



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

# Banking union and financial integration in Europe

Where do we stand?

30 April 2024



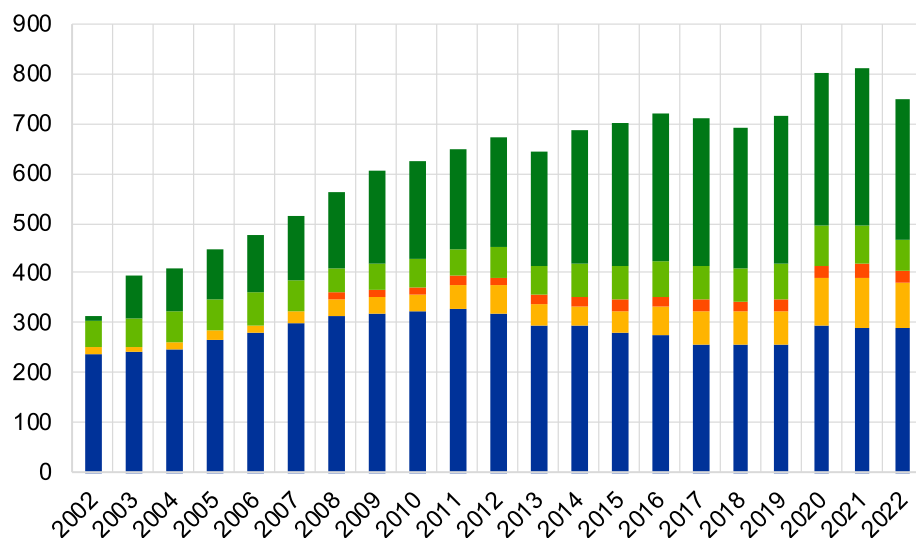
**Claudia Buch**  
Chair of the Supervisory Board of the ECB

# Integration of European financial markets: slow but gradual progress

# Total financial assets relative to GDP have increased over time and are higher in the euro area than in the United States.

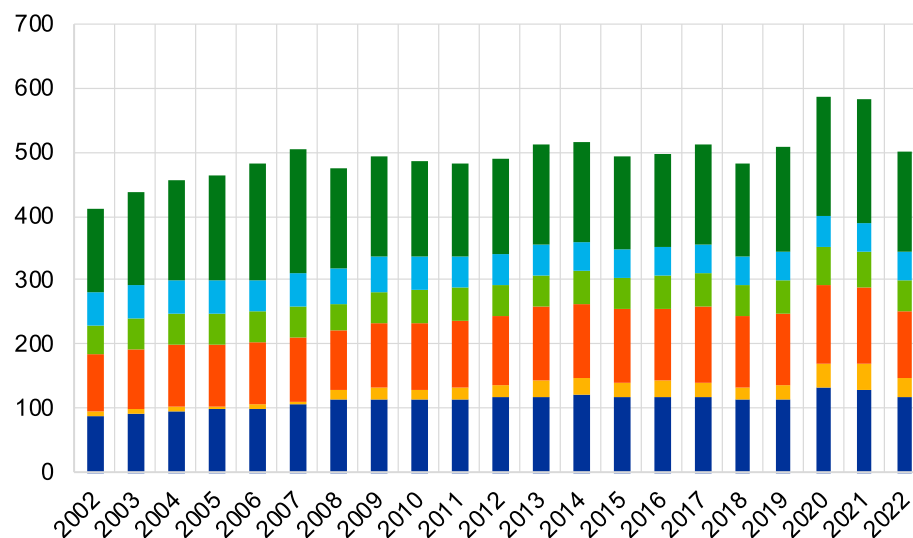
Euro area (percentages of GDP)

- Banks
- Central bank
- Pension funds
- Insurance corporations
- Public financial institutions
- Other financial institutions



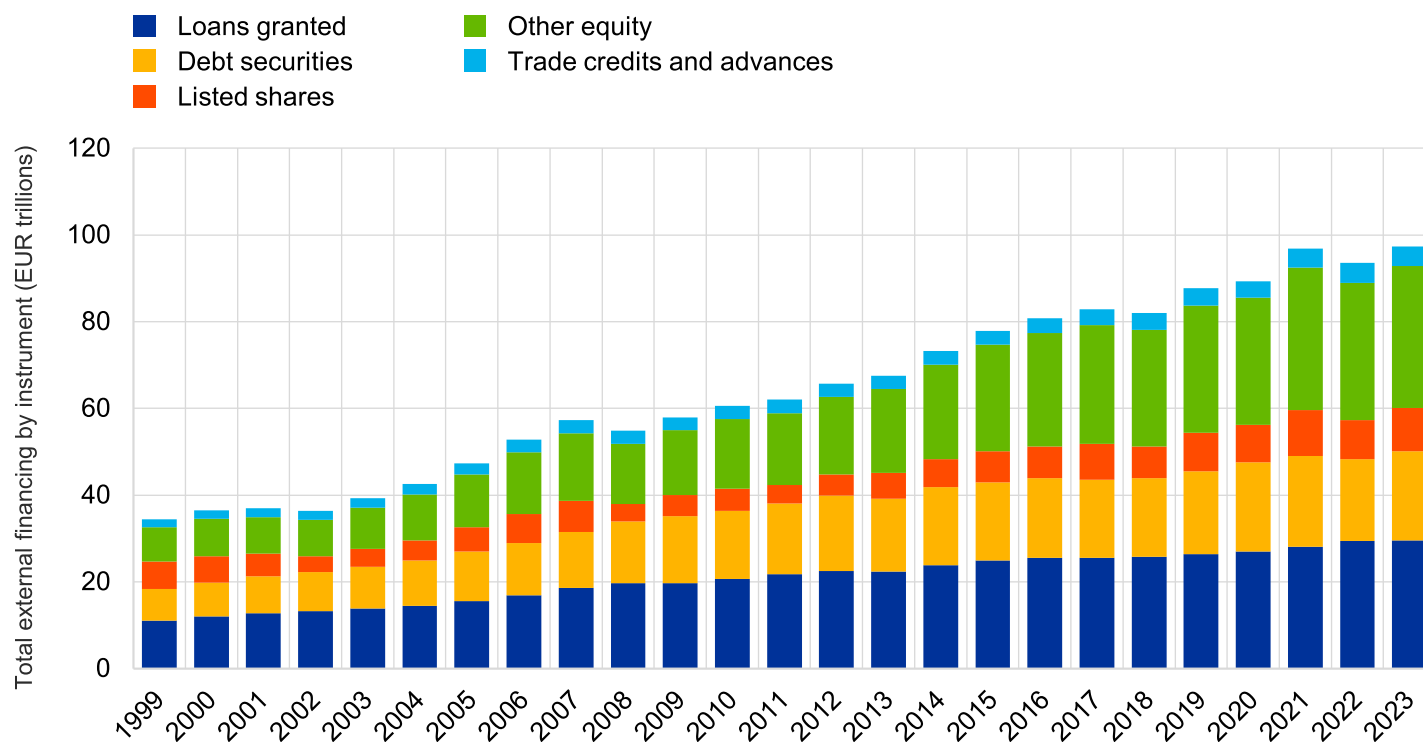
United States (percentages of GDP)

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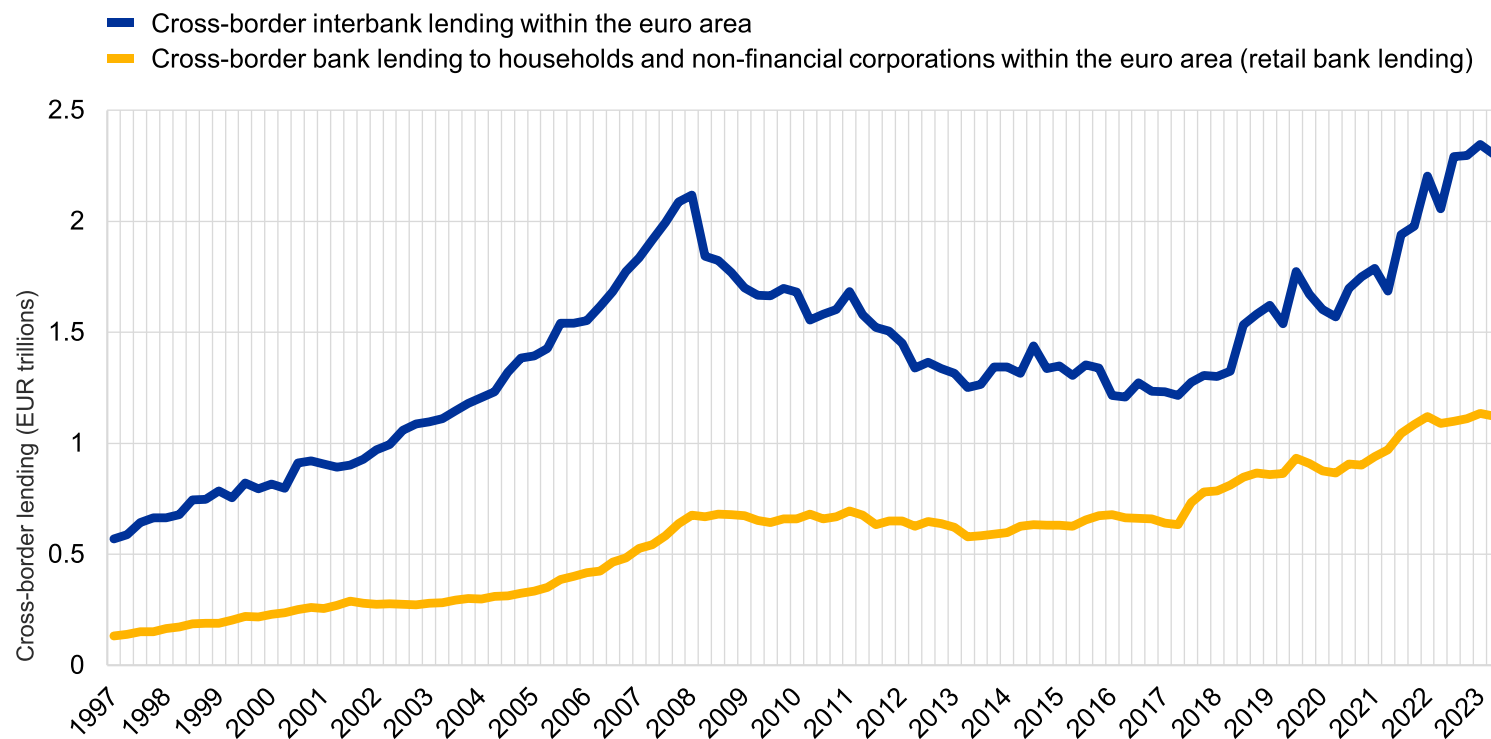
Source: Financial Stability Board (2023), "[Global monitoring report on non-bank financial intermediation 2023](#)", 18 December 2023.

# Bank loans account for about 30% of funding of euro area corporates.



Sources: Securities Holdings Statistics (SHSS), Centralised Securities Database (CSDB), ECB Statistical Data Warehouse and ECB calculations.

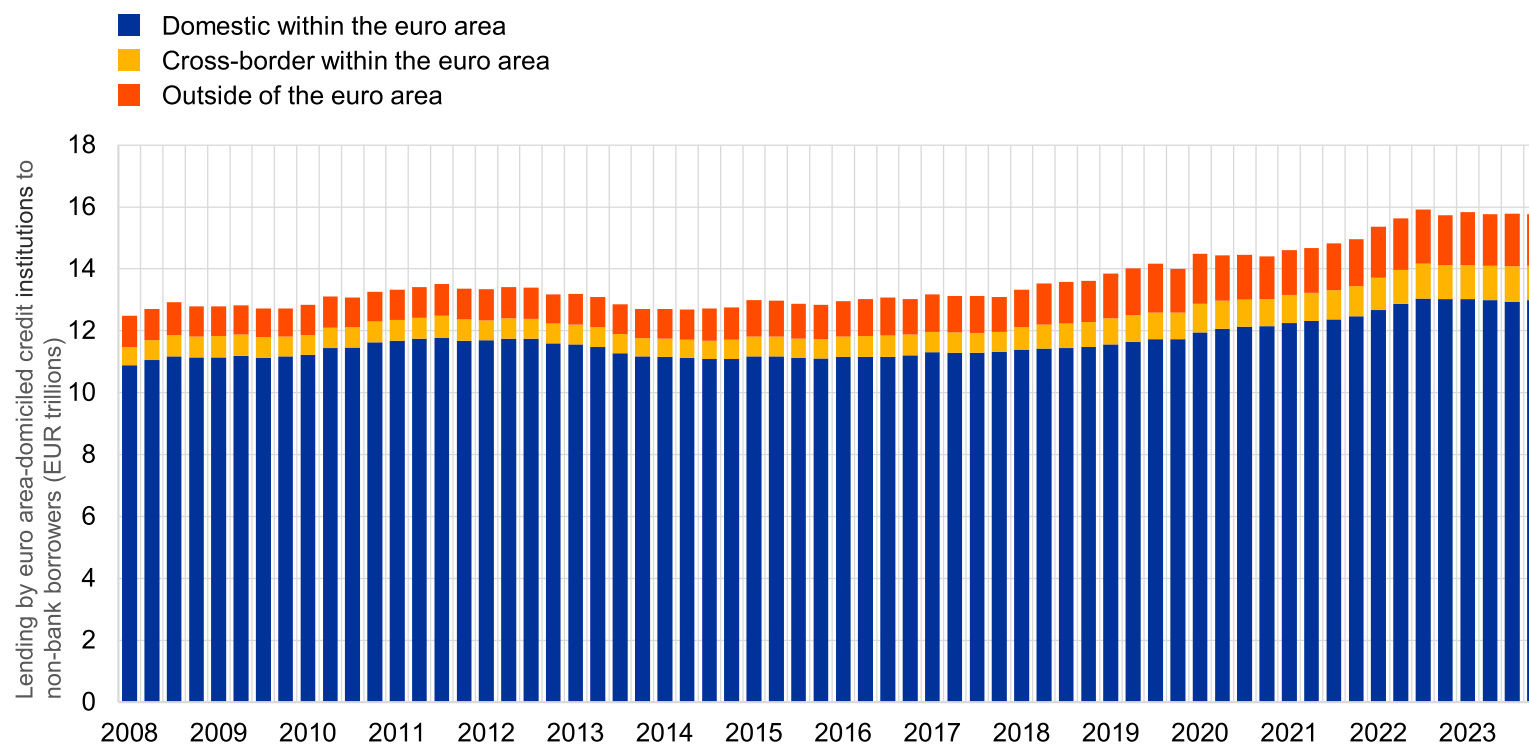
# While cross-border lending within the euro area has increased over time ...



Source: ECB.

Notes: See ECB (2022), [Financial Integration and Structure in the Euro Area](#), April, p.57. For more discussion on the interpretation of these indicators, also see Special Feature A “Financial integration and risk sharing in a monetary union” in ECB (2016), [Financial integration in Europe](#), April.

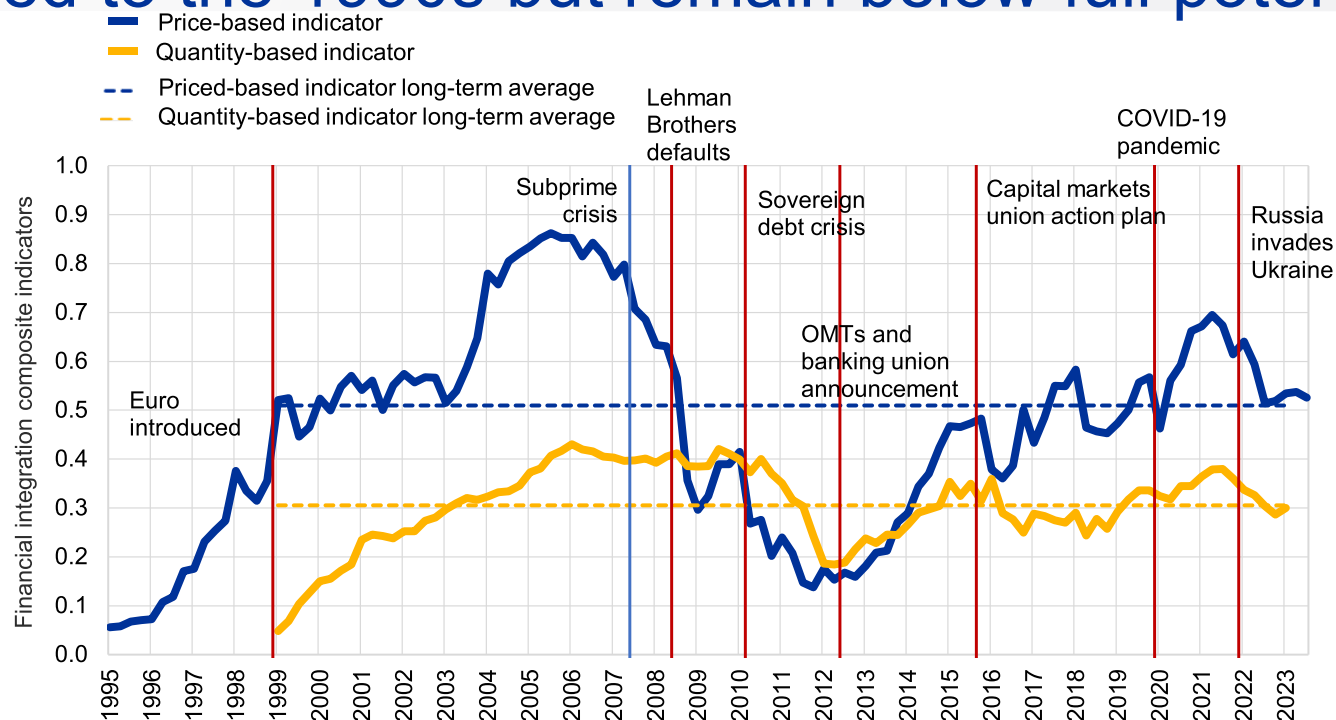
## ... lending by euro area credit institutions to non-bank borrowers remains predominantly domestic.



Source: ECB calculations.

Notes: Euro area loans to non-MFIs by domicile of financing provider

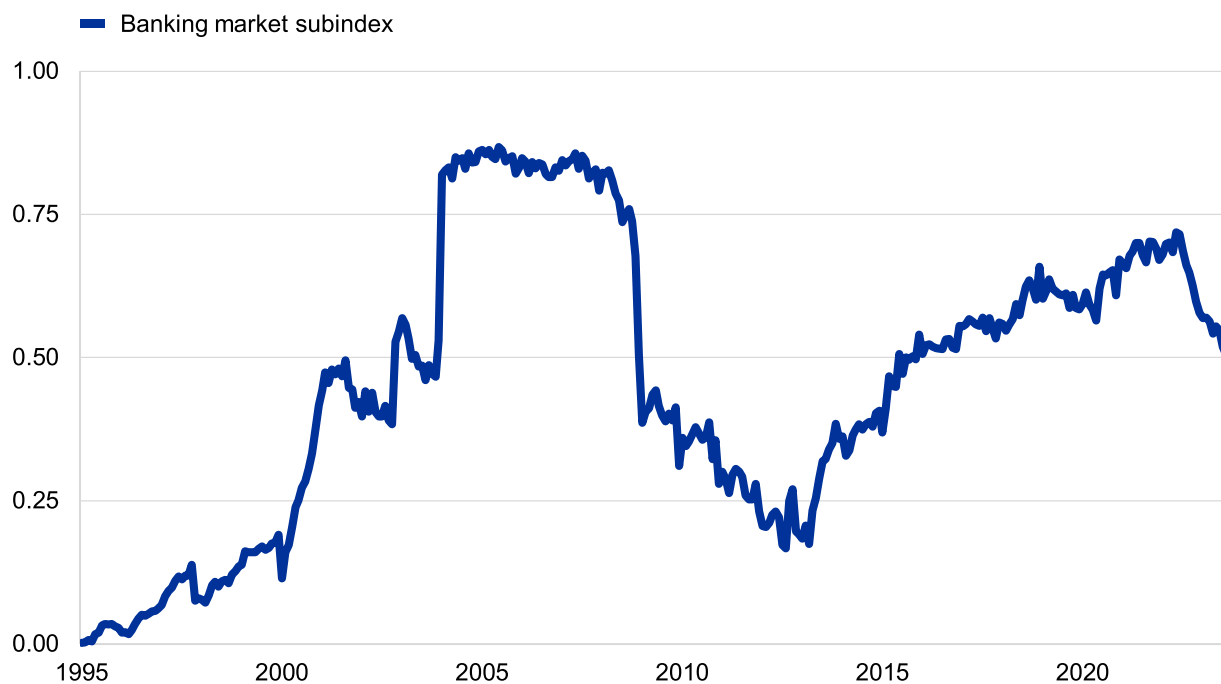
# Indicators of financial integration have increased compared to the 1990s but remain below full potential.



Source: ECB.

Notes: The price-based composite indicator aggregates ten indicators for money, bond, equity and retail banking markets, the quantity-based composite indicator aggregates five indicators for the same market segments except retail banking. The indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal greater financial integration. From January 2018 onwards the behaviour of the price-based indicator may have changed due to the transition from EONIA to €STR interest rates in the money market component. OMT stands for Outright Monetary Transactions. For a detailed description of the indicators and their input data, see Hoffmann, P., Kremer, M. and Zaharia, S. (2019), [Financial integration in Europe through the lens of composite indicators](#), Working Paper Series, No 2319, ECB, September; and ECB (2022), [Financial Integration and Structure in the Euro Area](#), April, p.6.

## The convergence of bank lending and deposit rates is now higher than in the mid-1990s.

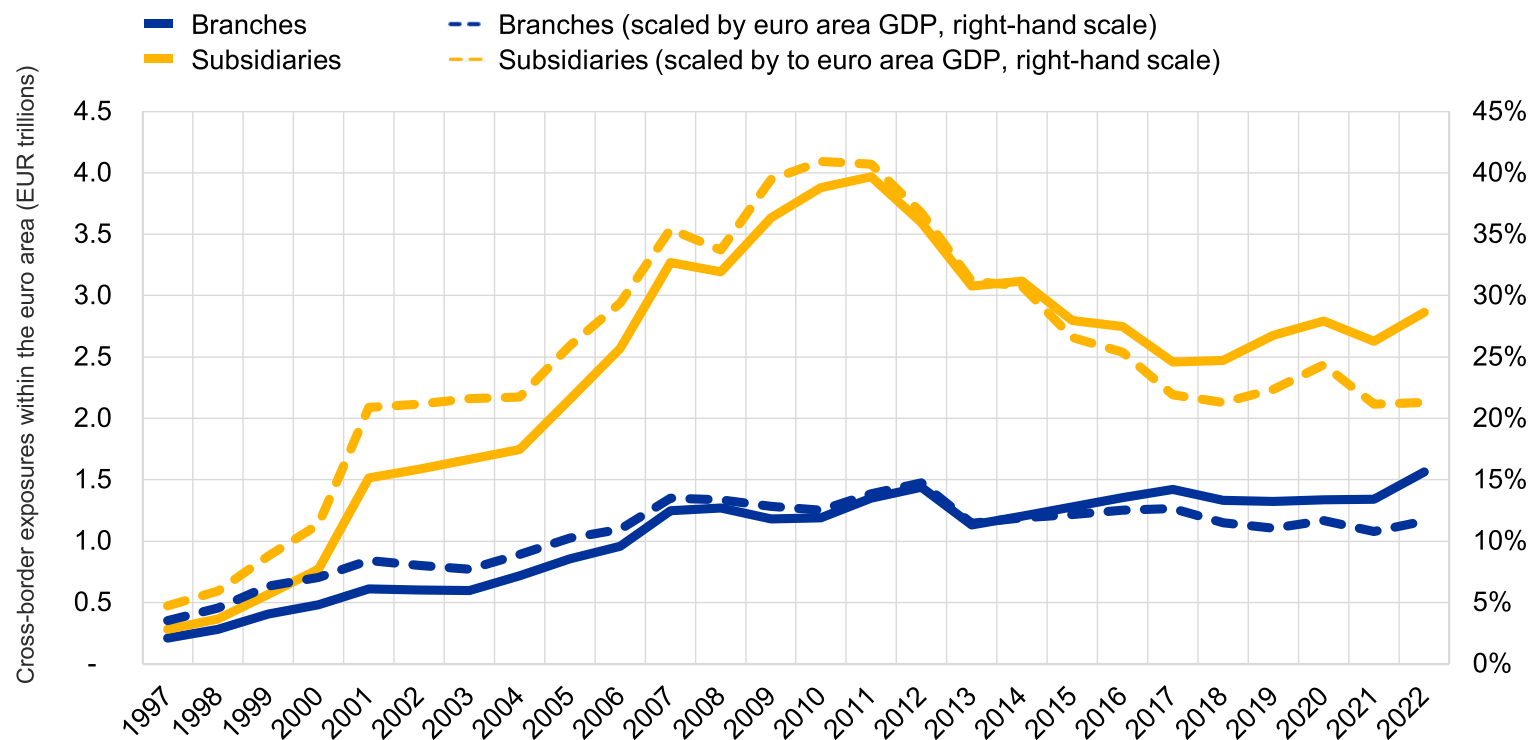


Source: ECB.

Notes: The ECB's banking market sub-index aggregates indicators of cross-country dispersions of interest rates on new loans to households (for consumer credit and total loans) and non-financial corporations, as well as indicators of cross-country dispersions of deposit rates for households and non-financial corporations on deposits with agreed maturities. See ECB (2022), [Financial Integration and Structure in the Euro Area](#), April, p.42.

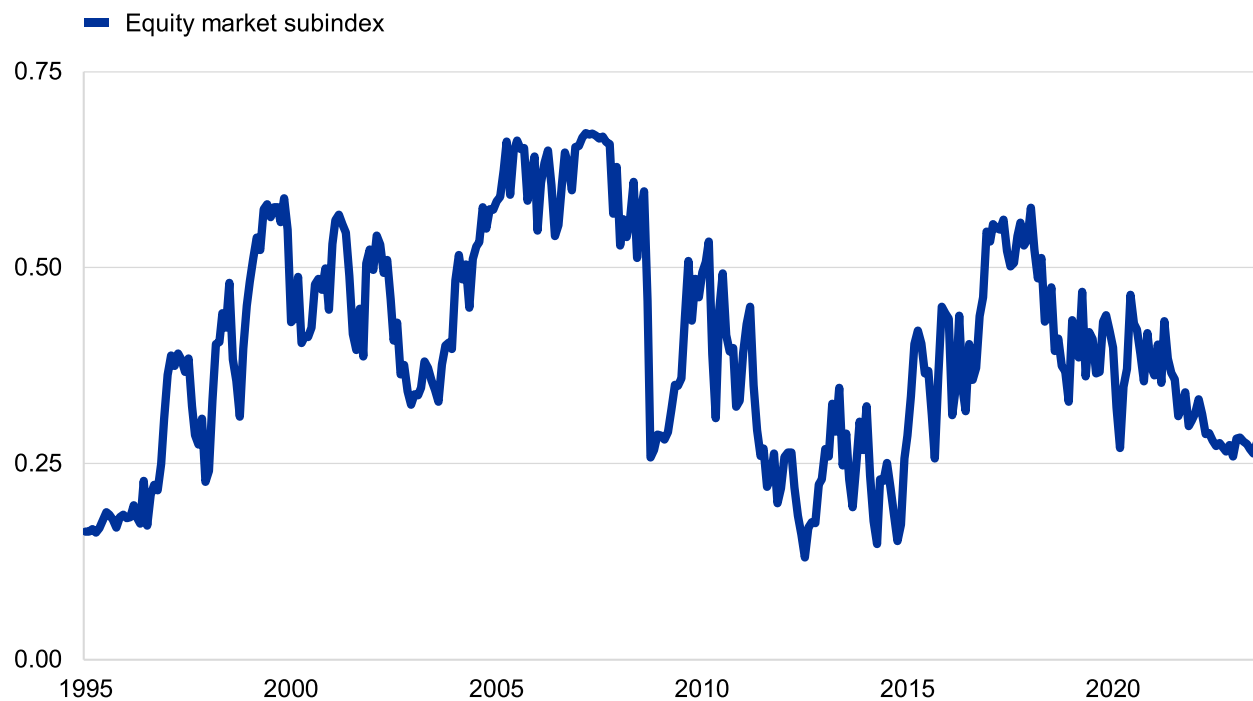


# Subsidiaries of banks remain more important than cross-border branches.



Source: ECB [Structural financial indicators](#) and ECB calculations.

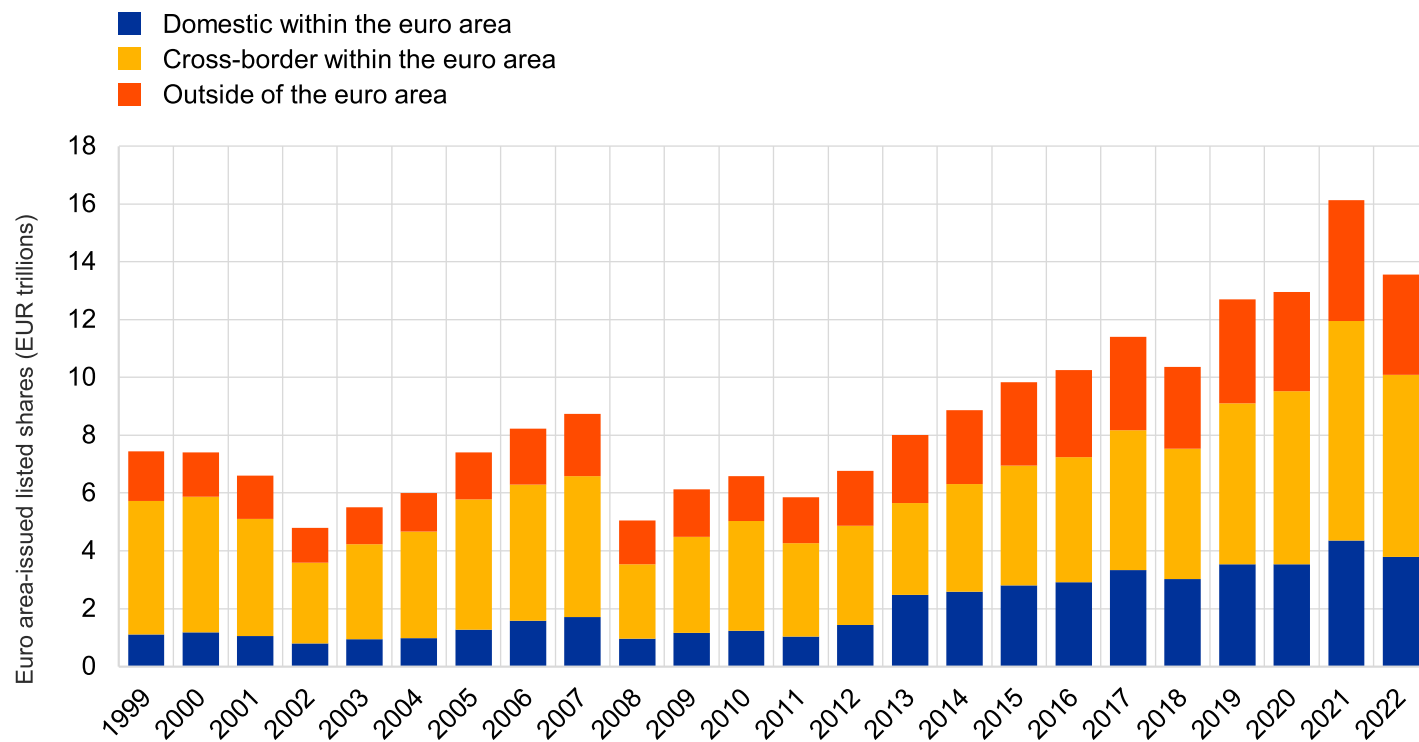
# Equity markets do not show strong tendencies of price convergence ...



Source: ECB.

Notes: The ECB's equity market sub-index aggregates measures of industry-level valuation differentials across countries and differences between the cross-sectional dispersions in sector and country index returns. See ECB (2022), [Financial Integration and Structure in the Euro Area](#), April, p.42.

... while euro area-issued listed shares are predominantly held by non-residents.

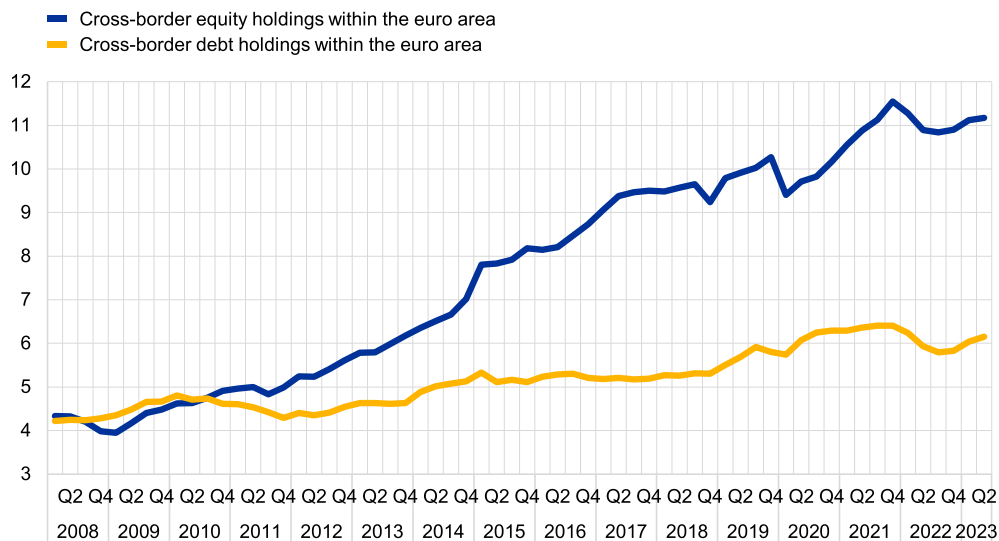


Source: ECB calculations.

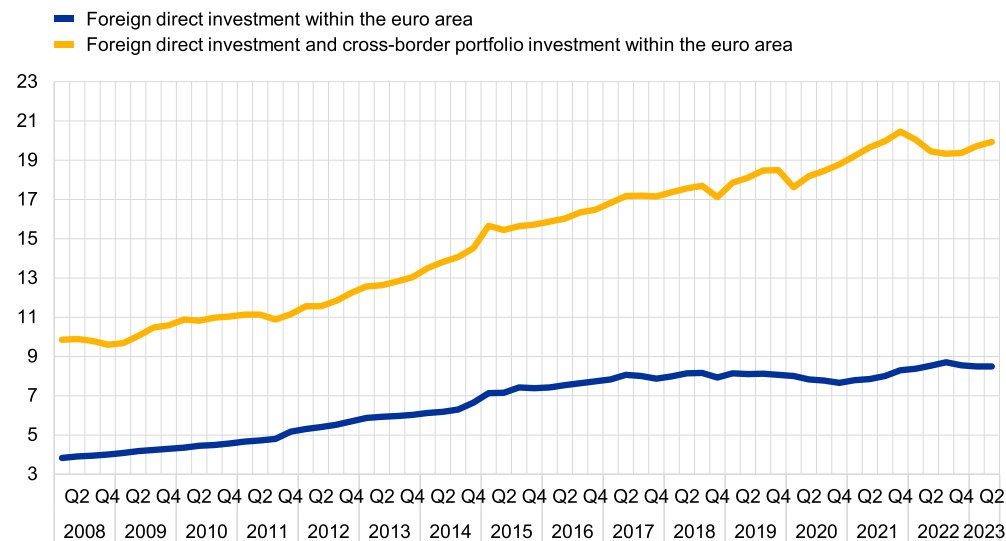
Notes: Euro area issued listed shares by domicile of financing provider.

# Foreign shareholdings and foreign direct investment within the euro area have more than doubled since 2008

Foreign equity and debt securities investment with the euro area (EUR trillions)



Foreign direct investment with the euro area (EUR trillions)

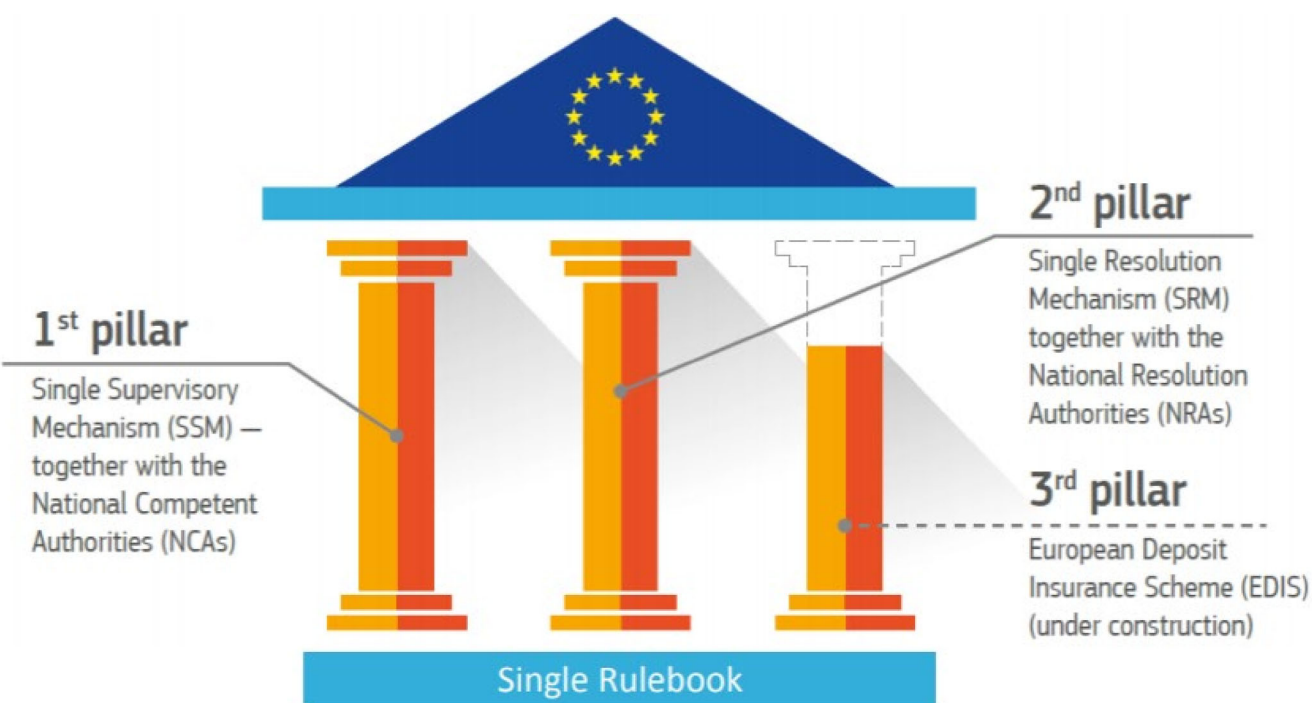


Source: ECB.

Notes: Under equity holdings, both portfolio and direct investment holdings are considered. For debt securities, only portfolio investment is considered, since debt securities are not available for FDI (only total "debt instruments"). Intra-euro area FDI is calculated as the average of asset and liability positions to account for possible asymmetries. For portfolio investment, only the asset side is used since liabilities are not reported due to the custodial bias. See ECB (2022), [Financial Integration and Structure in the Euro Area](#), April, p.56.

# Risk sharing in the banking union

# Architecture of the banking union



Instruments put in place to enhance the banking sector's loss absorption capacity

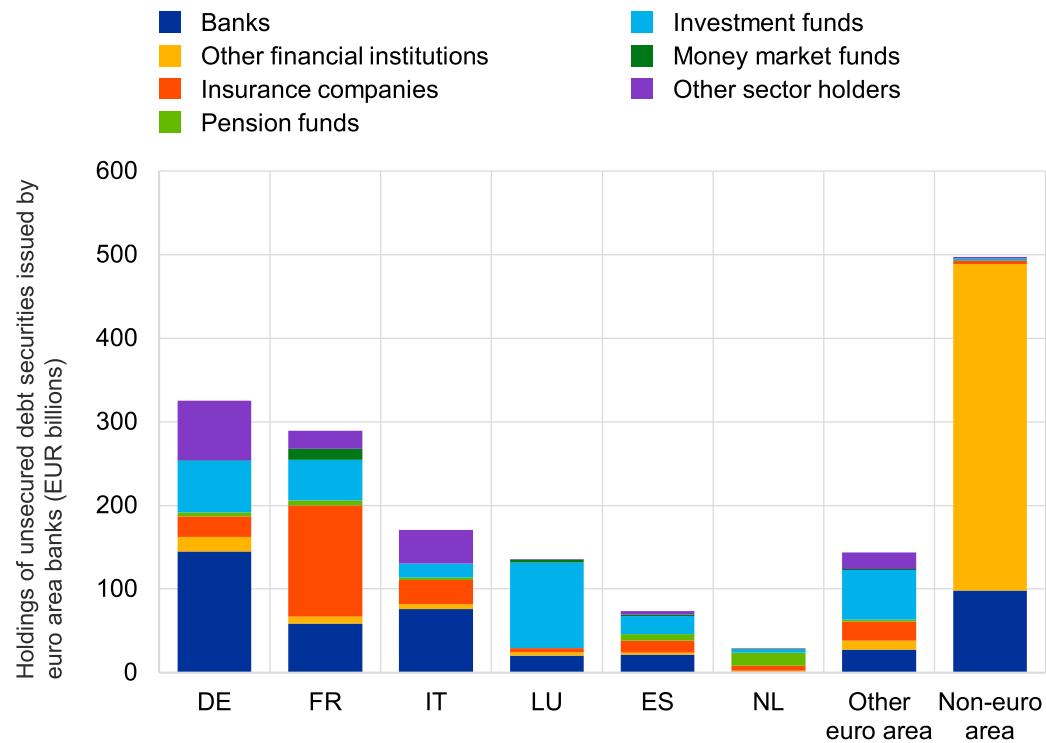
More going concern capital, of higher quality

Minimum requirement for own funds and eligible liabilities (MREL)

Single Resolution Fund (SRF)

European Stability Mechanism (ESM)

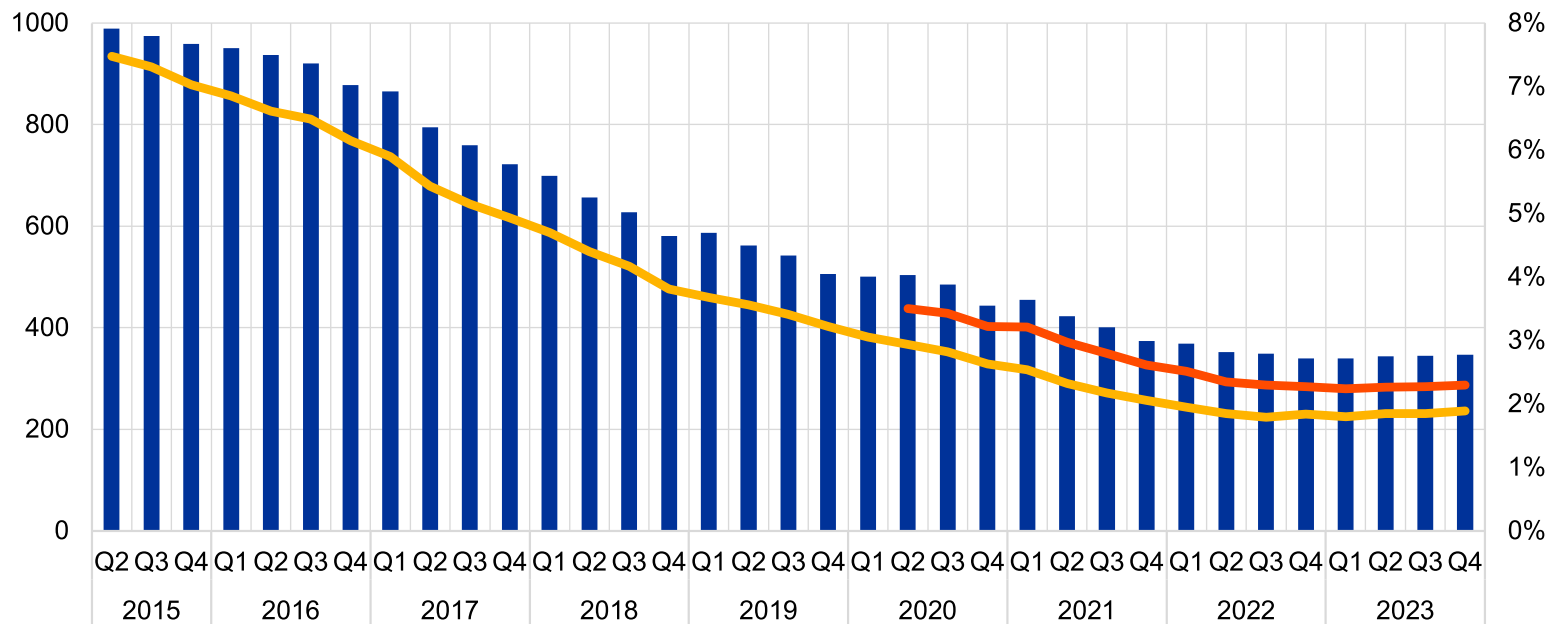
## A large share of unsecured debt securities issued by euro area banks is held outside of the banking sector and outside of Europe.



Sources: Anacredit, Centralised Securities Database and ECB calculations.

# Non-performing loans have declined significantly during the first decade of the banking union.

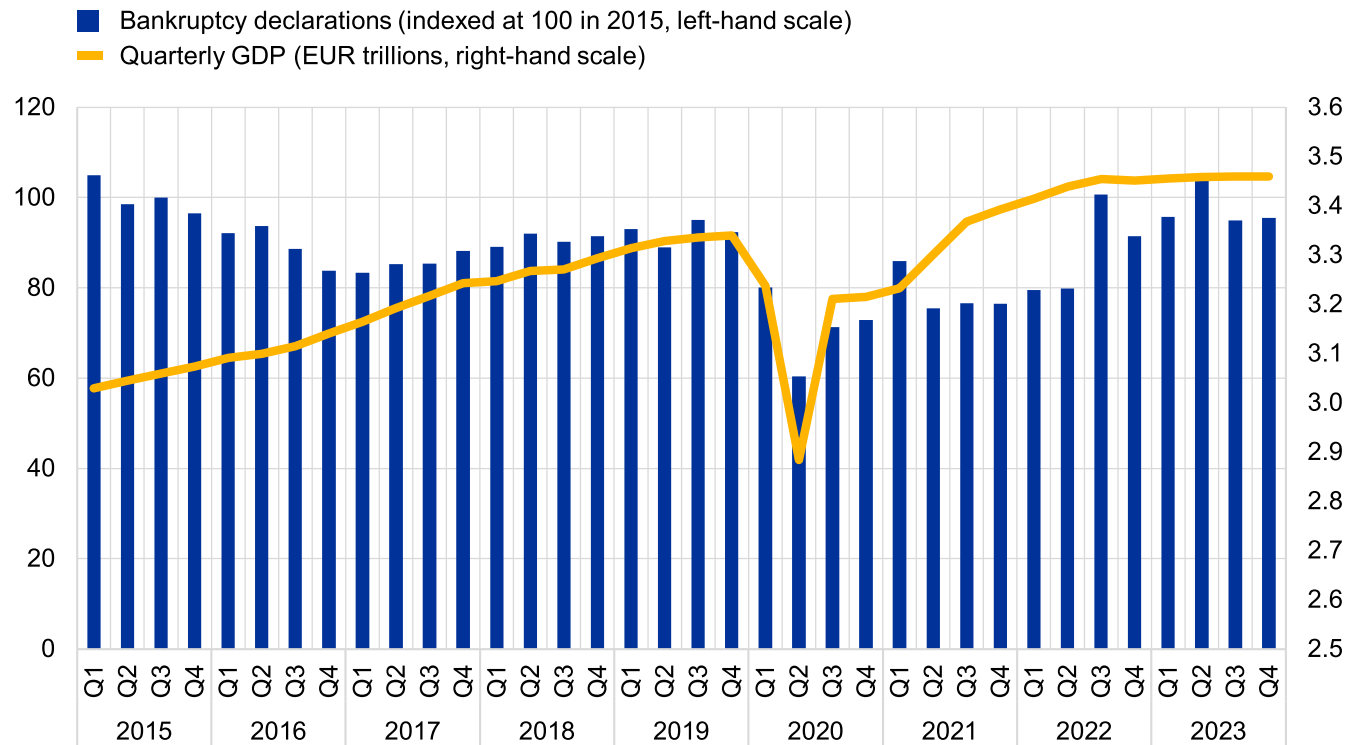
- Non-performing loans, including cash balances at central banks and other demand deposits (EUR bn, left-hand scale)
- Non-performing loans ratio, including cash balances at central banks and other demand deposits (right-hand scale)
- Non-performing loans ratio, excluding cash balances at central banks and other demand deposits (right-hand scale)



Source: ECB [Supervisory banking statistics](#). Significant institutions, evolution of non-performing loans.



# Declarations of bankruptcies in the EU have fallen sharply during the Covid recession.



Sources: Eurostat Short-term business statistics "Business registration and bankruptcy index" and ECB.