



EUROPEAN CENTRAL BANK

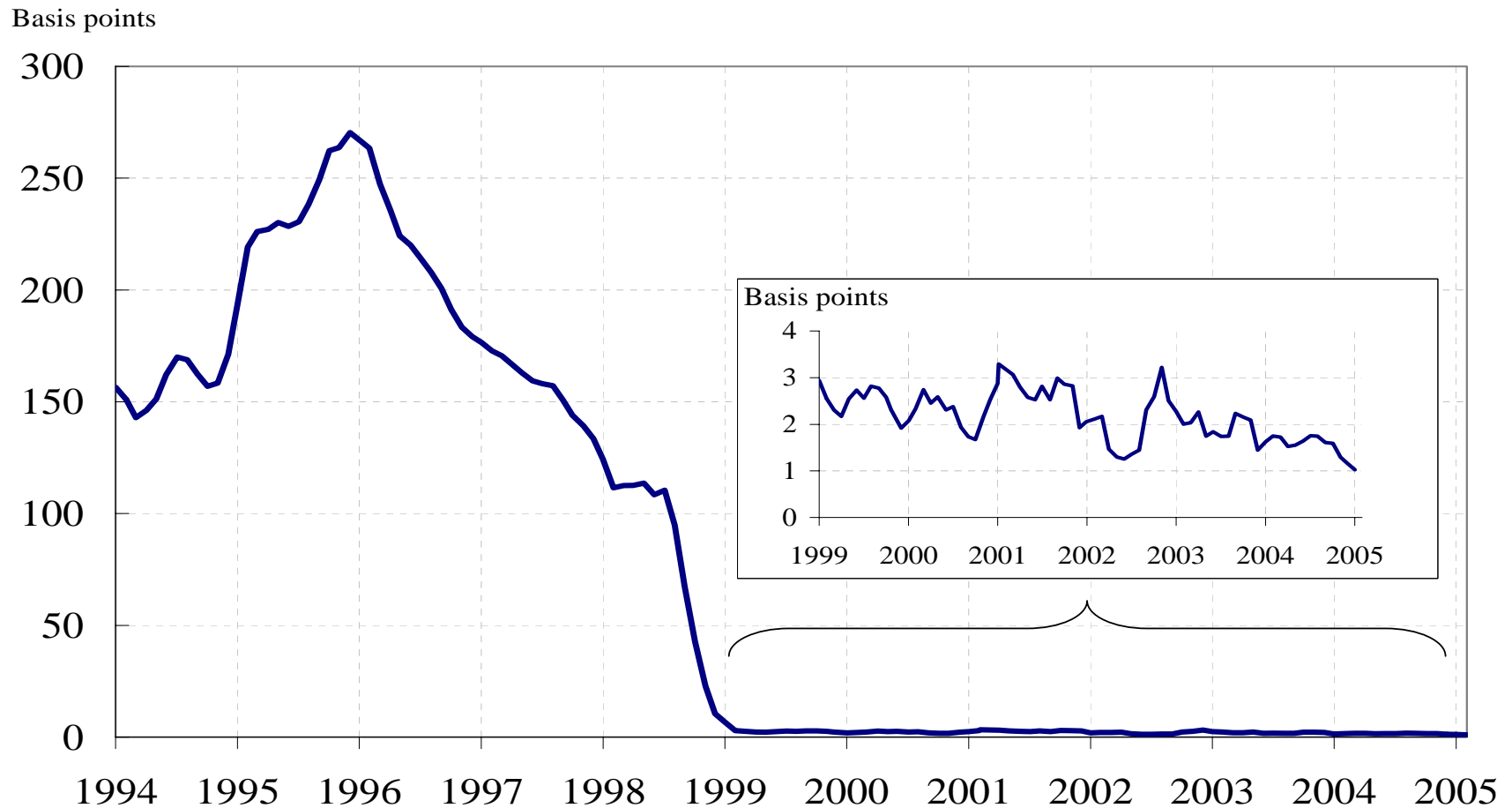
# Financial Markets and Monetary Policy in Europe

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Wharton Business School, University of Pennsylvania,  
Philadelphia, 18 November 2005

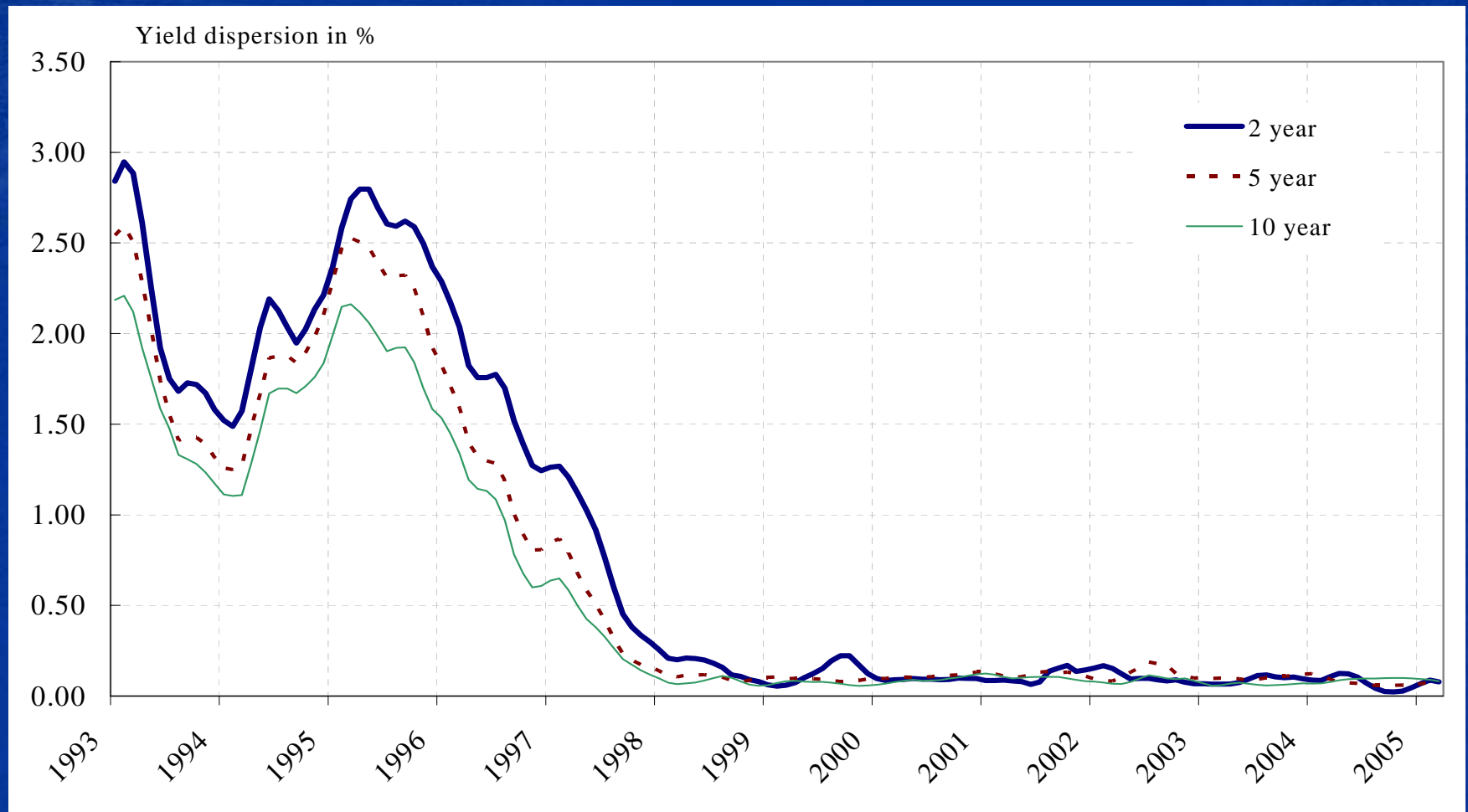
# Chart 1. Money market: Cross-sectional dispersion of overnight lending rates disappeared following the introduction of the euro



*Cross-country standard deviation of the average overnight lending rates among euro area countries (60-day moving average, basis points).*

*Sources: European Banking Federation and ECB calculations.*

# Chart 2. Government bond market: Cross-sectional dispersion of government bond spreads were all but eliminated during the run-up to the euro

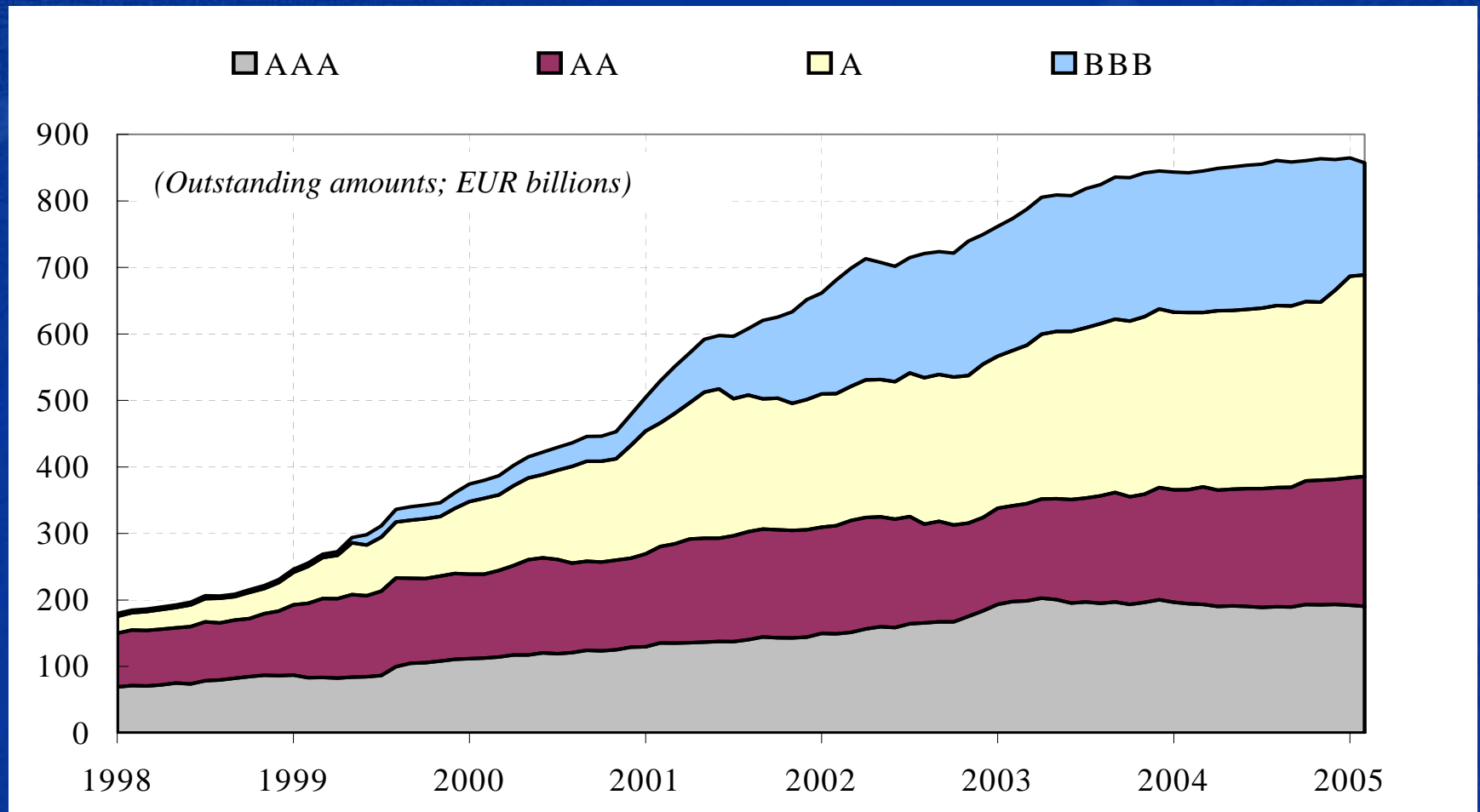


*Note: As a benchmark, the German 10-year government bond yield is taken for the 10-year maturity, and the French 2- and 5-year government bond yields are taken for the shorter maturities.*

*Source: ECB.*

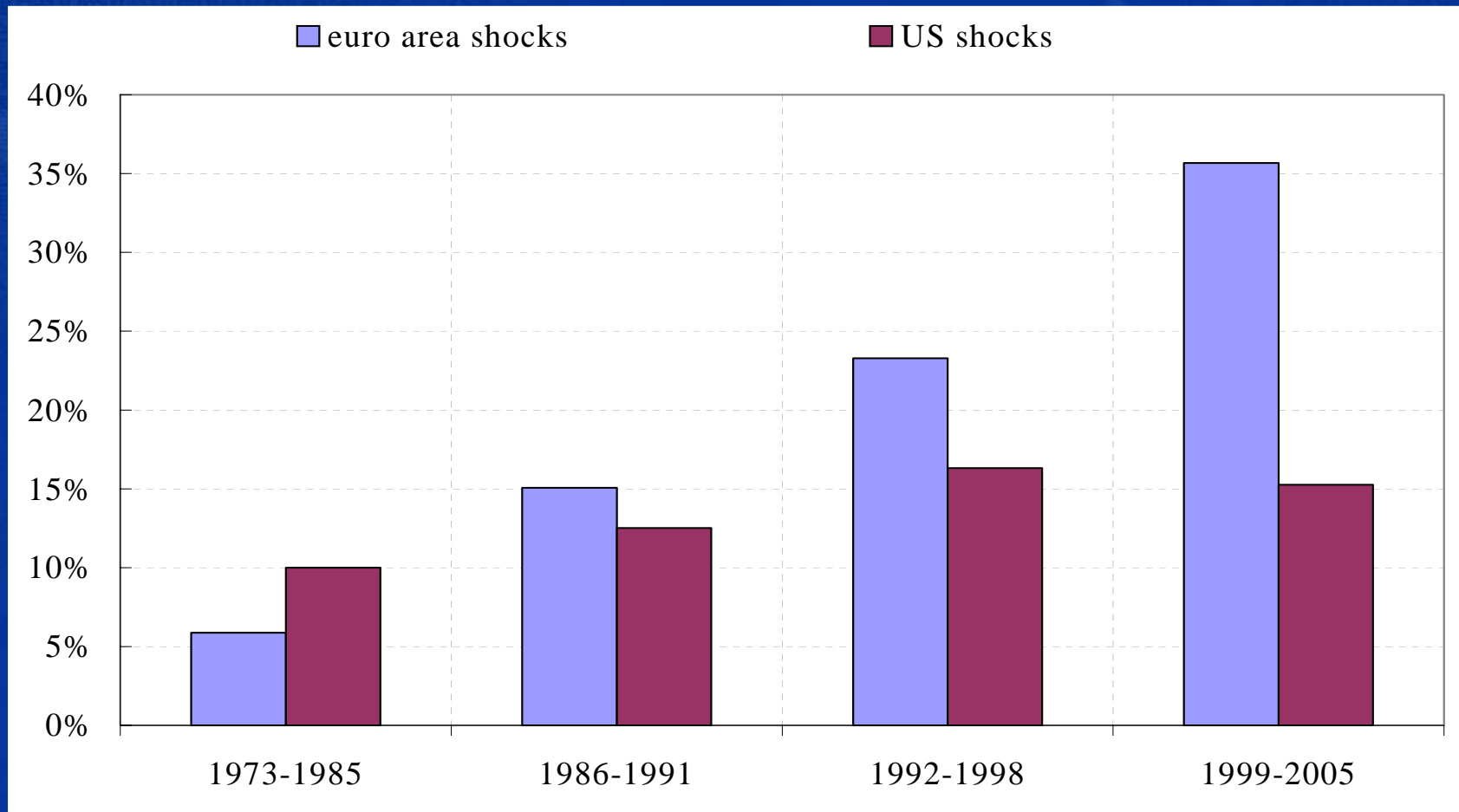
# Chart 3. Corporate bond market:

The euro area corporate bond market grew tremendously reflecting the introduction of the single currency, and the financing of M&As and the telecommunication sector



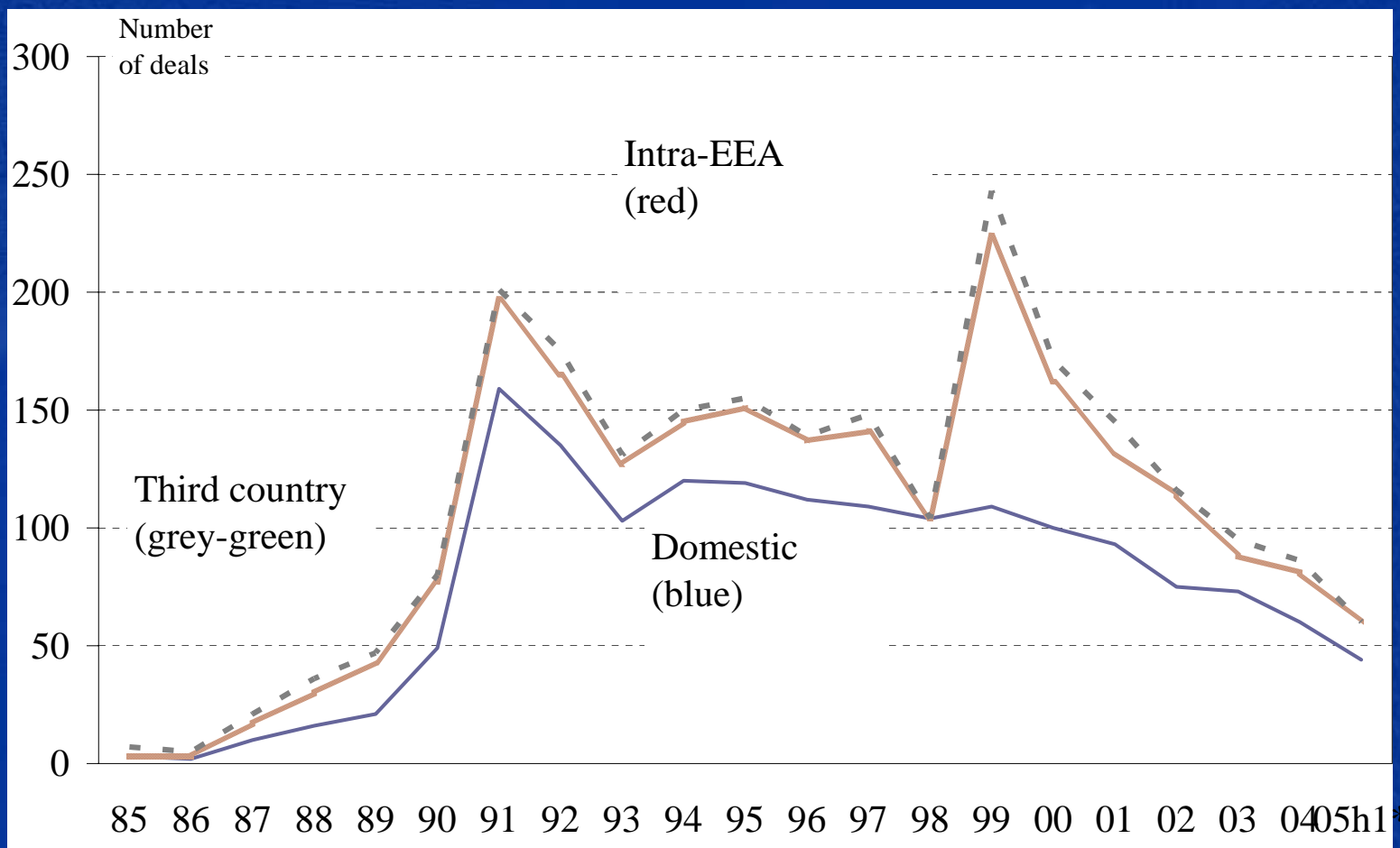
Sources: Bloomberg and ECB calculations.

# Chart 4. Equity market: Greater importance of euro area shocks in explaining equity returns.



Sources: Thomson Financial Datastream and ECB calculations; see Baele et al. (2004), *Measuring Financial Integration in the Euro Area*, ECB Occasional Paper No. 14.

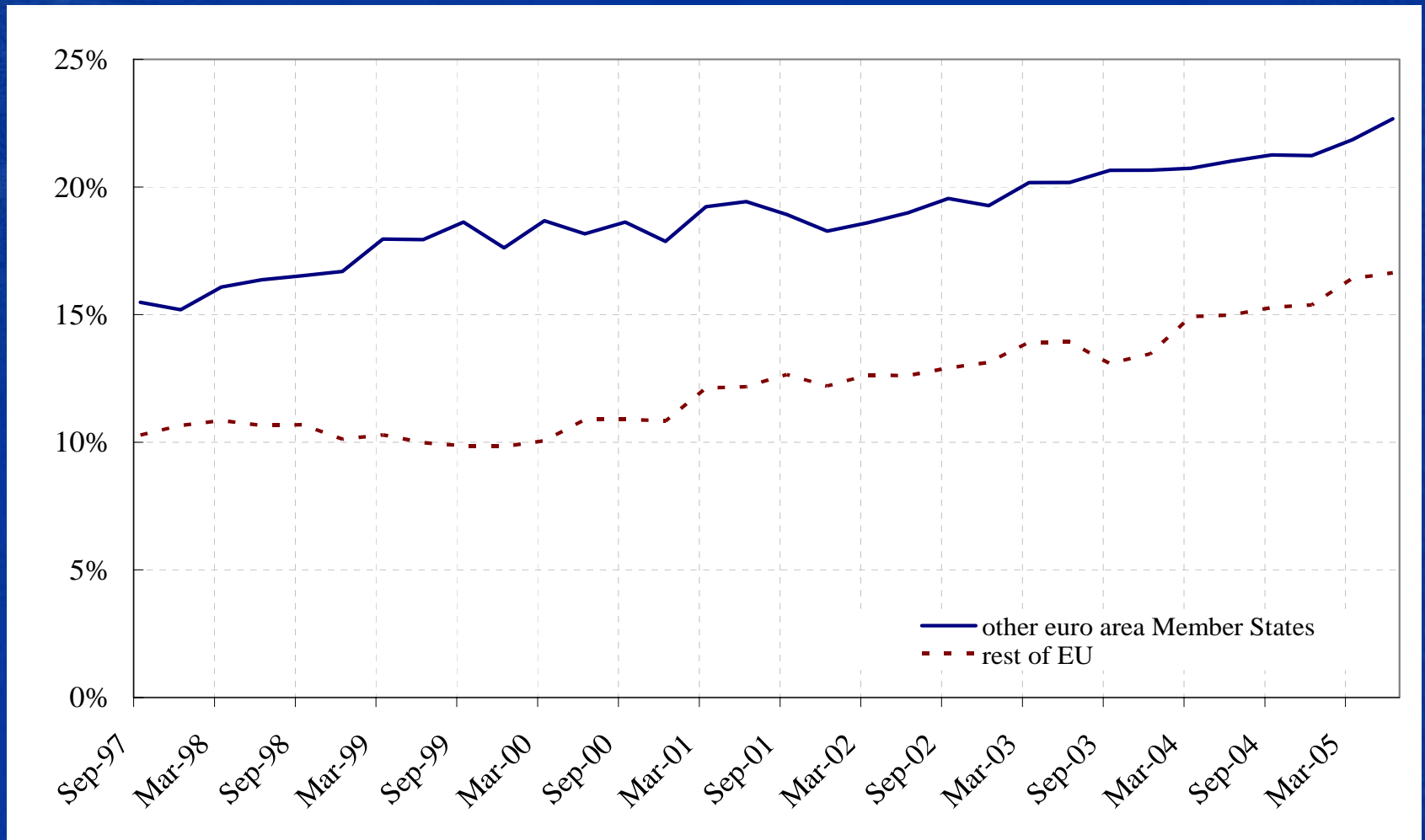
# Chart 5. Number of mergers and acquisitions transactions in the banking sector still predominantly domestically-oriented



Source: Thomson Financial Datastream.

Note: The number of deals is represented as stacked lines. I.e. in most years the number of domestic deals constitute the major part of the deals.

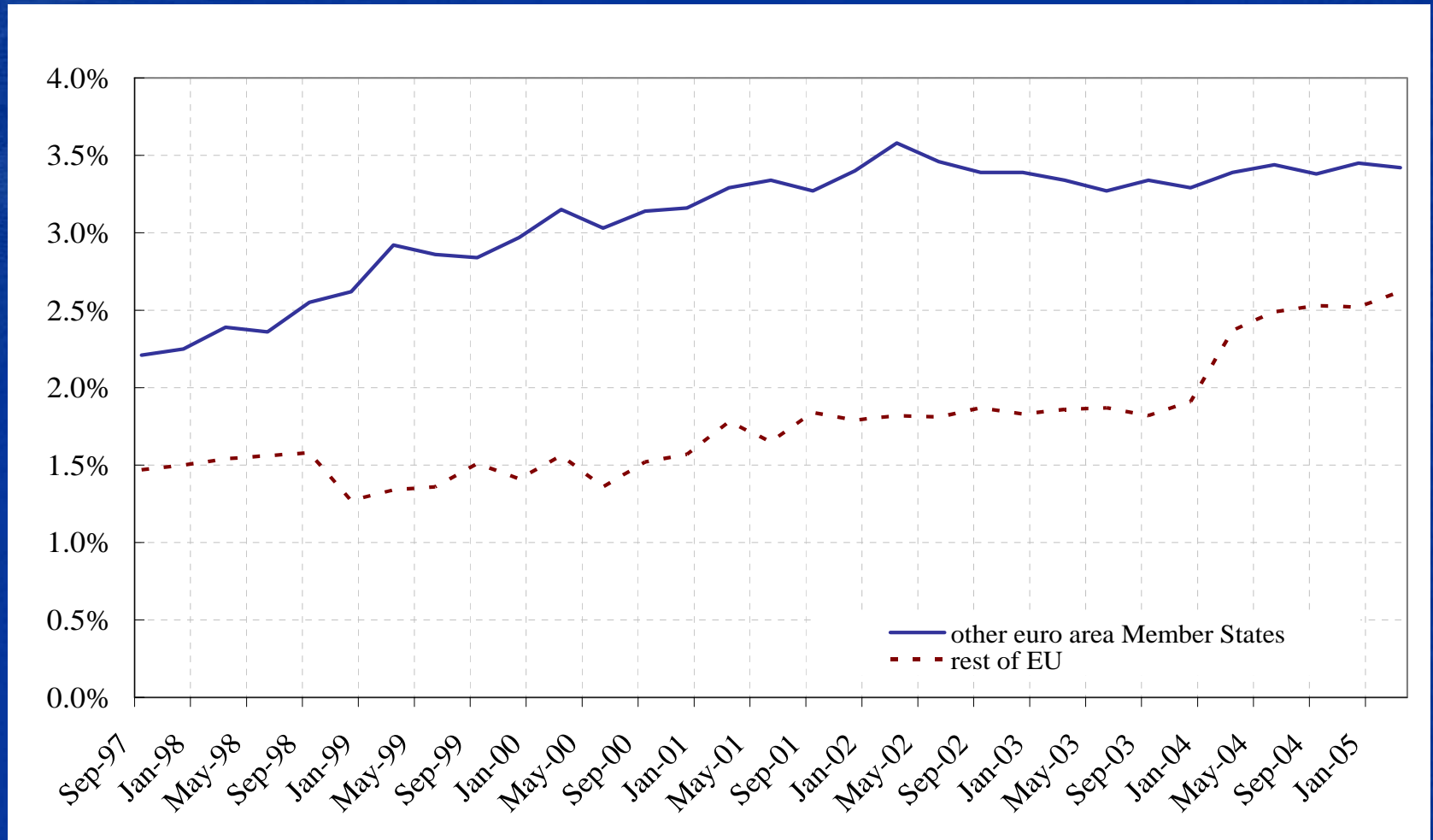
# Chart 6. Wholesale banking has become more integrated since the introduction of the euro



Source: ECB.

Note: The geographical counterparty diversification of loans granted by euro area banks to banks resident in other euro area countries and non-euro area EU Member States.

# Chart 7. Cross-border retail banking activity in the euro area remains very limited (around 5% of the total)

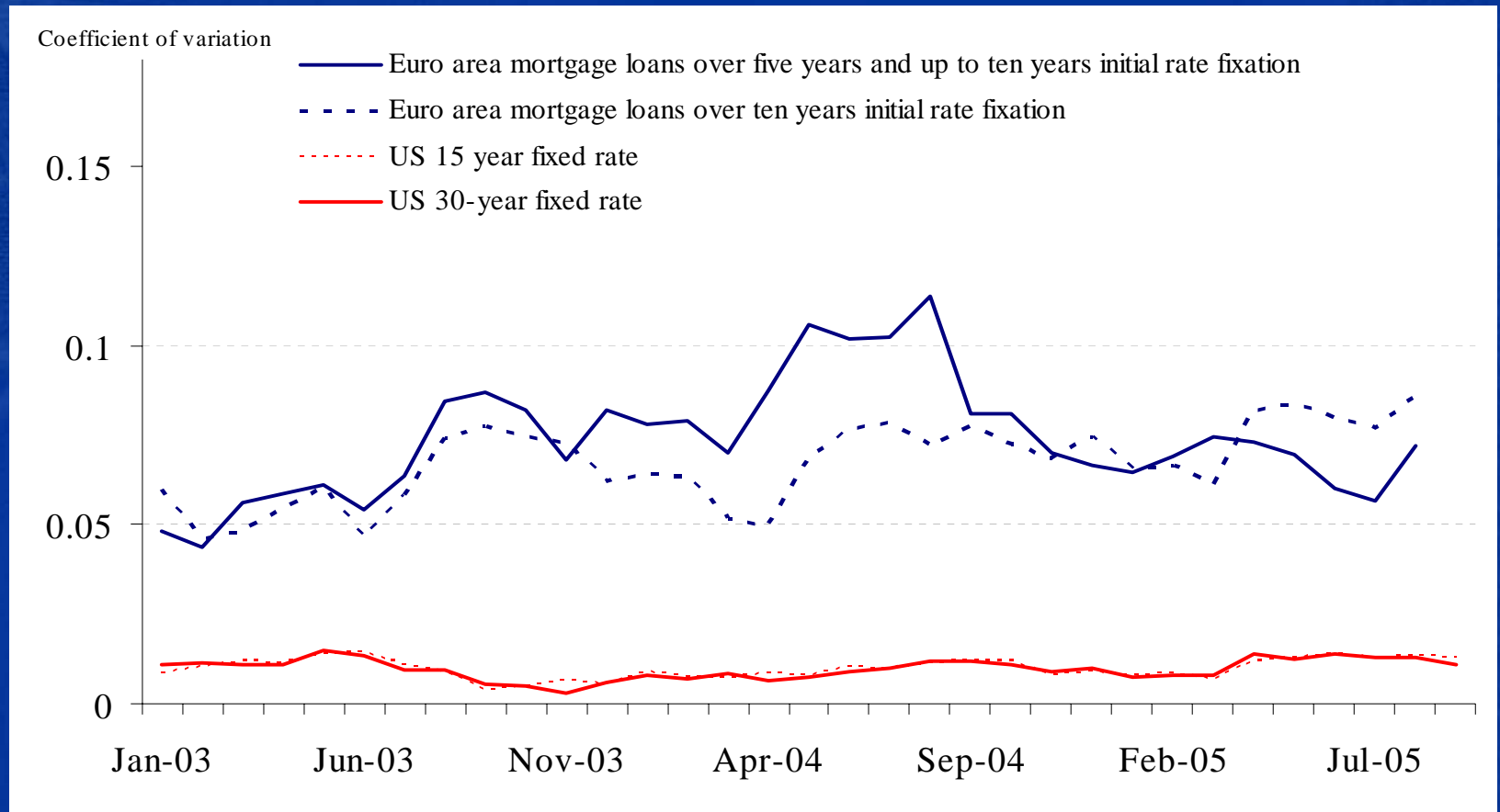


Source: ECB.

Note: The geographical counterparty diversification of loans granted by euro area banks to banks resident in other euro area countries and non-euro area EU Member States.



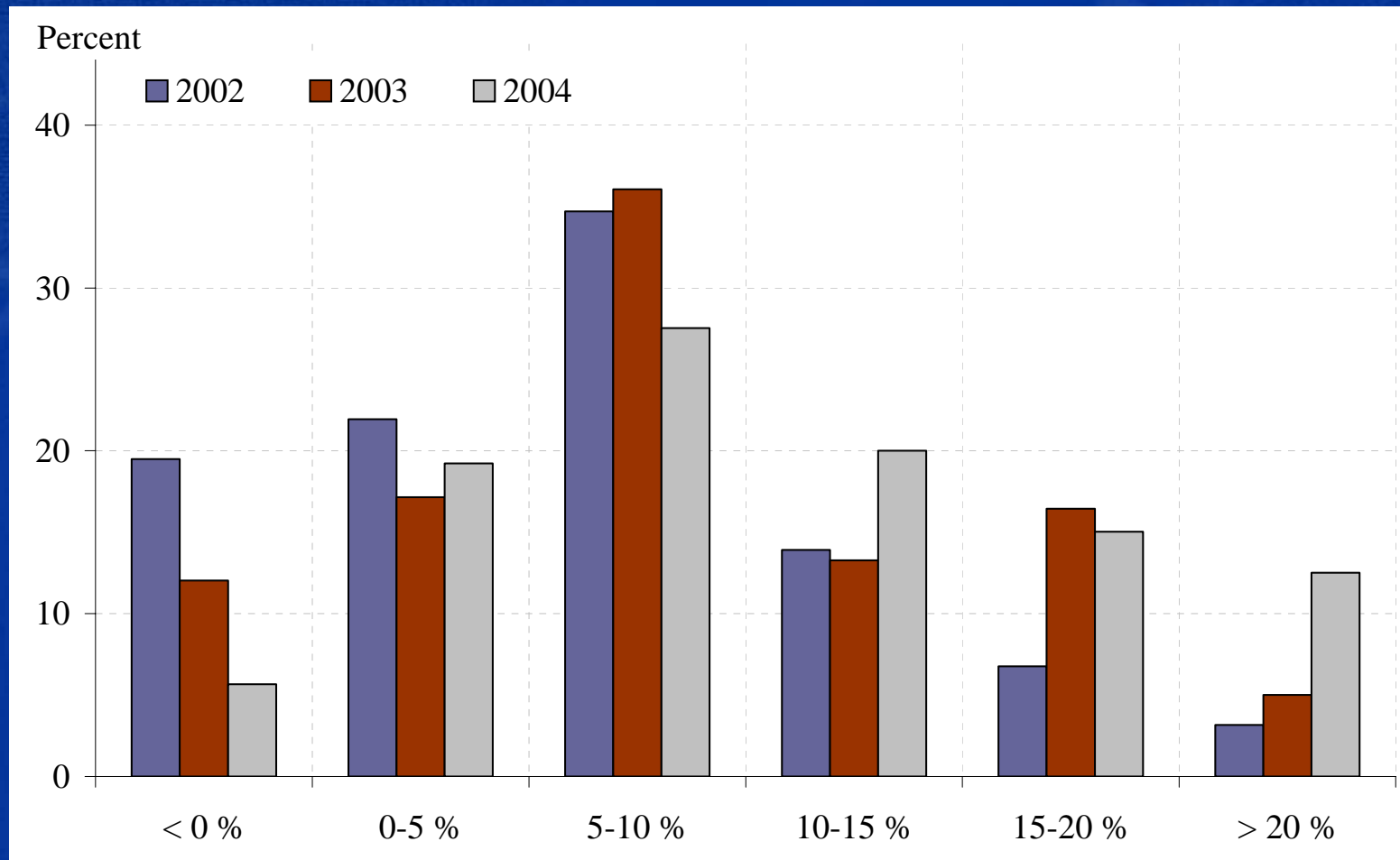
# Chart 8. Mortgage market: Dispersion of long-term rates on loans to households for house purchase and corresponding market rates across US regions and euro area countries, respectively (*new business rates*)



Sources: Freddie Mac, Primary Mortgage Market Survey, and ECB.

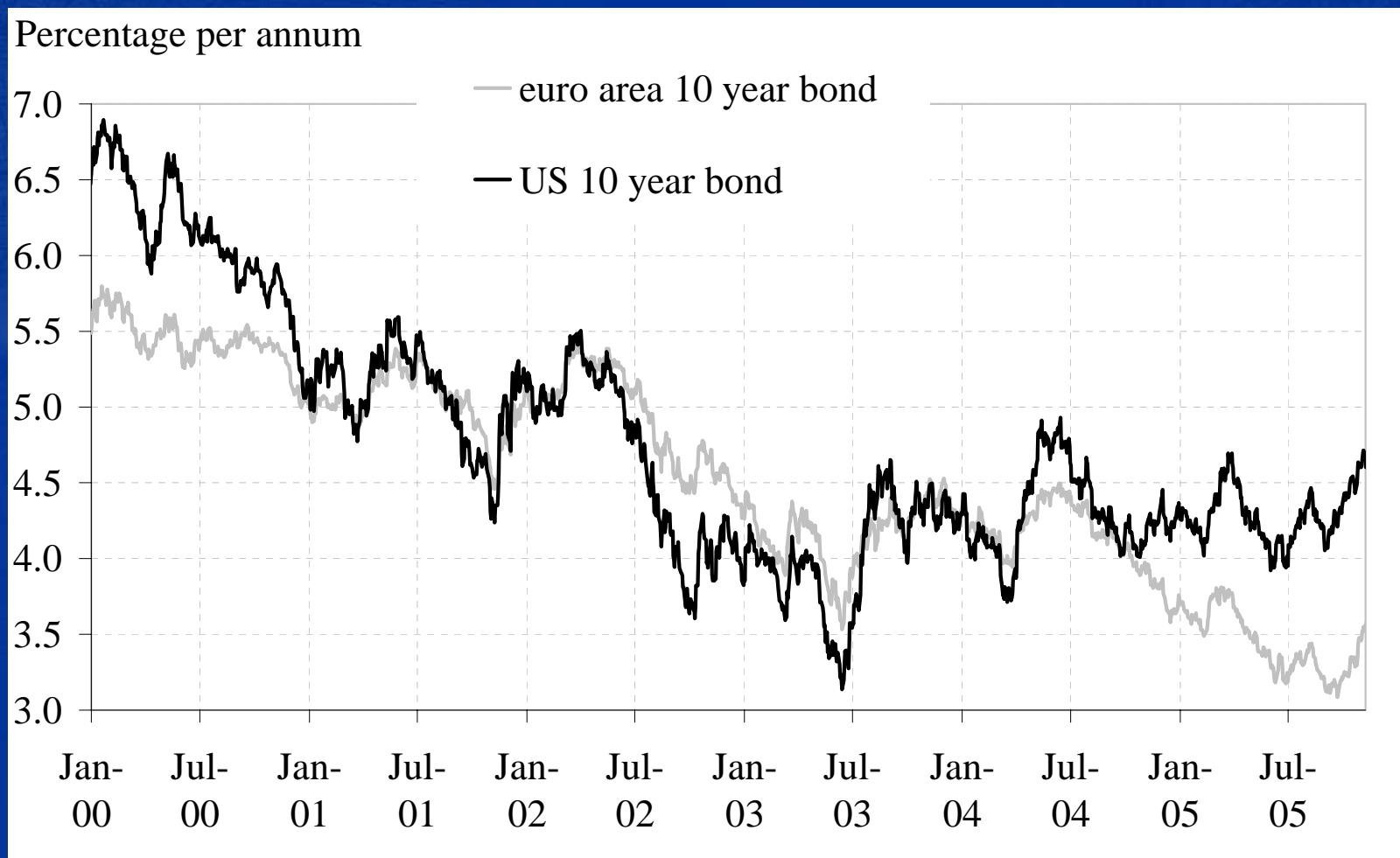
Notes: To avoid spurious behaviour in rates owing to low/volatile volumes, the euro area dispersion is calculated including only those countries where volumes are substantial. US data measure dispersion across the five US regions (Northeast; Southeast; North Central; Southwest; West). It cannot be ruled out that some of the dispersion within the regions (i.e. across the US States) is not captured and hence that the US dispersion measures would be somewhat higher if the intra-regional dispersion were included.

# Chart 9. Frequency distribution of return on equity for euro area banks



Sources: CBD data.

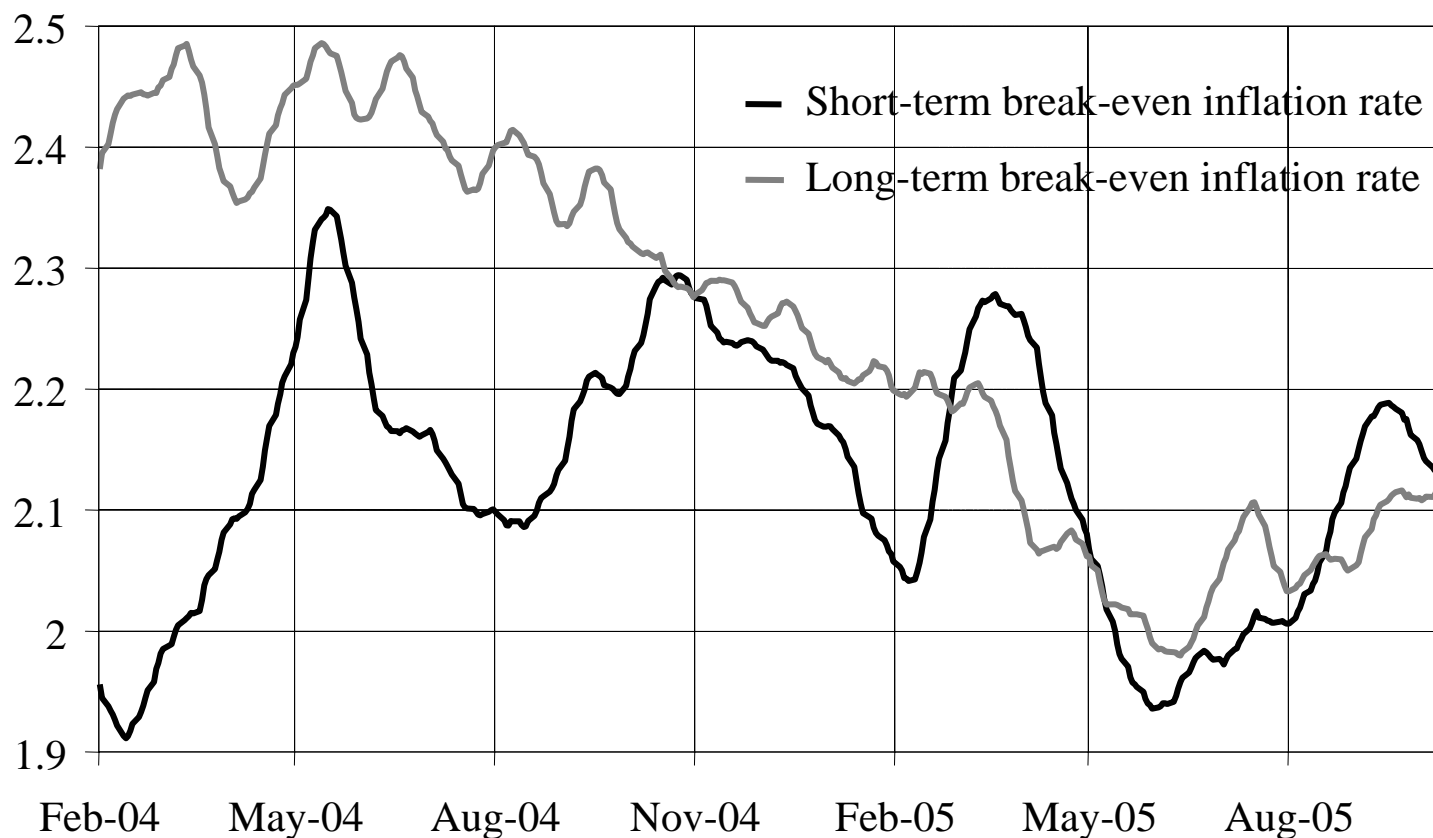
# Chart 10. Long-term government bond yields



Sources: Reuters.

# Chart 11. Euro area break-even inflation rates

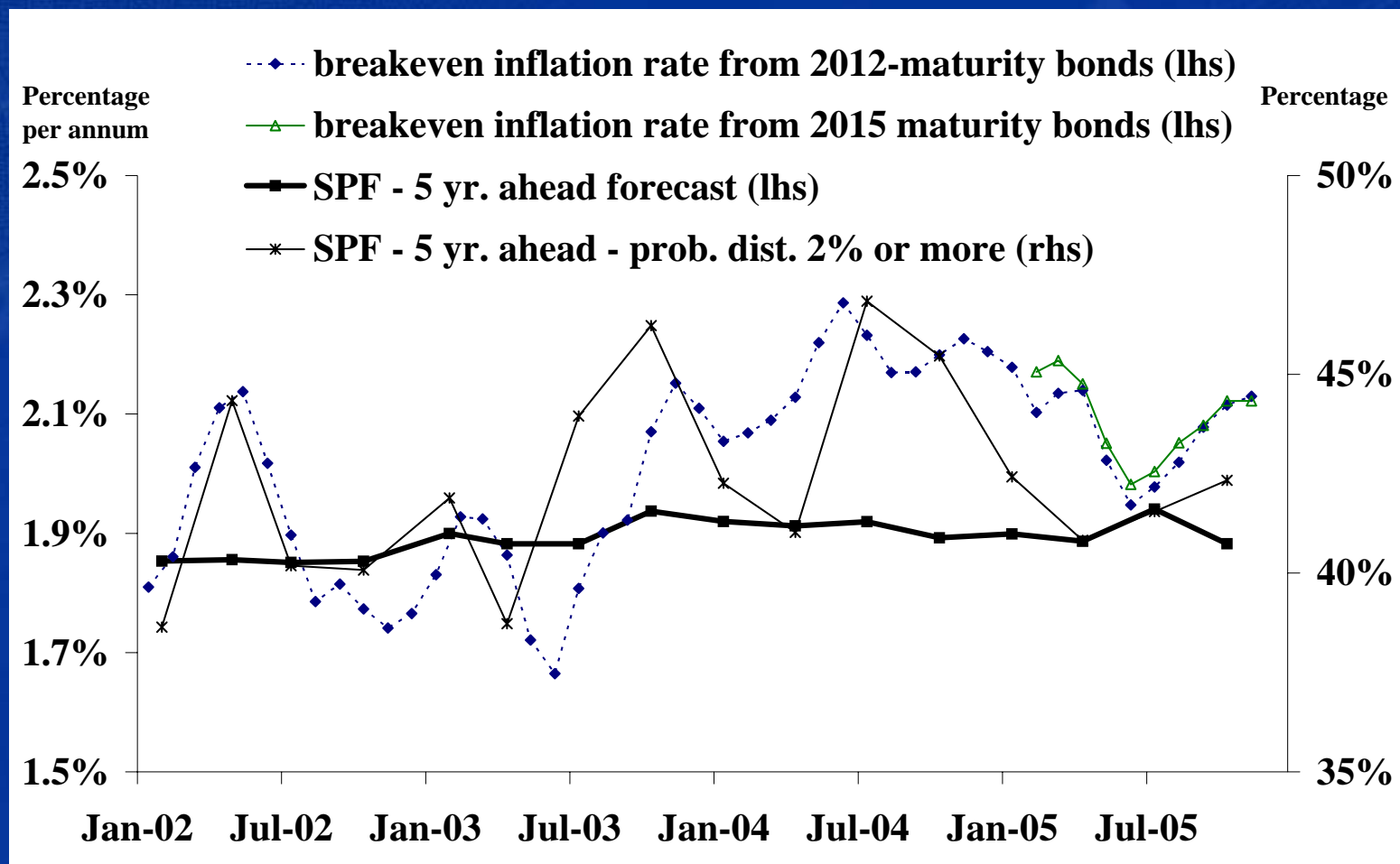
Percentage per annum



*Note: Short-term rate is the yield differential between nominal and inflation-linked bonds maturing in 2008. Long-term rate is the implied forward rate derived from 2014- and 2008-maturity break-even inflation rates. 10-day centred moving average.*

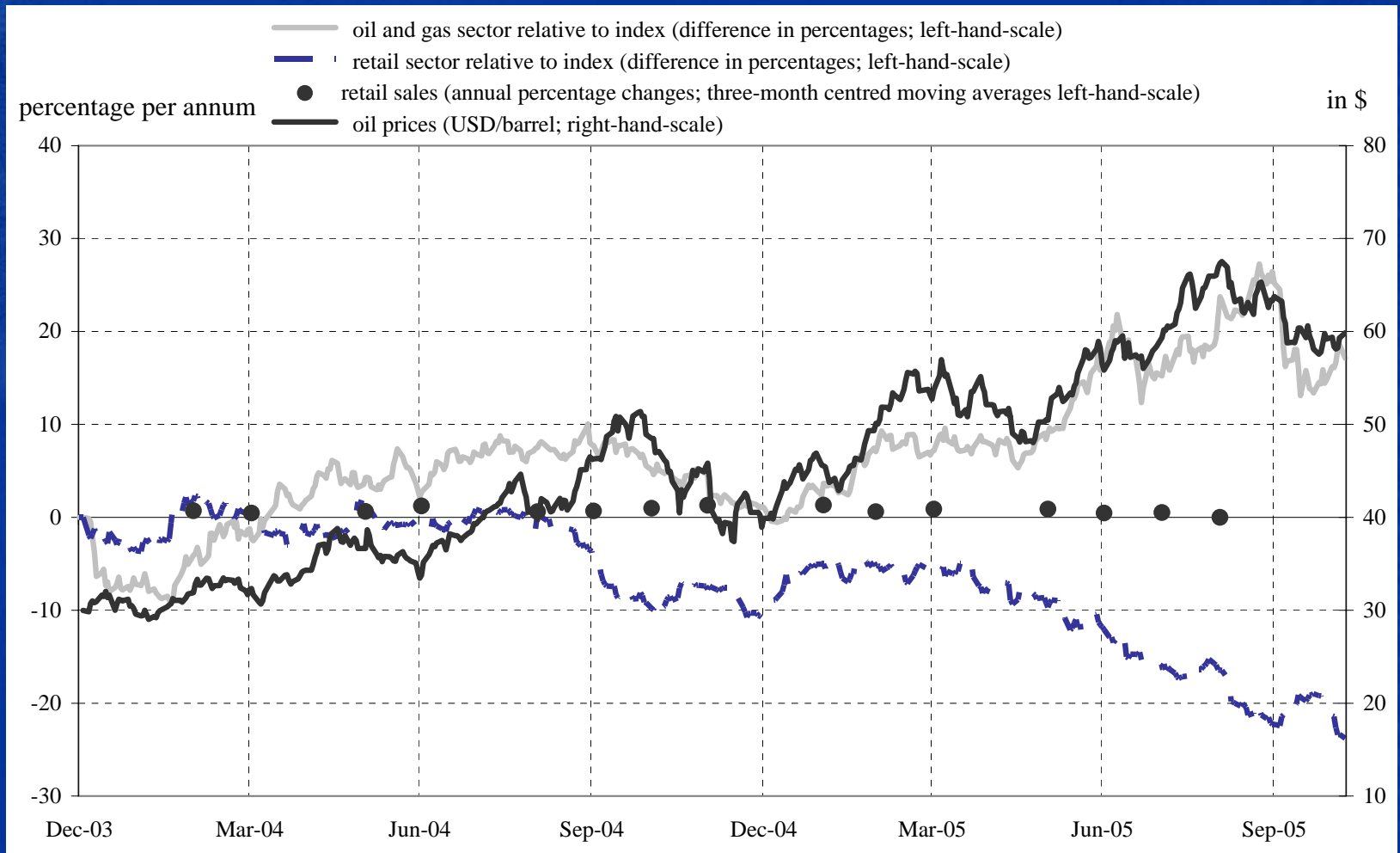
*Sources: Reuters and ECB calculations.*

# Chart 12. Longer-term inflation expectations from surveys and the break-even inflation rate



Sources: Reuters, ECB;  
 NB: SPF = Survey of Professional Forecasters

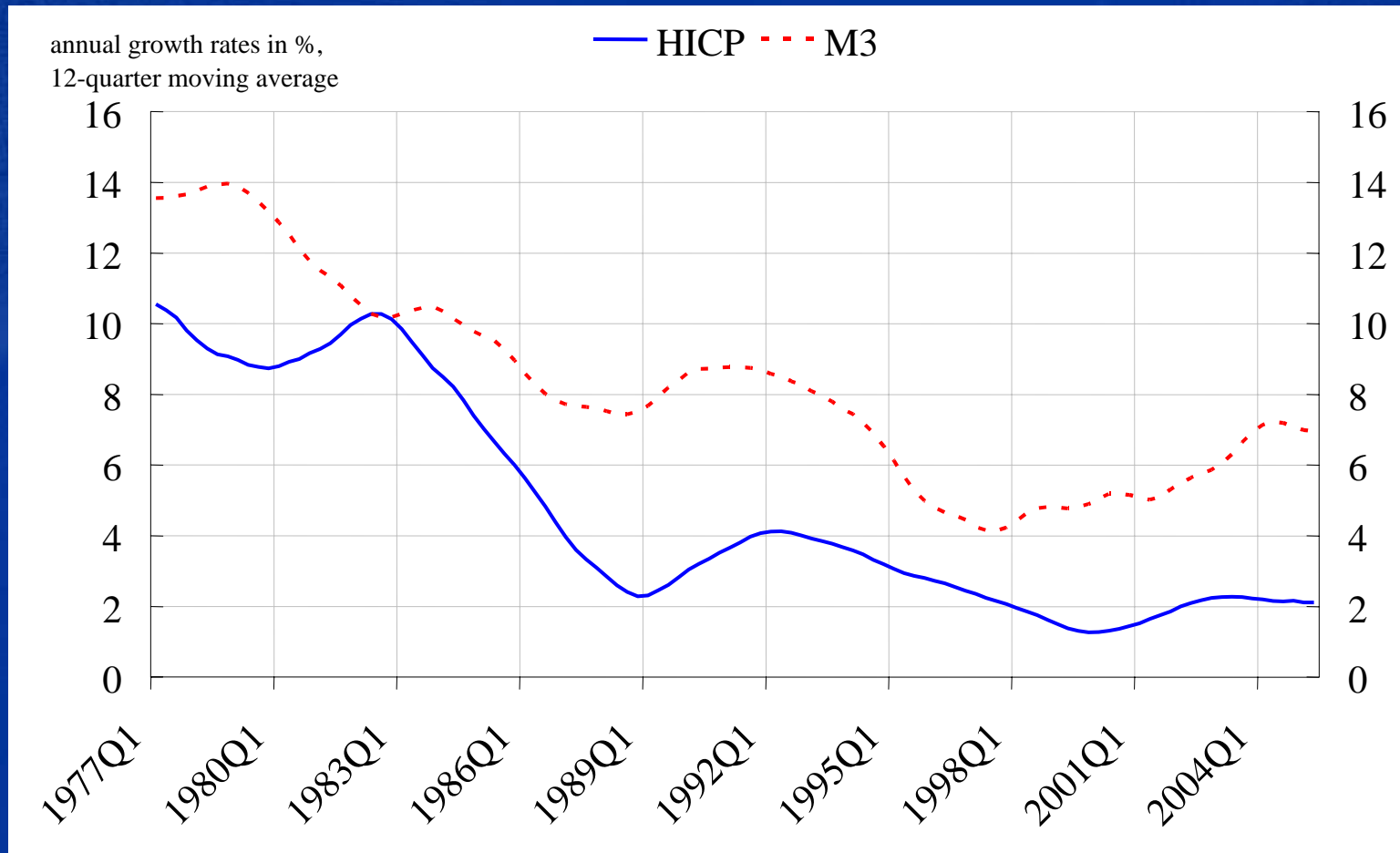
# Chart 13. Relative stock price developments in the euro area retail and oil and gas sectors



*Note: The oil and gas retail stock market series represent the percentage difference from the broad-based Dow Jones EURO STOXX index.*

*Sources: Stoxs and ECB calculations..*

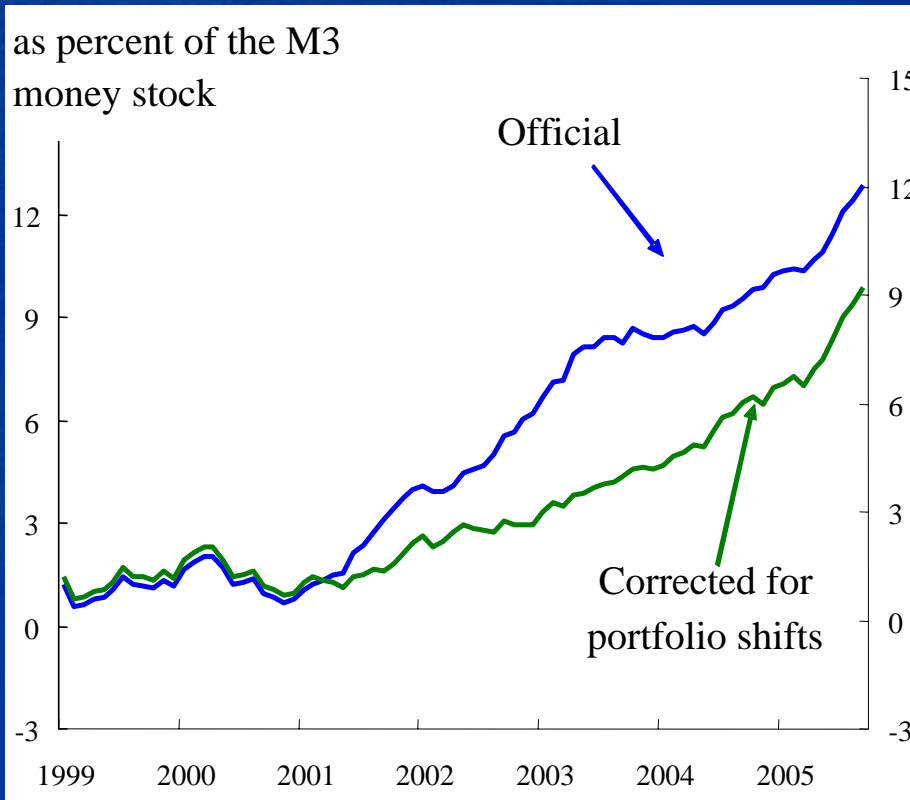
# Chart 14. Longer-term trends in money growth (M3) and inflation (HICP)



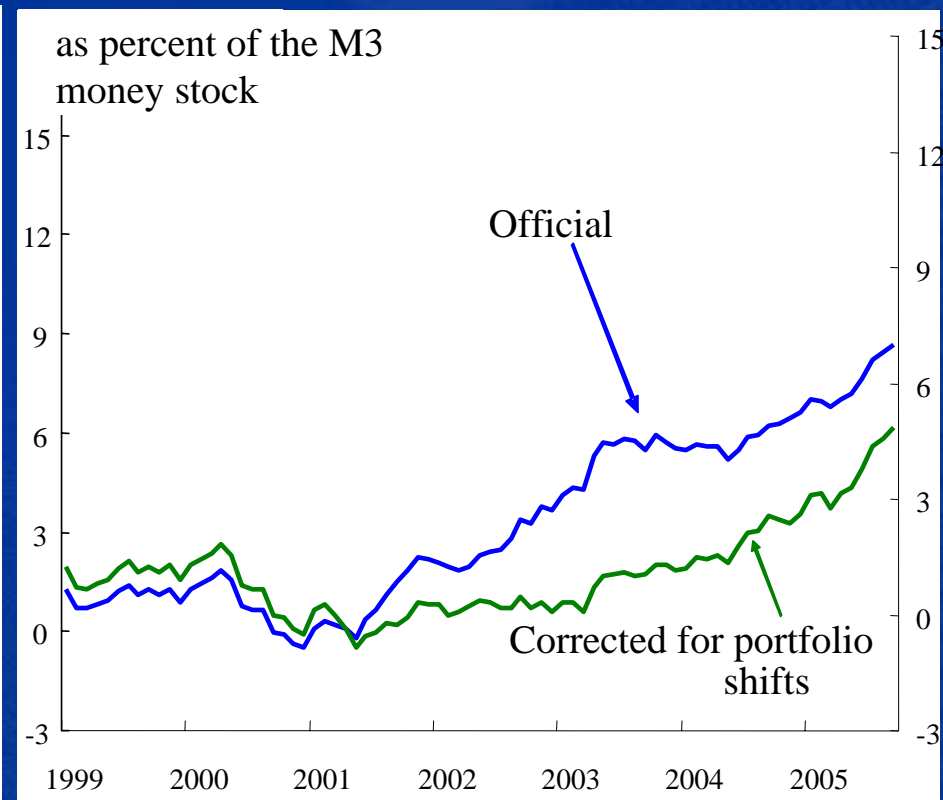
Source: ECB.

# Chart 15. Nominal and real money gaps (reference period: December 1998)

## Nominal money gap



## Real money gap

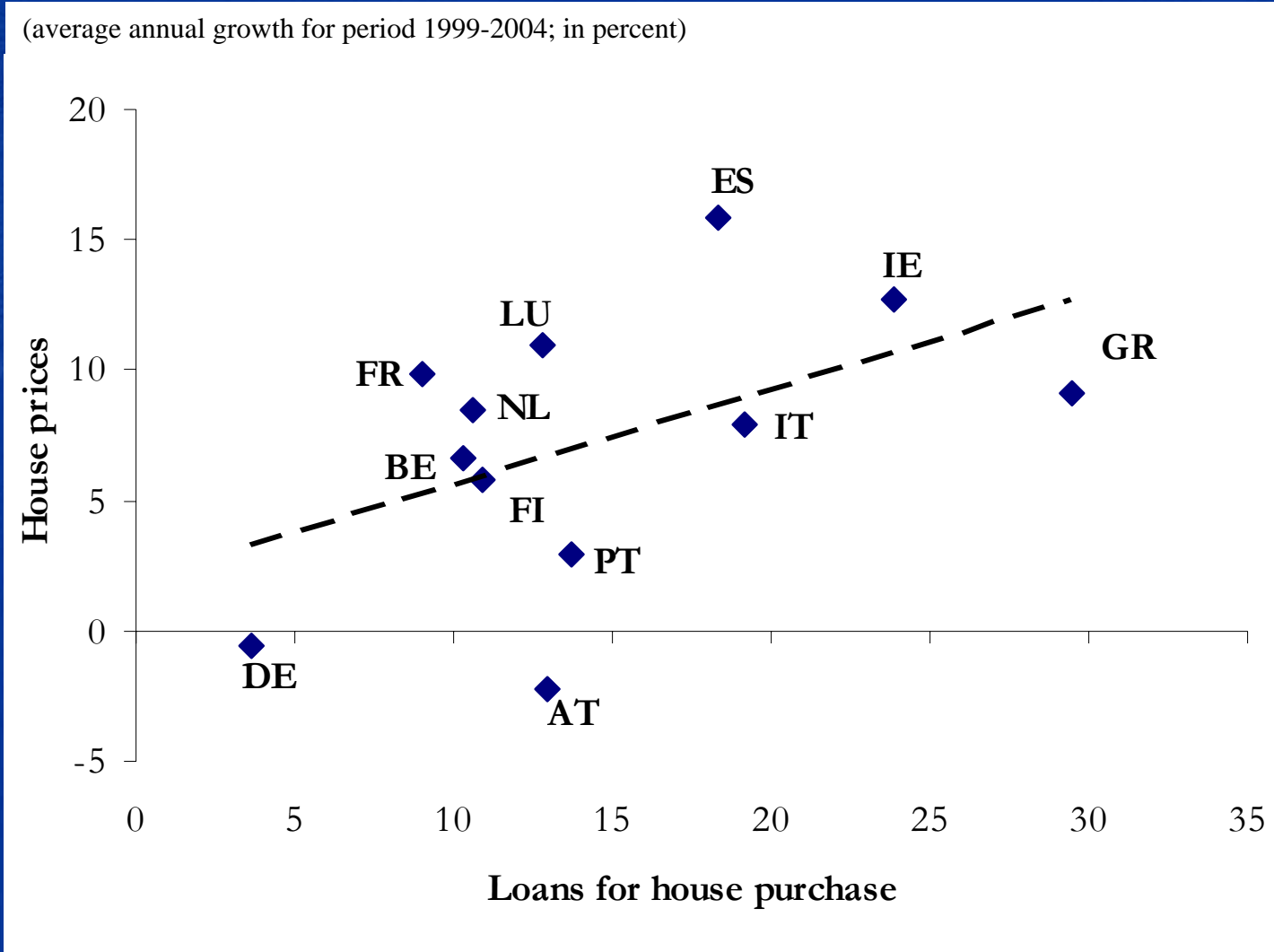


Source: ECB.

Note: For more information see the article entitled "Monetary analysis in real time" in the October 2004 issue of the ECB Monthly Bulletin.



# Chart 16. House price dynamics and loan growth



Source: ECB.