



EUROPEAN CENTRAL BANK

Indicators of financial integration in the euro area

European Central Bank
Frankfurt, 30 September 2005

State of integration in the euro area

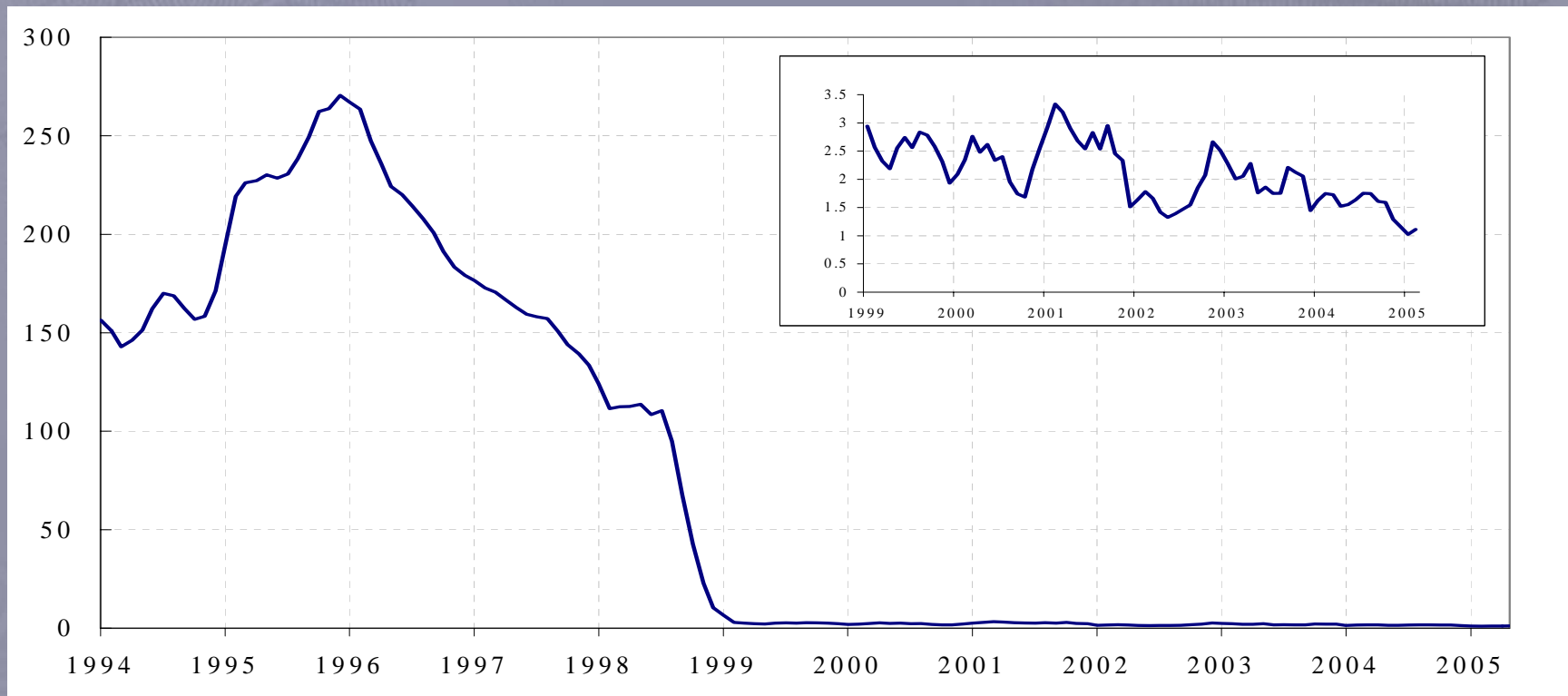
Integration is uneven across market segments (and is strongest in those segments closest to monetary policy).

In general, integration:

- is very strong in the money market;
- has progressed significantly in government bond markets;
- has improved for the corporate bond market;
- is slow but progressing in the case of the equity market; and
- is much less advanced in a range of banking market segments.

Money market

The cross-sectional dispersion of overnight lending rates disappeared following the introduction of the euro.

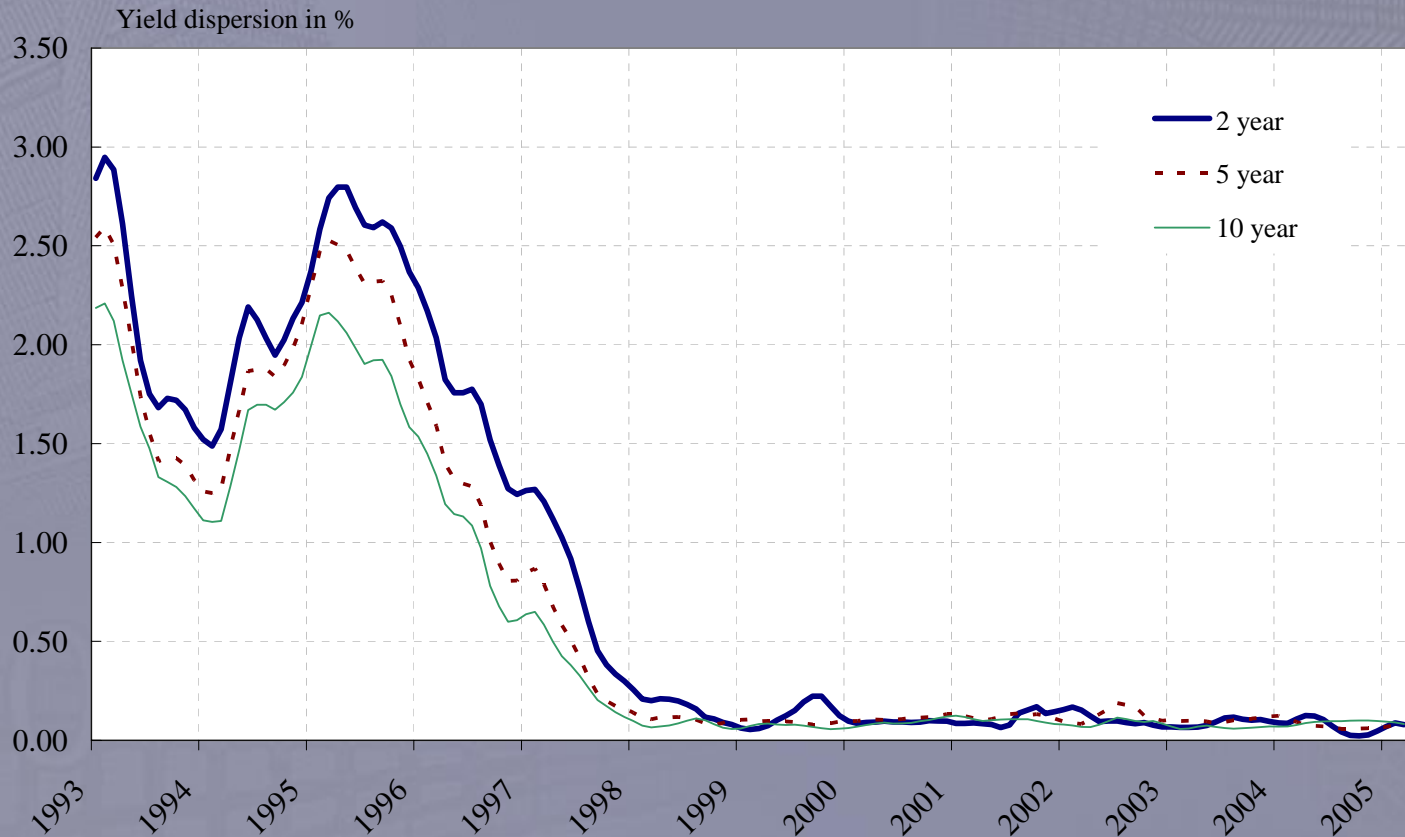


Cross-country standard deviation of the average overnight lending rates among euro area countries (60-day moving average, basis points)

Sources: European Banking Federation and ECB calculations.

Government bond markets

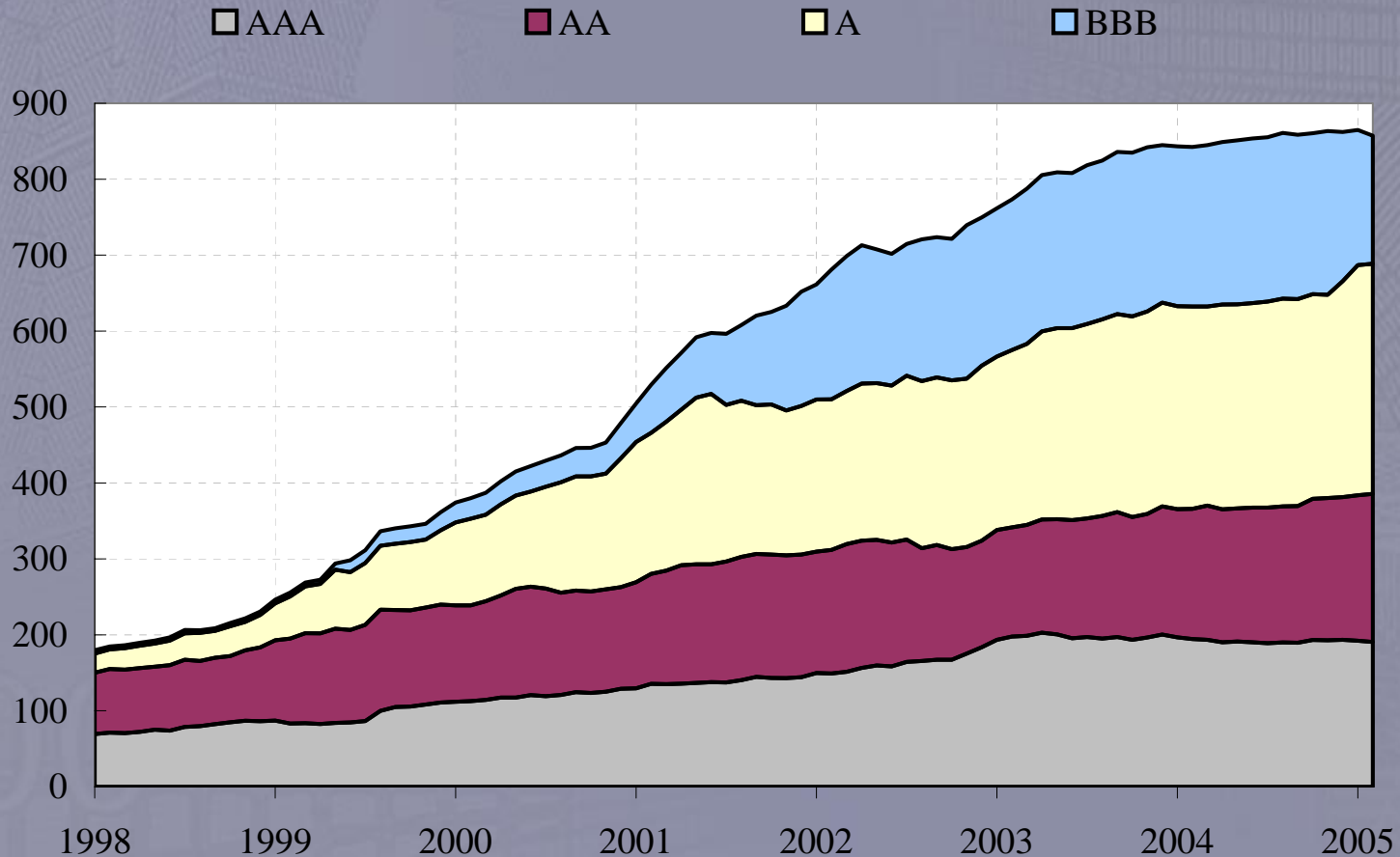
- Yield movements are now driven mainly by euro area-wide factors.
- Local factors continue to have some influence. This may partly be explained by differences in liquidity and in perceived credit risks.



Source: ECB.

Corporate bond market

The corporate bond market has grown considerably since the advent of the euro.

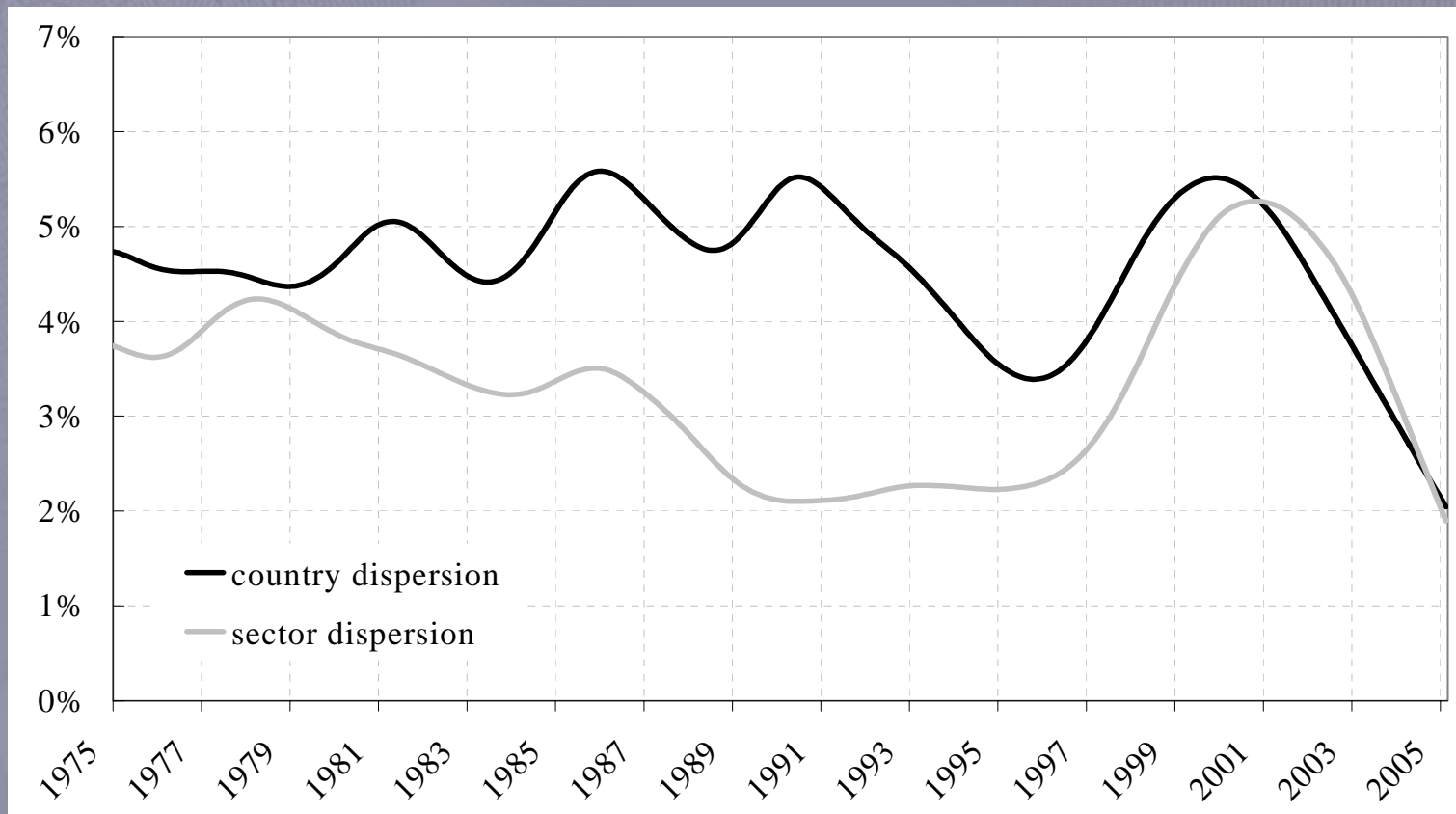


Euro area corporate bond market: outstanding values per rating category (EUR billions).

Sources: Bloomberg and ECB calculations.

Equity market

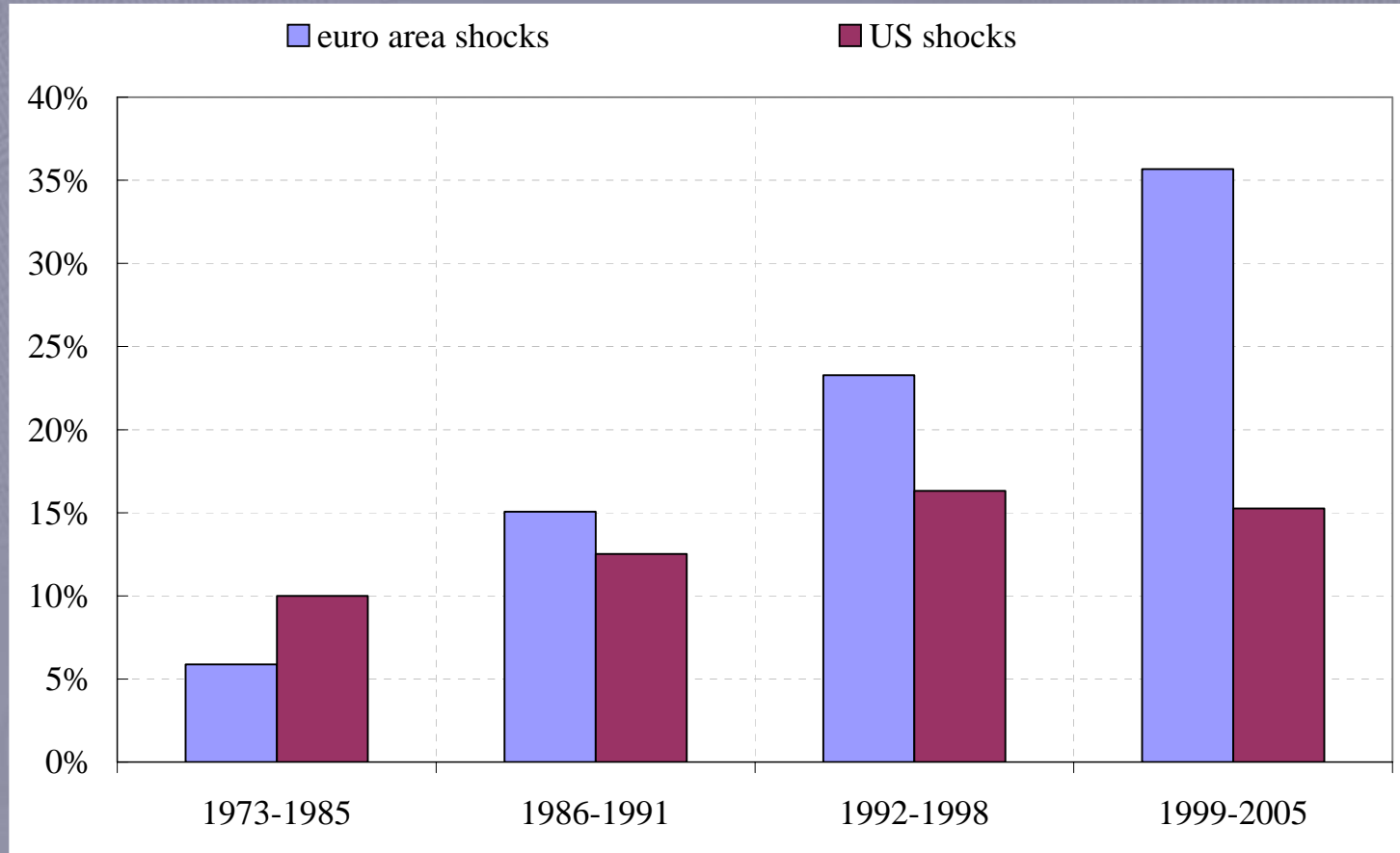
Since the end of the 1990s it has been as important to diversify an equity portfolio along sectoral as along country lines.



*Hodrick-Prescott filtered country and sector dispersions of equity returns in euro area countries.
Sources: Thomson Financial Datastream and ECB calculations.*

Equity market

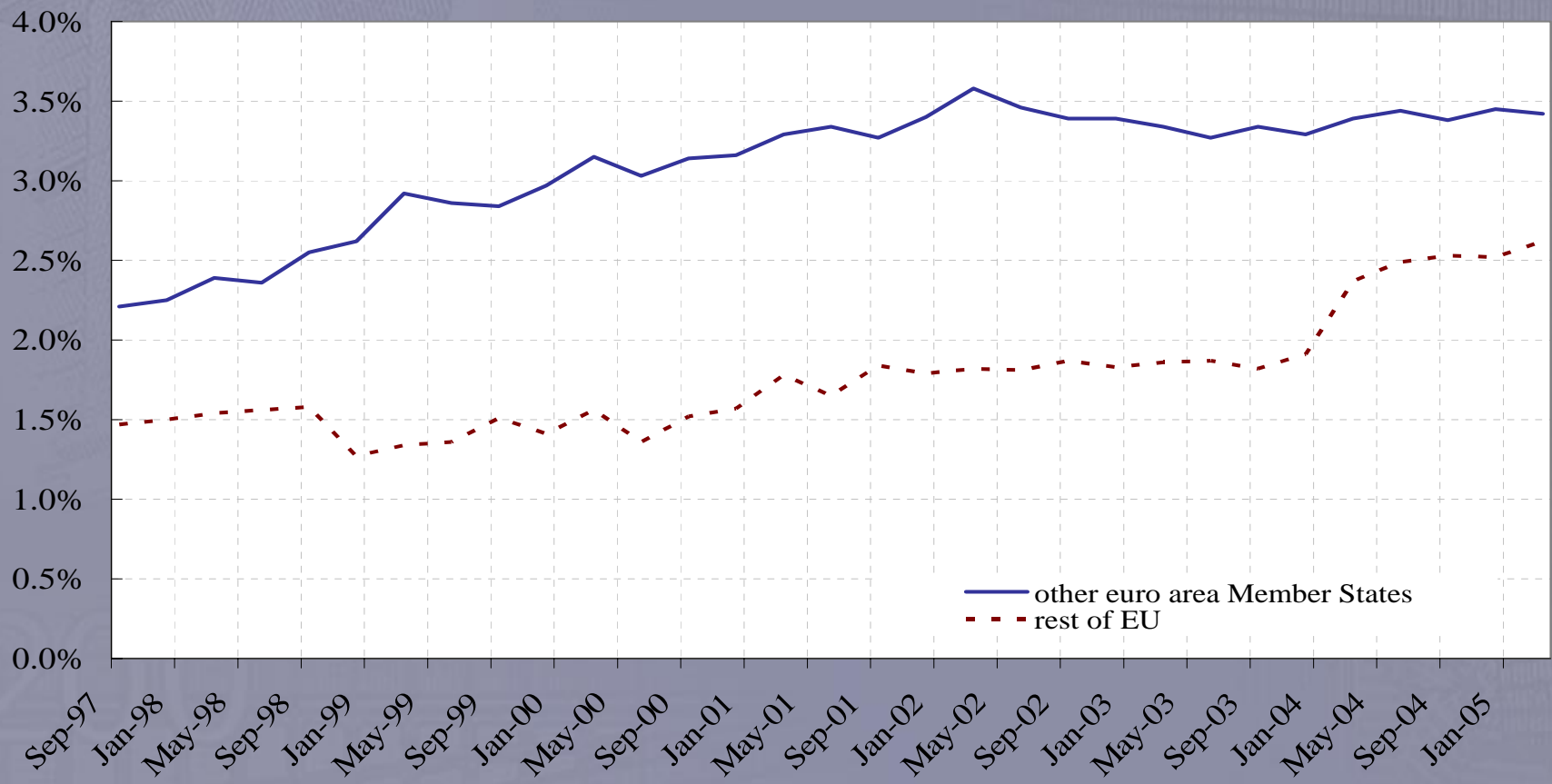
Greater importance of euro area shocks in explaining equity returns.



*Proportion of variance of euro area equity market returns explained by euro area and US shocks.
Sources: Thomson Financial Datastream and ECB calculations.*

Banking market

Cross-border retail bank lending activity in the euro area remains very limited.

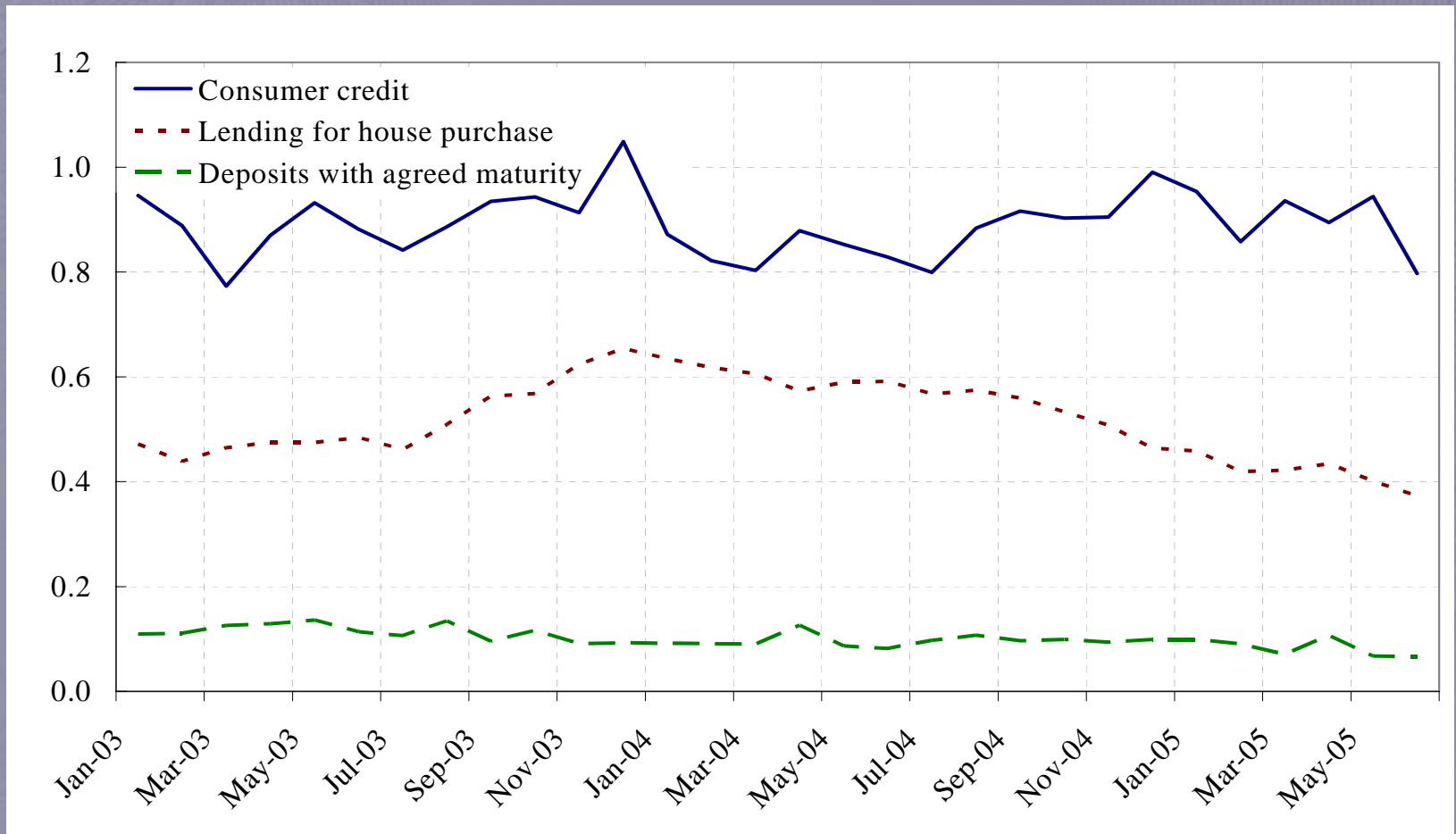


Percentage share of loans granted by euro area MFIs to non-MFI counterparties in other euro area countries and non-euro area EU Member States.

Source: ECB.

Banking market

Retail rate differentials across countries differ according to product



Cross-country standard deviation of MFI interest rates: loans to households and deposits with an agreed maturity.
Source: ECB.