

# **Financial Integration, Modernisation and Competitiveness in Europe: Achievements and Challenges**

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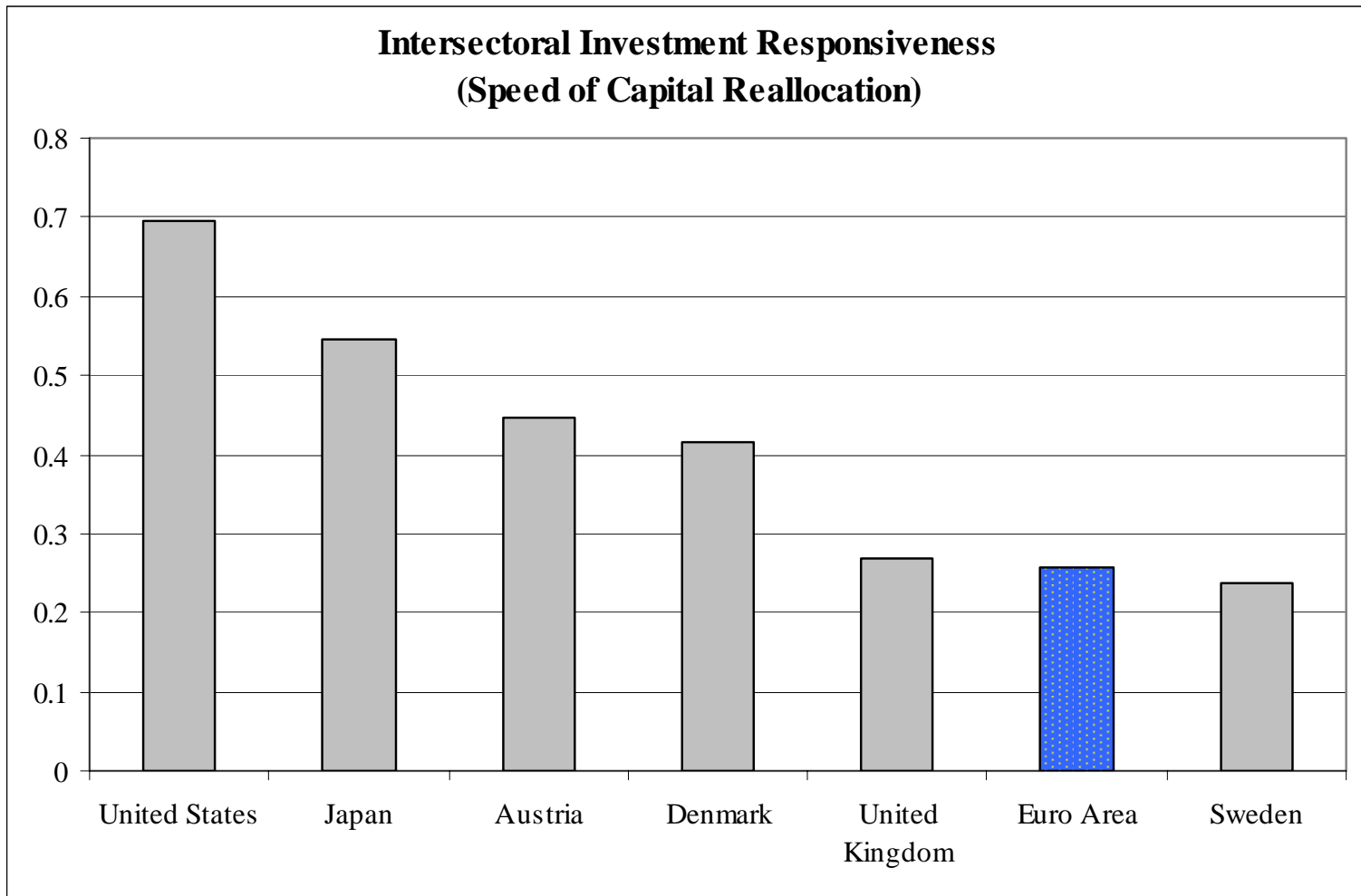
**Member of the Executive Board of the European Central Bank**

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# Financial Performance in Europe

- **Financial system efficiency is crucial for overall economic performance**
- **One measure of financial system efficiency is the speed of capital reallocation**
- **Over the past 40 years, the speed of capital reallocation has been lower in the average euro area country than in other developed countries**

# Financial Performance in Europe

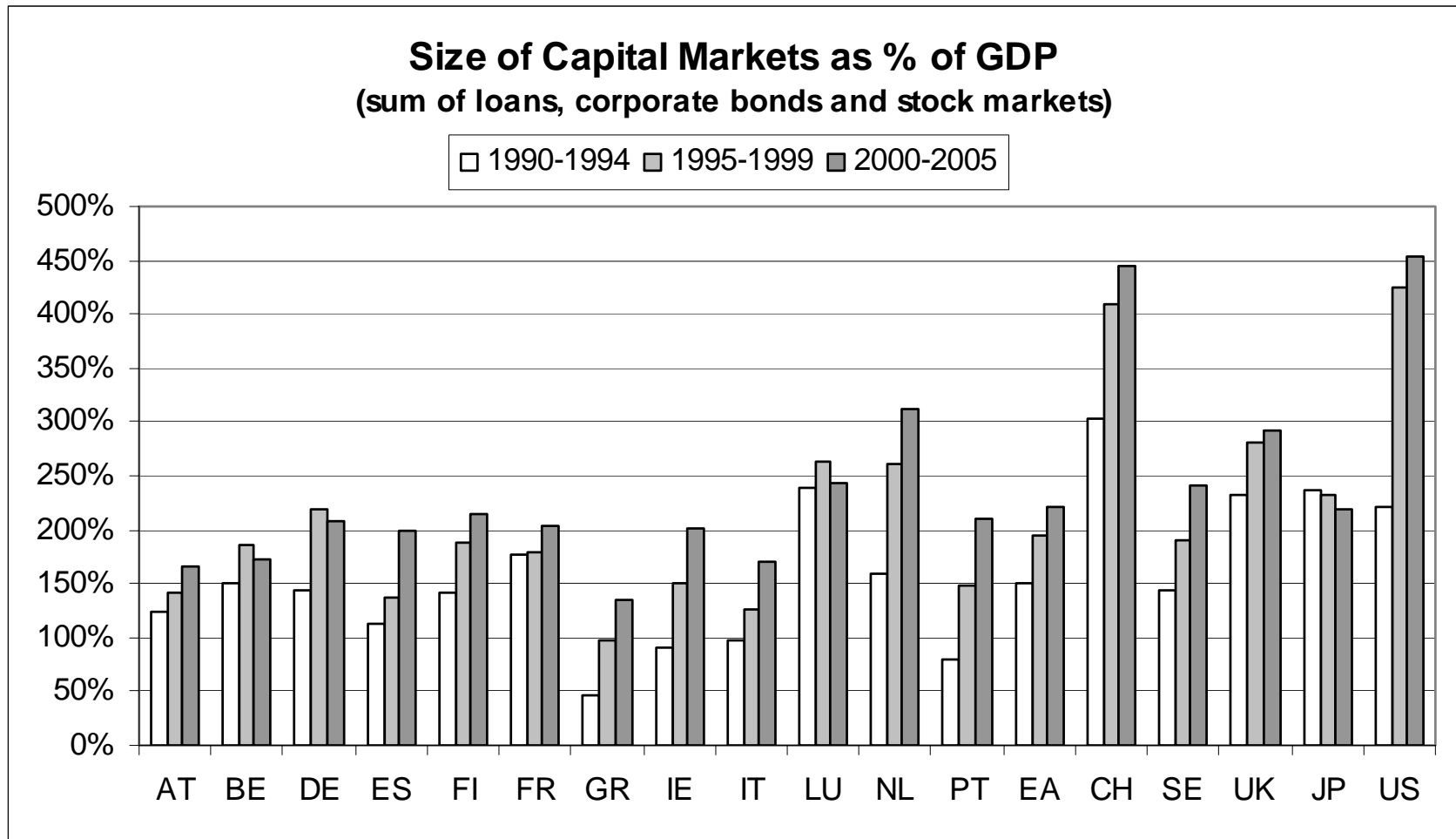


Source: Ciccone A. and E. Papaioannou. "Financial Development and Inter-sectoral Investment: New Estimates and Evidence." mimeo UPF and ECB, November 2006

# Financial Performance in Europe

- **Progress in financial integration and modernisation fosters the growth of financial markets**
- **Overall capital market size is a key determinant of the speed of capital reallocation**
- **The average euro area country lags in this regard behind other developed countries**

# Financial Performance in Europe



Sources: BIS, IMF and ECB.

# Financial Performance in Europe

- **With a view to enhancing financial sector performance in Europe, we should**
  - **enhance financial integration, notably in market segments where progress is less advanced**
  - **promote financial modernisation, especially of those financial system fundamentals which positively influence capital market size**

# Enhancing financial integration

- **Major objective of the ECB**

- Four main activities:**

- **providing advice**

- **acting as a catalyst**

- **monitor, enhance knowledge and awareness**

- **providing central banking services**

**2007 ECB report on “Financial Integration in Europe” gives updated overview**

# Enhancing financial integration

- **Progress in financial integration has been uneven across financial market segments**
- **Key areas of concern in the coming years:**
  - **Banking markets, notably retail banking**
  - **Retail payment systems**
  - **Securities clearing and settlement systems**



# Enhancing financial integration

- Banking markets:

- Several initiatives underway to enhance the policy framework for cross-border banks
- Aim to reduce potential prudential, legal and fiscal obstacles to a market-led evolution of cross-border banking
- Strengthening the EU supervisory framework one major element
- Review of the supervisory setting by the end of this year to assess the progress made

# Enhancing financial integration

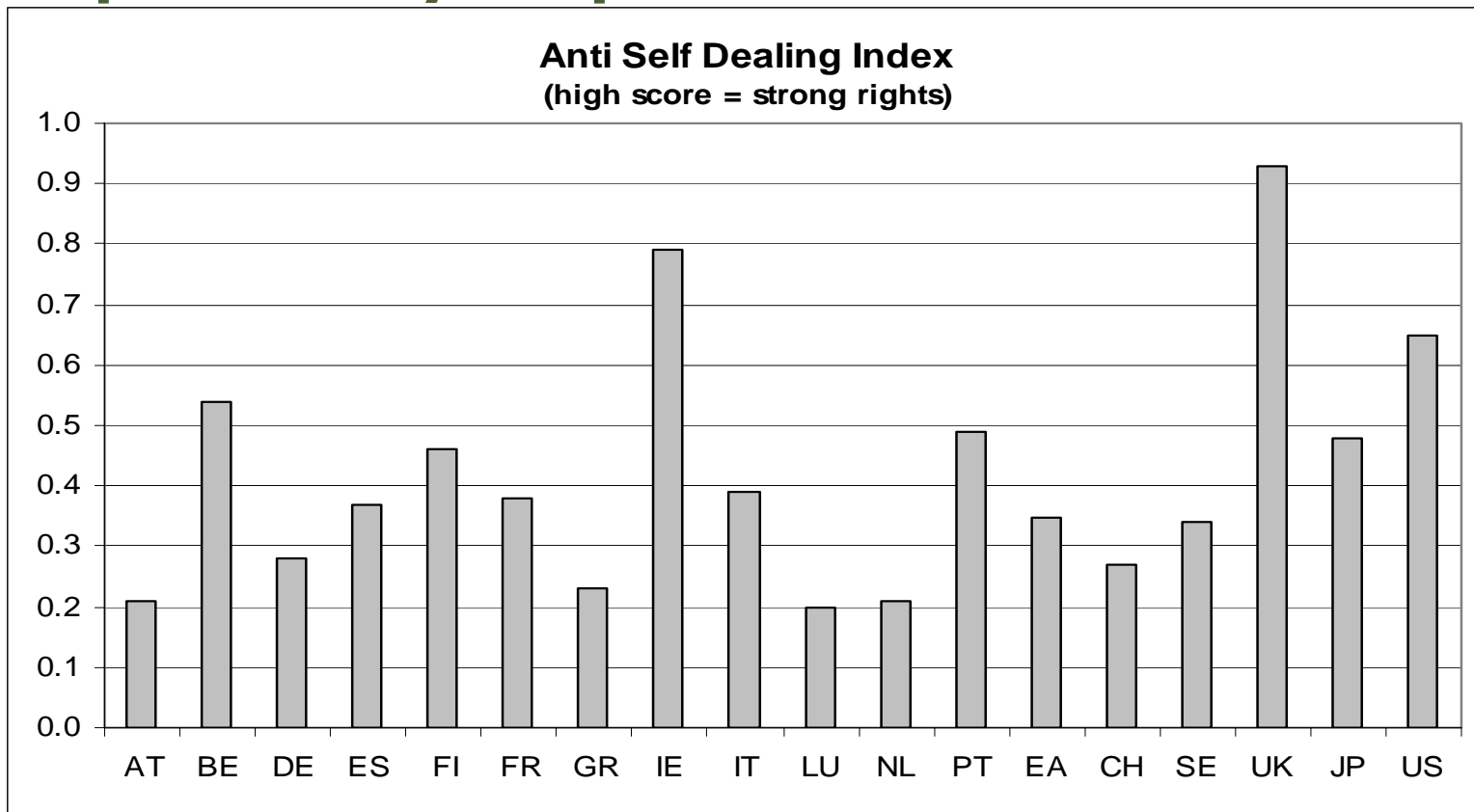
- Retail payment systems:
  - Timely implementation of **SEPA** essential
  - **ECB** acts as a catalyst
- Securities clearing and settlement:
  - **ECB** initiative to provide settlement services in central bank money: **Target2-Securities**
  - Objective to render the settlement of cross-border securities transactions as efficient as of domestic transactions

# Fostering financial modernisation

- **Financial modernisation helps to overcome frictions in financial intermediation which may persist even in fully integrated financial systems**
- **Overall state of analysis less advanced than in the field of financial integration**
- **Conceptual and empirical research by the ECB**
  - **to specify how financial modernisation improves capital market size, financial efficiency and economic growth**
  - **to identify concrete areas in which further progress in financial modernisation would seem particularly useful**

# Fostering financial modernisation

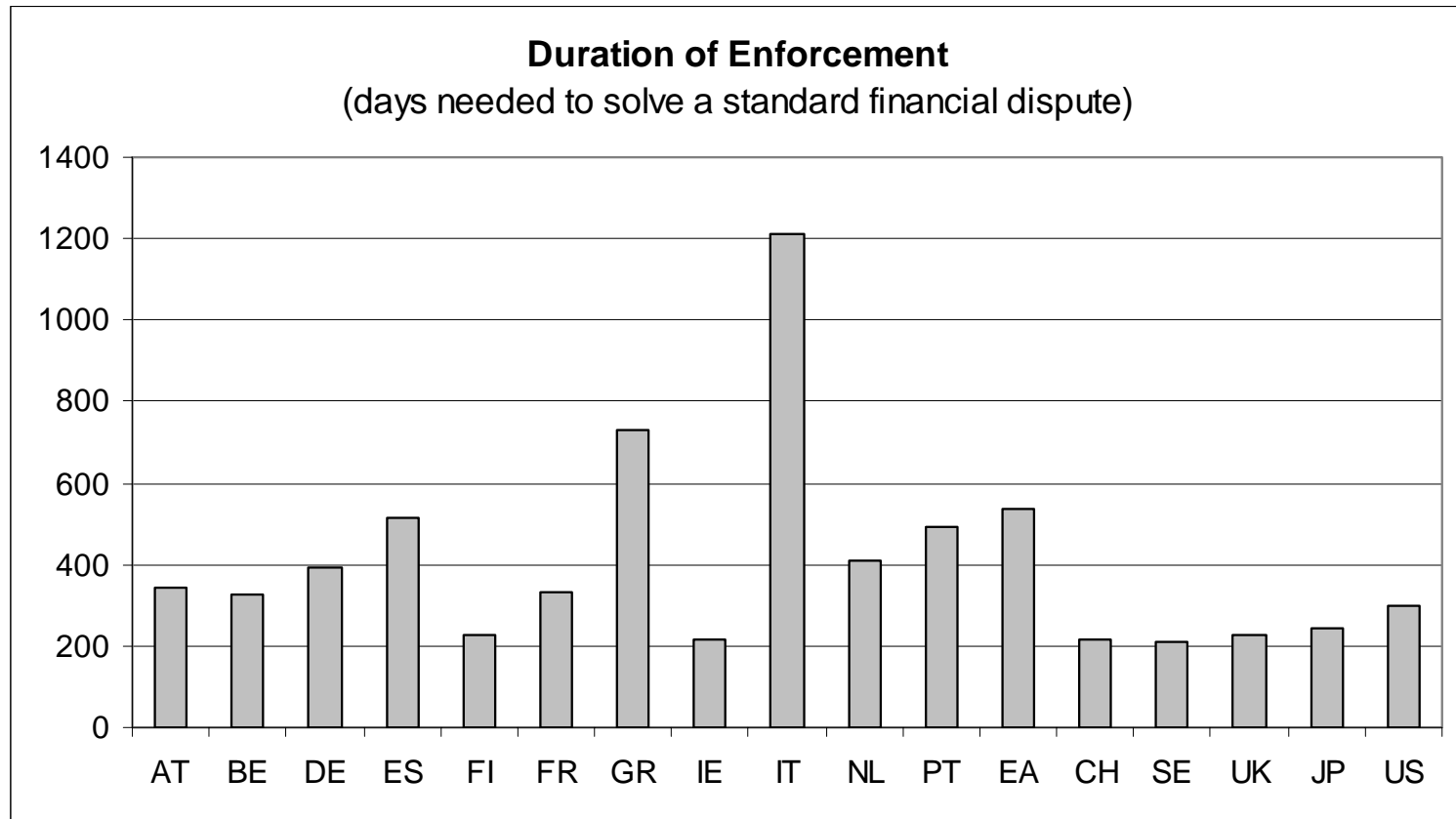
## Protection of minority shareholders against expropriation by corporate insiders



Sources: Djankov, S., R. La Porta, F. Lopez-de-Silanes, and A. Shleifer, 2006, "The Law and Economics of Self-dealing", working paper.

# Fostering financial modernisation

## Efficiency of the legal system in resolving financial conflicts



Sources: World Bank, Doing Business Database.

# Fostering financial modernisation

## Effective banking competition

- **Measures to improve policy framework for cross-border banks**
- **Follow-up action to Commission's sector inquiry on competition in retail banking**

# Fostering financial modernisation

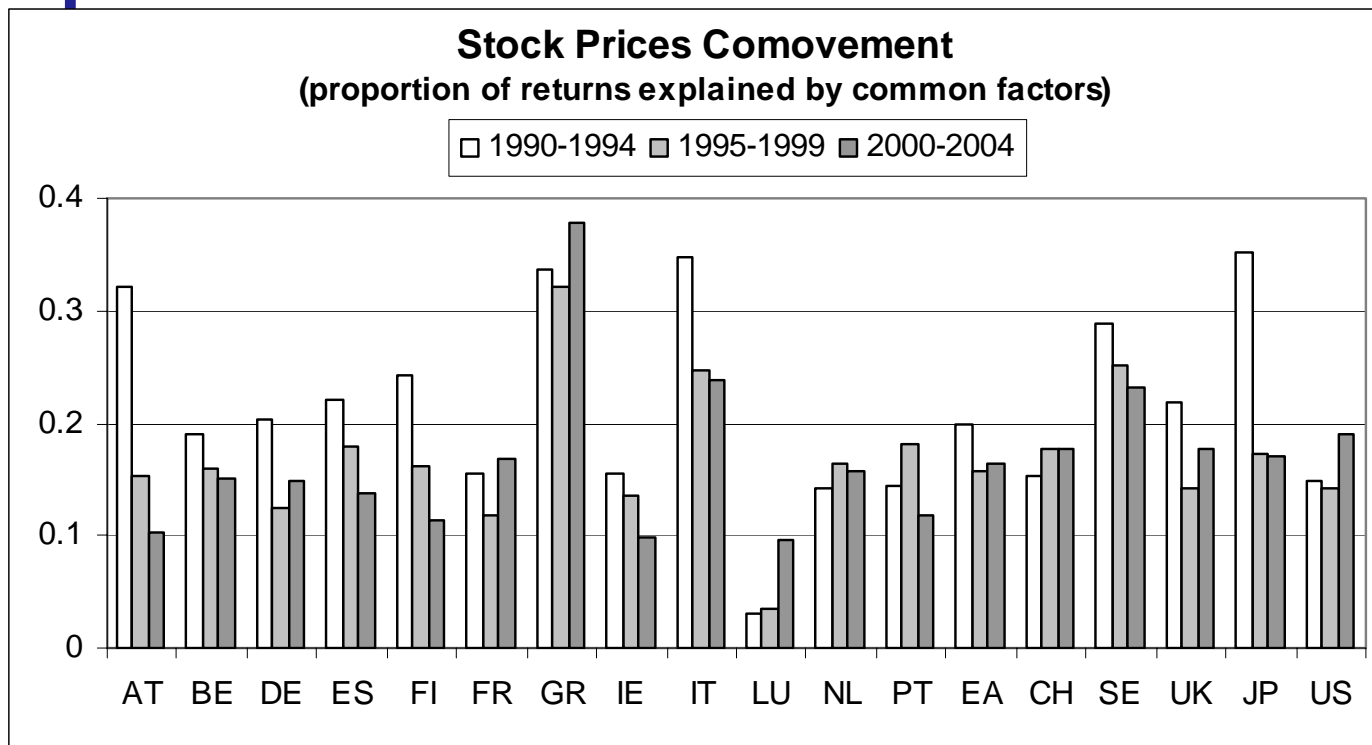
## Further research on:

- **The functioning of European risk capital markets**
  - **Venture Capital: why is the early stage financing of firms much smaller than in the US?**
  - **Securitisation: need to better understand the benefits and risks**

# Fostering financial modernisation

## Further research on:

- **The information processing capacity of European stock markets**



Sources: DataStream and ECB calculations.



# Conclusions

- **Progress in financial system efficiency crucial for fostering European economic competitiveness**
- **Further action needed to enhance financial integration and modernisation in Europe**
- **A number of major initiatives underway, but need to keep up momentum**

**Thank you for your attention.**