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Financial Aspects of Brexit

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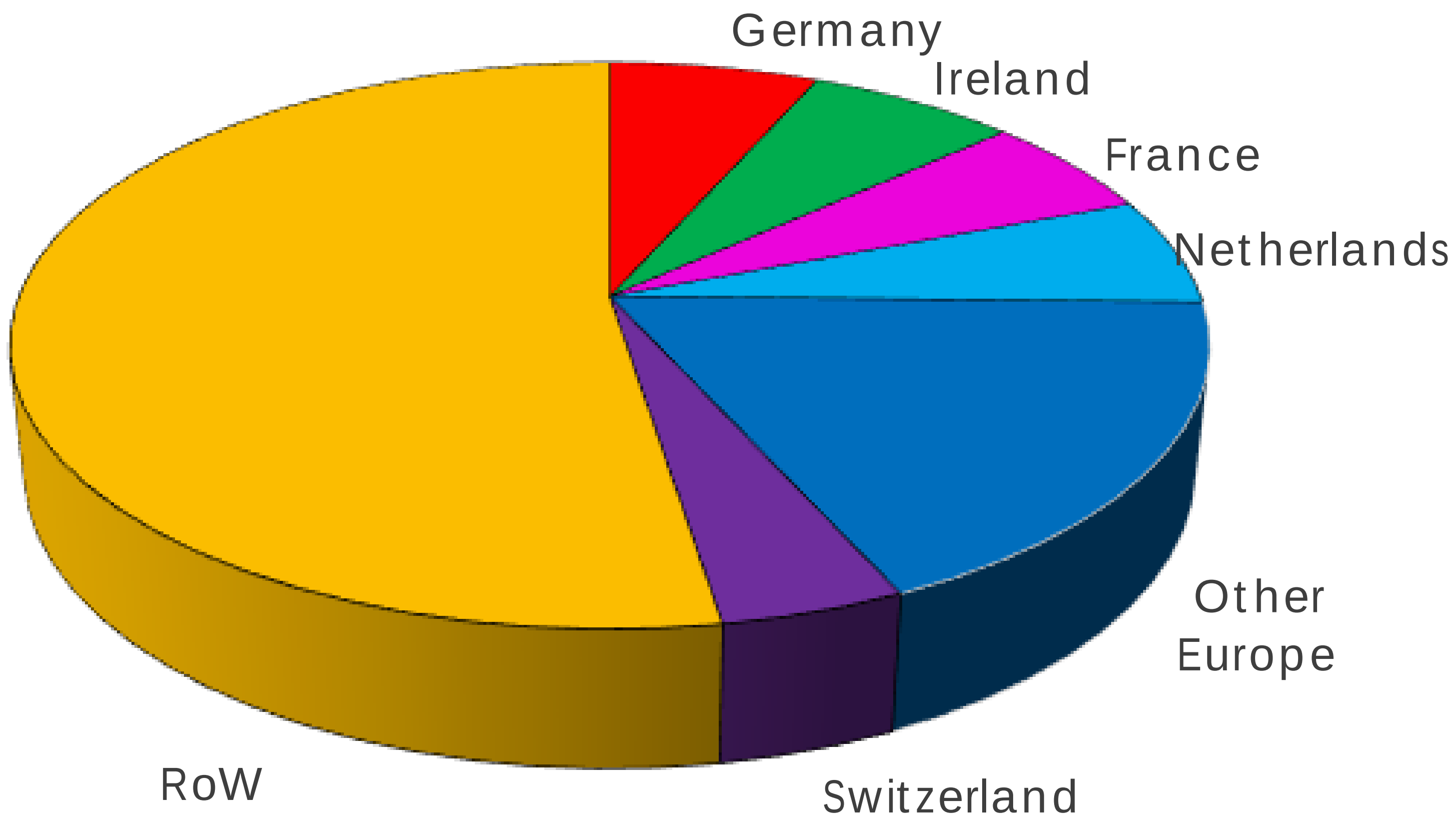
Economic development and trade structure

- **Weak development of manufacturing in Britain despite**
  - **EFTA-membership since 1960,**
  - **EC-membership since 1973,**
  - **and Single Market membership since 1994.**
- **After joining the Single Market, strong dynamics in the British financial services sector:**

	EU 27	UK	UK-share
	Avg. growth rate 1995-2016		In EU28 value added
	in percent		
Financial sector	3.6	4.9	22.7
Banking	3.2	5.7	20.5
Insurance	2.9	2.6	29.0
Auxiliary	3.0	6.6	24.6

S: Eurostat. - Gross value added at current prices.

UK service exports by destination country 2017



Alternatives to passporting rights

- Single Market allows operation under single rule book and home country supervision (passporting).
- WTO-rules for trade in financial services allow restricted access to domestic market:
  - Locally registered, supervised and fully capitalized subsidiaries (FDI in EU27-member country)
  - Subsidiaries work only as shell companies with short balance sheet
  - Equivalence under a third country equivalence regime (trade from home country)

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Conclusions

- Short-term temporary and conditional equivalence rules are necessary but only partly established (by country or institution until 2020).
- Serious non-tariff barriers to trade are likely
- Retail trade in financial services will be replaced by FDI
- Wholesale trade may move to home country
- Regulatory pressure will force OTC-trade and clearing in interest rate derivates into Euro area
- Higher financing costs for EU 27-companies are likely (+6% to +24%)
- Trade in financial services with the Rest of the World will be resilient