Jean-Claude Trichet: European financial integration

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at Danmarks Nationalbank, Copenhagen, 3 October 2005.

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1. Introduction

Dear Bodil, Ladies and Gentlemen,

When Danmarks Nationalbank invited me to speak today, I had no hesitation in accepting its invitation, although my feelings towards the occasion being marked are somewhat ambivalent. When our host, Ms Bodil Nyboe Andersen, leaves her post as Governor of Danmarks Nationalbank at the end of this month the European System of Central Banks (ESCB) and the ECB will lose a highly esteemed member of its General Council. As much as we regret saying farewell to you, dear Bodil, we are also looking forward to an equally fruitful cooperation with your successor, Mr Nils Bernstein.

Dear Bodil, during our many years of collaboration, I, like so many others, have come to admire your manifold achievements. Let me name but one: the skill with which you have managed the Danish exchange rate regime. During your tenure, the credibility of this policy has gone from being very high to being exceptionally high. This is illustrated by the fact that during the past year the exchange rate of the Danish kroner to the euro has fluctuated by less than 0.5%.

This is a remarkable success on the part of Danmarks Nationalbank, but it is also your personal success. The exchange rate policy is undisputed in your country, not least because the central bank and its Governor enjoy such a high degree of credibility. This also means that, in an economic sense, Denmark is closely linked to the euro area economy and is thus also in a position to participate to a large extent in financial integration. This brings me to the topic of my speech today.

Today, I would like to speak about *European financial integration*. In so doing, I will address two main questions:

1. Why is the Eurosystem so deeply interested in European financial integration? and
2. What can the Eurosystem do to contribute to fostering European financial integration?

Let me mention here also that I use the term "European" financial integration in a broad sense. Of course, as the President of the ECB, my primary area of responsibility lies with the euro area. However, there are numerous links between the euro area and the remainder of the European Union.

2. The Eurosystem's interest in European financial integration

There are several reasons for the Eurosystem's interest in European financial integration.

The basic, institutional reasoning is that under Article 105 of the Treaty the ECB and the entire Eurosystem "shall without prejudice to the objective of price stability, […] support the general economic policies in the Community".

As we know, financial integration is an important component of the general economic policy of the European Union. While I will explain in a moment that financial integration is indeed conducive to the smooth implementation of the single monetary policy within the euro area, let me reiterate that, as the Treaty states and as the ECB has demonstrated since its inception, monetary stability is the primary objective of the Eurosystem.

Of course, financial integration is not an end in itself but it has various economic benefits.

Financial systems – composed of financial institutions, markets and the financial infrastructure – serve a number of basic purposes, such as trading, hedging, diversifying and pooling risk, as well as allocating resources and mobilising savings. These functions determine the economic benefits that can be derived from financial integration. Two widely accepted economic benefits of financial integration are better sharing and diversification of risk and the potential for higher economic growth. Let me explain this in more detail.

First, the better diversification and sharing of risk brought about by financial integration helps to fulfil the conditions for the optimality of a currency area. In recent years, an interesting development with regard to the theory of optimal currency areas has been the idea that the optimality of a currency area is not necessarily something that needs to be fully reached before monetary union but can be helped achieving by monetary union itself. The introduction of the euro clearly fostered financial integration. Economic agents from a given region can, by more easily investing in other regions of the area, diversify the risk of potential shocks. Steps towards increased financial integration reduce the risk of local factors impacting on the income and consumption of a given region within the area, thereby helping to fulfil the conditions for an optimal currency area.

Second, financial integration is a key factor in the development of the financial system, which, in turn, increases the potential for greater and more sustainable non-inflationary economic growth. It is generally accepted that financial integration fosters financial development and, ultimately, economic growth. Financial integration allows economies of scale and increases the supply of funds for investment opportunities. The integration process fosters competition and the expansion of intermediation and markets, thereby leading to further financial development. Financial development, in turn, leads to lower intermediation costs, a more efficient allocation of capital and, thus, a potential for higher economic growth.

You will probably share the view that the growth performance of the euro area cannot be deemed fully satisfactory. From 1999 to 2004, real GDP in the euro area grew by an average of 1.9% per annum. Looking back over the last ten years, the average annual growth rate in the 12 countries that today form the euro area has been 2.1%. But it is equally true to say that the single monetary policy, geared torwards price stability and the anchoring of inflation expectations, lends ongoing support to economic activity. Across the maturity spectrum, interest rates in the euro area are low by historical standards. Thus, if you will allow me to look at a third time span, it is worth noting that we are in fact delivering today a nominal yield curve at historically low levels, as low as ever observed in Europe since the beginning of the 20th century![1]

Allow me now to look briefly at the "real" side of the economy.

Long-term potential growth in the euro area is estimated to be between 2% and 2.5%, probably much closer to 2% than to 2.5%, given demographic trends and prevailing market structures, and assuming that economic policies remain unchanged.

As regards structural reforms, the European Commission recently presented the "Community Lisbon Programme", which contains a list of measures at the EU level for relaunching the Lisbon strategy. The programme focuses on enhancing knowledge and innovation in order to strengthen growth, on making Europe a more attractive place to invest and work, and on creating more and better jobs. The Community Lisbon Programme will be complemented by the introduction of national action plans for growth and jobs, which the Member States will present this autumn.

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[1] See ECB Monthly Bulletin, "Long-term and short-term nominal interest rates in the largest euro area countries from a historical perspective", p. 29-31, August 2005.

That such economic reforms can indeed be implemented in a successful way has been demonstrated by the Nordic European countries.

Structural reforms are urgently needed for labour, goods and services markets in Europe. Labour markets need to become more flexible in order to support the creation of new jobs. Structures in goods and services markets still present considerable barriers to competition, hindering the process of Schumpeterian "creative destruction" and preventing possible productivity gains.

And while not confined to the "real" side of the economy, one such structural reform along the lines of the Lisbon strategy is the process of European financial integration. To give a concrete figure (despite all caveats that apply to the model underlying the simulations), let me mention that a recent study estimates that financial integration of the European bond and equity markets would result in additional growth of around 1% over a ten-year period.[2] It is worth noting that 1% of EU GDP amounts to around EUR 100 billion!

But in addition to the general economic benefits of financial integration that I have mentioned, fostering financial integration is of particular importance for the ECB's tasks.

First, integrated and efficient financial markets enhance the smooth and effective transmission of monetary policy impulses throughout the euro area. The higher the degree of financial integration, the more effectively this transmission will work in practice.

In this context, I should also mention another basic task of the Eurosystem under the Treaty, namely the promotion of the effective operation of payment systems, as well as the Eurosystem's interest in the smooth running of securities settlement systems. Payment and settlement systems are the main channels through which liquidity flows, and only if the whole infrastructure is adequately integrated can the system function smoothly. The integration of these financial infrastructures is therefore very relevant for the smooth implementation of monetary policy.

Furthermore, the integration of the financial system is highly relevant to the ECB's task of safeguarding financial stability. On the one hand, deeper financial integration can increase the capacity to absorb economic shocks. It can also offer more possibilities for financial institutions to better manage and diversify their relevant risks and realise economies of scale, leading to greater efficiency of the financial system. On the other hand, particular attention has to be given to the profound changes of nature of the financial stability challenges due to the structural transformation of the financial system, including intensified cross-border links.

Let me mention here that among the ECB's various contributions to the discussions on financial stability, we have, since December 2004, provided the public with our biannual Financial Stability Review, which is the outcome of our euro area-wide financial stability monitoring activities, conducted with the support of the Banking Supervision Committee.

Danmarks Nationalbank also introduced, in 2002, an annual financial stability report for Denmark, and this, dear Bodil, is another of the many achievements of your term as Governor of Danmarks Nationalbank.

So let me conclude my response to the first of the two main questions which I wish to address today. I have explained the institutional and economic reasoning underlying our interest in European financial integration, i.e. the "Why?". In fact, all of these reasons have found expression in the Eurosystem's mission statement formulated by the Governing Council of the ECB, the relevant part of which reads as follows:

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[2] London Economics (2002), "Quantification of the macro-economic impact of integration of EU financial markets", Report to the European Commission.

"The Eurosystem, which comprises the European Central Bank and the national central banks of the Member States whose currency is the euro, is the monetary authority of the euro area. We in the Eurosystem have as our primary objective the maintenance of price stability for the common good. Acting also as a leading financial authority, we aim to safeguard financial stability and promote European financial integration."[3]

The mission statement of the Eurosystem brings me neatly on to the second question which I would like to address today, namely the "What?" – i.e. what kind of contribution can the Eurosystem make to fostering European financial integration?

3. The Eurosystem's contribution to the fostering of European financial integration

We generally distinguish four types of activity.

First, we contribute to financial integration by providing central banking services that also foster European financial integration.

Second, we can act as a catalyst for private-sector activities by facilitating collective action and assisting with possible coordination problems.

Third, we give advice on shaping the legislative and regulatory framework for the financial system.

And fourth, we try to enhance knowledge and raise awareness of the state of and need for European financial integration, and we measure the progress made towards its achievement.

I will examine all these four kinds of activity. I will start with the one I mentioned last, i.e. enhancing knowledge and raising awareness of European financial integration, and measuring the progress made towards its achievement. In this respect, I will take the opportunity to present a number of facts about the state of integration of the euro area financial markets.

3.1 Measuring the progress of European financial integration

Only last Friday the ECB published, for the first time, a series of indicators regarding the state of integration of euro area financial and banking markets, together with an explanatory report entitled "Indicators of financial integration in the euro area". This publication, aimed at measuring and monitoring financial integration in the euro area on the basis of quantitative indicators, is a new initiative by the ECB and is in line with our understanding of our mandate to contribute to the process of European financial integration. The indicators will be regularly updated and published on the ECB's website.

The publication provides an overall assessment of the degree of financial integration in the broad spectrum of segments of the euro area financial markets, ranging from retail loans to wholesale equity trading. Let me now present our findings in more detail.

Our 20 indicators cover the money market, the government bond market, the corporate bond market, the equity market and banking markets.

While the euro has undoubtedly acted as a catalyst for financial integration in general, it is true that the degree of integration differs from market segment to market segment, with

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[3] See http://www.ecb.int/ecb/html/mission.en.html.

integration being more advanced in those market segments that are closer to the single monetary policy.

Money market

The money market is broadly defined as the market for interbank short-term debt or deposits and consists of various segments. Our report suggests three indicators for measuring financial integration, based on the dispersion of lending rates – namely overnight rates, unsecured lending rates, and repo rates – offered by banks among euro area countries, with the data referring to actual transactions or offered rates by EONIA, EURIBOR and EUREPO panel banks.

These indicators point to a high overall degree of integration. The unsecured interbank market has, since shortly after the introduction of the euro, been integrated to a quasi-perfect extent, shown by the respective indicators that display a euro area cross-country standard deviation of only around one basis point and below. While some lower degree of liquidity of the repo market, in particular in the longer-term segment, should be borne in mind, the indicator for this market also suggests a high degree of integration. In this respect, the indicators reveal that the euro area cross-country standard deviation of 1-month repo rates is today at around 0.5 basis points, while the one for the 12-month maturity stands at around 1.5 basis points.

Government bond market

As we know, the integration of euro area government bond markets had already been progressing before the start of Monetary Union, in particular from the mid-1990s in the run up to Monetary Union. Given comparable relevant characteristics, measures of integration in government bond markets, of which we suggest five indicators, are based on yield differentials with respect to a benchmark bond for different maturities, namely ten, five and two year maturities. A simple measure is, for example, the standard deviation of yield spreads over time: the lower the dispersion, the higher the degree of integration. The available indicators show that, with the introduction of the euro and the removal of the exchange rate risk, government bond yields have converged in all countries, with the standard deviation in yield spreads being less than 0.1 percentage point for all three maturities.

The indicators therefore show that the euro area government bond market has reached a high degree of integration, increasingly driven by common news. Local factors, however, will continue to have an impact. Among those are differences in liquidity, in the availability of derivatives markets, and of course of perceived credit risks. The impact of these factors should, from our own standpoint, not be seen as indicating a lack of integration since we consider it important that the markets assess the quality of the signatures concerned.

Corporate bond market

The euro area corporate bond market has grown considerably in recent years. But let me mention the fact that, despite this exceptional growth, the gap between the euro area and the United States is still large. For example, the outstanding volume of bonds issued by non-financial corporations is now around EUR 2.4 trillion in the United States, as compared with around EUR 900 billion in the euro area.

The yield differential between corporate bonds can be explained by a number of factors, such as the credit rating, time-to-maturity, liquidity and cash flow structure. Under full integration, the respective impact of such factors should be totally independent of the country of issuance. Using such a set of specific factors, it is possible to obtain measures of

corporate bond market integration by investigating whether or not risk-adjusted yield spreads have a systematic country component. In an integrated market, the proportion of the total yield spread variance attributable to country effects should be close to zero.

We published three (model-based) indicators of the state of integration of the corporate bond market. The indicators show that the euro area corporate bond market is fairly well integrated, in the sense that the country of issuance is only of very minor importance in explaining yield differentials.

Equity market

It is very important for monetary policy-makers to understand the dynamics of equity market integration. As equity markets grow in size, wealth effects on consumption become increasingly relevant, resulting in a tighter link between stock market fluctuations and fluctuations in real economic variables.

Overall, we published three (model-based) indicators of the degree of integration of the euro area equity market. These measures for the euro area equity market indicate that the degree of integration is rising, although room for further integration remains.

One means of measuring the degree of integration in euro area equity markets is to look at the relative importance of sector versus country-based investment strategies. Generally speaking, the more integrated the euro area equity market, the greater the benefits of spreading investments across sectors as opposed to country-based equity investment strategies. By comparing the cross-sector dispersion with the cross-country dispersion of equity returns, it is possible to derive indicators of financial integration.

One finding is that, since the end of 2000, the advantages of sector diversification seem – for the first time in the last 30 years – to have surpassed those of a geographical diversification among euro area countries. Still, diversifying across sectors and countries at the same time might result in portfolios with a lower risk than those constructed on a country or sector basis only. Thus, the importance of the country effect is still too great for it to be concluded that the euro area equity market is satisfactorily integrated.

Furthermore, equity returns in the euro area countries are increasingly determined by common factors. Based on a factor model, our finding is that the average sensitivity to common shocks has increased significantly over the last 30 years, in particular as regards euro area-wide return shocks. This can also be interpreted as an indication of increased integration of euro area equity markets.

Banking markets

The assessment of integration in banking is conceptually complex. While banks are a well-defined type of firm, banking is a multi-product industry, in which various banking products can be exchanged in different markets of different size and geographical coverage and with different counterparts. One generally distinguishes between interbank (or wholesale) activities, capital market-related activities and retail banking.

In our report, we started with a set of six indicators related to banking markets. We found that retail banking markets in particular are generally far less integrated, while the euro area interbank (or wholesale) market and capital market-related activities show solid signs of increasing integration.

Indeed, cross-border inter-bank loans and cross-border holdings of securities have, in relative terms, experienced substantial growth. For example, although domestic loans granted between monetary financial institutions (MFIs) still account for more than 50% of the total of EU MFI loans, the respective euro area cross-border activity has increased from around 15% at the end of 1997 to around 23% at the current time. Capital market-related

activities have been even more impressive. While securities issued by non-MFIs of another euro area country accounted for around 15% of the securities held by euro area MFIs at the end of 1997, this share has now reached almost 40%.

By contrast, integration in retail banking has not progressed to any great extent. This is suggested by both price and quantity-based indicators. Integration in the retail banking markets can be measured by the cross-country dispersion (standard deviation) of interest rates on consumer credit, lending for house purchase and deposits with an agreed maturity, with a high degree of cross-country dispersion indicating a low degree of integration. Our finding was that the degree of dispersion remains relatively high. This picture of a comparatively low degree of integration is also borne out by the level of banks' cross-border retail lending activity within the euro area, which, while increasing slightly from around 2% at the end of 1997 to around 3.5% today, remains low.

Let me now make a few brief comments on an important retail market, namely the European mortgage market. The importance of this retail market segment is evident from its size alone: an outstanding volume of more than EUR 4 trillion in residential mortgage debt in the EU, corresponding to around 40% of EU GDP.

Very clearly, there are costs incurred through incomplete integration, such as the costs for households arising from differences in prices and products, and for issuers and investors as a result of unrealised economies of scale and higher funding costs.

Indeed, the secondary market for mortgage funding is still quite fragmented within the EU. Overall, retail funding via deposits still accounts for the largest part of the funding of mortgage loans. However, securitisation is becoming more and more important as the markets for covered bonds (i.e. on-balance sheet securitisation) and mortgage-backed securities (i.e. off-balance sheet securitisation) are growing. For example, euro-denominated bonds covered by mortgage loans amount to around EUR 0.4 trillion by now, as, over the last few years, we have seen issuance of covered bonds begin to increase in several European countries.

Such capital market funding instruments could indeed also facilitate the integration of mortgage markets, as mortgage loans could more easily be granted cross-border, without first requiring costly access to a local deposit base for their funding. Accordingly, we are witnessing numerous initiatives by the private sector to achieve some progress in the integration of these important market segments.

The situation of the European mortgage market, and that of retail financial services in general, has also been brought to our attention by the European Commission.

First, in December 2004, the report of the European Commission's Forum Group on Mortgage Credit was published, in which a number of recommendations for tackling barriers to the further integration of EU mortgage credit markets were made. Second, the European Commission's Green Paper on the priorities of the financial services policy over the next five years, which was open for public consultation until 1 August, identified retail financial services as one of the areas in which financial integration is clearly lagging behind. And third, in July, the European Commission issued a Green Paper on "Mortgage Credit in the EU" for public consultation by end November.

Connected to this Green Paper consultation, the European Commission asked a research institute to prepare a study on the estimated costs and benefits of the integration of EU mortgage markets, to assess the degree to which EU mortgage markets are integrated and to identify the obstacles to their further integration. The study, which was published in August of this year, concludes, with all caveats that apply to the model underlying the estimation,

that full integration of EU mortgage markets would raise EU GDP by 0.7% and EU private consumption by 0.5% in 2015, i.e. ten years from now.[4] This would thus constitute a further step in the direction of raising the EU's growth potential which I referred to earlier.

Having dealt with how the Eurosystem can foster European financial integration by enhancing knowledge and raising awareness of the state of and the need for fostering European financial integration and by measuring the progress made, let me now turn to the other three kinds of activity mentioned earlier: providing central banking services that are also conducive to fostering financial integration, acting as a catalyst for private-sector activities and advising on the legislative and regulatory framework for the financial system. I will begin with the latter.

3.2 Advising on the legislative and regulatory framework for the financial system

As we see it, the basic task of public authorities with regard to the process of financial integration is to create a framework whereby, generally speaking, all potential market participants in a given financial instruments or services market, are subject to a single set of rules when they decide to deal with those financial instruments or services, have equal access to this set of financial instruments or services and are treated equally when they operate in the market.

The Eurosystem is fully committed to this principle of integrating financial markets and the financial system as whole, both in the euro area and the European Union. We are committed to it both because it is required by European law and because we think it is good for the economy of the euro area and the European Union, and for the best possible functioning of the level playing field in this sector. In line with this commitment, we also advise on the legislative and regulatory framework for the financial system. Let me give you a few examples.

Very recently, at the start of August, the Eurosystem provided an opinion in response to the European Commission's consultation on the priorities for financial services policies over the next five years.[5] As detailed in our opinion, the Eurosystem supports the key policy orientation of the Green Paper, in particular the proposal for "better regulation" based on open, transparent and evidence-based policy-making, and the need to focus on the consolidation and consistent implementation of the legislative framework for financial services. To this end, we are of the view that the potential of the Lamfalussy framework should be exploited as far as possible. In this respect, let me also recall the position expressed earlier this year by the Eurosystem in relation to the review of the so-called Lamfalussy process.[6]

With regard to the supervisory framework, the Eurosystem fully supports the Commission's view that the current institutional set-up should be exploited to the maximum extent before any potential structural change is considered. In particular, the Eurosystem agrees that the main policy objective in the area of financial supervision is twofold: first, to enhance the competitiveness of EU financial markets and institutions and to facilitate the development of cross-border finance both in terms of institutions and in terms of products and services; and second, to ensure the effectiveness of standards for oversight and supervision in a more integrated financial system.

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[4] London Economics, "The Costs and Benefits of Integration of EU Mortgage Markets, Report for European Commission, DG Internal Market and Services", August 2005.

[5] See http://www.ecb.int/pub/pdf/other/ecgreenpaperfinancialservicespolicy2005en.pdf.

[6] See http://www.ecb.int/pub/pdf/other/lamfalussy-reviewen.pdf.

In addition to giving advice, the Eurosystem also provides standards and conditions for its own operations, or by issuing its own regulations – for example in the field of promoting and ensuring efficient and sound clearing and payment systems. In the field of promoting the integration, efficiency, and security of the European securities infrastructure, let me mention the "Standards for Securities Clearing and Settlement in the European Union" developed by the ESCB in cooperation with the Committee of European Securities Regulators (CESR).

The field of securities clearing and settlement is an area in which further integration is needed to exploit in full the benefits arising from a pan-European securities market. As a directive can complement the market-led removal of the "Giovannini barriers", which is a necessary condition for competition, cost savings and improved efficiency to come fully into effect, the Eurosystem also supports the Commission's intention to put forward a proposal for a Directive on securities clearing and settlement.

I should now like to move on to the third kind of activity, namely the provision of central banking services that are also conducive to fostering financial integration

3.3 Providing central banking services conducive to European financial integration

I have just mentioned the area of securities settlement systems. From a central bank perspective, securities settlement systems play a crucial role in the Eurosystem's collateral framework as they provide the infrastructure that allows counterparties to transfer collateral to the Eurosystem. In the current framework, counterparties can transfer cross-border collateral to the Eurosystem via two main channels: via links between securities settlement systems (SSSs) and via the correspondent central banking model (CCBM). I would like to say a few words on the CCBM.

The CCBM was created as an interim model that would cease to operate as soon as the market had developed comprehensive and reliable alternatives. That said, it is still the main instrument for mobilising cross-border collateral, with a share of over 80% at the end of 2004. Despite considerable improvements in the efficiency of CCBM processing procedures, market participants have on various occasions expressed the view that the CCBM is not yet able to meet all of banks' needs. Taking note of these trends in collateral business practices, the Eurosystem has invited market participants to rethink current arrangements by focusing on possible future alternative cross-border collateral facilities.

Another obvious example in the area of providing central banking services is our payment system, TARGET, which has clearly fostered European financial integration. TARGET was operational from the first day of Monetary Union as a platform for balancing liquidity surplus and deficits. TARGET today represents around 90% of the total traffic in large-value payments in euro and is one of the two largest wholesale payment systems in the world, alongside Fedwire in the United States. And TARGET2 will further improve financial integration, as it will enable the provision of a harmonised level of services across Europe, supported by a single price structure for domestic and cross-border payments and new functionalities to enable banks to better integrate their euro liquidity management. Our next TARGET2 progress report, to be issued in November 2005, will provide further information on our work.

3.4 Acting as a catalyst for private sector activities

I now turn to the fourth way in which we contribute to the process of European financial integration. In areas such as standard-setting and the establishment of common infrastructures, cooperation between private agents of the financial sector is as necessary as competition. However, cooperation often fails to materialise without the aid of a catalyst. In most countries, the central bank plays the crucial role of catalyst, thanks to its acknowledged

competence and objectivity and the numerous contacts with market participants which ensue from its basic tasks. With regard to financial integration in the euro area, the Eurosystem can assume such a catalyst function in several areas. Let me mention two examples.

Having touched, some moments ago, on the wholesale payment system, let me also express the Eurosystem's support for the integration of retail payments, i.e. for the banking industry's initiatives to create the Single Euro Payments Area (SEPA).

A real SEPA will benefit consumers, corporates, banks, and the economy as a whole. The European Payments Council, the main body administering the SEPA project, has declared its intention to deliver pan-European payment instruments by the start of 2008, i.e. the "SEPA for citizens". By the end of 2010, we expect progress to have been made in developing the "SEPA for infrastructure", i. e. complete interoperability between SEPA-compliant infrastructures in order to enable competition and market-driven consolidation.

The Eurosystem will continue its dialogue with the banking industry and other stakeholders, in close collaboration with the European Commission. The Eurosystem will also continue to monitor progress in this field by issuing its fourth SEPA progress report at the end of 2005.

A second example of our role as catalyst for private sector activities is the Short-Term European Paper (STEP) initiative that was set up by the ACI Financial Markets Association. As we know, this market segment is not only smaller than its counterpart in the United States (the US market for commercial paper has an outstanding volume of around EUR 1,3 trillion, compared with some EUR 750 billion in Europe), but it is also not yet integrated on a pan-European scale. The ACI initiative aims to promote the convergence of practices through market players' voluntary compliance with the standards set out in the STEP Market Convention.

The Eurosystem supports this market-led initiative in the context of the introduction of the STEP label and the production and publication of related STEP statistics on yields and volumes which would foster integration and reduce issuers' costs through greater market transparency.

4. Concluding remarks

Ladies and gentlemen,

In conclusion, I will reiterate the importance of a market-driven process of financial integration. When I said earlier that the responsibility of public authorities is to create a framework whereby all potential market participants are subject to a single set of rules, have equal access to financial instruments or services and are treated equally when operating in the market, the opportunities thus created have to be exploited by market forces. It is then that true financial integration will have been achieved and we can reap in full the benefits of a single and integrated financial market in Europe.

In this historical process of building up a genuine and efficient single financial market with a single currency, I would insist on the particular importance of the catalyst role of the ECB and of the Eurosystem. I consider it to be a major responsibility at the present juncture.

Dear Bodil,

Let me now wish you all the very best for your life outside the central bank. You are now returning to your "Alma Mater", the University of Copenhagen, as Chairperson of the university's board. I am sure that this position will leave time for you to participate in the academic debate among economists. We at the ECB would be very pleased to see you as guest at our own conferences and seminars.

You know, dear Bodil, that you will remain a member of our 'Club', and I say without hesitation that you will be the most honorary member of the European System of Central

Banks. We count on you in the future as well as we could count on you so efficiently in the past. We count on your remarkable intellectual capacity, on your wisdom, on your experience, and on your unique professional and personal elegance.

Thank you very much for your attention.