

Box 2

New ECB statistics on MFI interest rates

This issue of the Monthly Bulletin includes for the first time euro area MFI interest rate statistics (see Table 3.3 in the “Euro area statistics” section). They replace the previously published euro area retail interest rate statistics, which were produced on the basis of national interest rate statistics that existed before 1999. The latter were not harmonised and thus generally not comparable across countries. This box describes the new MFI interest rate statistics and highlights a number of their main features.

The new MFI interest rate statistics provide a harmonised and more comprehensive and detailed statistical picture of the interest rates applied by MFIs. MFI interest rate statistics cover interest rates that credit institutions and other institutions resident in the euro area apply to euro-denominated deposits and loans vis-à-vis households and non-financial corporations.¹ A total of 45 interest rates are collected on a monthly basis, starting with the reference month January 2003. The instrument categories are largely consistent with those in the MFI balance sheet statistics regularly published by the ECB.

The MFI interest rate statistics refer to the rates that are individually agreed between the MFIs and their customers. Thus, they are not necessarily identical to advertised interest rates. MFI interest rates are quoted in percentages per annum. They are provided separately for new business and for outstanding amounts. New business refers to any new agreement between the customer and the MFI, while outstanding amounts refer to the stock of all deposits and all loans at a specific moment in time. Three instrument categories – overnight deposits, bank overdrafts and deposits redeemable at notice – form a separate group for which a distinction between the interest rates on new business and outstanding amounts is not meaningful. Indeed, by leaving a net (debit/credit) balance on such accounts, the customer is assumed to have implicitly agreed to the related terms and conditions, whenever they change.

The new statistics provide an insight into how differentiated MFI interest rates are. They show *inter alia* that the levels of MFI interest rates depend on the period of initial rate fixation, the type of customer, whether they refer to deposits or loans, the purpose of the loan, the underlying collateral, etc. For example, in September 2003 the interest rate on loans over €1 million to non-financial corporations with a floating rate or up to one year initial rate fixation stood at 3.11%, while for similar loans up to €1 million, this rate stood at 4.08%. The interest rate on loans to households for consumption purposes with a floating rate or up to one year initial rate fixation was 7.37%. Similarly, the interest rate on overnight deposits from non-financial corporations stood at 0.87%, while the interest rate on overnight deposits from households amounted to 0.68%. The interest rate on loans to households for house purchase with an initial rate fixation of over five and up to ten years stood at 4.81%.

For two categories of loans the new statistics also provide insights into the full cost of borrowing. This full cost, as measured by the annual percentage rate of charge, comprises not only an interest rate component but also a component for other related charges such as the cost of inquiries, administration, preparation of the documents, guarantees and credit insurance. The available measures for the annual percentage rate of charge cover loans to households for consumption and for house purchase. The difference between the annual percentage rate of charge and the weighted average of the interest rates amounted to 65 and 20 basis points, on average, between January and September 2003, for consumer and house purchase loans respectively.

The MFI interest rates related to outstanding amounts of euro-denominated deposits and loans include the interest rates on business agreed in the past. As a consequence, the interest rates on outstanding amounts react only slowly to movements in the interest rates on new business. MFI interest rate statistics on outstanding amounts provide, for example, information about the interest paid and received by households and non-financial corporations, which allows an analysis of changes in the disposable income of these sectors and their interest burden. The MFI interest rates on outstanding amounts for loans to households for house purchase and loans to non-financial corporations,

¹ The requirements of the MFI interest rate statistics are laid down in Regulation (EC) No 63/2002 of the ECB of 20 December 2001 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (OJ L 10, 12.1.2002, p. 24).

both of which with a maturity of over five years, stood at 5.24% and 4.75% respectively in September 2003. The rates for new loans to households were 4.75% (period of initial rate fixation of more than ten years) and 4.81% (period of initial rate fixation of over five and up to ten years). New business rates for loans to non-financial corporations with a period of initial rate fixation of more than five years were 4.28% (over €1 million) and 4.76% (up to €1 million).

As mentioned above, a main advantage of the MFI interest rate statistics is that they are produced on the basis of harmonised national definitions. Consequently, cross-country comparisons of the levels of MFI interest rates are no longer affected by national statistical differences. The table below indicates that the MFI interest rates vary to some extent from one euro area country to another. In September 2003 these differences, if measured by variation coefficients (i.e. the ratio of standard deviation of the national rates to the unweighted average of these rates), were the largest for overnight deposits, deposits from households redeemable at up to three months' notice and, on the lending side, overdrafts to non-financial corporations. For other segments of the loan and deposit market the differences were smaller.

Differences in national MFI interest rates in September 2003

(percentages per annum, percentage points; new business and annualised agreed rate¹⁾, unless otherwise indicated)

	Mean ²⁾	Standard deviation		Euro area average ⁴⁾
		Variation coefficient ³⁾		
Deposits from households				
Overnight	0.67	0.36	0.54	0.68
With agreed maturity: up to one year	1.90	0.24	0.13	1.87
Redeemable at notice: up to three months' notice	1.49	0.75	0.50	1.93
Deposits from non-financial corporations				
Overnight	0.84	0.51	0.61	0.87
With agreed maturity: up to one year	2.00	0.12	0.06	2.00
Loans to households				
Overdrafts	9.70	2.68	0.28	9.75
For consumption: floating rate or up to one year initial rate fixation	7.26	2.44	0.34	7.37
For house purchase: over five and up to ten years' initial rate fixation	5.35	1.67	0.31	4.81
For consumption (annual percentage rate of charge) ⁵⁾	8.42	1.88	0.22	8.01
For house purchase (annual percentage rate of charge) ⁵⁾	4.26	0.57	0.13	4.41
Loans to non-financial corporations				
Overdrafts	6.44	3.80	0.59	5.46
Loans up to EUR 1 million: floating rate or up to one year initial rate fixation	4.11	0.84	0.20	4.08
Loans over EUR 1 million: floating rate or up to one year initial rate fixation	3.32	0.53	0.16	3.11
Loans over EUR 1 million: over five years	4.11	0.57	0.14	4.28
MFI interest rates on outstanding amounts				
Loans to households for house purchase over five years' maturity	4.66	0.81	0.17	5.24
Loans to non-financial corporations over five years' maturity	4.51	0.62	0.14	4.75

Source: ECB.

1) The annualised agreed rate refers only to the interest rate component and not to other charges that may apply.

2) Unweighted average of national MFI interest rates.

3) The variation coefficient is the ratio of the standard deviation of the national rates to the unweighted average of these rates (i.e. the mean).

4) Weighted average for the euro area.

5) The annual percentage rate of charge refers to the total costs of the credit to the consumer and comprises an interest rate component as well as a component of other related charges such as the cost of inquiries, administration, preparation of the documents, guarantees and credit insurance. This category refers to all initial periods of interest rate fixation combined.

Cross-country differences in the level of MFI interest rates can be expected because a host of factors affect the interest rates set by MFIs. One of the many determinants of MFI interest rates is, for example, the degree of prevailing competitive forces within different segments of the bank deposit and credit markets. Banks need to set rates at competitive levels in order to attract customers, and their power to set rates depends very much on the degree of contestability of the specific bank market segment as well as the availability of alternative investment possibilities and sources of funds for bank customers. Another determinant of bank interest rates is the (expected) exposure of a bank to interest rate, credit and other risks when it grants deposits or loans. The administrative costs of effectively changing bank interest rates, bank-customer relationships and the behaviour of customers with respect to a given retail bank instrument may also play a role in the determination of bank interest rates. Bank interest rates may also be affected by bank-specific characteristics, such as the interplay between bank profitability and refinancing conditions, and institutional or national characteristics, for instance regulated interest rates or the degree to which loans are pledged with collateral. Finally, it should be borne in mind that differences in the new MFI interest rate statistics also exist within countries. The factors mentioned above may not only lead to cross-country differences, they can also explain differences within a country.

With the release of the euro area MFI interest rate statistics, an important statistical milestone has been passed. This work is the result of substantial efforts of approximately 1,800 MFIs and of the Eurosystem. The MFI interest rate statistics can be used for assessing the transmission mechanism of monetary policy in the euro area. In addition, they will also be important for enhancing analysis in the fields of financial market integration and financial stability. However, it should be emphasised that the economic interpretation of the MFI interest rate statistics can only be tentative at this stage and needs to be deepened once sufficiently long time series become available. Conclusions drawn from the new statistics at this stage should therefore be viewed with caution.