

The Competitiveness of European Financial Markets

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“An Englishman is a person who does things because they have been done before. An American is a person who does things because they haven't been done before.” (Mark Twain)

Outline

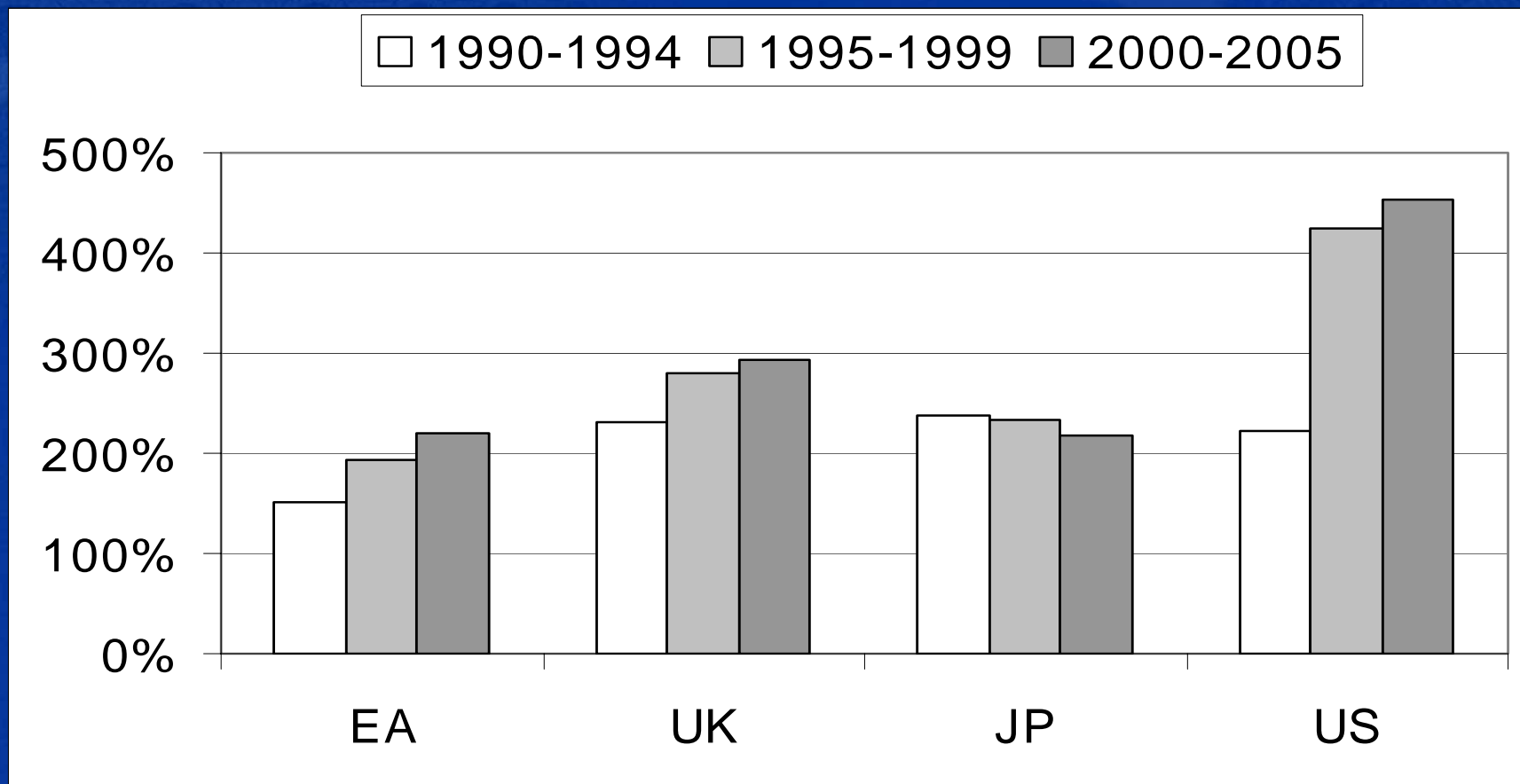
- Financial integration and development
- State of EU integration
- US financial integration experience
- Role of ECB in integration
- Integration projects
- Conclusions

Financial integration and financial development

- Financial integration and development
 - efficiency
 - competitiveness
 - overall economic growth
- Schumpeter and Bagehot “creative destruction”
- Total productivity gap EU vs US
- Reforms:
 - Lisbon Agenda
 - Financial Services Action Plan

Financial integration and financial development

Size of capital markets (in % of GDP): US > EU

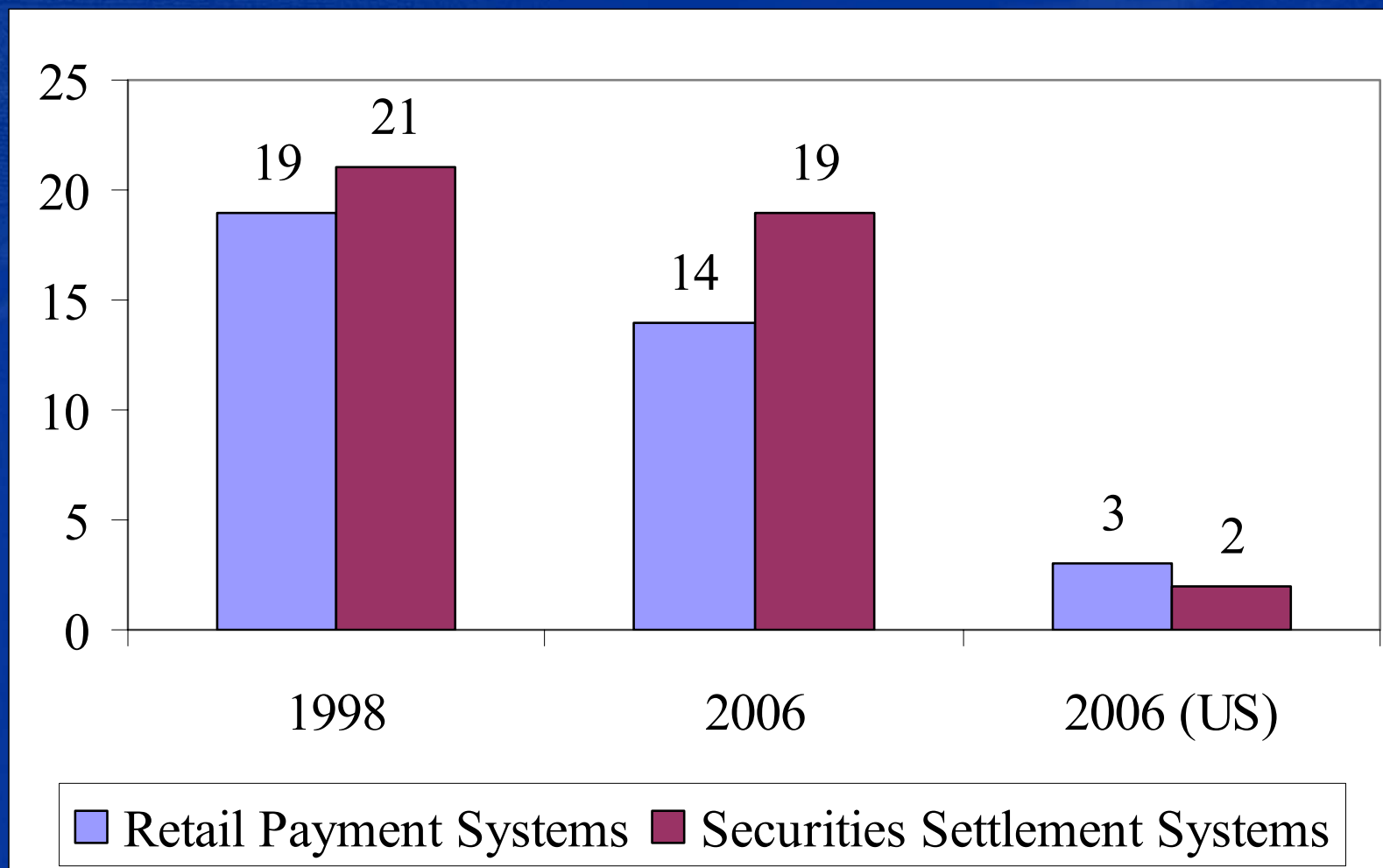


State of EU integration

- Financial integration uneven:
 - Full integration: money market
 - Near perfect: large-value payment systems
 - Well advanced: government bonds
 - Fair: corporate bonds
 - Fledging: equity markets
- Progress, but:
 - Securities infrastructure integration not sufficient
 - Fragmented retail banking market

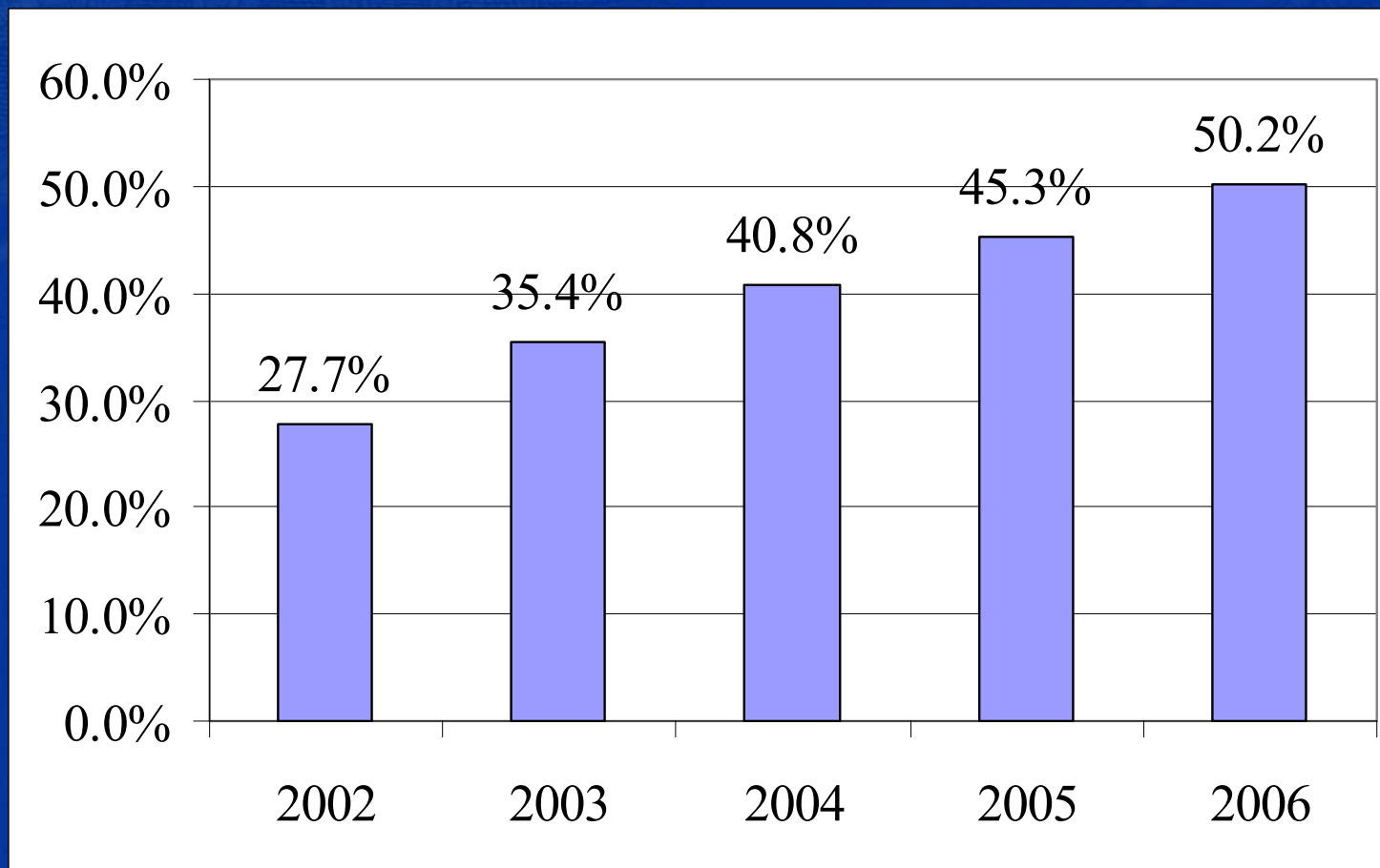
State of EU integration

Number of payment and settlement systems remains high



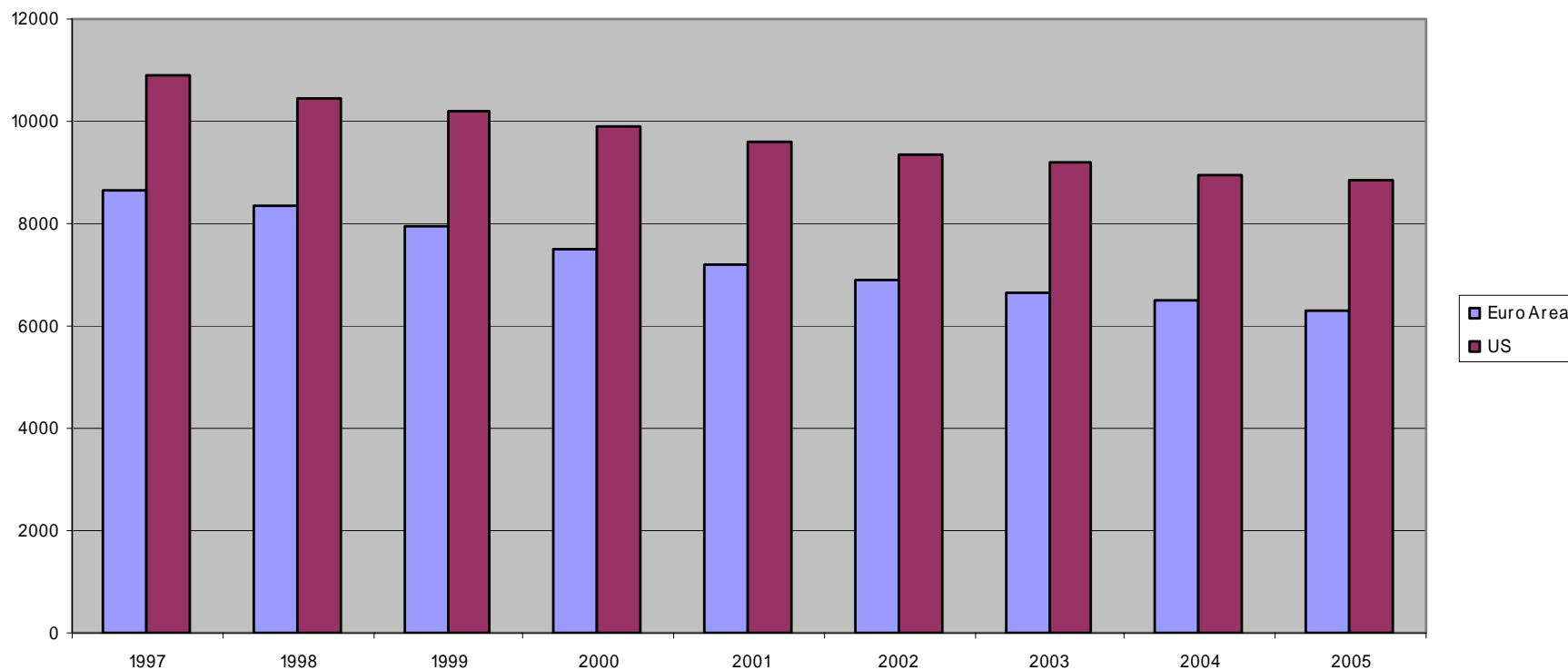
State of EU integration

In 2006: Cross-border exceeds domestic collateral for Eurosystem credit operations for the first time



US/EU financial integration experience

Number of credit institutions



US financial integration experience

- Deregulation:
 - US 1970-94
 - EU from early 1990s
 - Consolidation in US and EU
 - Intrastate/national consolidation
 - Cross-border/interstate
- M&A activity: US > EU

Role of ECB in integration

- Central banking services
- Catalyst for private sector activities
- Monitors integration
- Advice on EU framework

Integration projects

- I. Central bank services: TARGET2-Securities
 - Eurosystem prepares securities settlement services
 - Fragmented securities infrastructure
 - Safety and efficiency of settlement
 - Fostering competition between CSDs

Integration projects

2. Catalyst: SEPA

- National = cross-border payments
- Opportunities:
 - better prices, cost savings, new business, simplified payments
- Challenges:
 - investments, competition, pressure on revenues
- Short-term costs *versus* long-term benefits.

Integration projects

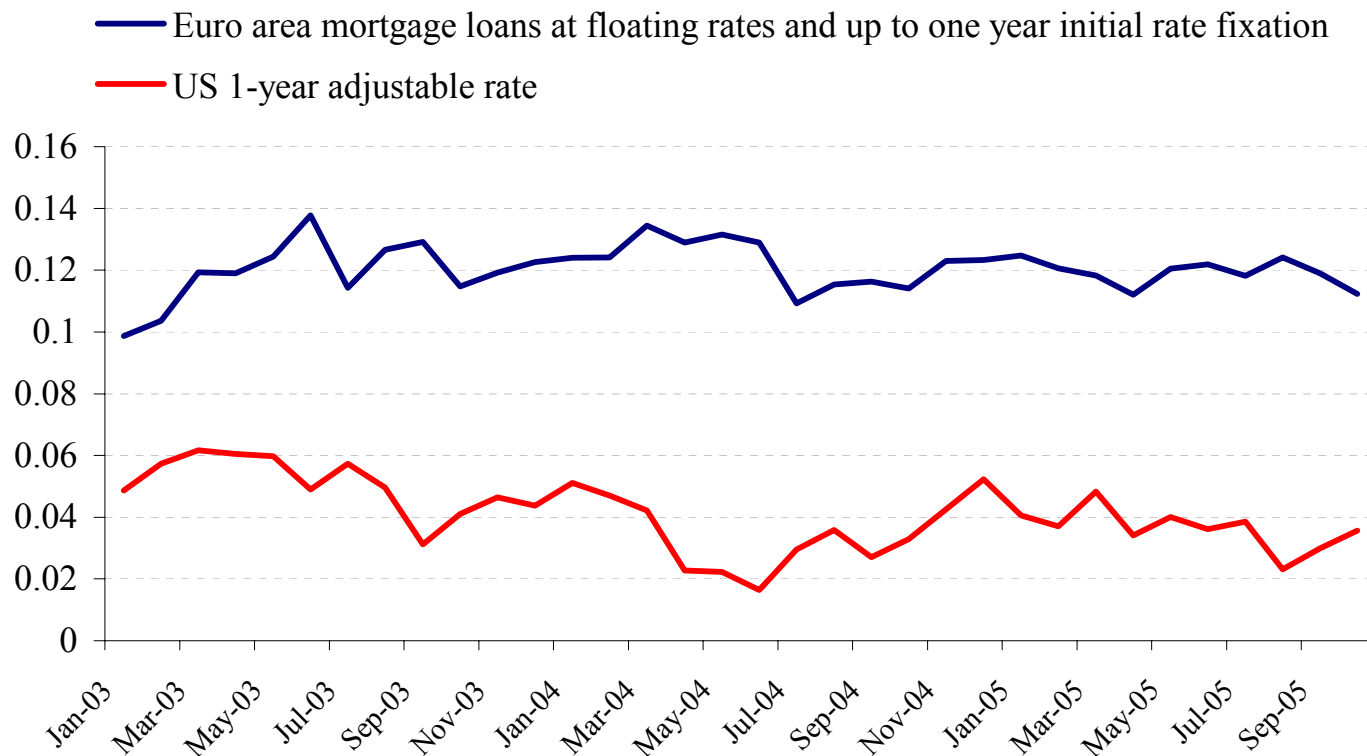
3. Monitoring integration: Mortgage markets

- Mortgage markets crucial for financial system and monetary policy transmission
- More integration:
 - Funding side
 - Secondary market
- Remove integration barriers
- ECB supports European Commission

Integration projects

Dispersion mortgage rates: US < EU

Chart A. Dispersion of floating and short-term rates on loans to households for house purchase and corresponding market rates across US regions and euro area countries, respectively (new business rates; coefficient of variation)



Integration projects

4. Strengthening the EU framework:

Cross-border banking

- Cross-border banking integration less advanced
- Enhance public sector framework
- Enhance EU framework for cross-border banking

Conclusions

“A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain.” (Mark Twain)

Conclusions

- Competitive financial sector
key for economic growth
- European economy in process of
significant change
- Financial integration plays pivotal role

Conclusions

- Financial integration progress, but more needed
- US financial integration valuable for EU
- “Old” Europe, but able to integrate fast