

University of Macau/Institute of European Studies of Macau
Faculty of Social Sciences and Humanities
Master in European Studies

**ANALYSIS ON THE INTEGRATION OF
EU CONSUMER CREDIT MARKETS
--A CO-INTEGRATION ANALYSIS**

TAN ZUJIA, Silvia

M-A7-6006-1

Supervised by: Prof. Carlo Altomonte
University Comm.le L.Bocconi, Milan

Thesis submitted in partial fulfillment of the requirements
for the degree of Master in European Studies at the University of Macau

(In Area of Economic Integration)

June 2011

ABSTRACT

The project of a single European market is holding the central task to the future of the whole Europe, as financial integration is the essential element of the European economic integration process which shall bring real benefits to both a micro as well as macro scale. In reality whereas, the degree of financial integration itself is conditioned simultaneously by the process of unification in cultural, political, economic and other related aspects.

Single market for goods and services have almost been completing with the great achievement of the four freedoms, while roads to a single financial market, especially in consumer credit market have taken longer than imagined. Questions will be discussed against this background.

This study aims at providing new comprehensive evidence on the degree of the European Union's (EU) integration in consumer credit market. After the introduction of great progress toward European financial integration across member countries, it discusses the considerable de facto benefits for the integrating effects of the ongoing financial market trend, investigates the existing and potential obstacles resulting from natural and policy-induced differences which should take responsibility for the fragmentation of integration.

Given these importance for monitoring financial integration, this study proposes a set of measures to analyze the effect related to different level of integration from both

economic and legislative view, which presents the significance of this study. We apply co-integration methodology to estimate the results from the financial status *in quo* and degree of integration in the EU credit market while focus on the major countries: France, Germany, Italy, the Netherlands, Spain as well as the United Kingdom as representative sample countries.



Keywords:

Consumer credit; Integration; Financial markets; Co-integration; European Union;
Economic integration; Interest rates; Economic and Legislative perspective

CONTENTS

DECLARATION -----	i
ACKNOWLEDGEMENTS -----	ii
ABSTRACT-----	iii
CONTENTS-----	v
CHAPTER 1: INTRODUCTION-----	1
1.1 Research Background-----	1
1.2 Research Objective-----	4
1.3 Research Methodology -----	5
1.4 Structure of the Research -----	6
CHAPTER 2: LITERATURE REVIEW -----	7
2.1 Introduction -----	7
2.2 Credit and EU Consumer Credit Market-----	7
2.2.1 Credit -----	7
2.2.2 Consumer Credit -----	10
2.3 Characteristics of EU Consumer Credit Market-----	13
2.4 Financial Integration -----	14
2.5 Measurement of Integration Level Models -----	15
2.5.1 Historical studies on measuring financial integration -----	15
2.5.2 The Co-integration Approach -----	16
2.5.3 Statistic Sources -----	18
2.5 Conclusions -----	19
CHATER 3: EUROPE'S FINANCIAL INTEGRATION IS RUNNING ON TRACK—MAIN STAGES-----	21
3.1 History of main EU Financial Services Policies -----	21
3.2 Functional Consumer Credit Directive-----	25
3.2.1 The 1986 Consumer Credit Directive -----	25
3.2.2 The 1990 Consumer Credit Directive -----	27
3.2.3 The 1998 Consumer Credit Directive -----	30
3.3 First real progress—the Financial Services Action Plan (FSAP)-----	30
3.4 The White Paper on Financial Services Policy 2005-2010 -----	33
3.5 The 2008 Consumer Credit Directive -----	36
CHAPTER 4: POTENTIAL BENEFITS -----	40
4.1 Better conditions for consumers -----	40
4.1.1 Better product choices -----	40
4.1.2 Better prices-----	42
4.2 Macroeconomic benefits-----	42
4.2.1 Stimulate capital accumulation -----	43
4.2.2 Raise efficiency and promote financial market development-----	44
4.2.3 Boost income and employment growth -----	45
4.3 Consolidate the role of Euro -----	46

4.4 Short conclusions-----	47
CHAPTER 5: MAIN OBSTACLES-----	49
5.1 Overviews-----	49
5.2 Natural barriers-----	52
5.2.1 Linguistic diversity-----	52
5.2.2 Geographical distance-----	55
5.2.3 Cultural differences-----	56
5.2.4 Short conclusions-----	58
5.3 Policy-induced obstacles-----	59
5.3.1 Diversity of national laws & regulatory regimes-----	60
5.3.2 Differences in Consumer Protection-----	68
5.3.3 Asymmetric information & Information disclosure-----	69
5.4 Ineffectiveness of the previous regulatory process-----	76
5.4.1 Stricter national environment after minimum harmonisation-----	77
5.4.2 Difficulties in the application towards maximum harmonization-----	80
5.4.3 Less flexible legislative procedures-----	87
CHAPTER 6: A CO-INTEGRATION ANALYSIS-----	89
6.1 Hypotheses and Statistics data-----	89
6.2 Co-integration Analysis Framework-----	91
6.2.1 Research Methodologies-----	91
6.2.2 Descriptive statistics on interest rates and spreads-----	96
6.2.3 Unit roots Tests-----	99
6.2.4 Test for Structural breaks-----	101
6.3 Results for co-integration tests-----	104
6.4 Short Conclusions-----	108
CHAPTER 7: NEW STEPS ON THE ROAD TOWARDS FURTHER INTEGRATION-----	110
7.1 The Lamfalussy approach: an alternative way to harmonization-----	110
7.1.1 Background information for changes-----	110
7.1.2 A conceptual framework on the Lamfalussy approach-----	112
7.1.3 Detailed analysis over the four-level Lamfalussy process-----	113
7.2 The New Accords – Basel II-----	121
7.2.1 Backgrounds and Implementation progress-----	121
7.2.2 Advanced Approaches – three mutually reinforcing pillars-----	123
7.2.3 Challenges over Basel II-----	125
CHAPTER 8: CONCLUSIONS-----	127
8.1 Key Findings-----	127
8.2 Limitations-----	131
8.3 Further Research-----	134
APPENDIX A – OTHER TABLES & FIGURES-----	136
APPENDIX B — COMMISSION STAFF WORKING DOCUMENT THE APPLICATION OF THE LAMFALUSSY PROCESS-----	143
LIST OF ABBREVIATIONS-----	147
REFERENCES-----	148