Spain and, especially, Germany (Table A).

Financial ties also tend to be less tight compared with the other main European countries for both portfolio and direct investment. According to the IMF's Coordinated Portfolio Investment Survey, at the end of the first half of 2015 Italian investments in portfolio securities issued by the United Kingdom amounted to €62.4 billion (3.9 per cent of GDP, compared with 11.1 per cent for France and 6.5 per cent for Germany). About half of those securities are held by insurance companies and other financial intermediaries, slightly less than one third by Italian households, and less than 10 per cent by banks. Only about one fifth of Italian assets in UK securities are sterling-denominated and consequently exposed to the risks arising from variations in the exchange rate between the euro and the pound sterling.

The Italian and British banking systems' exposure to borrowers resident in the United Kingdom and Italy, respectively, is limited. In March 2016 the exposure of Italian banks was €35 billion (about 1 per cent of total loans); that of British banks €18 billion.

At the end of 2014 Italian direct investment in the United Kingdom amounted to 1.3 per cent of GDP, much lower than for the other major euro-area countries. According to Istat data for 2013, Italian firms in the United Kingdom employed 67,000 people and generated a turnover of €21 billion.

According to our estimates, in the short term a large depreciation of the pound sterling or a slowdown of the British economy would have unfavourable but limited direct repercussions on Italy's exports of goods and services. The impact on financial assets held by residents would be even more moderate, given the low exposure to exchange rate risk. In the medium term the consequences of Brexit will mainly depend on the new configuration of the rules governing trade between the United Kingdom and the European Union, something that is hard to predict at present (see the box 'The implications of the referendum for relations between the United Kingdom and the European Union', Chapter 1).