

# PRESS RELEASE

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## Financial re-integration trend moderates, but ambitious capital markets union will boost benefits of integration

- Financial integration in the euro area is improving, though more slowly
- Recent financial turbulence should not hamper further integration
- Further developing European capital markets and integrating retail banking markets enhances the financial system's resilience, its contribution to cross-country risk-sharing and its ability to finance the real economy

The 2016 edition of the ECB's report on Financial Integration in Europe, published today at a joint conference with the EU Commission at the ECB in Frankfurt, shows that financial integration in the euro area is advancing. Retail bank lending rates continued to converge across countries, for example. However, the trend has slowed since spring/summer 2015, partly due to offsetting developments in different market segments. Some divergence in bond yields can be explained by increasing risk aversion in global financial markets and countries' fundamentals.

The report highlights a series of policy actions that support the financial re-integration trend. In addition to the ECB's expansionary monetary policy, the Single Resolution Fund became operational this year. ECB Banking Supervision is addressing remaining cross-country heterogeneities in the regulatory framework.

Looking ahead, the ECB emphasises that the European capital markets union and all the other steps proposed in last year's Five Presidents' Report need to be pursued with determination in this context.

The ECB's report makes a strong case for strengthening Europe's more bank-oriented financial system by better developing and integrating capital markets, notably in the equity space. The analysis explains

how this can improve the system's resilience, enhance cross-country risk-sharing<sup>1</sup> and improve the financing options of firms and households. These economic benefits are stronger for equity markets, foreign direct investment and retail bank lending, whereas too much short-term debt may be counterproductive.

ECB Vice-President, Vítor Constâncio, said: "We can reach the economic benefits of transforming the financial system, if the European Capital Markets Union is ambitious. At the same time, however, the perimeter of macroprudential supervision and regulation needs to be extended in order to address new financial stability risks associated with such a process."

The report also explains the Eurosystem's support for the European Commission's proposal to establish a European Deposit Insurance Scheme (EDIS), saying that it is the necessary third pillar of the banking union. With banking supervision and resolution now at European level, EDIS would align control and liability in depositor protection.

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

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<sup>1</sup> Risk-sharing refers to the phenomenon that cross-country holdings of assets allow economic agents to better smooth income and consumption over time, because in the case of an economic downturn in their home country they can benefit from income streams of the assets they hold in countries that do not experience a downturn.