

# European Financial Integration Report 2007

The Commission has released its first European Financial Integration Report (EFIR), an annual analysis of integration of the EU financial services sector. EFIR is a new step in the monitoring of European financial integration, which merges two former reports: the Financial Integration Monitor and the Single Market in Financial Services Progress Report.

The main body of the European Financial Integration Report is devoted to economic analysis of EU financial integration and of the related impacts on market structures, competition, efficiency, innovation and stability. Policy achievements in EU 2007 and a complementary set of statistical indicators are included in the report as annexes.

## Integration

Financial integration has indeed progressed although the speed and scope has not been the same across all market segments. Almost complete integration has been established in the unsecured interbank deposit market and government bond markets. For the wholesale segment – specifically equity markets – further integration will depend on progress in integrating securities clearing and settlement systems. As for retail markets, the lack of integration is reflected in wide price variations across Member States and low volume of direct cross-border transactions. Positive signals of increasing integration are provided by the declining trend in some retail prices and increasing use of distance selling channels.

## Market structures and competition

European financial integration has changed market structures, due in part to merger and acquisition activities. The continued consolidation process has resulted in rising concentration ratios in many markets. As regards competition,

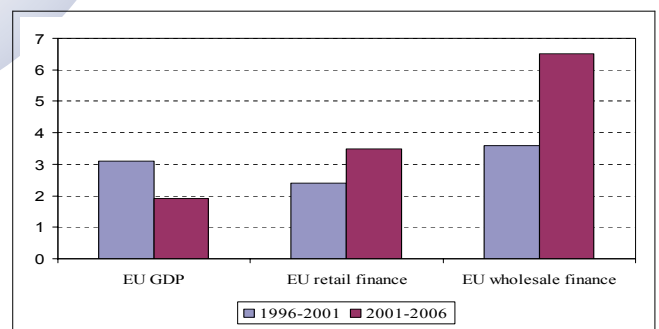
available evidence suggests that consumers and SMEs would benefit from stronger competition at the EU level. New distribution channels (Internet, mobile communication) are likely to enhance competitiveness in retail markets.

## Efficiency and innovation

The favourable economic conditions recently have improved efficiency indicators relating to EU financial markets and institutions. However, there is still significant potential for improvement. Fragmentation (in particular on the retail side) or relative underdevelopment (in new Member States) prevents economies of scale and scope from being realised in a number of markets. Financial innovation has been progressing quickly, resulting in new products and practices.

## Financial stability

Progress in financial integration has multiplied the market links between Member States and across financial sectors. The multiplication of major pan-European financial institutions and groups, the internationalisation of capital markets and the increasing ownership links resulting from the enlargement of the European Union are examples of market links with potential effects on financial stability.



Average real growth of GDP and financial services in the EU-25 in %

Whether these trends lead to more even risk distribution or contagion depends on the quality of risk management, legal framework and supervision, including the quality of cooperation across borders.

"Our financial services sector is still characterised by an uneven level of integration of wholesale and retail financial markets," commented Internal Market and Services Commissioner Charlie McCreevy.

"While integration of capital markets has progressed significantly in recent years, it has not yet reached its potential in retail financial services. The analysis has also confirmed that competition in some segments is insufficient.

"The good news is that the global competitiveness of EU financial services industry has been improving. And the EU equity, bond and investment fund markets have been growing stronger than their US counterparts."

**info**  
 Fabio Fiorello  
 TEL: +32 (0)2.299 84 12  
 Marianne Wolfbrandt  
 TEL: +32 (0)2.296 75 78  
 Daniel Kosicki  
 TEL: +32 (0)2.298 05 70  
 Sander Oosterloo  
 TEL: +32 (0)2.299 59 10  
 FAX: +32 (0)2.299 86 30  
 Markt-GI@ec.europa.eu