Press release

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Pandemic did not impair financial integration in the euro area, ECB report shows

- Combined fiscal and monetary response kept financial fragmentation in check during pandemic
- Resilient financial integration vital for euro area economy and financial sector
- EU equity markets need further promotion to finance green and digital transformations

The financial fragmentation in the euro area that occurred at the start of the coronavirus (COVID-19) pandemic was reversed relatively quickly, the European Central Bank (ECB)'s latest report on Financial Integration and Structure in the Euro Area shows. Once pre-pandemic levels of integration were regained, financial integration increased further and remained resilient to pressure from further waves of infections. The most influential policy interventions that initially kept fragmentation contained, and then brought integration back to pre-pandemic levels, were the series of ECB monetary policy measures and the European Union (EU) agreement on a sizeable coronavirus recovery fund.

The biennial ECB Financial Integration and Structure in the Euro Area report focuses on financial integration, changes in financial structure and the process of financial development and modernisation. It also discusses selected financial sector policies, notably those related to the European banking union and capital markets union. In this way, the report contributes to the debate on how European Economic and Monetary Union can be deepened.

Thanks to decisive policy responses, financing of euro area firms and households held up during the pandemic, although this required a significant increase in public debt. In addition to fiscal support and guarantees, another factor that helped non-financial corporations to stabilise was a rapid shift in their financing mix towards bank credit lines and corporate debt issuance, which was also facilitated by monetary policy measures. The rise in non-bank financial intermediation continued, with especially strong growth in investment funds, most notably in equity funds.

The coronavirus crisis substantially restricted private consumption risk sharing across euro area countries, consequently limiting one of the benefits of financial integration and development. The

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major fiscal initiatives at the EU level, such as the NextGenerationEU recovery programme and the three safety nets for businesses, jobs and workers, were key to ensuring risk sharing among member countries and compensating for hampered private financial channels.

The NextGenerationEU programme provides a unique historical opportunity to bring private risk capital markets in the euro area and EU to levels similar to those in other major economies. Enhanced private forces would have to join public ones to ensure sufficient innovation and prepare the ground for financing the green, digital and other technological transformations. The coronavirus pandemic and recent geopolitical events have further underlined the need to accelerate the EU's green and digital "twin transition".

Completing the banking union and making material progress with the capital markets union remain important.

Implementation of the 2020 capital markets union action plan – in particular the digital European Single Access Point and the reviews of EU public listing rules and of fund and insurance regulations – could produce tangible progress in the development and integration of European public and private equity markets. This is because the plan's implementation is an important contribution to enabling the large technological transformations that are needed. The path of making insolvency frameworks more efficient and harmonised across member countries also needs to be continued. Even more effort will be necessary to build a vibrant EU equity ecosystem – for example, to facilitate the scale-up phase of successful companies.

Debt issuance procedures also need to be further integrated and harmonised to reduce costs and allow investors to better diversify across EU countries. As domestic and cross-border bank consolidation could help address structurally low profitability and fragmentation in retail credit markets, removing remaining regulatory obstacles should be considered.

A statistical (online) annex has been released alongside this report. Since March 2020, the ECB has released, on a biannual basis, a streamlined set of indicators covering both financial integration and financial structure.

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