



EUROPEAN CENTRAL BANK

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## PRESS RELEASE

### SIGNS OF IMPROVED FINANCIAL MARKET INTEGRATION IN SECOND HALF OF 2012

An improvement in financial market integration was observed in the second half of 2012, after a further deterioration in the first half of the year caused by adverse market sentiment, worsened fiscal conditions and bank fragility in some euro area countries. The change in sentiment was triggered by the decision in June 2012 by European leaders to create a single supervisory mechanism as a first step towards a banking union, and by the ECB's announcement of the Outright Monetary Transactions.

The 2013 issue of the ECB report "Financial integration in Europe", presented today at a conference in Brussels organised jointly by the European Commission and the ECB, contains the following main messages:

- After mid-2012, the decision by European leaders to set up a banking union and the announcement of non-standard measures by the ECB (OMT) contributed to restoring confidence in euro area financial markets, improving market sentiment and reversing the earlier trend towards market fragmentation.
- In the first half of the year the fragmentation of euro area financial markets had increased further. The key driver was redenomination risk, linked to fears of a possible break-up of the euro area.
- In spite of the improvements in market conditions since then, the climate in the financial markets remains fragile. It is of paramount importance that the momentum towards building a stronger Economic and Monetary Union is maintained. Further progress towards the establishment of a single supervisory mechanism, as well as other components of the banking union, will be a critical factor underpinning financial market performance this year.
- There were signs of an improvement in euro area **money markets** in 2012, but lasting improvements will largely depend on the progress of the various initiatives to strengthen the banking sector which are outside the scope of monetary policy.
- **Government and corporate bond markets** stabilised in the second half of 2012, but the market for banks' long-term debt financing was characterised by increasing divergence in issuance patterns between distressed and non-distressed countries, which is a sign of reduced integration.

- **Other market segments** (such as equity and banking credit) also showed a continued relatively high fragmentation.
- **The objective of financial integration and consequent further reduction of the still persistent fragmentation can only be achieved by continuing the process of structural and institutional reforms at the national and European levels.**

This year's issue is the ECB's seventh annual report on financial integration in Europe. All issues of the report are available on the ECB's website.

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