

# European Community and the mortgage market

**T**HE European Community has published a study, *The Economics of 1992*, which is described as an assessment of the potential economic effects of completing the internal market of the Community.

One section of the report comprises service case studies, with financial services being among the areas selected for study. It is noted that the financial services sector is of growing importance to the Community in terms of output produced (6.5% of total value added) and number of people employed (3% of total employment).

It is noted that in each Community country there is freedom of establishment for foreign banks, but the conditions under which this may be done differ markedly from country to country. It is argued that what is needed is for such freedoms which are already enjoyed, sometimes on a rather tenuous basis, to be secured, and for the full scope of freedom to provide services to be made generally available so that the competitive marketing of these services can take place.

The Commission aims to achieve this through the proposed Second Council Directive on Credit Institutions. This will be supported by four technical directives which between

them will establish a single banking licence valid for both establishment and freedom of services throughout the Community not later than 1992.

The report considers possible reductions in the cost of financial services as a result of the integration of financial markets, using a study undertaken by the consultants, Price Waterhouse. The study was based on the prices for 16 financial products or services, seven banking services, five insurance services and four brokering or securities services. For each of the products current prices were estimated on the basis of surveying a sample of market participants. The average of the four lowest prices was

taken to represent a low competitive price.

The extent to which financial product prices exceed this level is indicated in a number of tables. Spain comes out as the country where there is the greatest theoretical scope for price reductions (34%), with the Netherlands, the United Kingdom and Luxembourg being at the other end of the scale.

The variations between the countries in respect of mortgage finance are among the most striking. These are shown in the table.

It is important to note that these figures do not relate to mortgage rates but, rather, to the cost of intermediation. If the methodology used is correct, then this would imply that the mortgage market with potentially the greatest profit for new operators would be Spain, with the United Kingdom at the other end of the spectrum. ■

**Estimation of Potential Falls in Mortgage Prices as a Result of Completing the Internal Market**

Country	% differences in prices of mortgages compared with the average of the four lowest observations
Spain	118
France	78
Germany	57
Belgium	31
Ireland	-4
Netherlands	-6
UK	-20

*The Economics of 1992*, an assessment of the potential economic effects of completing the internal market of the European Community, was published by the Commission of the European Communities in 1988.