Brexit – opening a can of worms

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28/09/2018

Brexit. Travel anywhere around Europe as a British person and it's all they want to talk about. What's going to happen? How do you think it will impact you? Did you vote for it? What's the future for infrastructure finance?

Ok, they don't tend to ask the last one, but – once introductions have concluded, you can bet your bottom Euro that sympathetic faces will launch into this line of questioning.

From our side, *IJ* has solicitously ignored the subject since the referendum in June 2016, steering clear of a politically-sensitive issue with two entrenched positions: we're doomed versus make the UK great again.

Whatever your opinion, you're welcome to it. *IJ* does not take a political stance… however, we do have a view on the impact of Brexit on infrastructure financing.

There has been an awful lot of scaremongering over Brexit that ranges from the international financing community upping sticks en masse and relocating to Frankfurt, to the price of a cheeky Beaujolais Nouveau going through the roof.

Instead of frothing-mouth insistence that we're (delete as befits your political leaning) doomed to economic irrelevance / finally free of the shackles of the bureaucratic monster that is the EU… let's take a look at infrastructure finance debt and how it could be impacted by Brexit.

It's always good to hang a number around stories like this, so let's focus on social infrastructure and transport project finance debt in UK.

According to our database, over the years some $83.5 billion has been lent to PPP transactions in the UK. This reflects the deals that fit with *IJ*'s methodology and encompasses the full debt package at financial close. Needless to say, this has amortised considerably over the years and been syndicated far and wide.

So the question here has to be – is there going to be an exodus of European lenders from UK infra finance deals, creating massive instability, driving up pricing and creating a golden opportunity for those left operating in the London wasteland? Basically… is the sky falling?

Hell no…

Anyone rubbing their hands with glee at the prospect of a European lender exodus would be better served buying lottery tickets. It ain't happening.

Speaking this week to senior lenders at European institutions that are hugely exposed to the UK market – past, present and future – the suggestion that they're already packing their bags is met with outright derision.

As discussion continues, it evolves into the different impact of Hard or Soft Brexit.

For those who have not been keeping a weather eye on this, let me explain:

- Hard Brexit – favoured by those who voted to leave – would result in the UK exiting both the single market and customs union, no longer bound by EU regulations and tariffs
- Soft Brexit – favoured by those who wanted to stay – would see the UK maintain close ties with the EU, remain in the single market (like Norway) and its customs union (like Turkey)

For the purposes of this piece, let's focus on Hard Brexit as this is the option that has scaremongers speculating about a wholesale exodus.

Hard Brexit

There is a solid argument that London – as a global financial centre – will remain so after Brexit (hard or soft). This is not the event that will topple its international standing.

Granted, some organisations have relocated some functions out of London and this will likely continue. As one source in the recruitment sector (I leave you to guess who) adopts journalistic parlance saying Brexit is being used as "a good day to bury bad news" – moving non-core staff to cheaper locations.

And it's hard to disagree with that viewpoint. If you're working in London – sitting in an expensive office in the City or eroding your soul in Canary Wharf – you would be well-advised to have your CV up-to-date as this sort of function could be provided perfectly adequately in Ireland, France or Germany. And likely will be.

However, front-line originators have nothing to fear. As the recruitment source (known for strong views on the whole "Brexit question") points out, there has not been one single announcement of key personnel being relocated out of London against their wishes.

Now to the lending community. One senior banker at a leading European institution says: "If you have a Hard Brexit on 29 March, what does that mean? Does that mean that funding lines are pulled to the UK? Does it mean a re-pricing of risk, etc.?

"I look at the number of deals that I have just taken to our credit committee, and our activity levels in the UK are booming. Looking at my mini world, in terms of my responsibility – we have committed to seven deals in the UK over the last couple of months.

"There is absolutely no sense of Brexit being a trigger to pull back from providing funding to UK corporates and UK projects."

However, there is discussion over pricing… which is entirely valid in light of the UK exiting the EU and striking out on its own.

"There is a pricing discussion to be had on what Brexit means," says another leading lender at a European institution. "But if there is question around the influence of politics in the lending community and its impact of Brexit on the UK, that is not the case at all."

The source continues to point out that as economically-rational vehicles, European banks are not impacted by political shifts, driven only by their need to achieve an appropriate level of return for shareholders.

The bottom line is… the bottom line. European banks are not offloading their loan books and our sense of the market runs contrary to scaremonger wisdom that has bags are half-packed.

If anything, European lending teams in London are being bolstered. Santander has made a number of hires lately bolstering its lending and advisory capacity, while BNP Paribas has been building out its team. Credit Agricole may have lost a few people from its advisory team in the last three months, but that will be rebuilt in quick order. Meanwhile, we see little change on the German banking front.

If we're living in the end of days for London… it's actually looking rather good.