Mr. Clementi explains how London's banks and markets will help to forge links between the euro area and the rest of the world Speech by the Deputy Governor of the Bank of England, Mr. David Clementi, before international bankers and members of international organisations in New York on 10/2/98.

Despite all the uncertainties of the last few years, I think that it is now well understood that the euro is going to be introduced on 1 January 1999. As you all know, the United Kingdom is not going to adopt the euro as its domestic currency from the start. But the euro is likely to become the core currency for the European wholesale markets in London. The City of London is Europe's leading financial centre; and the introduction of a major new currency on the Continent of Europe means that London must have all the necessary trading, payment and settlement infrastructure, and be fully part of the conversion.

London will be ready for the euro. What I want to do today is to explain - with my colleague, John Townend, and Sir David Walker, head of Morgan Stanley in Europe - how London's banks and markets will help to forge links between the euro area and the rest of the world. And we also want to discuss the broader question of how the euro will affect the European financial landscape.

We hope that EMU will be a success. The British Government is in favour of joining EMU in principle. It has made it clear that it sees no constitutional bar to British membership.

There are advantages. For example, the introduction of the single European currency will help to complete the Single European Market. And the uncertainty associated with investment decisions within the euro area will be reduced. Europe will continue its consolidation as a major trading bloc. And financial benefits should flow from the introduction of the euro as a major currency for financing. The tradeable government debt of the EU as a bloc, for example, amounts to around 2.6 trillion dollars equivalent, compared to 2.1 trillion here in the US. This will give the euro debt markets a broadly similar size and liquidity as hitherto has been the preserve of the dollar markets.

But there are also risks. For example, will the UK economy be able to live comfortably with euro interest rates on a permanent basis? And if problems emerge after EMU begins, will a 'one-size-fits-all' monetary policy be adequate to deal with them, particularly if there is insufficient flexibility in product markets and labour markets? A particular concern is the high rates of unemployment in some Continental European countries, and the differing rates between them.

The British Government has set a number of economic tests to ensure that, before the UK joins EMU, there will be sustainable convergence between the UK economy and the euro area. The tests include cyclical convergence and structural flexibility, the impact on investment, the impact on the financial services industry and the impact more generally on growth, stability and jobs.

So the UK will not join EMU at the outset. But financial firms in London, whatever their nationality, see the euro as a key part of their business. With our support at the Bank of England, they have been actively preparing for the introduction of the euro. London thrives on liquid markets, regardless of currency. So the introduction of the euro is a major opportunity for London.

From the start, London will act as a link between New York and the euro area by providing a full range of euro services in wholesale financial markets. That includes euro payments and settlement, so that anyone who wishes to do so will be able to trade and settle in euro in London from the first day of EMU. But it also extends to euro banking, foreign exchange and derivatives trading, bond and equity issuance and trading, fund management, financial advice and professional support services as well.

The City of London is Europe's leading financial centre and one of the top three global centres, alongside New York and Tokyo. Here in New York, the financial centre is influenced by the size of the domestic economy. That is true of Tokyo as well. But London's success has historically been due to its international financial business.

London has more foreign banking institutions than any other financial centre, and it is the largest financial centre for cross-border bank lending.

London is the world's leading centre for foreign exchange business, with average daily net turnover six times that of Frankfurt. More foreign exchange business in dollars, Deutsche Mark and French francs takes place in London than in each currency's country of origin.

London is the principal centre for the international bond markets, with 60% of primary international bond syndication and 75% of secondary market trading.

The London Stock Exchange is the world's largest centre for the listing and trading of foreign equities, and LIFFE is the largest financial futures exchange in the world outside Chicago.

London is also one of the largest centres for the fund management of institutional equities, and one of the largest centres for insurance business.

London's position derives from the critical mass of markets and financial services available, and the concentration of the strongest financial businesses from all over the world.

London's strengths include a long track record of innovation and capitalising on new opportunities. The most well-known example is the creation of the Eurodollar markets, which US firms in London did so much to promote.

London is the home of the English language. It is in a convenient time-zone between Asia in the morning and New York in the afternoon.

It has an abundance of trading and other financial skills and professional support services - in law, accountancy, tax, property and communications.

It has a world-class technological infrastructure, which is continually being improved.

And equally important, London has an unwavering commitment to openness and to welcoming the establishment of foreign firms. In particular, the regulatory framework in London has proved sufficiently adaptable to maintain confidence in financial institutions and markets without stifling innovation and risk-taking. The new Financial Services Authority in London is committed to continuing this approach.

All these factors help to explain the size of the financial sector based in London. And foreign firms are continuing to move their operations, and in some cases their head offices, to London. I would like to acknowledge the contribution to London's success made by American firms such as JP Morgan, Goldman Sachs, Morgan Stanley, Merrill Lynch, Citibank and Chase. And many Continental European firms have recently also made major investments in London, including ABN AMRO, Paribas, Dresdner and Deutsche. This shows how global financial institutions in the top rank regard London as the place to be, irrespective of whether the UK participates in EMU.

You will have noticed that these factors have little to do with the question of the base currency used either in the UK or in Continental Europe. The City thrives on liquid markets regardless of currency, and it will thrive on the euro. Measured in these terms, the introduction of the euro represents an opportunity for London.

We cannot of course be complacent about London's position. London does not hold its pre-eminent position as of right. It continually has to earn it.

For this reason, in the run-up to the introduction of the euro, the Bank of England is playing a key role in preparing London's global marketplace for this major new opportunity, alongside market practitioners themselves: We are ensuring that the necessary financial infrastructure in London is in place so that anyone who wishes to do so can trade and settle in euro in London from the first day of EMU. We are also helping to ensure that City firms - whatever their nationality - are properly prepared so that they and their customers can make full use of the infrastructure.

We are providing information to the London market so that firms - whatever their nationality - are as well informed as possible about the technical side of the preparations for the euro. This is the significance of our broadly quarterly series of publications on 'Practical Issues', which now has a circulation of around 40,000, of which 5,000 go directly overseas.

We also aim to promote agreement between central banks and market practitioners across Europe on practical issues in areas where the market requires a degree of co-ordination.

In conclusion, I want to emphasise three points. First, the introduction of the euro on 1 January 1999 will create a major currency for financing, with significant depth and liquidity. Second, London will be ready for the introduction of the euro. Anybody who wishes to do so will be able to trade and settle in euro in London from the first day of EMU. Third, as Europe's leading financial centre, we are confident that London will be the international financial centre for the euro. And by providing competitive financial services in euro, London will help to increase the flow of business between Europe and the US. The City is not just a major national asset. It is a major asset for Europe and the international economy as a whole.