

Financial Integration in Europe

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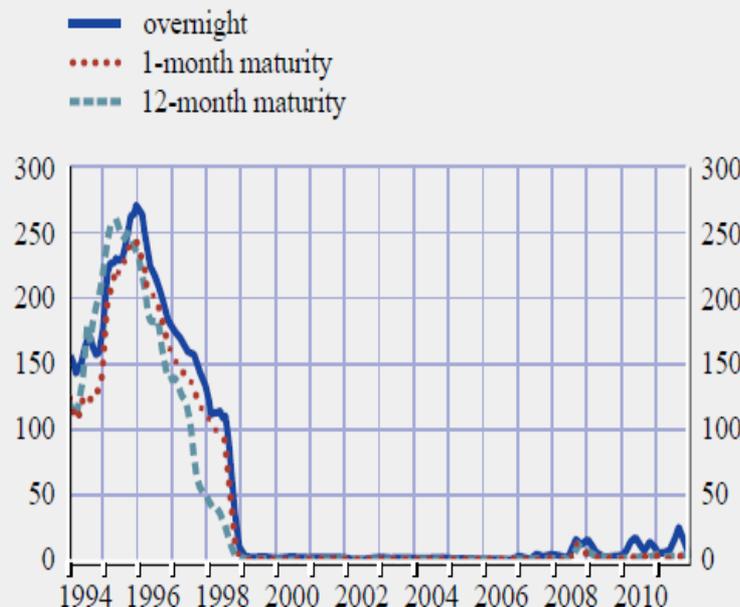
25 May 2012

Integration indicators – money markets

- **Rapid convergence of money market rates.**
- **Most highly integrated market segment.**

Cross-country standard deviation of average unsecured interbank lending rates across euro area countries

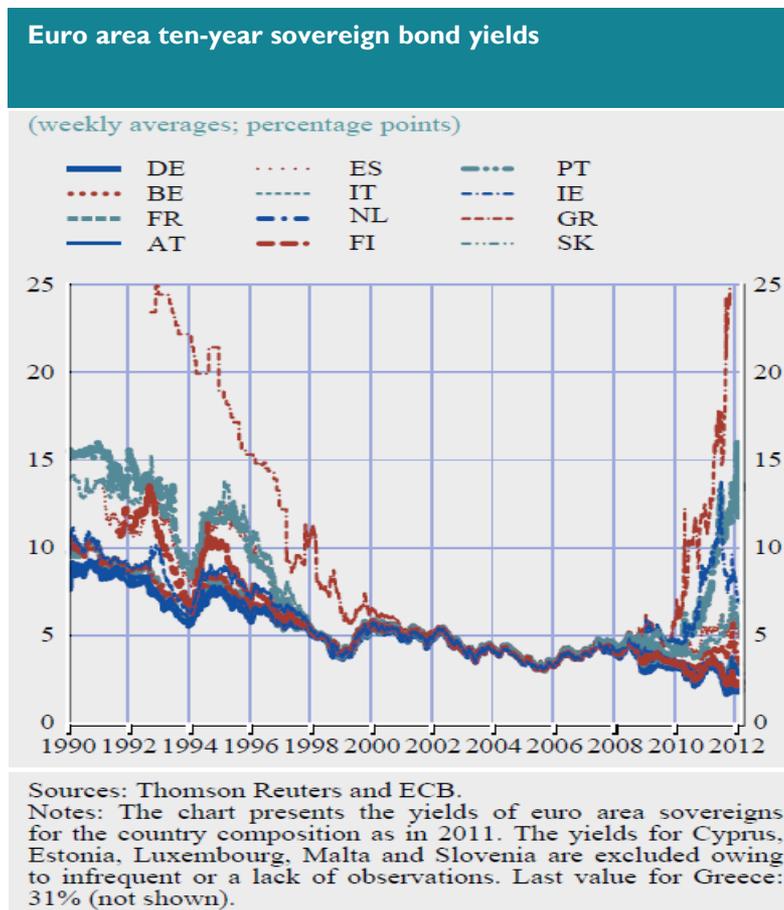
(61-day moving average; basis points)



Sources: EBF and ECB calculations.

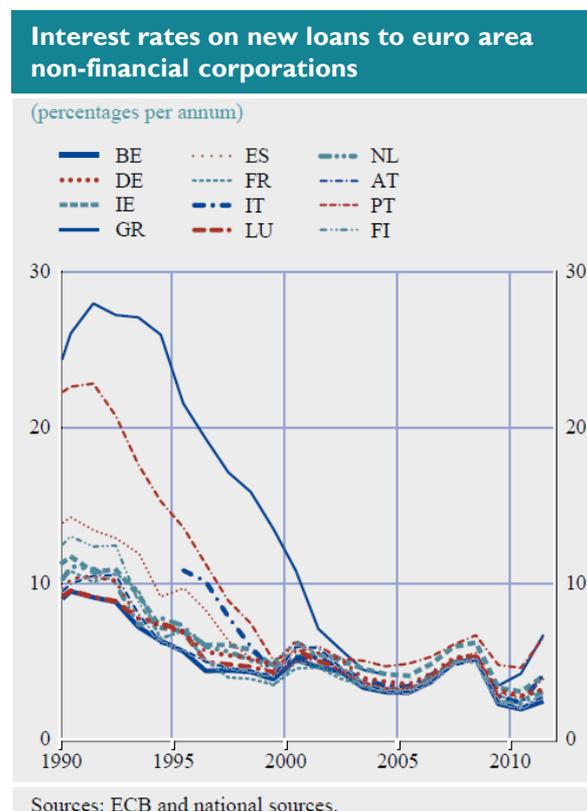
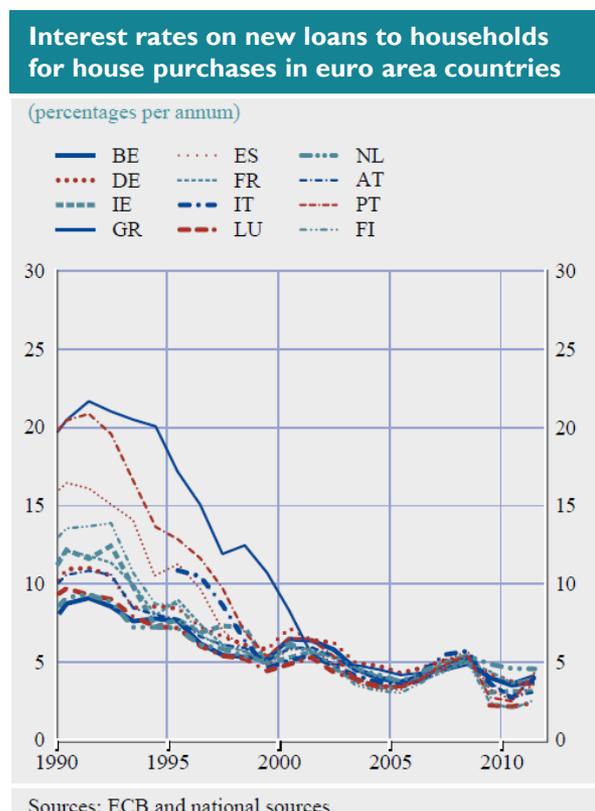
Integration indicators – sovereign bond markets

- Rapid convergence of sovereign bond yields in the euro area.



Integration indicators – banking markets

- Rapid convergence of interest rates for private sector loans.

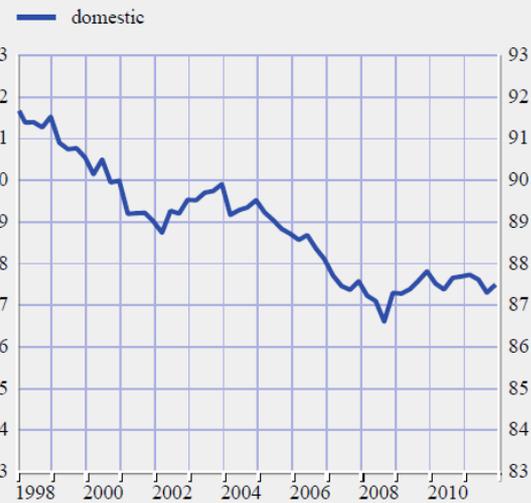
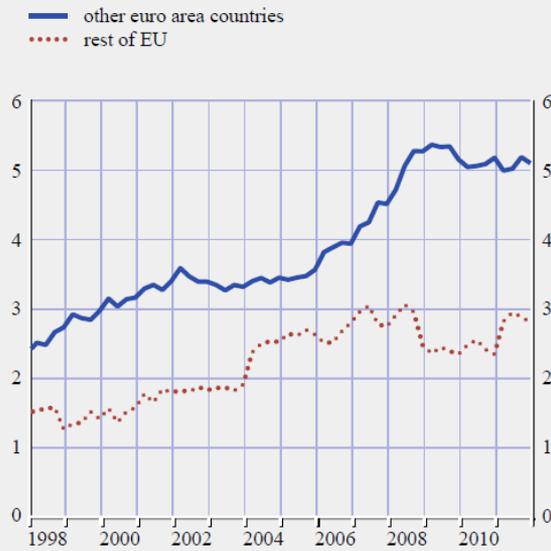


Integration indicators – banking markets

- **Slow convergence of cross-border lending.**

MFI loans to non-MFIs: outstanding amounts by residency of the counterparty

(share of total lending excluding the Eurosystem; percentages)

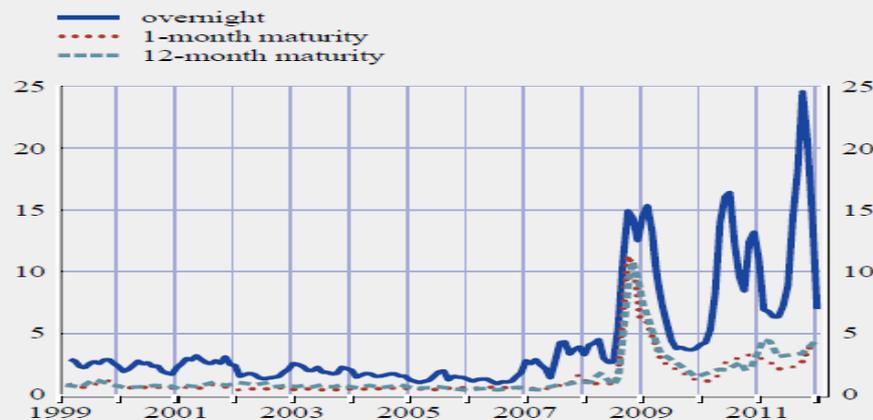


Source: ECB.

Money market integration – financial crisis reversed earlier convergence

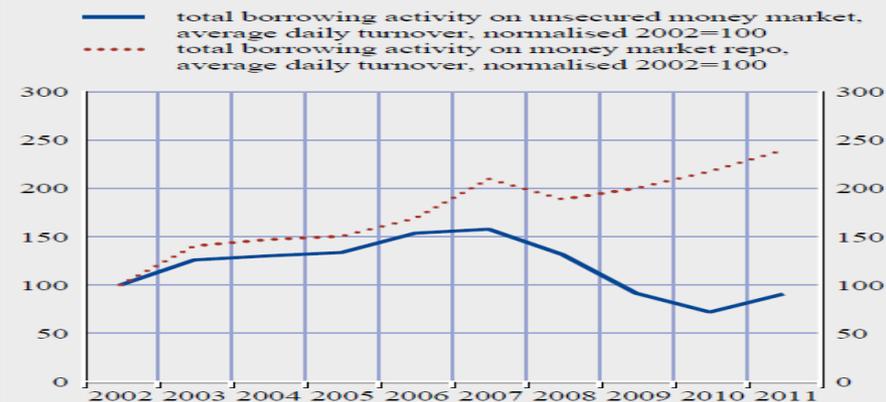
- **Convergence in lending rates across euro area countries reversed sharply in the financial crisis (see left-hand chart).**
- **Market participants shifted from the unsecured to the secured (repo) market (see right-hand chart).**

Cross-country standard deviation of average unsecured interbank lending rates across euro area countries
(61-day moving average; basis points)



Sources: EBF and ECB calculations.

Borrowing activity in the euro area secured and unsecured markets



Source: Euro Money Market Survey.

Bond market integration – financial crisis giving rise to concerns of a systemic nature

- Euro area sovereign bond yields have diverged strongly, returning to pre-euro levels (see left-hand chart).
- Corporate bond markets have also experienced significant tensions, both in the financial and non-financial sectors (see right-hand chart).
- Country-level effects have become more important in driving yields.

Euro area ten-year sovereign bond yields

(percentages per annum)



Sources: Bloomberg, ECB.

Dispersion in five-year CDS premia across euro area countries

(daily data; basis points)

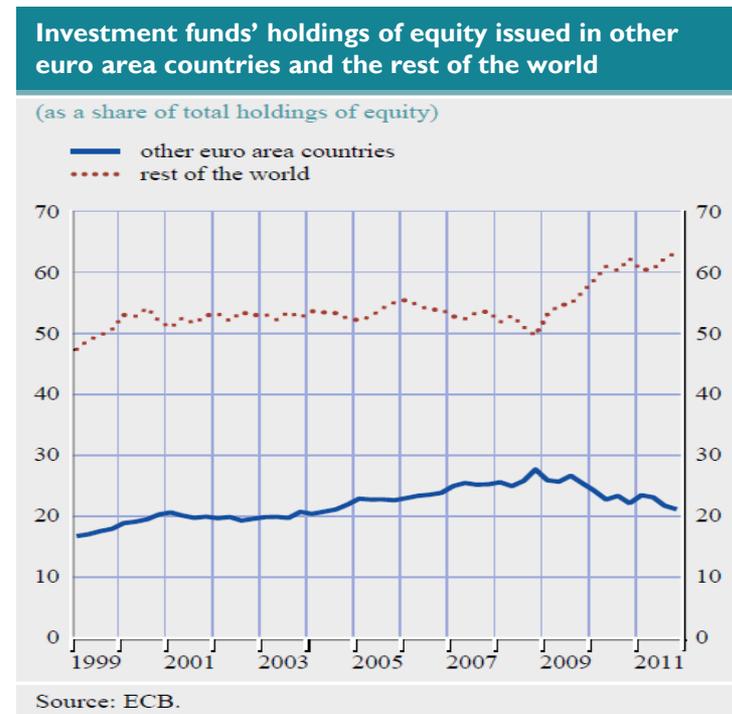
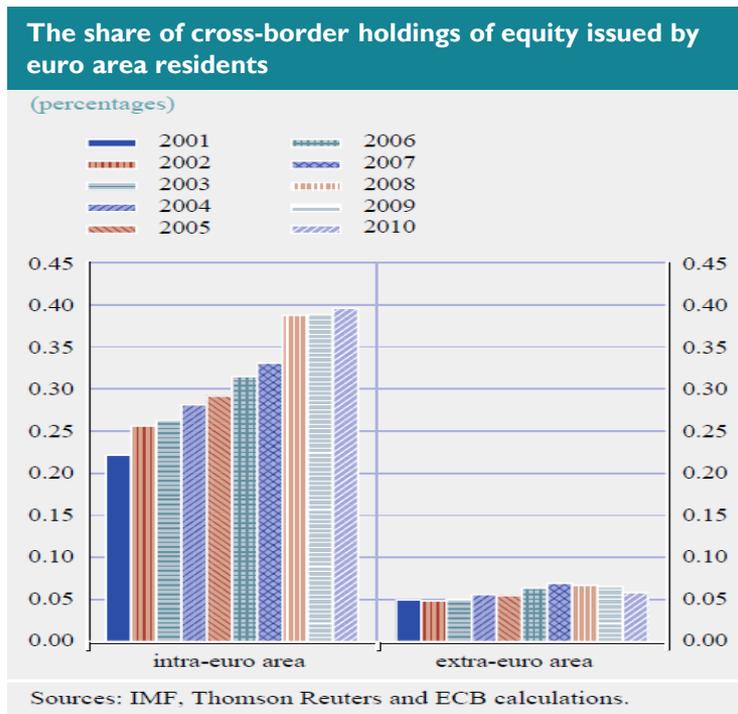


Sources: Thomson Reuters and ECB calculations.

Notes: The data do not include Greece and Ireland. Greece is excluded owing to very high sovereign CDS premia, and Ireland is excluded owing to the very high CDS premia of its telecommunications company. All sectors are presented for this smaller sample to ensure comparability.

Equity market integration – apparently more limited impact of financial crisis

- No significant discrimination with regard to the country of origin.
- The share of cross-border holdings of equity issued by euro area residents has increased steadily over the last decade (see left-hand chart).
- Equity holdings held by investment funds have declined only slightly since the beginning of the financial crisis and are still higher than before the introduction of the euro (see right-hand chart).

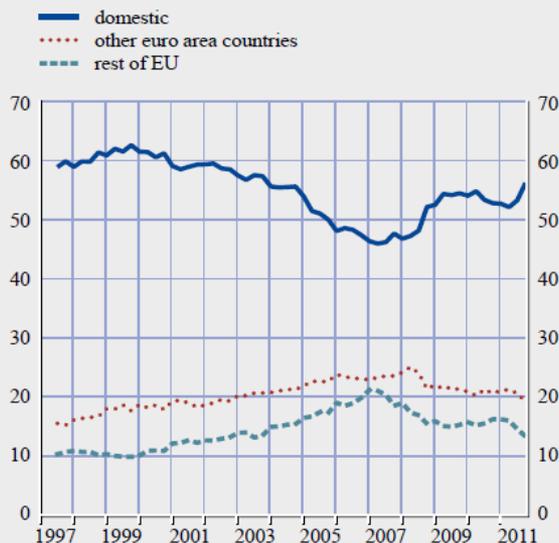


Banking market integration – slow erosion of earlier progress

- Relative to other markets, slower erosion of the earlier progress towards financial integration.
- Share of domestic lending activity has increased again, but without attaining the earlier level (see left-hand chart).
- Price dispersion regarding short-term loans has steadily increased throughout the crisis (see right-hand chart).

MFI loans to MFIs: outstanding amounts by residency of the counterparty

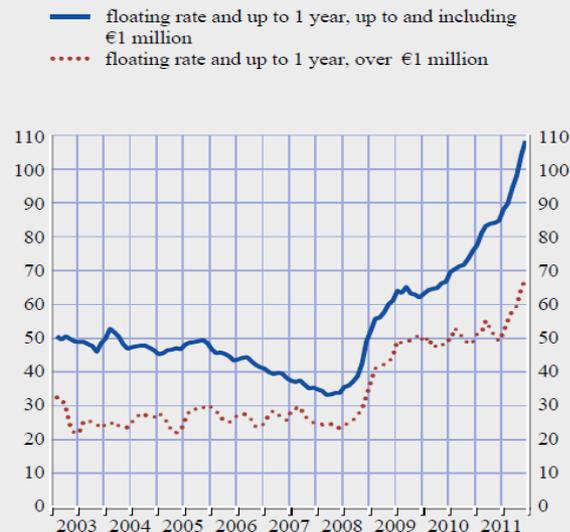
(share of total lending excluding the Eurosystem; percentages)



Source: ECB.

Cross-country standard deviation of MFI interest rates on new loans to non-financial corporations

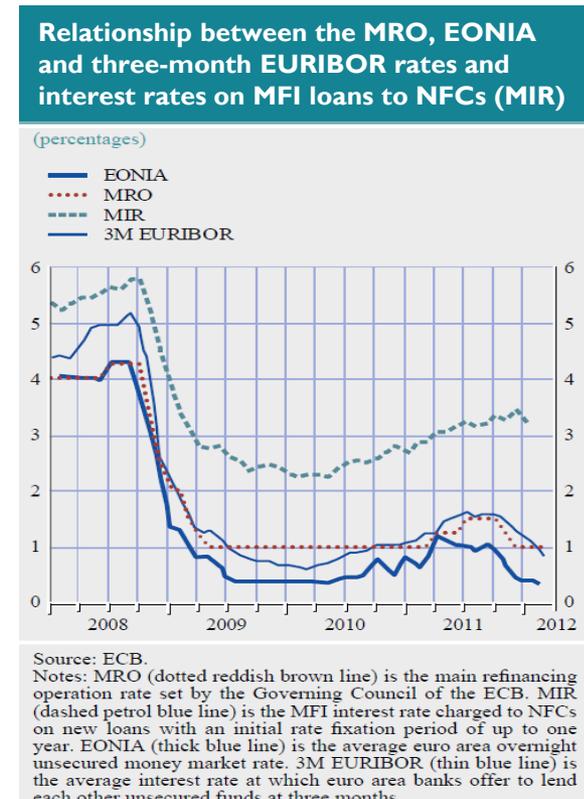
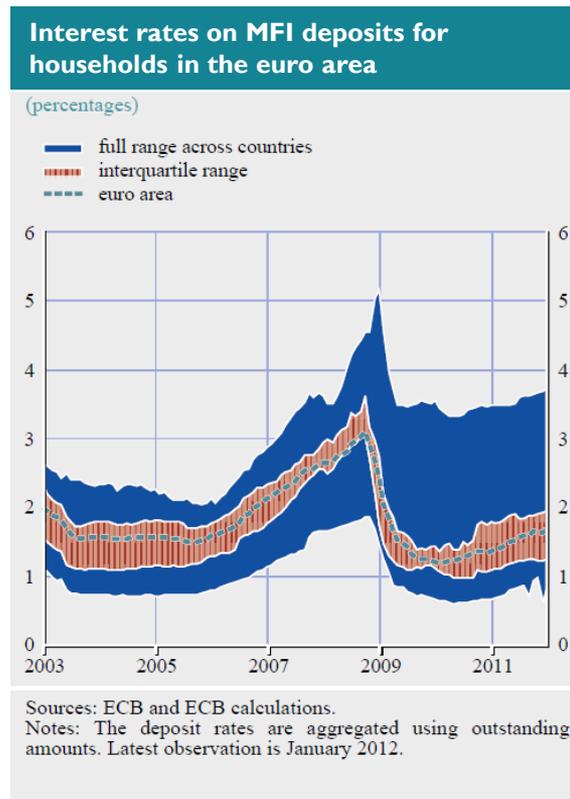
(unweighted; basis points)



Source: ECB.

Effects of weaker financial integration on the transmission of monetary policy

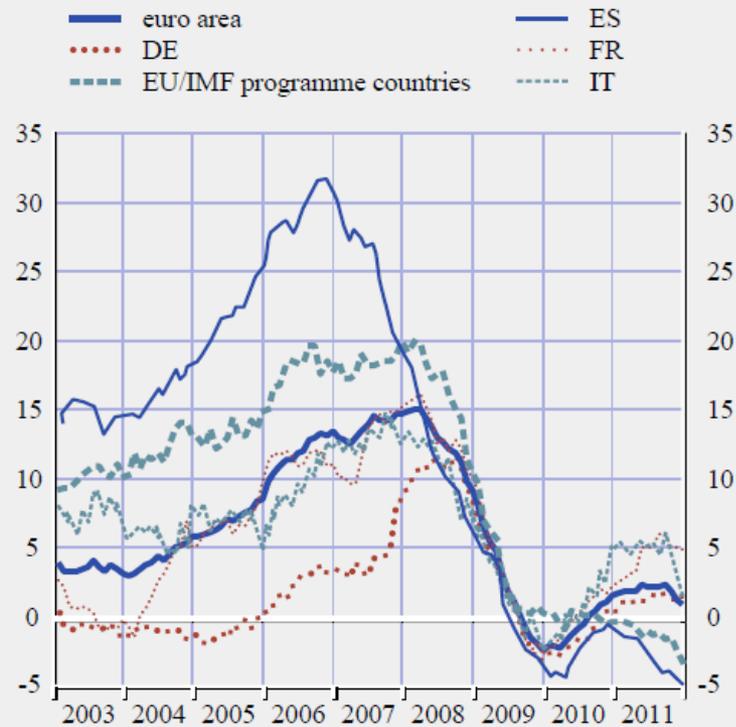
- Strong differentiation in banks' cost of deposit funding across the euro area, which may be passed on to customers in the supply and price of credit (see left-hand chart).
- Ongoing segmentation of various money market rates and the interest rates charged by MFIs on short-term loans (see right-hand chart).



Annex

MFI loans to NFCs

(annual percentage changes)



Source: ECB.

Notes: Adjusted for securitisation, assuming no securitised loans to NFCs before 2009. Latest observation: January 2012.