BOX 5: THE CENTRAL BANK OF MALTA INTRODUCES HARMONISED MFI INTEREST RATE STATISTICS

Monetary Financial Institutions[1] (MFIs) interest rate (MIR) statistics cover a broad range of interest rates that credit institutions apply to deposits and loans. They facilitate the analysis of the transmission mechanism of monetary policy, especially the extent of the pass-through of official rates to the lending and deposit rates paid and received by households and non-financial corporations. Deposit rates may indicate how components of the money stock are remunerated, while lending rates may be used to assess the financing conditions of the economy as a whole.

In the light of the adoption of the euro on 1 January 2008, the Central Bank of Malta took steps to harmonise its MFI interest rate statistics with those compiled across the euro area. Therefore, in this issue of its Quarterly Review, and on its website, the Bank is publishing a new set of MFI interest rate statistics on the basis of Regulation (EC) No. 63/2002 of the ECB of 20 December 2001 (as amended) concerning statistics on interest rates applied by MFIs to deposits and loans vis-à-vis households and non-financial corporations (ECB/2001/18). These statistics were compiled on a quarterly basis from March to September 2007 and on a monthly basis thereafter. They are based on data submitted to the Bank by the resident credit institutions.

Due to the heterogeneity of banking products and terms across the euro area, the concepts and the methodology supporting these harmonised MIR statistics are more complex than those on which the national statistics had previously been based. However, harmonised standards permit such Maltese MIR statistics to be compared with those compiled in other euro area countries. The aim of the above-mentioned ECB Regulation was, in fact, to produce a set of euro area interest rates on deposit and lending business that would provide a comprehensive, detailed and harmonised statistical picture of the interest rates applied by euro area MFIs, and their changes over time. The interest rate statistics compiled by the Bank on the basis of national definitions and shown in Table 1.19 will, however, still be retained, because these have proved useful for assessing financial conditions in Malta.

MFI interest rate statistics cover all interest rates that credit institutions apply to euro-denominated deposits and loans vis-à-vis all households and non-financial corporations resident in the euro area Member States. The household sector also includes non-profit institutions serving households (NPISH). Non-financial corporations include all enterprises except banks, insurance companies and other financial institutions. MIR statistics are annualised agreed rates (AAR), i.e. interest rates that are individually agreed between credit institutions and their customers converted to an annual basis and quoted in percentages per annum, and excluding non-interest costs. They may be different from advertised rates as households and non-financial corporations may be able to negotiate better terms and conditions than those advertised. For two rates, those referring to consumer credit and those referring to loans to households for house purchases, the annual percentage rate of charge (APRC) is also computed. This rate is the effective lending rate and covers the total costs of the loan to the consumer. Therefore, it comprises both the interest rate component and other costs, such as those in respect of enquiries, administration, preparation of documents, guarantees, credit insurance and other fees.

[1] For the purposes of MIR statistics, interest rates on deposits and loans applied by credit institutions only are taken into consideration. Hence, they exclude any interest rates on deposits and loans applied by central banks.

Maltese MIR statistics are being shown in two new statistical tables: Table 1.16 shows the rates applied on the banks' business with residents of Malta only, while Table 1.17 shows the rates applied on the banks' business both with residents of Malta and with residents of all the other euro area Member States. Overall, each table provides 22 instrument categories, including interest rates paid by resident MFIs on overnight, savings and time deposits and charged by them on overdrafts and loans to non-financial corporations and households. The latter are split into consumer credit, housing finance and other lending. In both tables, data before 2008 include rates on business denominated in Maltese lira.[2]

MIR statistics cover both new business and all outstanding amounts reflecting existing commitments. New business is defined as any new agreement reached between credit institutions and their customers. New agreements comprise all financial contracts, terms and conditions that specify, for the first time, the interest rate to be applied to a deposit or loan, and all new negotiations of existing deposits and loans. Prolongations of existing deposit and loan contracts that occur automatically, i.e. without any active involvement of the customer, and that do not involve any renegotiations of the terms and conditions of the contract, including the interest rate, are not considered as new business. Thus, for example, changes to interest rates charged on variable rate loans due solely to changes in reference rates, such as LIBOR or the ECB's minimum bid rate, would not qualify as new business.

Outstanding amounts are defined as the stock of all deposits placed by customers with credit institutions and the stock of all loans granted by credit institutions to their customers at the end of the reference period. An interest rate on outstanding amounts reflects the weighted average interest rate applied to the stock of deposits or loans in the relevant instrument category at the end of the reference period. Interest rates on outstanding deposits cover all deposits placed and not yet withdrawn by customers in all the periods up to and including the reporting date. Interest rates on outstanding loans cover all loans utilised and not yet repaid by customers in all the periods up to and including the reporting date, but exclude non-performing loans and loans for debt restructuring at rates below market conditions.

Given the relatively small size of the Maltese banking sector, one should exercise caution when interpreting Maltese MIR statistics, particularly those related to new business. Moreover, special deposits on which interest is not guaranteed, or where the interest is linked to property, equity or other kinds of indices, entail different calculations. In fact, in the calculation of the interest rate on some of these deposits, a zero rate has to be assumed, and this may cause the aggregated interest rate to be understated.

[2] Comparable statistics to those in Table 1.17 produced for the euro area as a whole and individually for each other euro area state can be found on the website of the ECB.