# Euro area financial integration stalls during 2016

PRESS RELEASE

19 May 2017

- Mixed developments underline importance of ambitious capital markets union and completion of the banking union
- New quality indicator shows limited private cross-country risk-sharing
- Development of more pan-European banks could help financial integration and foster risk-sharing via retail credit markets

Overall financial integration in the euro area stalled last year, the European Central Bank's (ECB) annual report on Financial Integration in Europe shows. The report was published today at a joint conference with the European Commission in Brussels. After some years of reintegration of financial markets in the aftermath of the financial crisis an aggregate price-based measure of integration was volatile in 2016 and an aggregate quantity-based measure flattened out. These developments were the result of counterbalancing effects within and across different markets, partly influenced by different economic outlooks across countries, fluctuating global risk aversion and political uncertainty. On the other hand, the ECB's monetary policy continued to support financial integration.

The report for the first time introduces a regular analysis of the quality of financial integration, measuring its economic benefits. Two new indicators show that cross-country risk-sharing is still low and private financial risk-sharing is not contributing much to it. Therefore, a large share of income shocks in member states directly passes through to consumption.

These findings underline the importance of completing the banking union and of taking further steps towards an ambitious capital markets union. For example, the current review of important legislation such as the Capital Requirement Directive (CRD) or the Bank Recovery and Resolution Directive (BRRD) should lead to tangible and timely progress, including in harmonising options and national discretions. Moreover, improving and harmonising insolvency rules can support the integration and development of capital markets.

“Banking union and capital markets union are undoubtedly the two central policy initiatives to catalyse financial integration in the EU for the years to come. The two projects should be seen as mutually reinforcing initiatives that can bring the Single Market for financial services to the next level”, said ECB Vice-President Vítor Constâncio.

In a special feature the report reviews the process of cross-border bank consolidation in the euro area. Given the significant progress with implementing the banking union, the development of pan-European banks is still fairly limited. Further cross-border mergers and acquisitions could contribute to much needed bank consolidation in some member countries without creating local competition problems. In addition, they could foster retail credit market integration that bolsters risk-sharing and could make a valuable contribution to resolving non-performing loans. Besides the completion of the European banking union, diminishing options and national discretions in the regulatory framework and harmonising insolvency rules, as mentioned above, other targeted financial sector policies removing obstacles to cross-border consolidation should also be considered. This could include, for example, harmonising consumer protection, addressing legacy non-performing loan problems and considering the euro area as a single jurisdiction for calculating Basel systemic surcharges.

**For media queries, please contact Peter Ehrlich, tel.: +49 69 1344 8320.**

Media contacts