



EUROPEAN CENTRAL BANK

EUROSYSTEM

Financial Structure in the Euro Area

*All view expressed are those of the speaker and not
necessarily those of the ECB.*

10/05/2021

Stefano Borgioli
DG-Statistics



Overview

- 1** **Financial structure – intermediaries, instruments, size**
- 2** Financial structure – relative weight of intermediaries
- 3** Financial structure and the carbon footprint of the economy

Financial Structure – intermediaries and instruments

The **financial system** comprises various **financial intermediaries** and financial instruments, which fulfil the financing requirements of the euro area economy.

- Monetary financial institutions (MFIs),
- Insurance Corporations and Pension Funds (ICPFs),
- other financial corporations including non-money market fund investment funds, other financial intermediaries and financial auxiliaries, as well as captive financial institutions and money lenders.

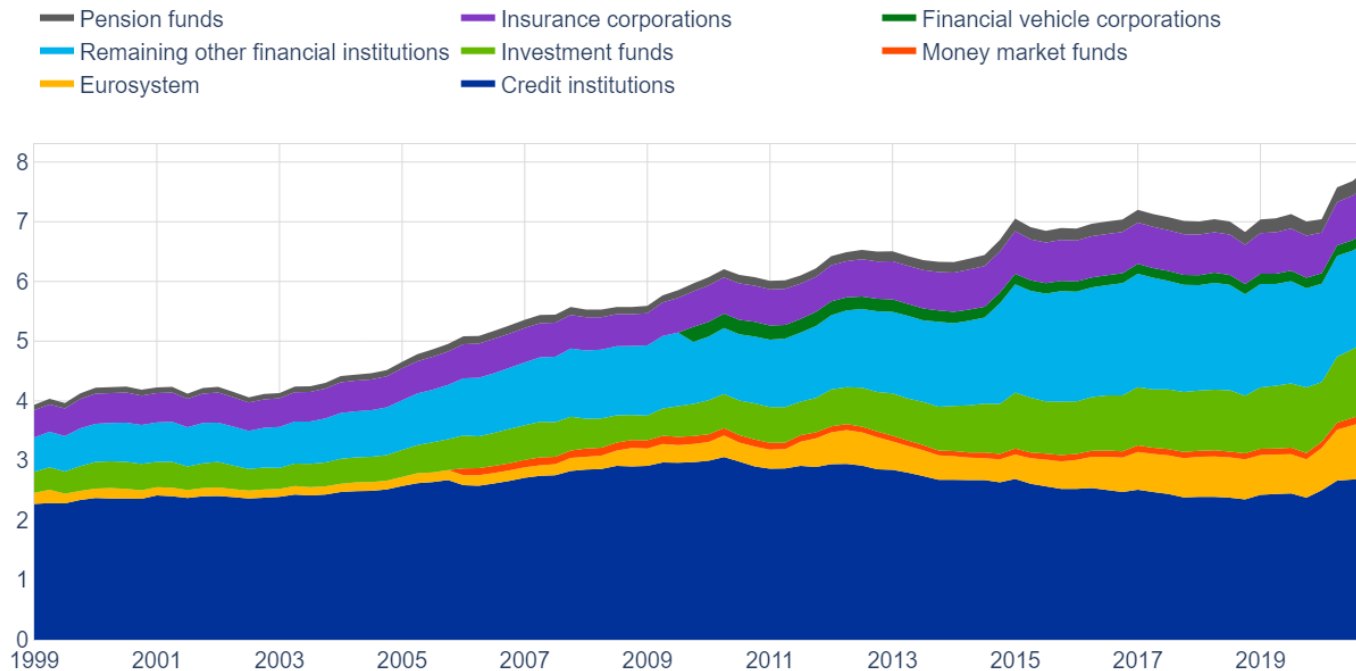
The (main) **financial instruments** include

- loans,
- bonds
- equities

Financial Structure – size

- Total financial size is indicative of the **capacity that a financial system has to channel funds** of agents with surpluses to agents in need of financing for consumption or productive investment purposes.
- The **overall size** of a financial system can be estimated from the assets of financial intermediaries.
- The size of the euro area financial system has been broadly stable in the last few years at a level around **six to seven times GDP**, roughly **in line with the relative sizes of financial systems in other major countries**

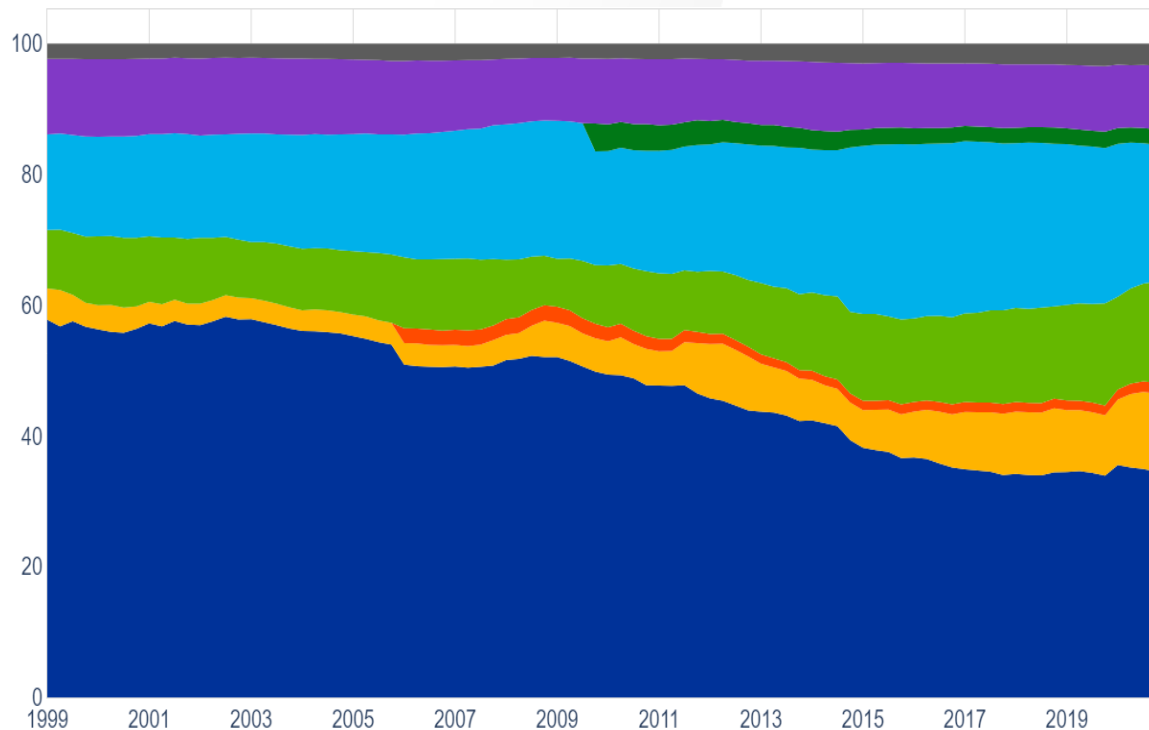
Financial structure of the euro area



Total assets of the euro area financial sector (ratio to nominal GDP (left panel))

Source: ECB

Financial structure of the euro area



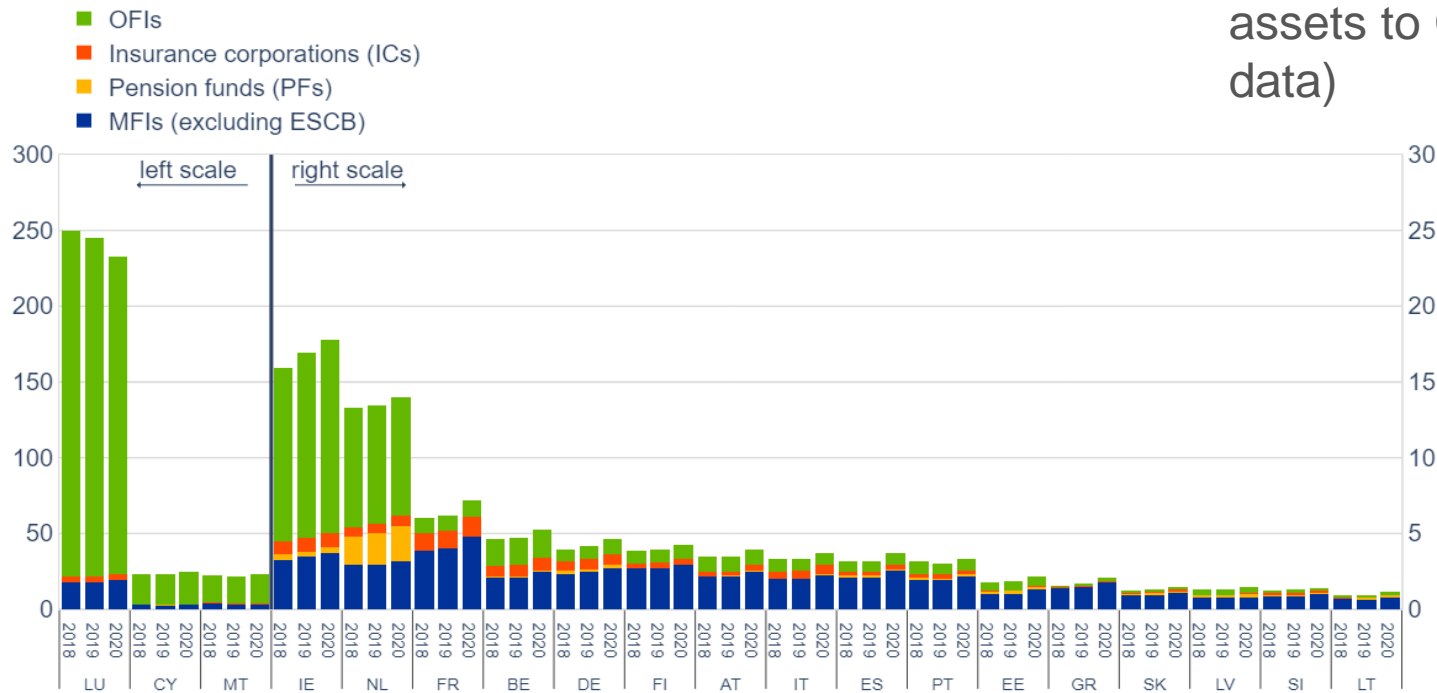
- **Banks** still largest sub-sector but declining share
- **Non-bank** financial intermediaries now around 60% of financial sector assets

Total assets of the euro area financial - percentages

Source: ECB

Financial structure of the euro area

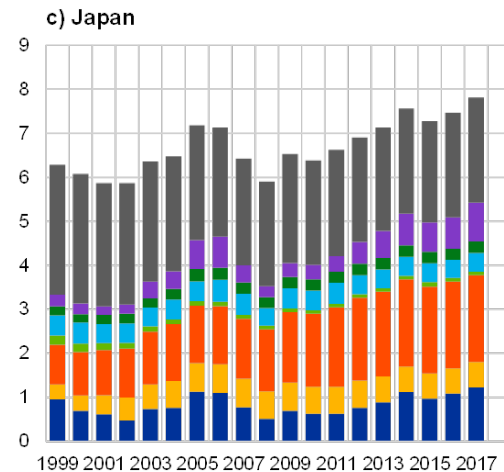
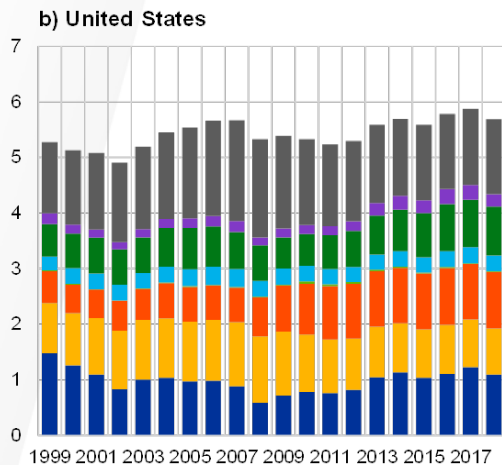
Size of the euro area financial sector (ratio of assets to GDP, annual data)



Sources: ECB (euro area accounts, monetary financial institutions balance sheet items statistics), Eurostat and ECB calculations

Financial Structure - international comparison

(ratio to nominal GDP (left-panels); percentages (right-panels); annual data: 1999-2018)

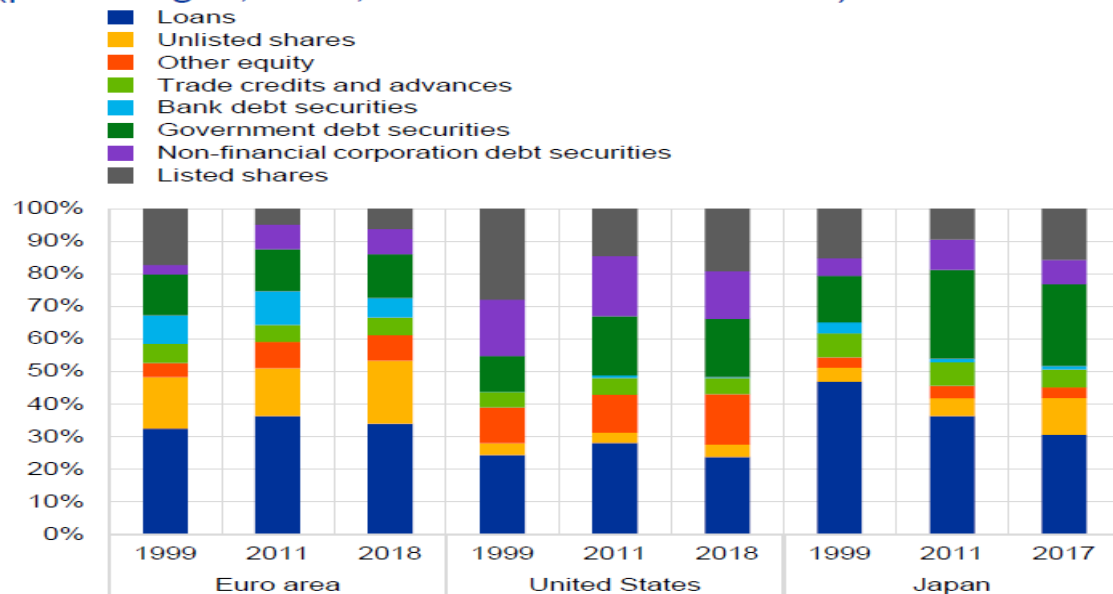


Sources: ECB for euro area and OECD for United States and Japan

Financial Structure - international comparison

Financing structures of the Euro Area, United States and Japanese economies by type of instrument

(percentages; 1999, 2011 and latest available)



Sources: ECB, OECD. Notes: Liabilities of all economic

- On-going dominance of non-marketable instruments: loans and unlisted shares
- Listed shares small compared to US or Japan
- Only some mild increase in NFC debt securities

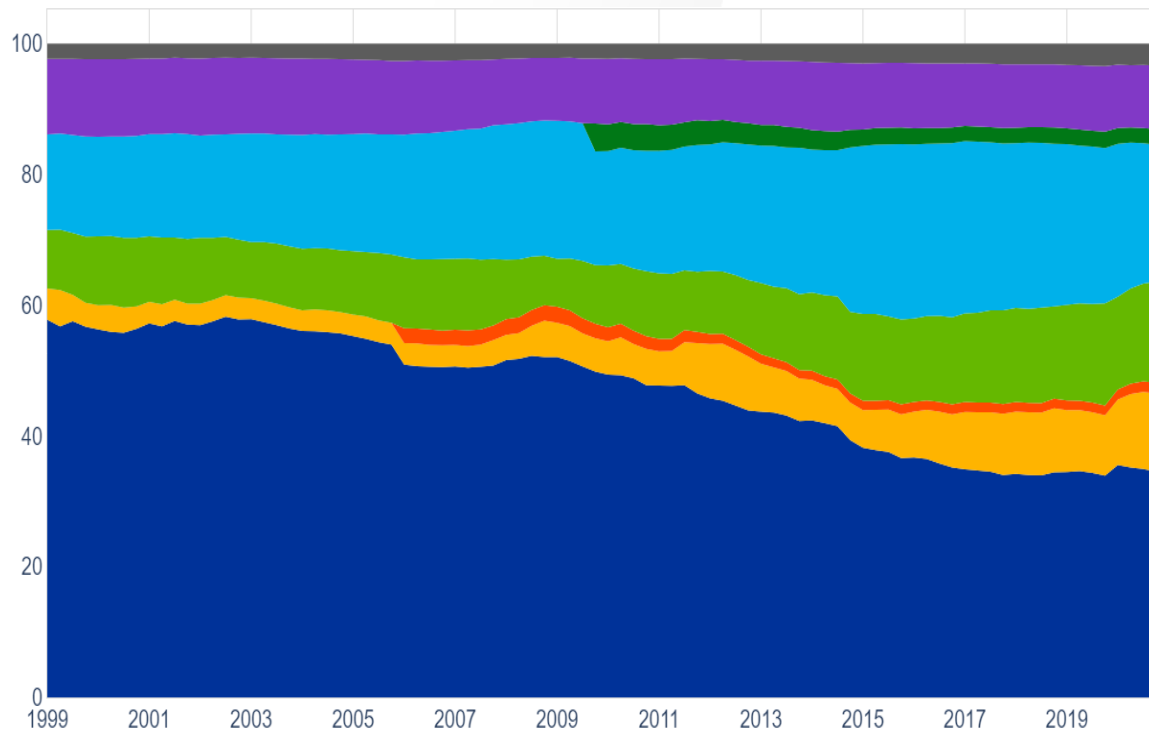
Overview

- 1 Financial structure – intermediaries, instruments, size
- 2 **Financial structure – relative weight of intermediaries**
- 3 Financial structure and the carbon footprint of the economy

Financial Structure – relative weight of intermediaries

- The relative role of MFIs (credit institutions) has declined since the global financial crisis.
- Non-credit institutions have gradually been playing a more important role, with the investment funds sector channeling increased amounts of debt and equity financing to the euro area economy.
- The assets of non-bank financial intermediaries have surpassed in size the euro area banking sector's assets since mid-2013.
- This is the result of relatively slower growth in bank assets, further consolidation and concentration in the banking sector and increased reliance on market-based intermediation.

Financial structure of the euro area



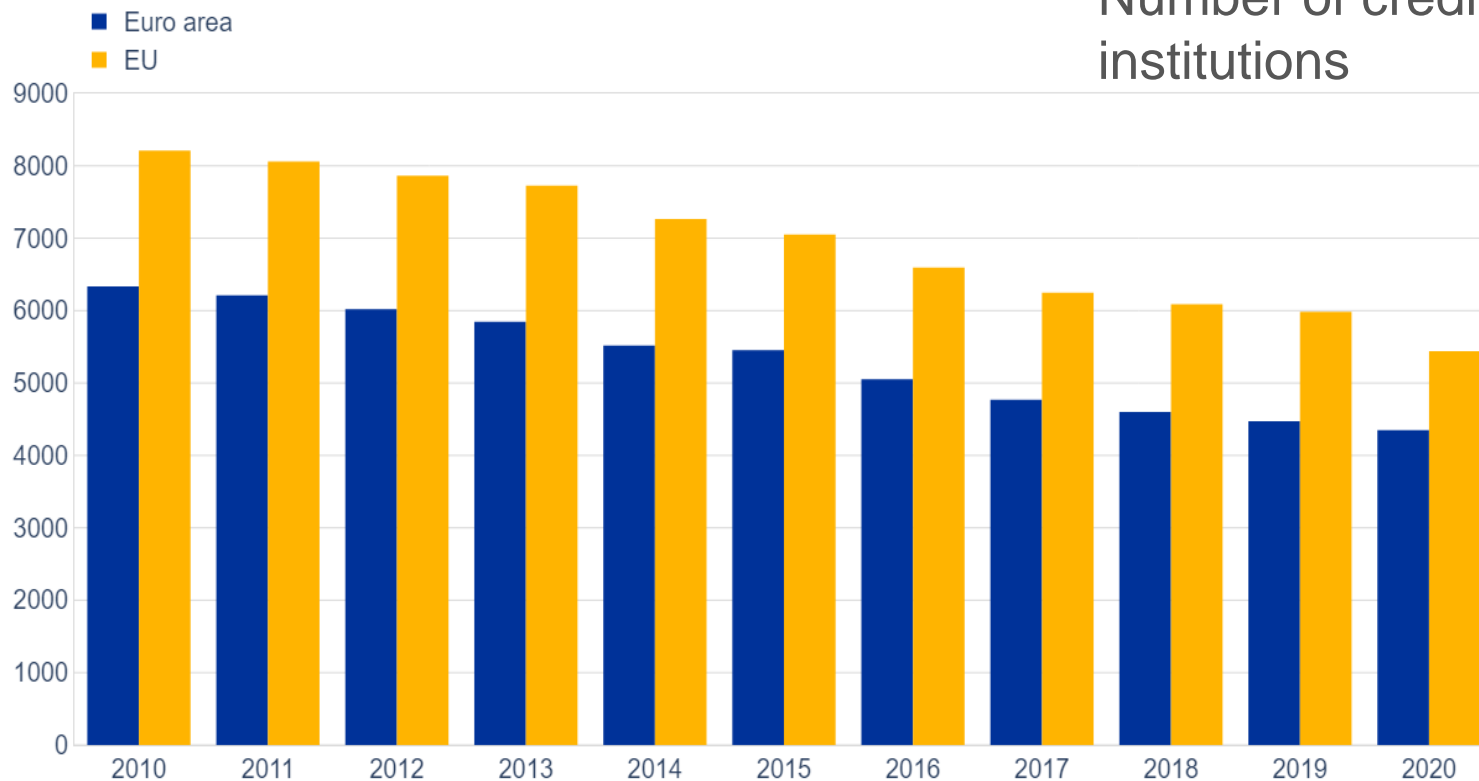
- **Banks** still largest sub-sector but declining share
- **Non-bank** financial intermediaries now around 60% of financial sector assets

Total assets of the euro area financial - percentages

Source: ECB

Financial structure of the euro area

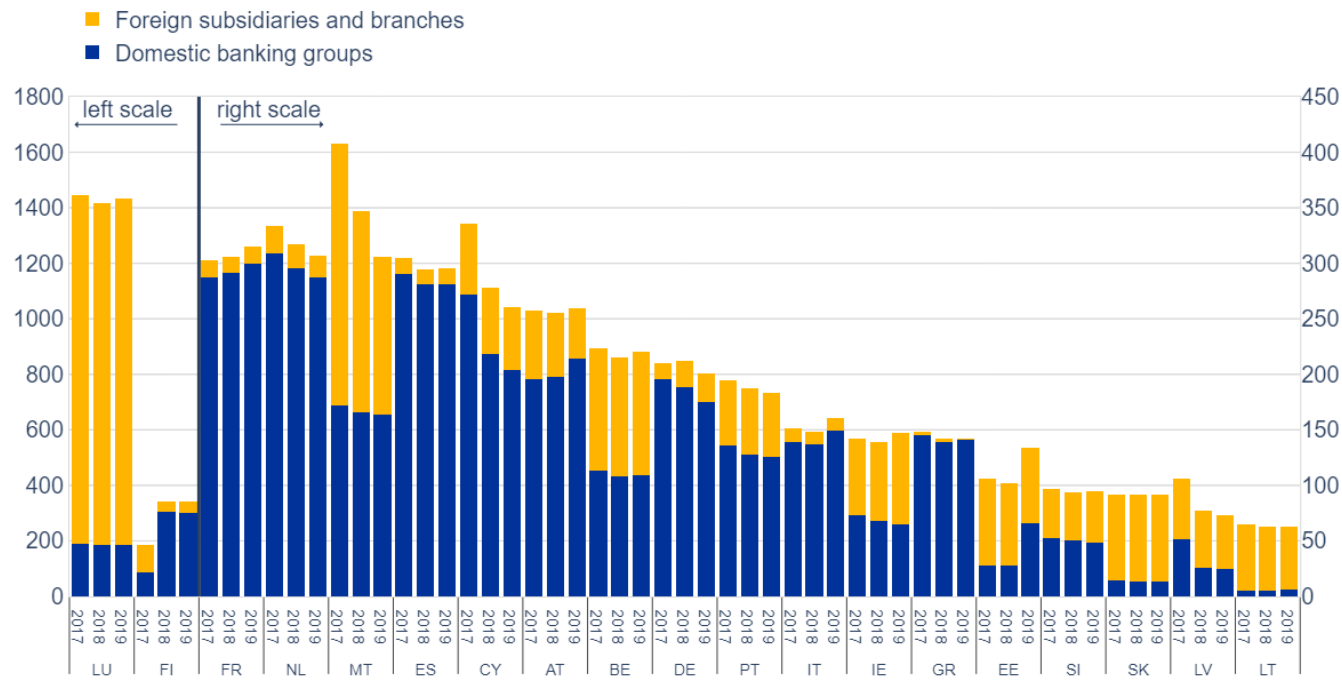
Number of credit institutions



Sources: ECB (MFI statistics)

Financial structure of the euro area

Total assets of domestic banking groups and foreign-controlled subsidiaries and branches in relation to GDP in euro area countries

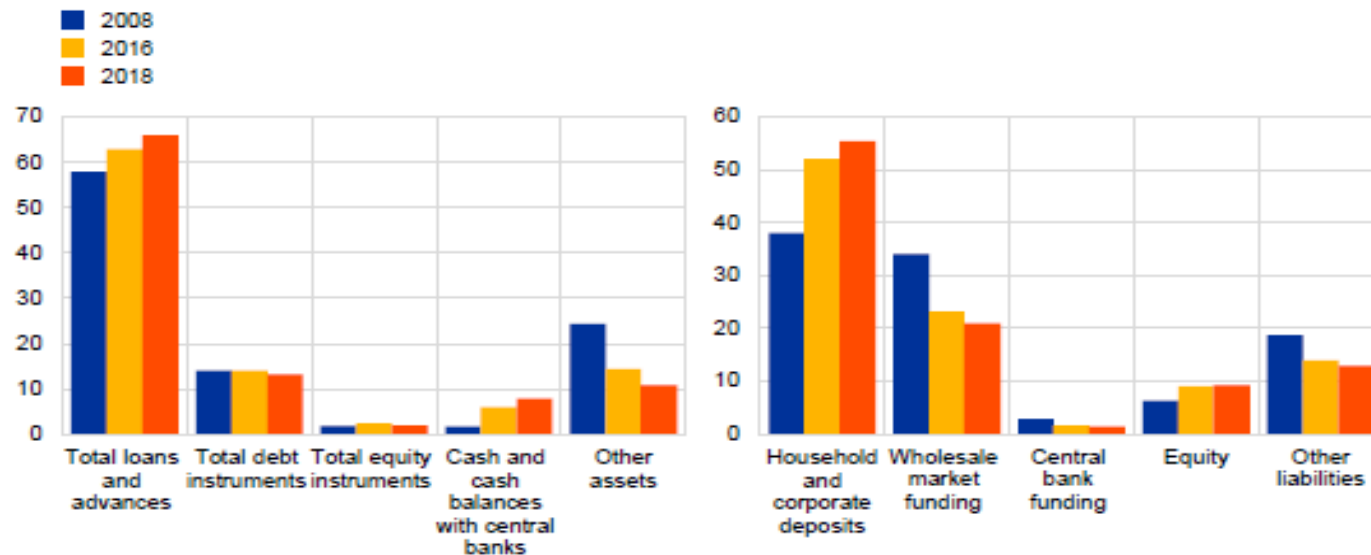


Sources: ECB Consolidated Banking Data (CBD) and ECB calculations.

Financial structure of the euro area

Breakdown by category of financial assets (left panel) and liabilities (right panel) of euro area MFIs left-hand

(percentage of total assets, end of 2008, 2016 and 2018)



Sources: Eurostat, ECB and ECB calculations.

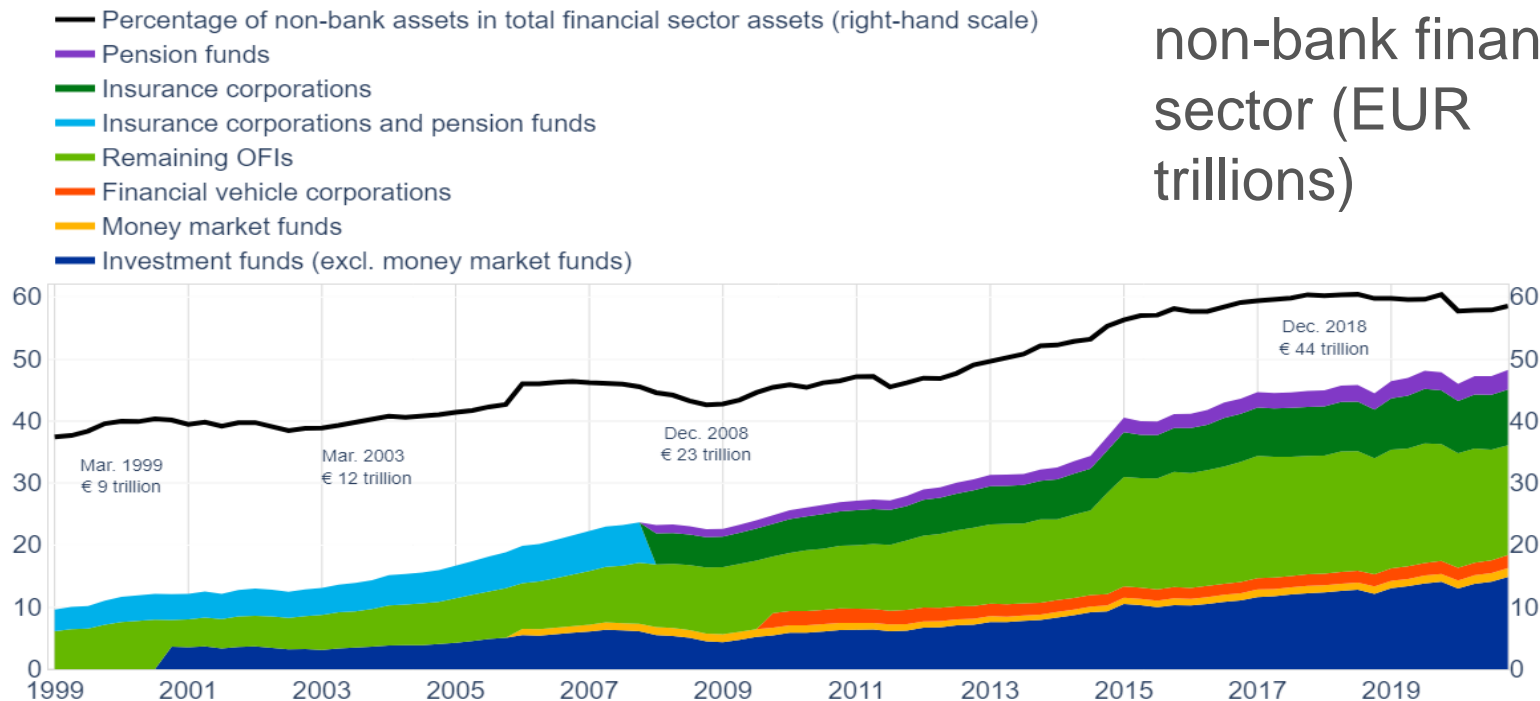
Note: Branches refer to the local units of credit institutions.

Financial Structure – non-bank financial entities

- The non-bank financial sector consists of
 - money market funds (MMFs),
 - investment funds (IFs),
 - insurance corporations (ICs),
 - pension funds (PFs),
 - financial vehicle corporations (FVCs), and a **residual** of remaining other financial intermediaries.

Financial structure of the euro area

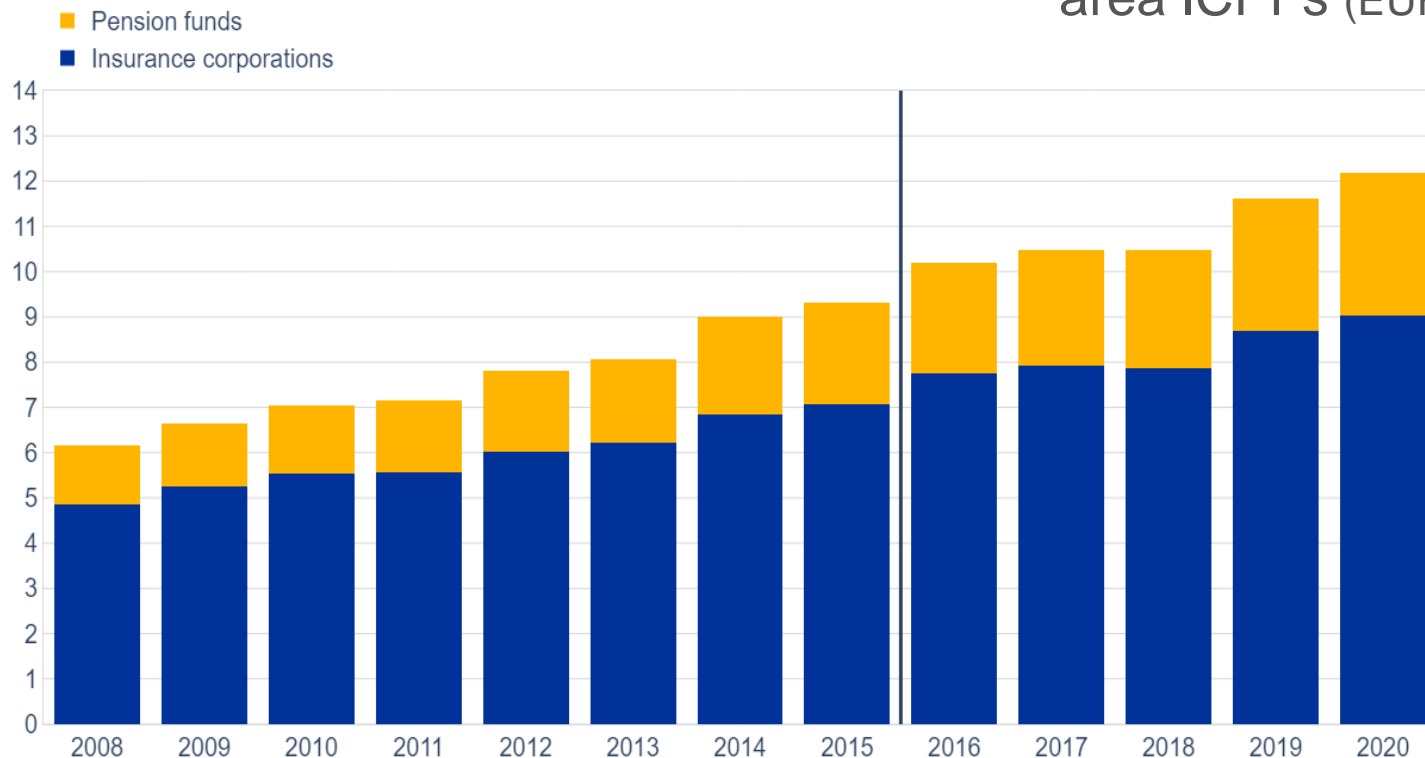
Total assets of the non-bank financial sector (EUR trillions)



Sources: ECB (EAA, MFI BSI statistics, investment fund balance sheet statistics, IC and PF balance sheet data, FVC asset and liability statistics) and ECB calculations

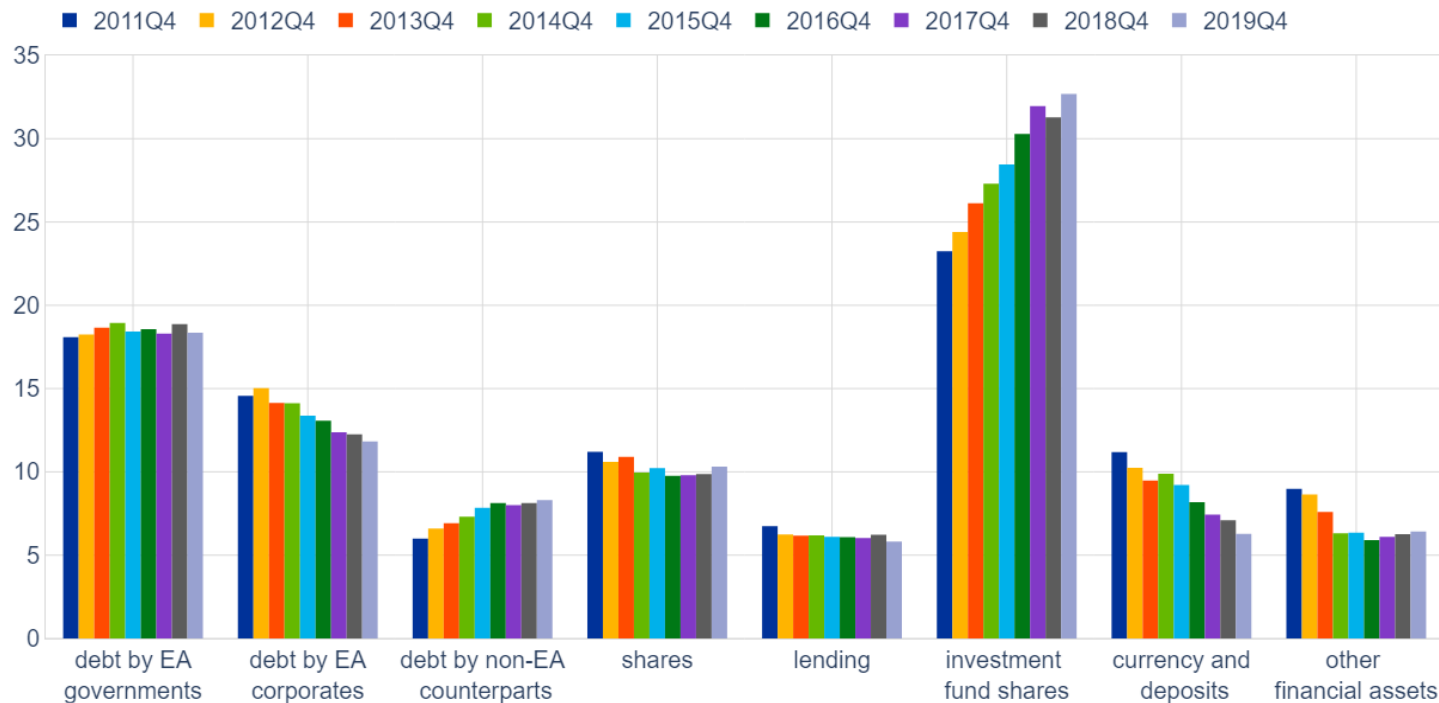
Financial structure of the euro area

Total assets of euro area ICPFs (EUR trillions)



Sources: ECB (IC and PF balance sheet data).

Financial structure of the euro area



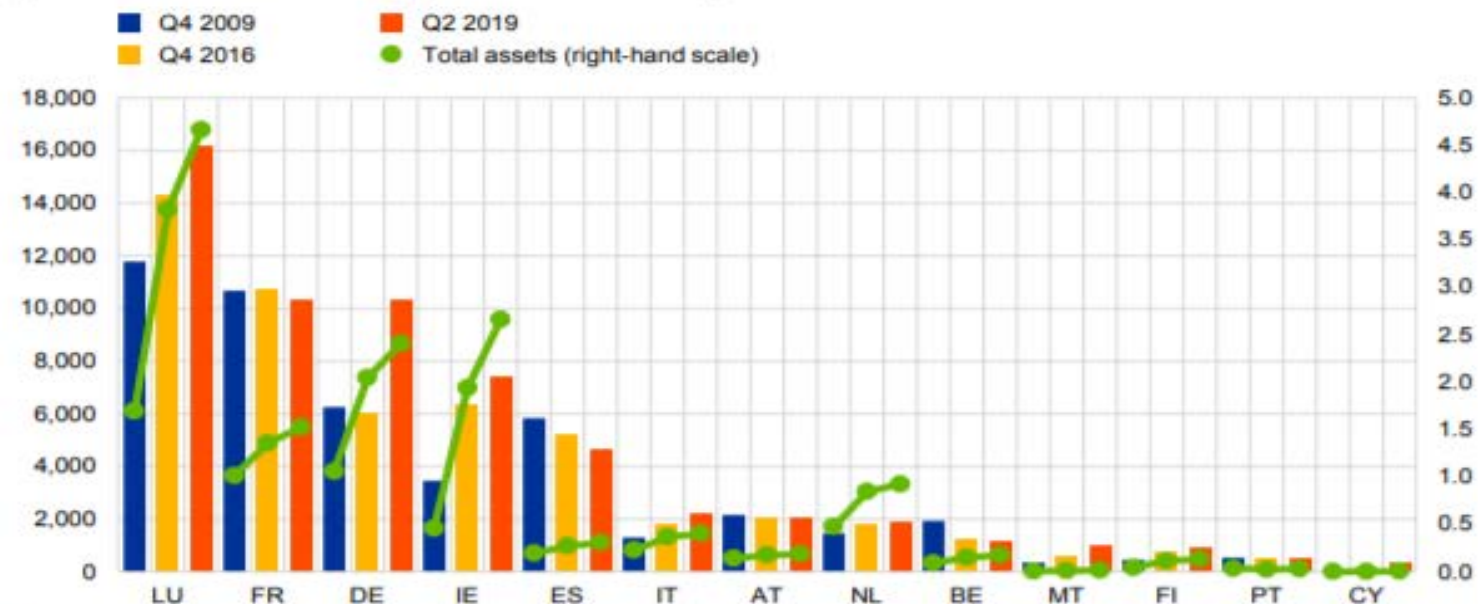
Breakdown of financial assets – euro area ICPFs

Source: ECB (euro area accounts).

Financial structure of the euro area

Total number and total assets of investment funds

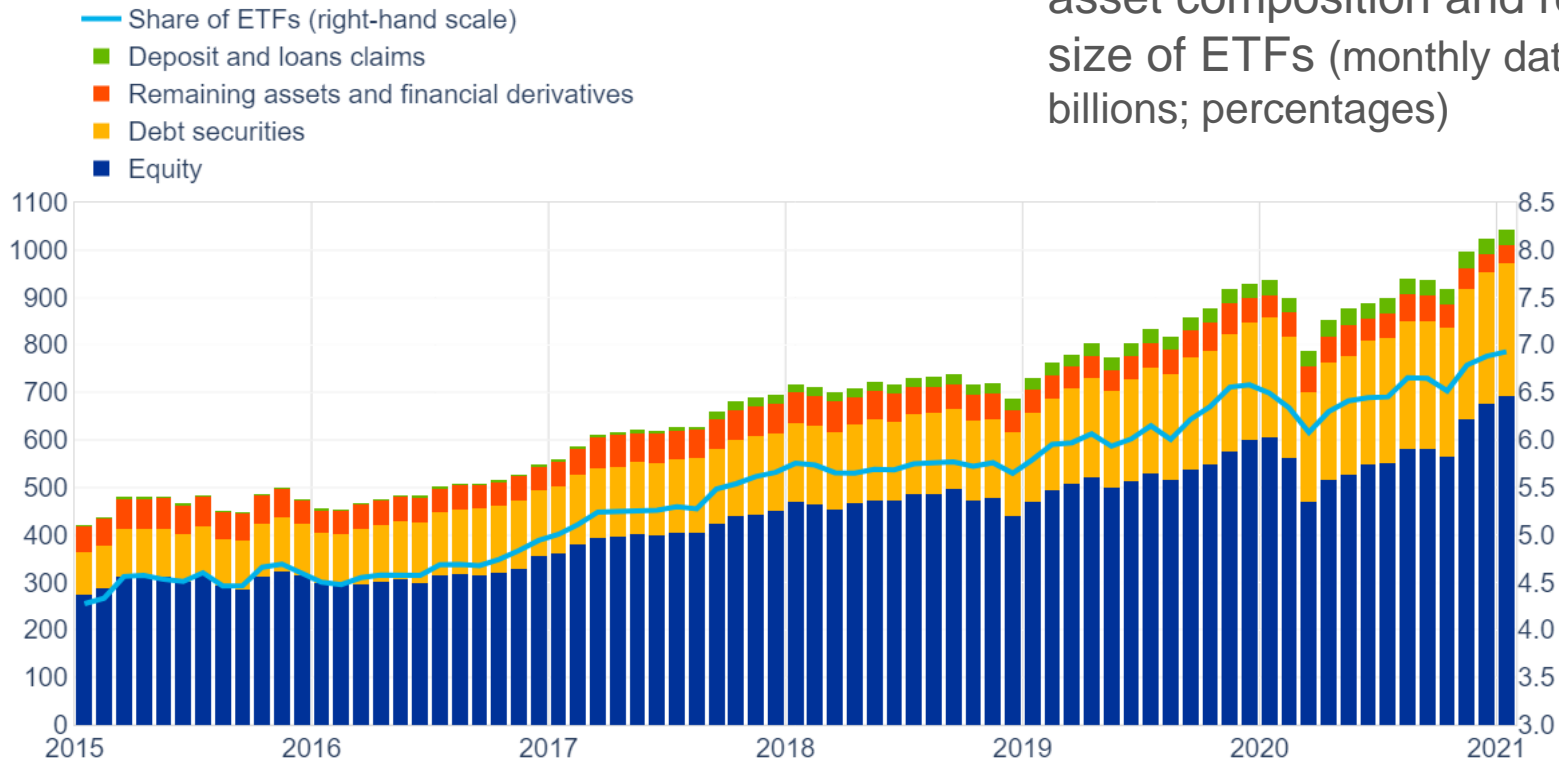
(left-hand scale: number of funds; right-hand scale EUR trillions)



Sources: ECB investment statistics and ECB calculations.

Financial structure of the euro area

Euro area investment funds – asset composition and relative size of ETFs (monthly data; EUR billions; percentages)



Sources: ECB (investment fund balance sheet statistics) and ECB calculations.

Indicators of financial integration and structure in the euro area

- You can find all these statistics ... and much else! in ...



The image shows a screenshot of the European Central Bank (ECB) website. At the top, the text "EUROPEAN CENTRAL BANK | EUROSISTEM" is displayed. Below this is a navigation menu with the following items: "Media", "Explainers", "Research & Publications", "Statistics" (which is highlighted), "Monetary Policy", and "The eur". To the left of the menu is the ECB logo, which features a yellow Euro symbol (€) inside a blue circle with twelve yellow stars. Below the navigation menu is a breadcrumb trail: "Home > Statistics > Financial markets and interest rates > Financial integration and structure in the euro area". The main content area of the page has a large heading: "Indicators of financial integration and structure in the euro area". To the right of this heading is a small blue Twitter icon.

Overview

- 1 Financial structure – intermediaries, instruments, size
- 2 Financial structure – relative weight of intermediaries
- 3 **Financial structure and the carbon footprint of the economy**

Does financial structure affect the carbon footprint of the economy?

Box 1

Does financial structure affect the carbon footprint of the economy? ²⁰

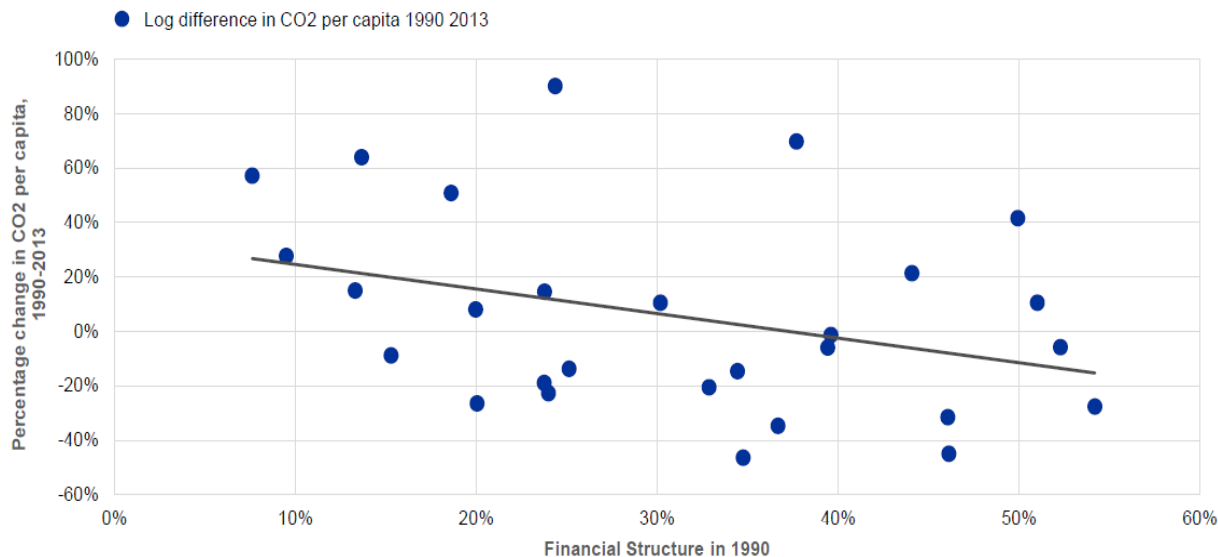
Prepared by Alexander Popov

- Research question: “Are expanding financial markets detrimental to the environment because they fuel economic growth and the concomitant emission of pollutants, or do they steer economies towards sustainable growth by favouring “**green**” sectors over “**brown**” ones?”

Does financial structure affect the carbon footprint of the economy?

Financial structure and carbon emissions

(y-axis: percentage change in country-specific carbon emissions per capita between 1990 and 2013; x-axis: total stock market capitalisation divided by the sum of total private credit and total stock market capitalisation, for each country, in 1990)



Analysis of data reveals that the carbon footprint of the economy shrinks faster in economies that receive relatively more of their funding from equity investors than from banks.

Does financial structure affect the carbon footprint of the economy?

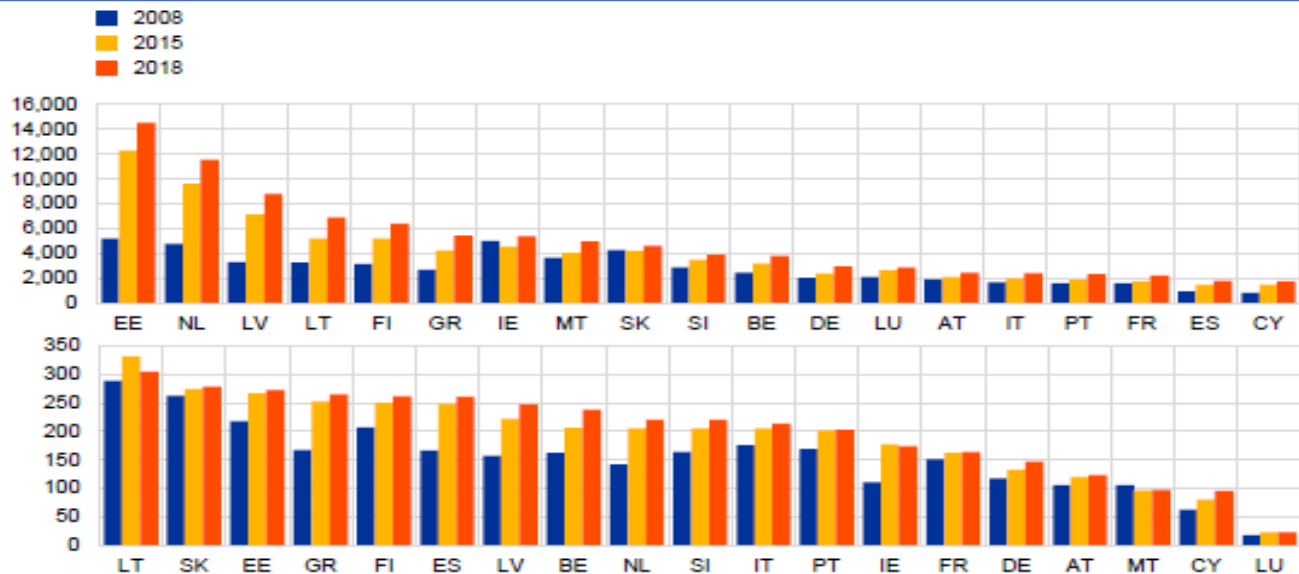
- The aggregate effect is explained by two separate mechanisms at the sector level:
 - relatively faster output growth in “green” sectors
 - relatively faster declines in emissions per output in carbon-intensive sectors, in countries with deeper equity markets
- The superiority of equity financing to debt financing in decarbonising the economy appears to stem largely from equity investors’ propensity to fund intangible projects and their higher aversion to litigation risk
- This evidence illustrates the challenges implied in limiting the financing of the carbon transition in Europe to bank or debt-based initiatives and suggests a strong emphasis on equity-based initiatives. Relevance of CMU.

Thank you for your attention!



Financial structure of the euro area

Population per local branch (upper panel) and population per banking employee in euro area countries (lower panel)



Source: ECB (Structural Financial Indicators statistics), Eurostat and ECB calculations.

Notes: Figures for Cyprus report each co-operative credit institution as a separate MFI credit institution.