

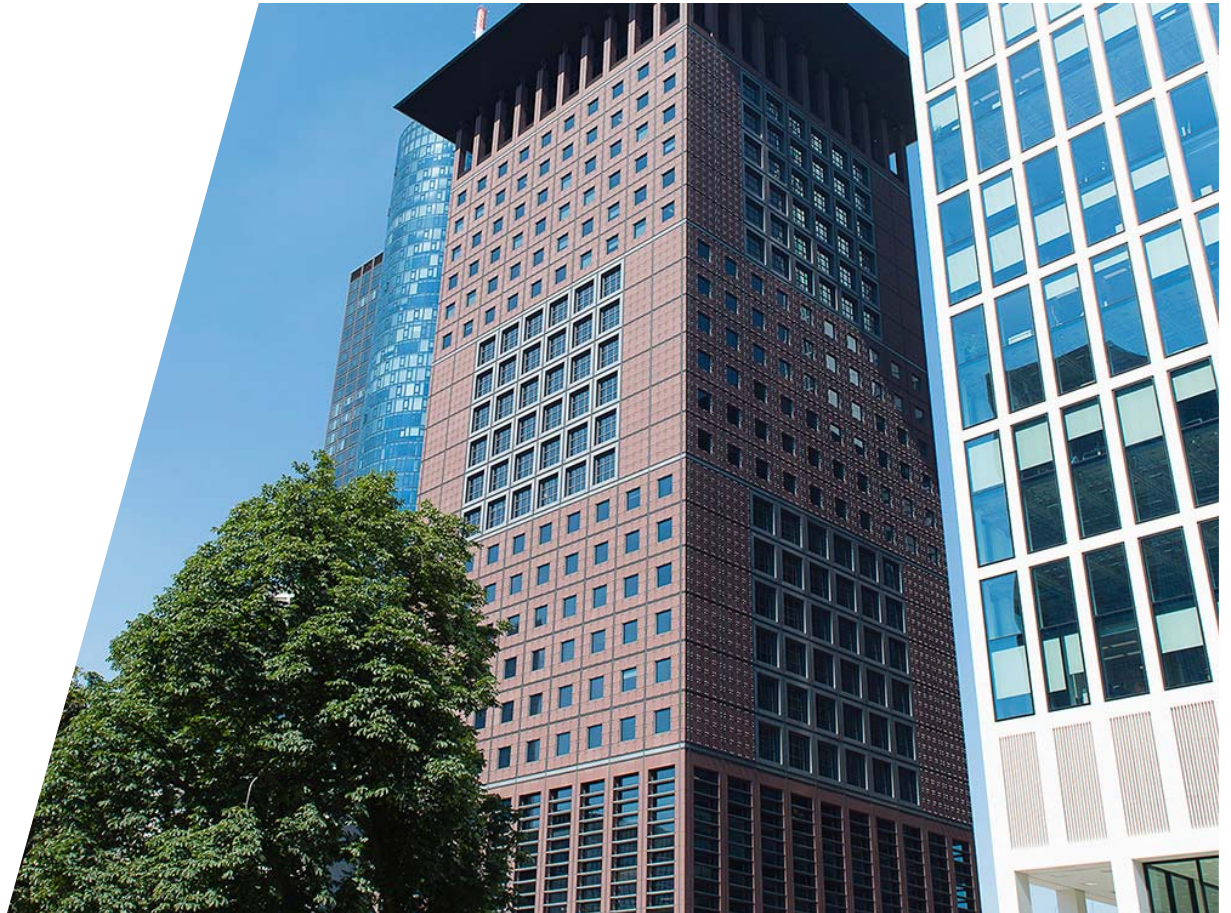


EUROPEAN CENTRAL BANK
EUROSYSTEM

Financial Integration and Structure in the Euro Area

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

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Overview

1	Financial structure
2	Brief overview of Fintech
3	Financial Integration

Financial Integration and Structure in the Euro Area

March 2020

Financial Structure

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 funds, investment funds, other financial intermediaries and financial auxiliaries, as well as captive financial institutions and money lenders.

The **financial instruments** include

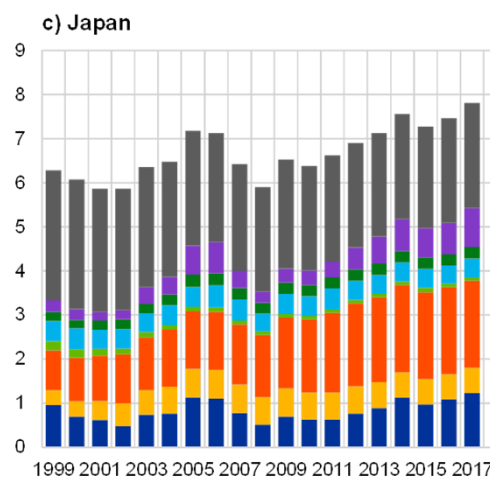
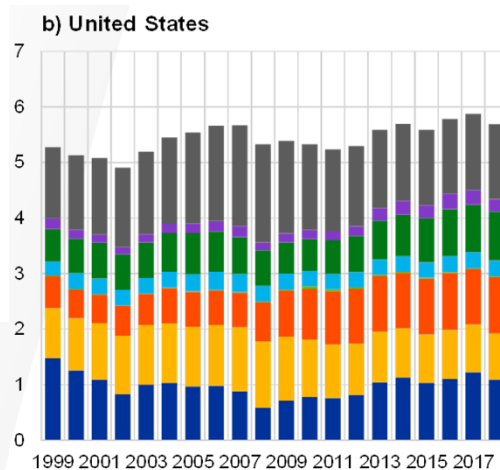
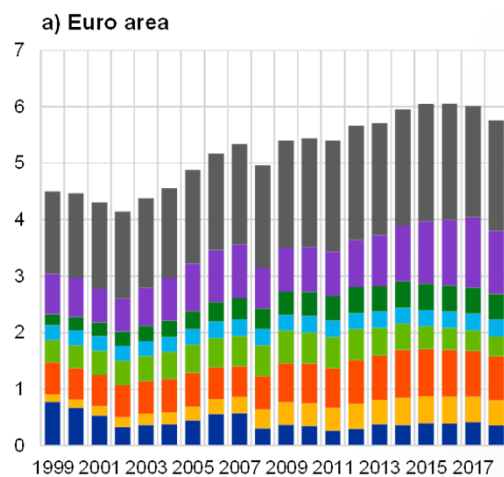
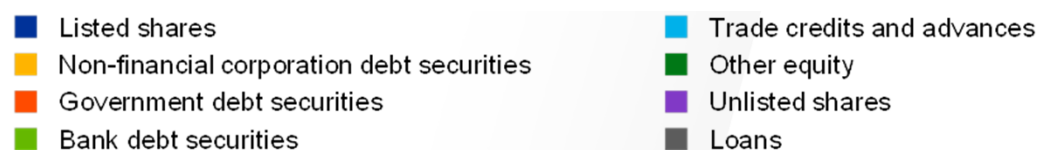
- Loans,
- Bonds,
- Equities.

Financial Structure - international comparison

- The euro area economy's financing requirements reached 5.8 times nominal GDP at the end of 2018 – **a level similar to the US economy** and significantly lower than the Japanese economy.
- While the requirements are predominantly met through debt and non-marketable financing instruments, their funding also includes a component of financing via listed shares that is **significantly smaller than in either the United States or Japan.**

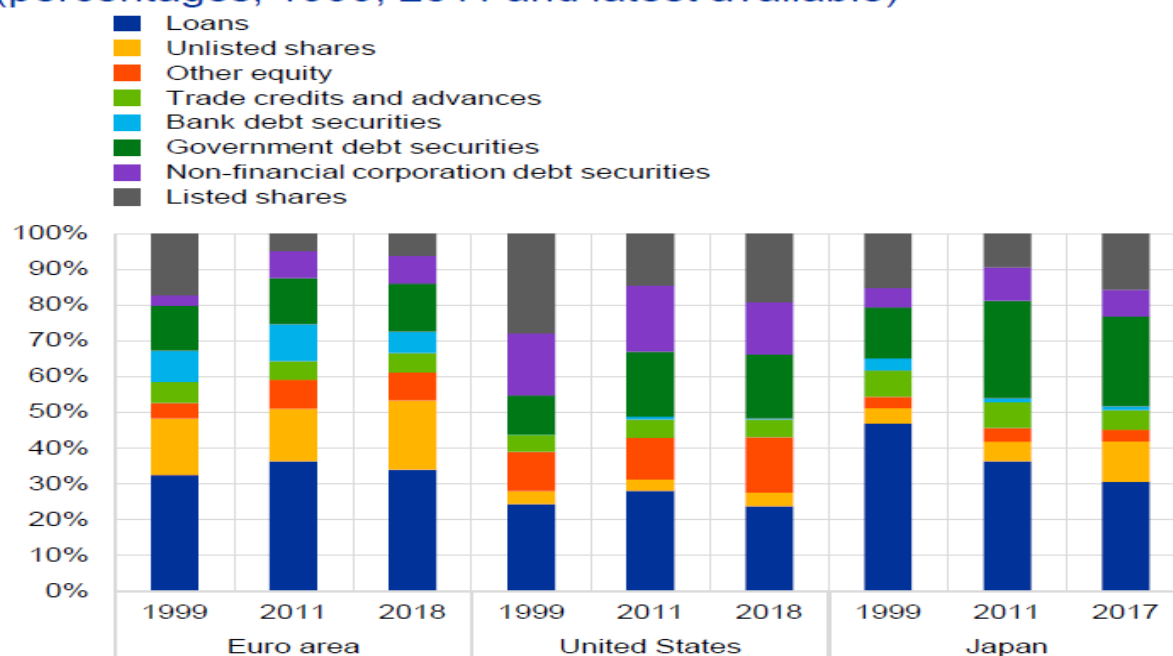
Financing of the euro area, US and Japanese economies

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



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

(percentages; 1999, 2011 and latest available)



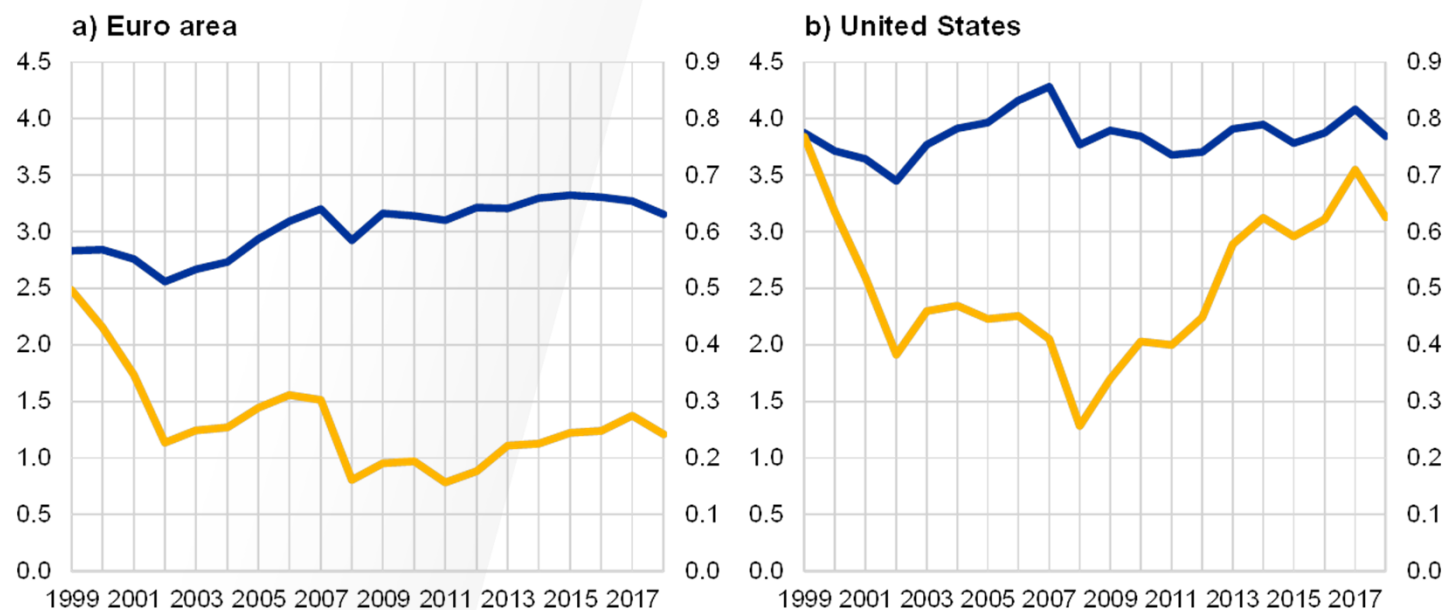
Sources: ECB, OECD. Notes: Liabilities of all economic

- 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

Financial development and financial structure in the euro area, the United States and Japan

(ratios; annual data: 1999-2018)

— Financial development (left-hand scale)
— Financial structure (unweighted) (right-hand scale)



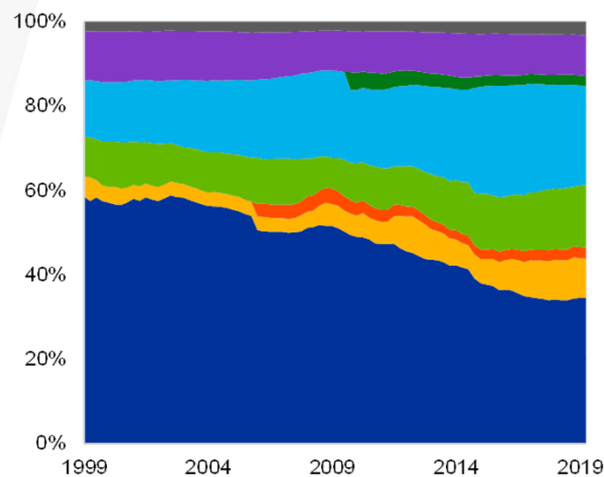
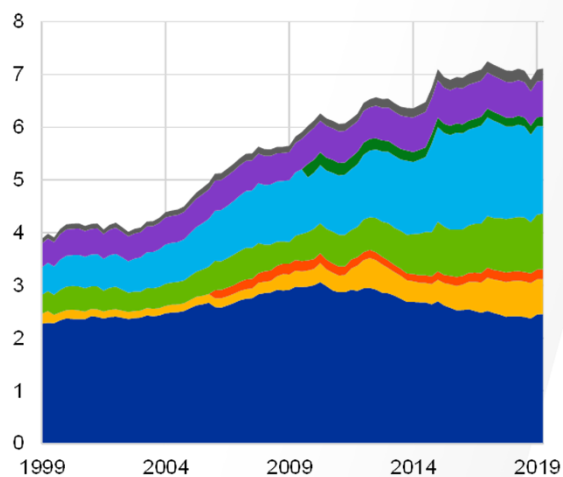
Financial Structure – relative weight of intermediaries

- 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.
- Since 2015 non-money market fund investment funds, financial vehicle corporations and other financial entities together are **the largest financial sub-sector**.
- 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.

Total assets of the euro area financial sector and shares of different types of financial intermediaries

(ratio of assets to nominal GDP (left panel); percentages (right panel); March 1999 -June 2019)

- Credit institutions
- Eurosystem
- Money market funds
- Investment funds
- Remaining other financial institutions
- Financial vehicle corporations
- Insurance corporations
- Pension funds



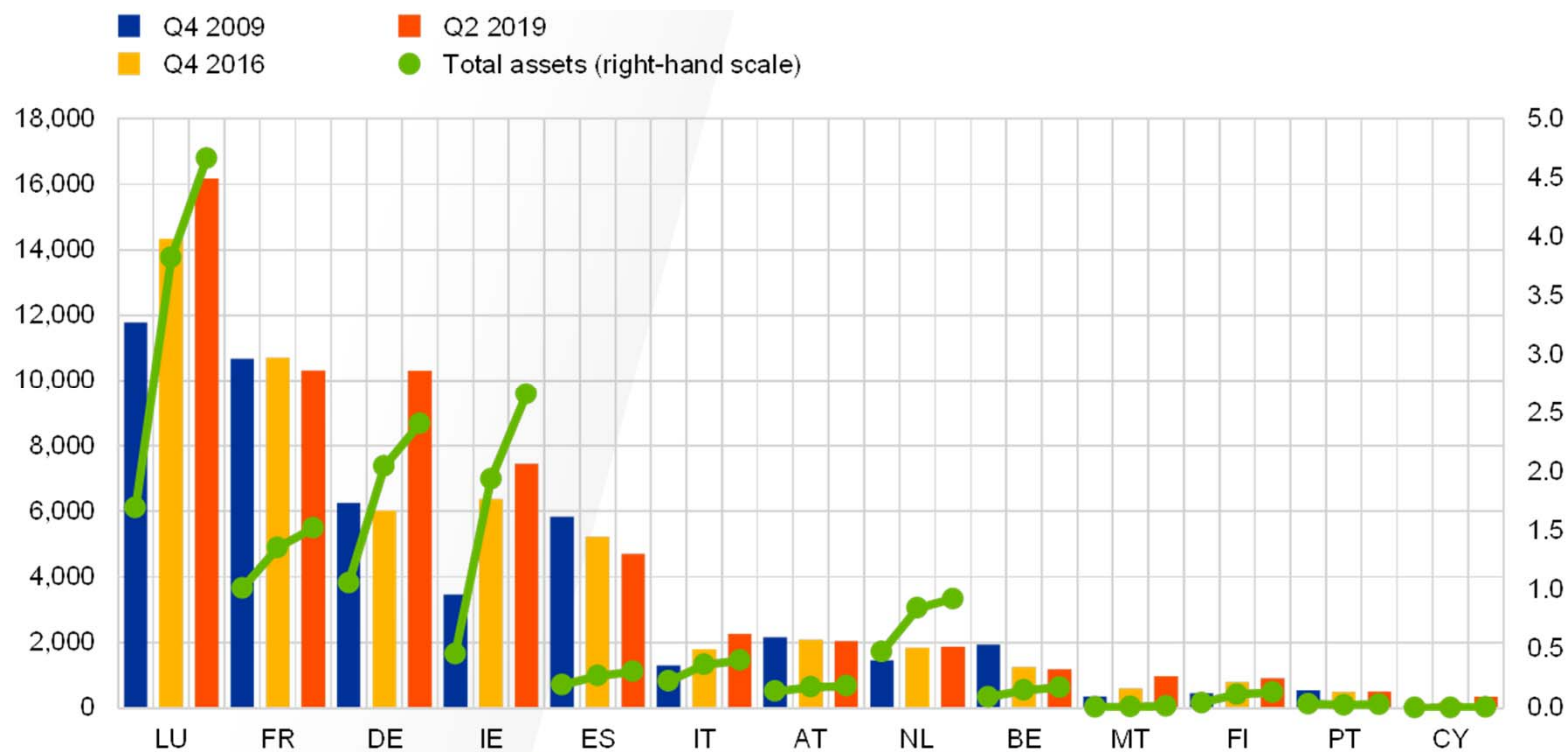
Medium-term movement from strong bank dominance towards a composition, in which different types of non-bank financial intermediaries are becoming increasingly important

Financial Structure – relative weight of intermediaries

- The **investment fund sector grew** continuously in recent years with total assets standing at almost EUR 14 trillion in June 2019. Investment funds are primarily domiciled in Luxembourg, Ireland, Germany, and France, from where they offer services to the whole euro area. In total, there are about 60,000 funds registered in the euro area, of which about one-quarter are located in Luxembourg.

Total number and total assets of investment funds

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



Overview

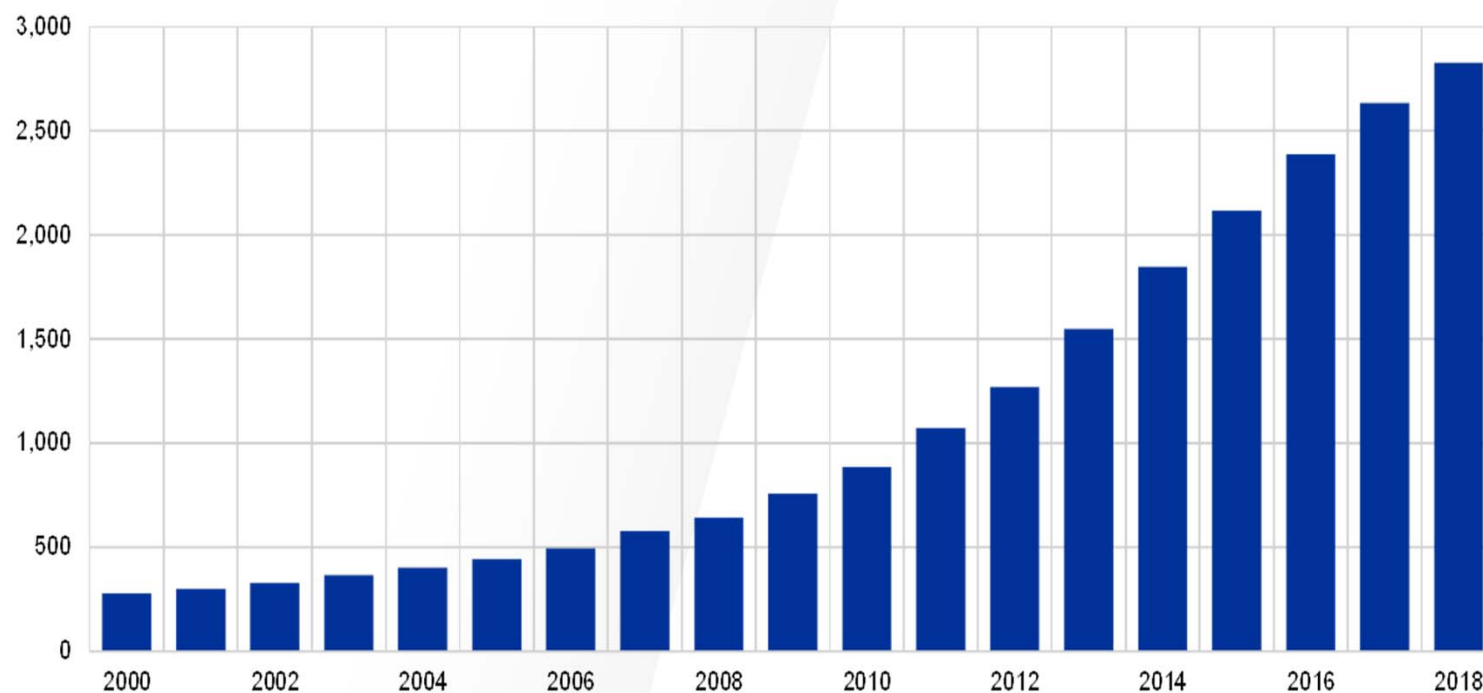
- 1 Financial Structure
- 2 **Brief overview of Fintech**
- 3 Financial Integration

Fintech

- **FinTech.** Technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services.
- Following the dynamic creation of fintech entities over the last decade, **the euro area** now hosts about **a fifth of all such entities worldwide** – quite a number of which are located in smaller, “tech-savvy” euro area countries

Fintech entities in the euro area

(estimated number of entities by year of formation)

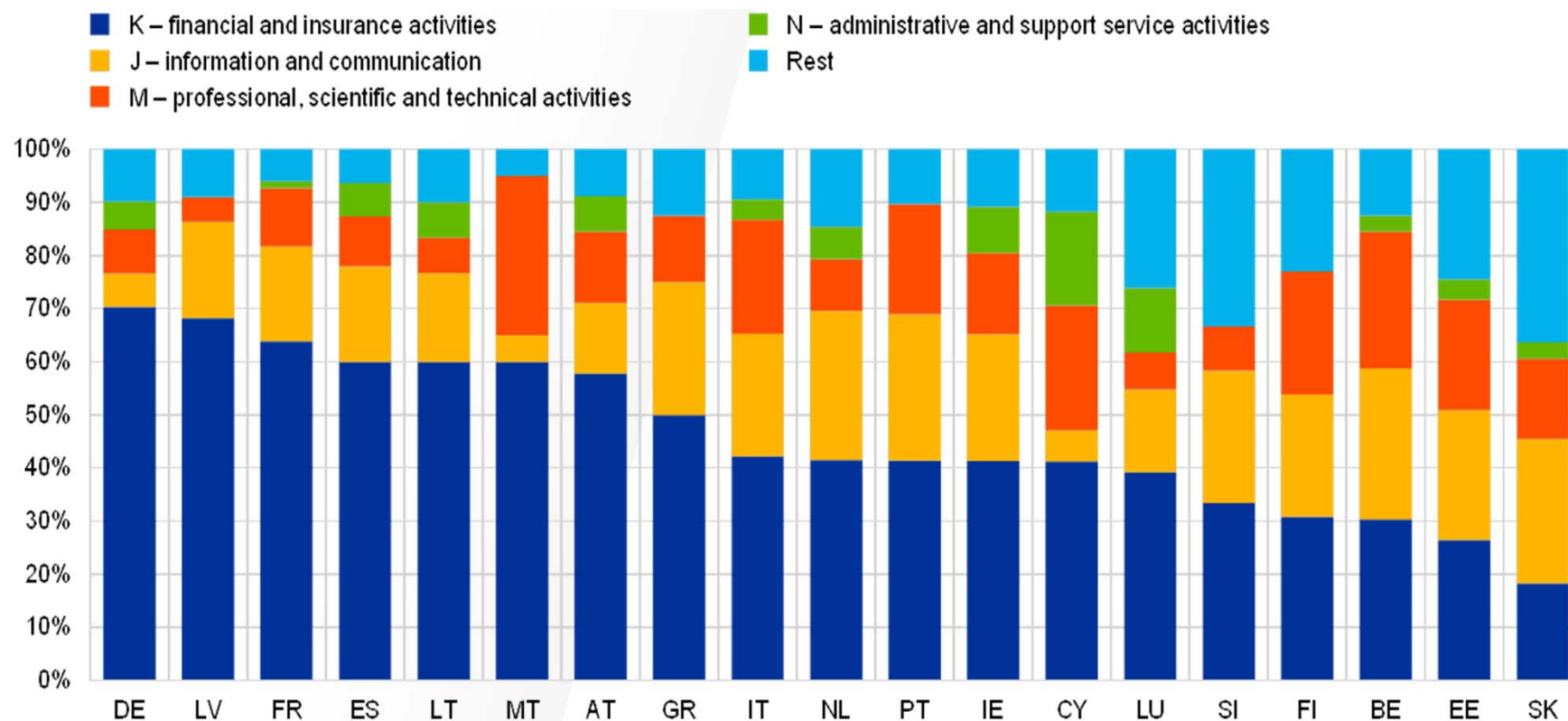


Most entities are involved in payment, clearing and settlement services or in credit, deposit-taking and capital-raising services

Fintech

- In terms of **ownership structure**, the links between fintech entities and the traditional financial sector are close. Close links between fintech and the traditional financial sector.
- The analysis of shareholders by sector of economic activity points to **strong links with the financial sector**

Shareholders of fintech entities by sector of economic activity



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Financial Integration

“ ... we define financial integration as a situation whereby there are no frictions that discriminate between economic agents in their access to – and their investment of – capital, particularly on the basis of their location. This means that financial integration is achieved when there is equal market access, de facto and de jure. ... ”

“The way back to financial integration”, Speech by Benoît Cœuré, Member of the Executive Board of the ECB, Madrid, 12 March 2013”

Measures of Financial Integration

Since September 2005 the ECB is publishing a **set of indicators** of financial integration.

- ✓ Price-based measures (*price convergence*)
- ✓ Quantity-based measures (*cross-border activities*)

These indicators allow an overall assessment of the degree of integration in the main financial market segments of the euro area, covering the money market, bond markets, equity markets and banking markets, including indicators related to market infrastructures.

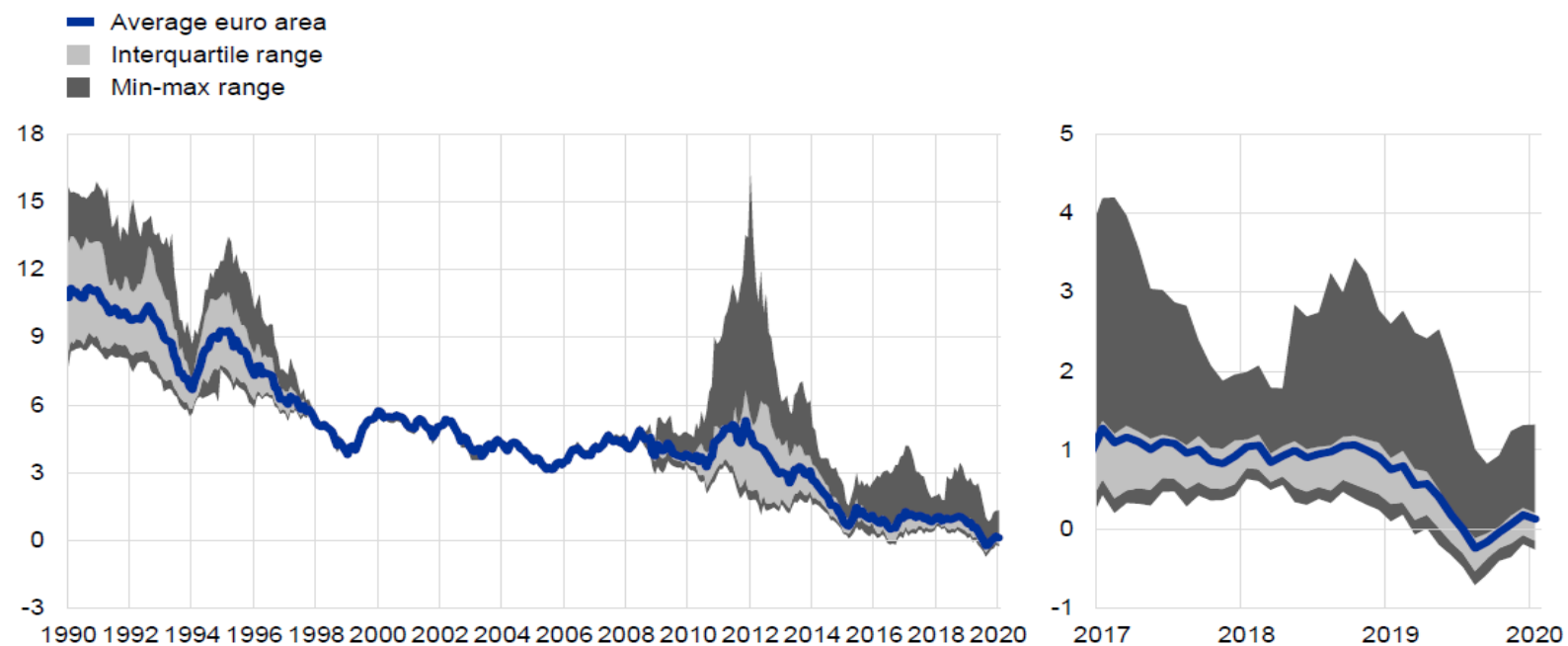
https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/financial_integration/html/index.en.html

Financial integration and structure in the euro area: Statistical annex

March 2020

Dispersion of euro area ten-year sovereign bond yields

(percentages; monthly data, January 1990 – January 2020; left panel: 1990-2020; right panel: 2017-2020)

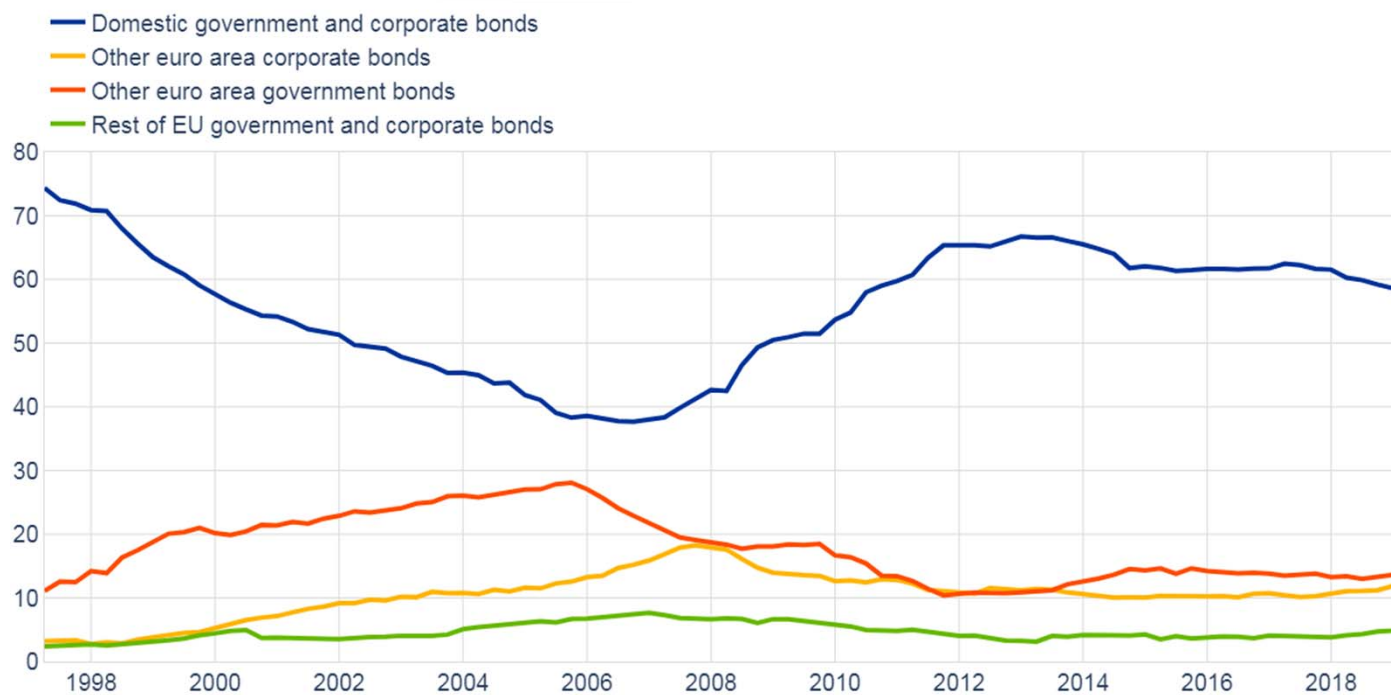


Source: ECB.

Notes: The stock of debt securities for year 2019 refers to Q3 2019 values. Annual GDP for the year 2019 is calculated as the sum of quarterly nominal GDPs from Q4 2018 – Q3 2019.

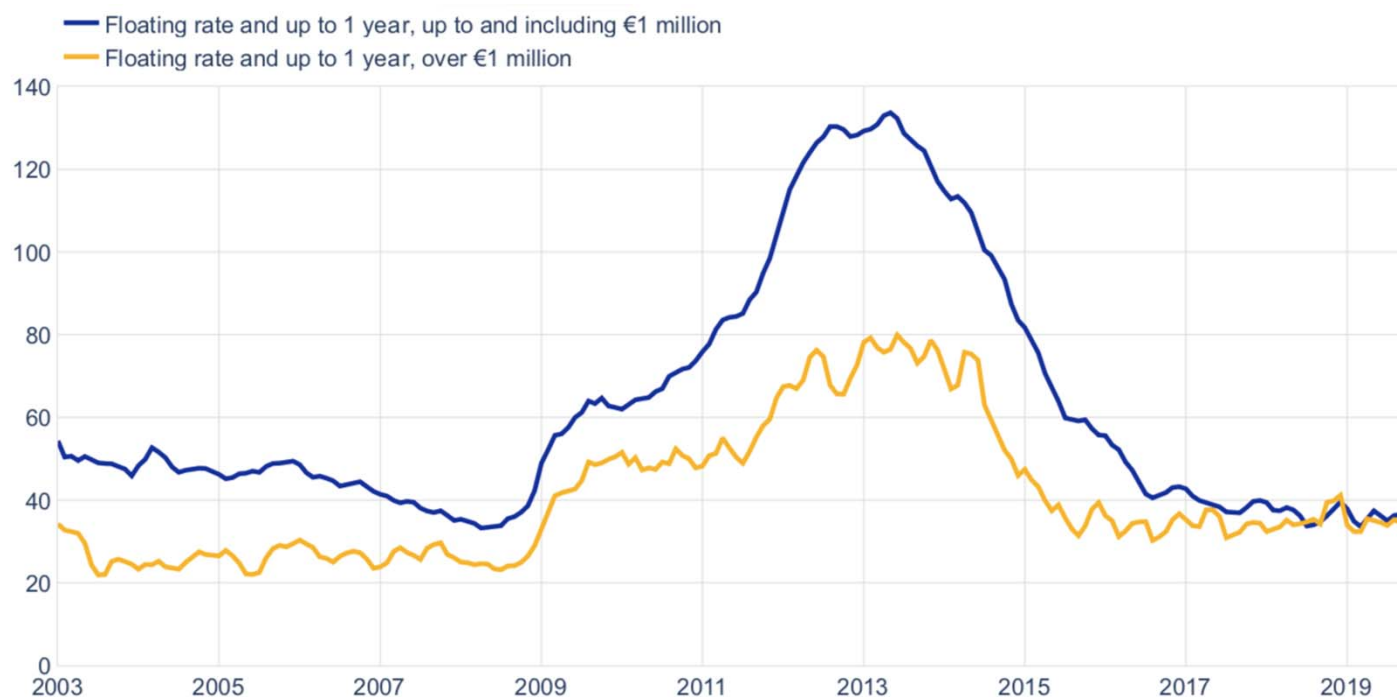
Share of MFI holdings of debt securities issued by euro area and EU corporates and sovereigns

(percentages of total holdings, excluding the Eurosystem, quarterly data, Q3 1997 - Q3 2019)



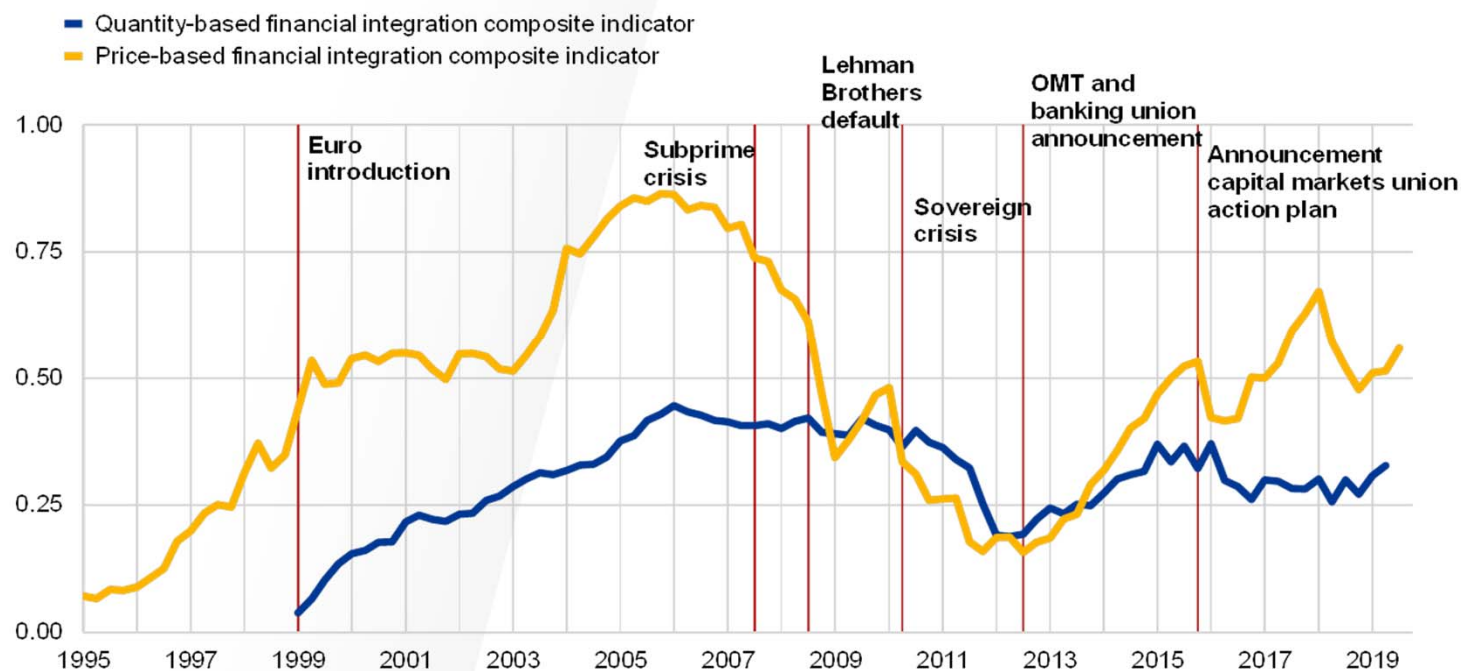
Cross-country standard deviation of MFI interest rates on new loans to non-financial corporations

(basis points, monthly data, January 2003 – November 2019)



Price-based and quantity-based composite indicators of financial integration

(quarterly data; price-based indicator: Q1 1995 – Q3 2019; quantity-based indicator: Q1 1999 – Q2 2019)



Thanks you for your attention

Questions?

