Financial Integration in Europe

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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.

Sources: ECB and national sources.
Integration indicators – banking markets

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

The share of cross-border holdings of equity issued by euro area residents

Investment funds' holdings of equity issued in other euro area countries and the rest of the world

Sources: IMF, Thomson Reuters and ECB calculations.
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

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

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).

![Chart showing interest rates on MFI deposits for households in the euro area](chart1.png)

![Chart showing relationship between the MRO, EONIA and three-month EURIBOR rates and interest rates on MFI loans to NFCs (MIR)](chart2.png)

Sources: ECB and ECB calculations. Notes: The deposit rates are aggregated using outstanding amounts. Latest observation is January 2012.
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.