

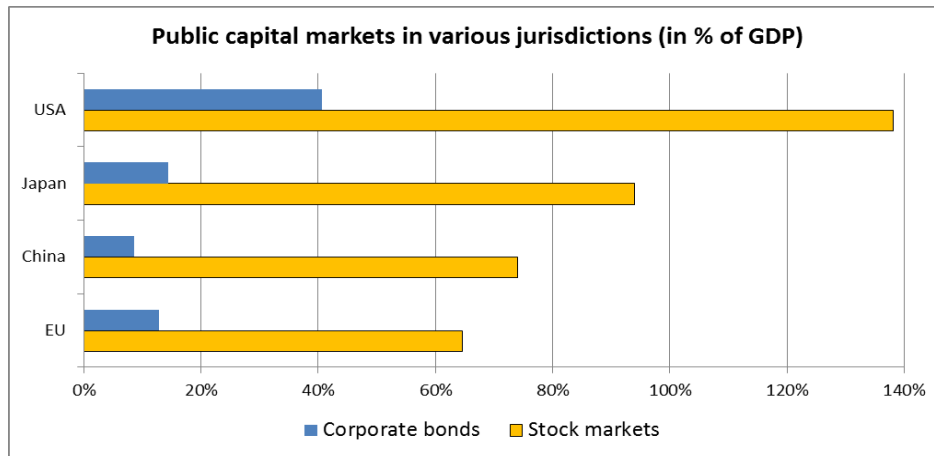
Does the EU succeed in its aim of financial integration? Are there monetary implications of CMU?

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European Commission and De Nederlandsche Bank

Disclaimer applies and views expressed are my own

The Capital Market Union 'Gap'



EU capital markets are less developed than many other countries

There are different levels of market development across the EU

Source: European Commission

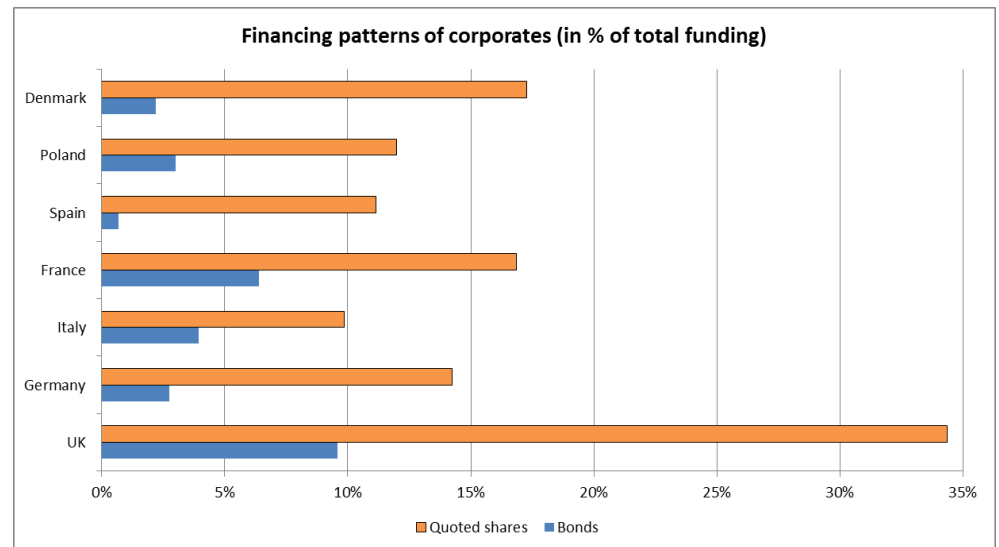
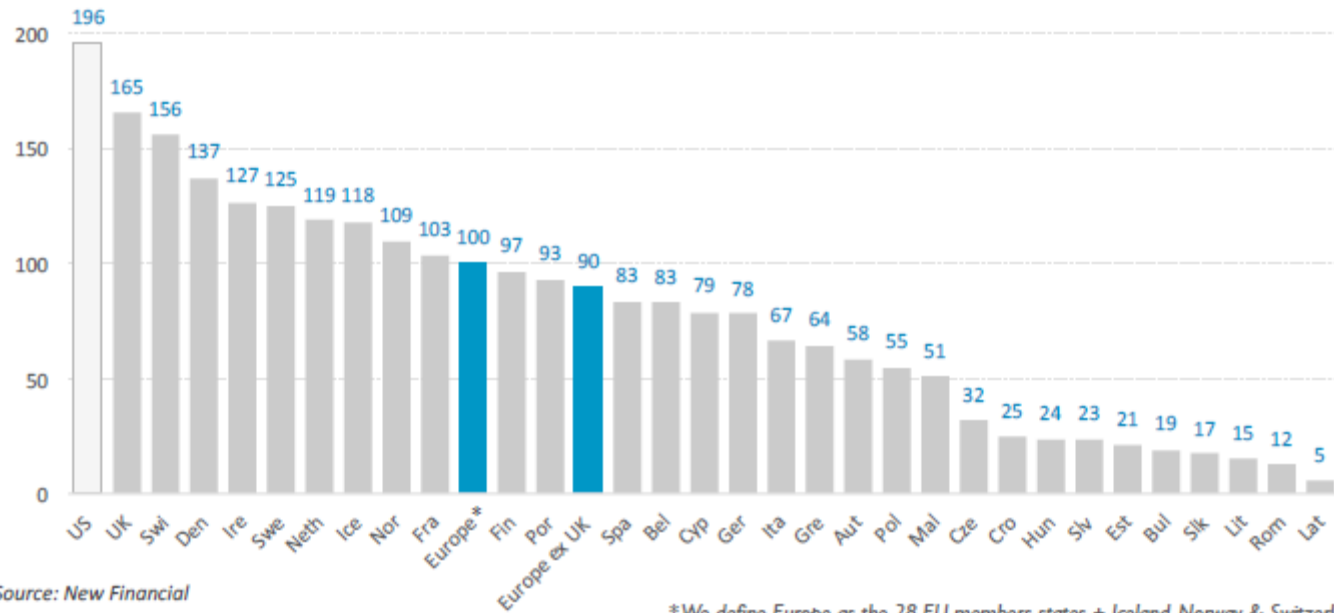


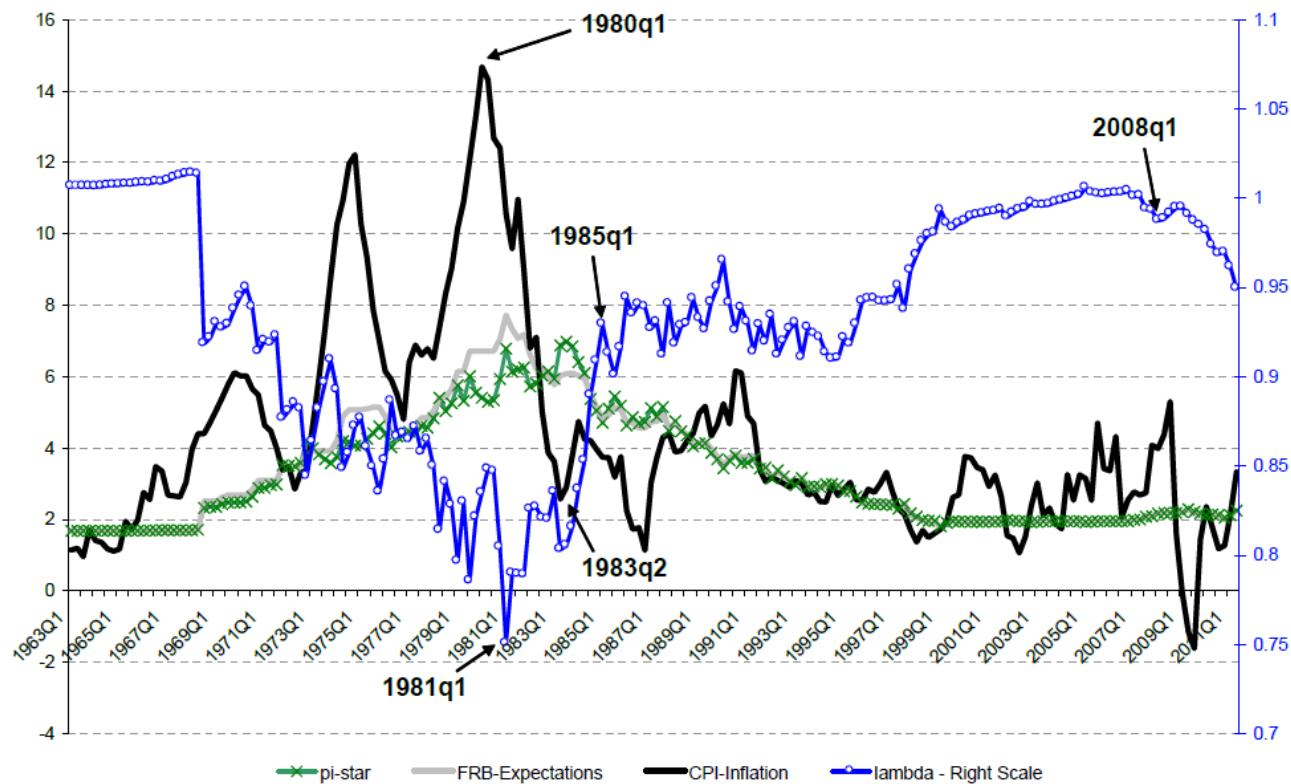
Fig. 1 - Capital markets disunion

Relative depth of capital markets in different countries across 23 metrics over the past five years
Rebased to Europe = 100



Source: New Financial

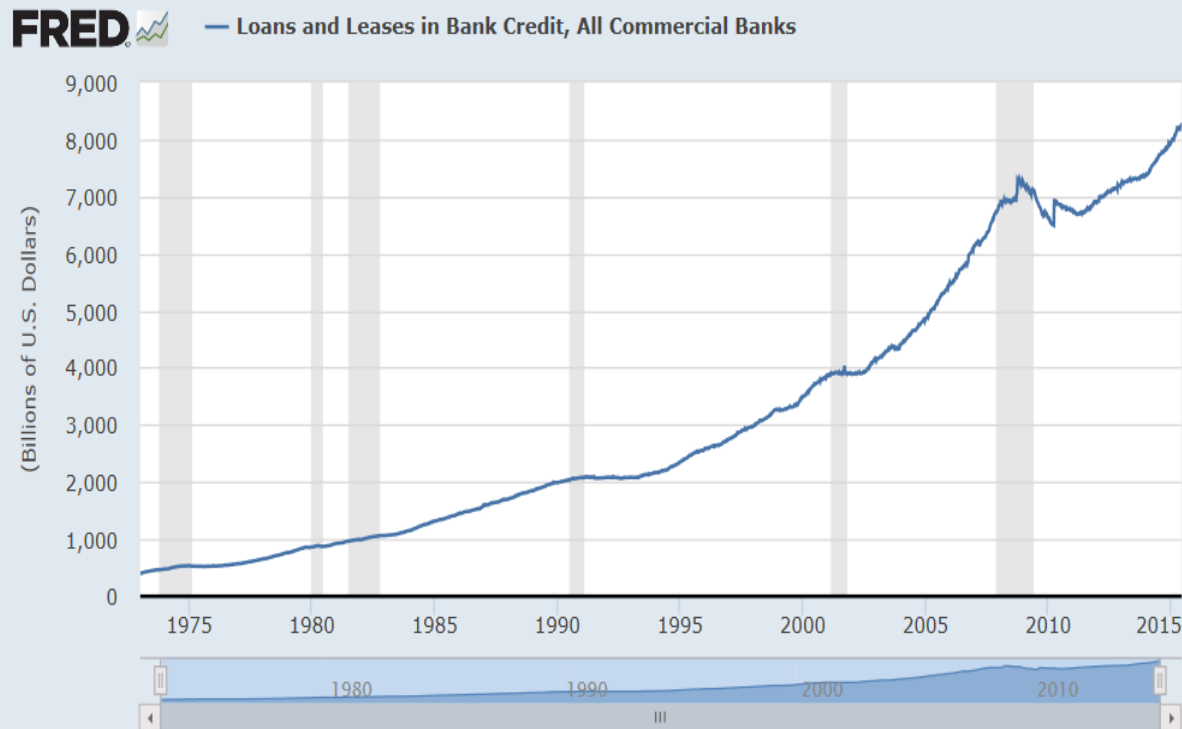
US Inflation environment



US Credit

1yr | 5yr | 10yr | Max

1973-01-03 to 2015-06-10



Source: Board of Governors of the Federal Reserve System (US)

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

Implications for Monetary Policy

- Competition
- Instruments to implement MP

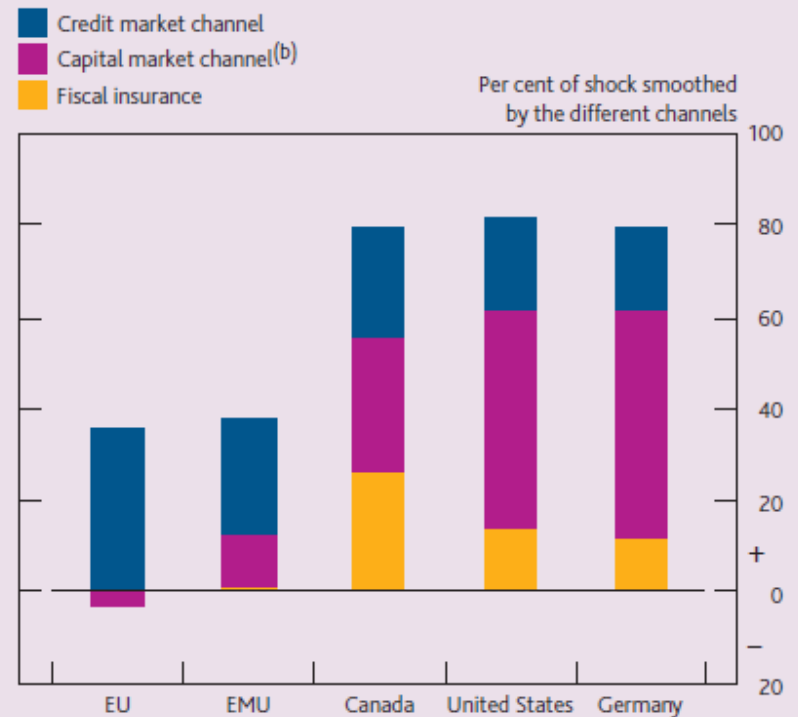
Implications for Financial Stability

- Bank dependence (fiscal nexus)
- Shock absorption

Benefits of Risk Sharing:

Source: Anderson, et 2015
Bank of England,
Financial Stability Paper No. 33 – February

Chart A Risk sharing in the EU, EMU and selected federations^(a)



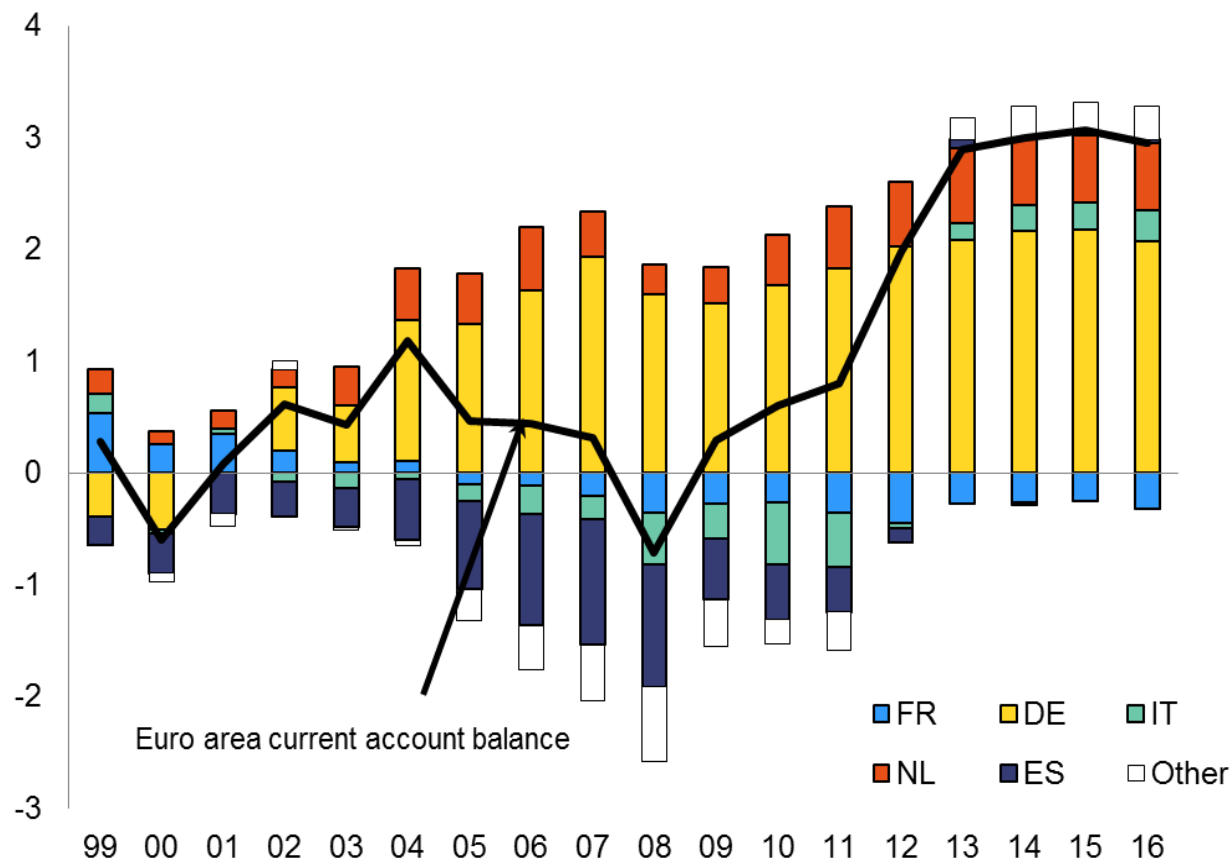
Sources: IMF (2013), 'Toward a fiscal union for the euro area, technical background notes', September. Based on Hepp and von Hagen (2012) for Germany; Asdrubali, Sorensen and Yosha (1998) for the United States; Balli, Basher and Rosmy (2011) for Canada; and Afonso and Furceri (2008) for the EMU and EU.

(a) The terminology to describe the main risk-sharing channels varies in the literature. The credit market channel is sometimes called the saving channel; the capital market channel is occasionally referred to as the factor income channel.

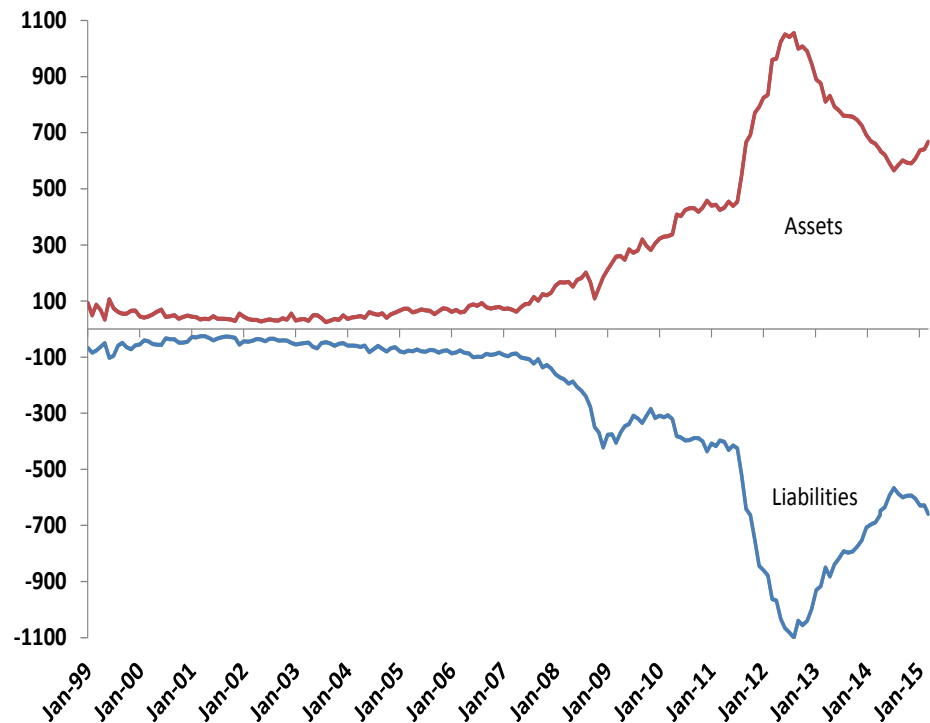
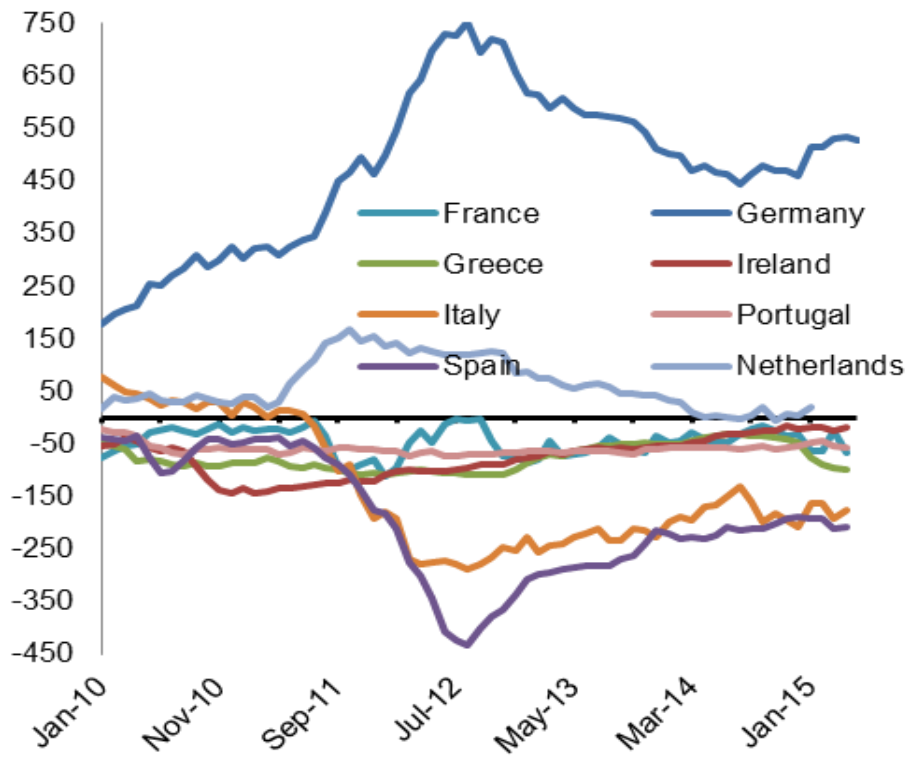
(b) Includes capital depreciation.

Do we go far enough?

Net Lending/Borrowing, Euro area



Target2-balances [bn €]



Source: Euro Crisis Monitor, Institute of Empirical Economic Research, Osnabrück University

Cash available

Table 2.3.2: Pension fund and insurance sector assets (2012)

	DE	FR	NL	UK	US	IT	AT	EA-18 ex DE	EU-28 ex EA	EA-18	EU-28
Total assets, EUR tn	2.1	2.1	1.4	3.4	16.8	0.6	0.1	5.5	4.4	7.6	12.0
Total assets, % of GDP	75	99	226	167	137	35	38	78	123	77	89
<i>Asset allocation, % of total assets*</i>											
Currency and deposits	28	2	3	5	1	6	4	5	5	11	9
Debt, excl mutual funds	29	66	47	52	42	69	46	58	51	50	50
...of which securities	14	64	39	45	39	67	40	54	45	43	44
Equity, excl mutual funds	10	11	15	21	34	11	8	12	22	12	15
Mutual funds	30	22	33	21	16	14	40	23	22	25	24
...of which invested in debt	26	12	16	-	-	-	-	-	-	-	-
...of which invested in equity	4	10	18	-	-	-	-	-	-	-	-

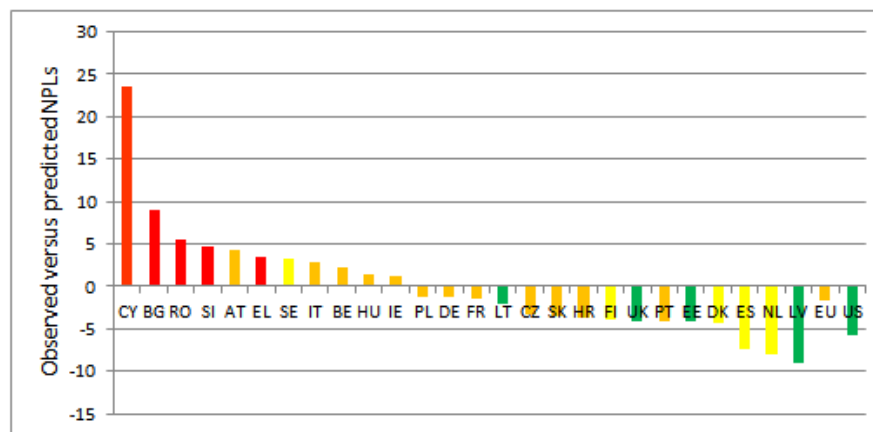
Source: Eurostat, ESA2010 and OECD SNA2008 financial balance sheets national accounts (not consolidated).

Note: * Refers to total assets excluding insurance technical reserves, which mostly relate to within-sector positions to reinsurers. Note that figures do not add up to 100% as assets under 'other accounts receivable' are not displayed.

Repartition of mutual funds derives from 'look-through' data on the sector published by the Dutch Central Bank for the Netherlands, and from Banque de France (monthly bulletin Q3-2013) estimates for France (with proportionally allocated residual). For Germany, they are estimates deriving from book-value data on life insurance assets from 'Gesamtverband der Deutschen Versicherungswirtschaft (2014), 'Statistical Yearbook of German Insurance 2014'.

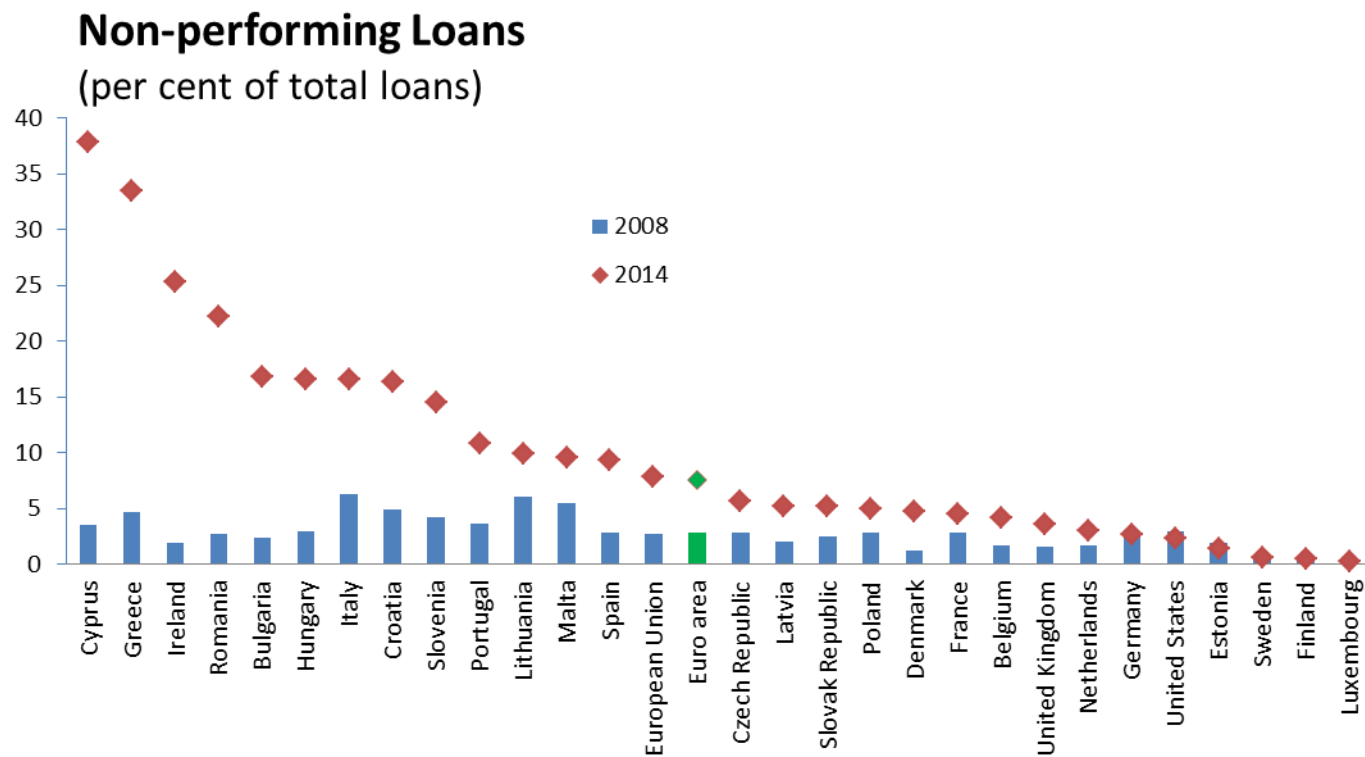
Insolvency

NPLs given GDP and housing prices: observed versus predicted NPLs



"weak enforcement"-group	"average enforcement"-group	"strong enforcement"-group	"creative destruction"-group
Greece	France	Netherlands	UK
Cyprus	Belgium	Denmark	Latvia
Romania	Italy	Spain	Lithuania
Bulgaria	Portugal	Germany	Estonia
Slovenia	Ireland	Sweden	
		Finland	

Non-performing loans



Source: World Bank

The debt overhang

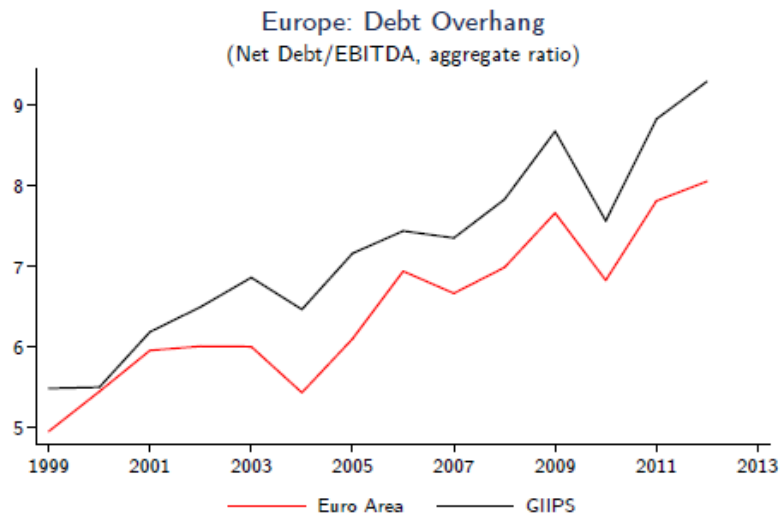


Figure 5: Evolution of Debt Overhang in Europe

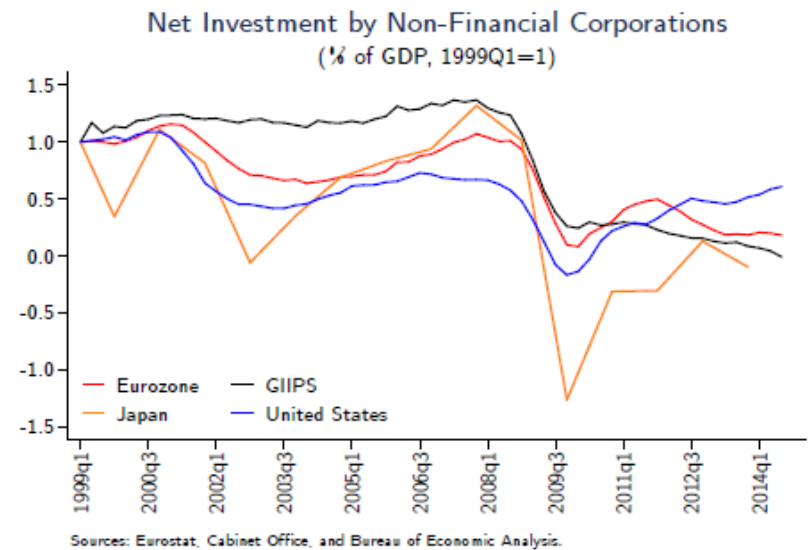


Figure 2: Evolution of Net Investment

Source: Ozcan et al (2015)

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