WORDS OF WELCOME
Prepared for the Workshop on
“Interest rates in retail banking markets and monetary policy”
Frankfurt a.M., 5 February 2007
Delivered by Philippe Moutot, Deputy Director General Economics and
Director of Monetary Policy

Introduction

- Ladies and Gentlemen,

- I would like to warmly welcome you to this workshop, which is organised jointly by the ECB’s Directorate General Economics and Directorate General Statistics. As many of you will remember, today’s workshop is a follow-up to two central bank expert meetings that took place in April and June 2005. Judging from the wide participation of economists and statisticians across the euro area and beyond, I am sure that we will have a very interesting day discussing issues related to interest rates in retail banking markets and monetary policy.

- Let me start by expressing my appreciation towards all the presenters and their co-authors for having submitted high-quality papers. They will undoubtedly stimulate the discussion and greatly enhance our monetary policy analysis.

- I would also like to welcome in particular two distinguished and authoritative economists from academia who have kindly accepted our invitation to participate in this workshop. I also welcome our guest
from the European Commission, who is working as an economist in the Directorate General for Economic and Financial Affairs.

- I have the pleasure to introduce this workshop. I will structure my opening remarks in four parts: 1. outline the relevance of retail banking interest rates for monetary policy; 2. remind the main aim of the workshop; 3. offer a broad overview of the topics addressed in various papers that will be presented; 4. finish with some concluding remarks.

Relevance for monetary policy

- I am pleased that the topic of the workshop has stimulated a wide interest from many policymakers and academics across the euro area and beyond. Clearly, monetary policy makers need to be frequently and rapidly informed of the changes in bank interest rates, so as to assess the extent and the speed at which monetary policy decision affect the real economy and inflation. In this context, MFI interest rates are essential to better understand the process of interest-rate pass-through that takes place within the conventional interest rate channel of monetary policy. These direct effects of monetary policy on retail interest rates can be reinforced by changes in the external financing premium, and MFI interest rates can also help to analyse this credit channel of monetary policy. More generally, MFI interest rates are essential to monitor and analyse key features of the monetary transmission mechanism. Maintaining a sound understanding of this mechanism is important for the euro area, even more so given the predominant role of banks in the financial system which households and firms invest in and borrow from.
• MFI interest rates are useful not only for the detailed assessment of the monetary transmission mechanism. Because they are relevant to this transmission mechanism, they are also relevant in the context of assessing money demand and credit developments as part of monetary analysis, and in the context of financial structures and progress of financial integration.

• In the light of the key role of MFI interest rates for the conduct of monetary policy it is essential to develop and maintain a good measurement of retail banking interest rates. Steven Keuning – Director General Statistics - will elaborate on this point at the end of the workshop and he will outline the enhancements that are envisaged to the statistical framework for the MFI interest rate collection.

Aim of the workshop

• As I mentioned earlier, today’s workshop is a follow-up to two central bank expert meetings that took place in 2005. The main outcome of the work carried out by this expert group is contained in the “Report on differences in MFI interest rates across euro area countries” that the ECB published in September 2006.

• This workshop intends to build on the main conclusions of the “Report on differences in MFI interest rates”, focusing in particular on the reasons for differences in the national retail banking interest rates that underlie the euro area aggregate. While the expert meetings have been instrumental to gain a much better understanding of some of the methodological aspects of the MFI interest rate statistics and to provide first conclusions on the possible reasons for interest rate dispersion, we are now seeking to move up a gear. Hence, this workshop aims at extending the work of the expert meetings and at
discussing current analytical work which may bring out the factors that contribute to explain developments in MFI interest rates across countries and within countries.

Overview of the papers

- One way to better understand why differences in retail bank interest rates may occur across euro area countries is to take a closer look at the determinants of these interest rates. While the papers that will be presented vary greatly in scope, empirical methodology and datasets, they all contribute to providing important and novel insights into the main drivers behind banks’ decision to set deposit and loan interest rates, the extent to which different economic and institutional conditions affect interest rate dispersion, and, more broadly, into the functioning of the interest rate pass-through process.

- Without revealing much about the various papers, which I could not manage in a few minutes owing to their density, let me provide you with a brief overview of the main topics that will be covered:

  - an up to date assessment of the degree of integration of retail banking in the euro area, based on well-known measures in the convergence literature.

  - key determinants of interest rate pass-through, including competition, various risk premia, the degree of collateralisation, bank conditions, and financial innovation.

  - the impact of market regulation.

  - the importance of local market conditions on interest rate dispersion.
- new evidence regarding **asymmetries** in the interest rate pass-through process.

- the **implications** of sluggish and incomplete pass-through for the conduct of monetary policy and macroeconomic stability.

- From an organisational perspective, the workshop is divided into two sessions. In the **first session**, presenters will take a cross-country perspective, while in the **second session**, the domestic perspective will be emphasised. The experience of the analysis of dispersion within countries may in fact greatly contribute to the investigation and explanation of dispersion across countries, due to the longer experience and availability of data within countries.

- Due to the vast amount of papers that were submitted, the format of the workshop does not, unfortunately, provide for any discussants. We do however encourage presenters to keep to a **strict 15 minutes**, so that there is enough time left for a discussion and constructive criticism. There will also be two panels at the end of each session to discuss more general issues cutting across the various papers.

**Concluding remarks**

- Let me conclude by noting that judging from the extensive press coverage of the September 2006 ECB Report on MFI interest rate differences across the euro area, the topic of retail interest rate dispersion appears to be not only of interest for central bankers and other public policy makers in Europe, but also for the banking industry and the general public at large. We have such an example in at least several euro area countries. In this connection, we as central bankers can ensure that discussion in the public domain takes place on a well-informed basis and that mis-
interpretations are avoided so far as possible. Making available comparable information on retail bank interest rates may, in turn, enable further progress in financial market integration, which eventually facilitates the smooth and efficient transmission of monetary policy decision to the euro area economies.

- I will finish by thanking again all presenters that have submitted a paper to this workshop and the organisers of the workshop.