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PRESS RELEASE

ECB: CHALLENGES TO FINANCIAL INTEGRATION IN 2010

After the improvement observed in 2009 in many market segments and despite continuous equity market integration in 2010, the financial environment with the worsening fiscal situation in some euro area countries posed challenges for European financial integration, the European Central Bank's Financial Integration report published today concluded.

The main policy-relevant messages of the report can be summarised as follows:

- Euro area capital markets continued to increase in size in recent years, and cross-country differences in size declined.
- The worsening of the fiscal situation in some countries posed serious challenges to financial integration in 2010. The money and bond markets were particularly affected.
- The sharp divergence of yields in some European government bond markets reflected an increase in the perception of sovereign risks as well as liquidity risks, in some cases exacerbated by market overreaction.
- The euro area equity markets were less strongly affected by the recent developments. Most available indicators suggest that the equity market integration actually strengthened in 2010.
- The ECB Governing Council adopted several measures to support the smooth transmission of monetary policy and restore market confidence, and this had beneficial effects on market integration.
- National and European authorities also adopted several measures to support financial markets and individual intermediaries, while safeguarding competition. In some cases, these interventions may have induced a retrenchment of financial activities within national borders.
- The normalisation of bank lending conditions is proceeding progressively albeit gradually. More convincing European solutions are needed in the area of crisis management and bank resolution arrangements.
- Looking ahead, the integration of bond and equity markets will benefit greatly from the launch of Target 2 Securities, the Eurosystem's pan-European securities settlement platform which is intended to come into operation in 2014.

The ECB's annual report on financial integration in Europe, published in 2011 for the fifth time, contributes to the advancement of the European financial integration process by analysing its development and the related policies.

All issues of the ECB Financial Integration report are available on the ECB's website.

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