



EUROPEAN CENTRAL BANK
EUROSYSTEM

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Mario DRAGHI
President

Mr Marco Zanni
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 17 July 2017

L/MD/17/285

Re: Your letter (QZ-048)

Honourable Member of the European Parliament, dear Mr Zanni,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 9 June 2017.

Euro area residents (notably financial and non-financial corporates) currently use a broad range of financial services provided in the United Kingdom (UK). In particular, the City of London is a key global hub for wholesale financial services such as trading and clearing of derivatives, foreign exchange transactions, repurchase agreements, securities issuance and financial advisory services. With regard to financial services provided to the euro area economy, the role of the UK varies across activity types and is described in greater detail in Box 1 of the ECB's May 2017 Financial Stability Review.¹ In particular, loans by UK-domiciled banks to euro area non-financial corporates and households represent 1% and 2%, respectively, of total loan financing of these two sectors. Moreover, around 10% of all syndicated loans granted to euro area firms involve UK banks, while in terms of securities issuance, the share of total debt and equity issued by euro area firms listed on UK exchanges has ranged between 5% and 15% over the last decade.

The May 2017 Financial Stability Review also discusses the implications of Brexit for financial services and the preparatory measures that are necessary for securing the smooth provision of financial services to the euro area. While it is premature to speculate about the outcome of the negotiations between the EU and the

¹ Available on the ECB's website at <https://www.ecb.europa.eu/pub/pdf/other/financialstabilityreview201705.en.pdf>

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UK authorities, longer-lasting implications for the financial stability and economy of the euro area are likely to be limited if adequate preparations for the transition towards the new equilibrium are made.

Also in the light of the data presented above regarding the financing of euro area firms and households, the Financial Stability Review assesses the risk that the euro area economy would be excluded from access to wholesale and retail financial services as limited. It also stresses the importance of banks and other financial entities making proper and timely preparations. Such preparations will allow the financial services industry to reorganise its business to adjust to the new environment and be in a position to continue offering the wholesale and retail financial services it currently provides out of London to customers in the euro area, irrespective of the outcome of the negotiations. Well-managed preparations are also essential for dealing with frictions in the transition from the current situation to the eventual new equilibrium, especially in the event that no transitional agreement is reached between the EU and the UK (so-called “cliff edge” effects). We will in any case continue to monitor progress closely.

One additional channel to be considered from a financial stability perspective is the macroeconomic impact and the effect on the value of the overall relatively modest direct exposures of euro area financial institutions to the UK real economy. Let me reiterate what I argued before the European Parliament in November 2016.² If, in the long run, the risk of a less open UK economy in terms of trade, migration and foreign direct investment were to materialise, there would be a negative impact on innovation and competition, and hence productivity and potential output. Such developments would first and foremost weigh on the UK economy. They would also have some adverse spillover effects on the euro area, albeit probably to a lesser extent.

Yours sincerely,

[signed]

Mario Draghi

² See the text of the introductory remarks available on the ECB's website at https://www.ecb.europa.eu/press/key/date/2016/html/sp161128_1.en.html