



EUROPEAN CENTRAL BANK

CONFIDENTIAL

CONCLUDING REMARKS

Workshop on

“Interest rates in retail banking markets and monetary policy”

Frankfurt a. M. , 5 February 2007

Introduction

- Dear Ladies and Gentlemen,
- In the first place I would like to express my appreciation for the high interest shown by all attendees to this Workshop. As producer of statistics, it is a great satisfaction to verify again the relevance of our output, which has been illustrated by the breadth and depth of the different applications in economic analysis presented today. The quality of the work presented at this Workshop confirms the strong demand for MFI interest rate statistics and certainly supports the efforts of ESCB statisticians to keep high quality standards in the production of these data.
- The statistical reporting of MFI interest rates is established in an ECB Regulation addressed to euro area MFIs. The direct link with monetary policy transmission further highlights the relevance of these statistics. The Regulation ensures a high quality of the statistics, as also noted by Workshop participants. At the same time, before updating an ECB Regulation, a merits and costs procedure is followed, which compares the relevance and envisaged benefits of any new reporting requirement with the additional costs incurred by reporting agents and national central banks. Therefore it is of crucial importance for any possible further enhancement of these statistics to get a confirmation of the high relevance of the additional data required.
- In more concrete terms, I am pleased to note the clear linkages between today's presentations and the preparation of the next enhancement of Regulations

ECB/2001/13 on MFI balance sheet statistics and ECB/2001/18 on MFI interest rate statistics by the Statistics Committee. This linkage applies to the following topics:

- Further improving the knowledge of the monetary transmission mechanism is a central issue in the proposals for new statistics. The presentations by Reint Gropp, Claudia Kwapil, Michiel van Leuvensteijn, Paul Mizen, Marianne Collin, Leonardo Gambacorta and Anindya Banerjee focused on the **interest rate pass-through**. The proposed improvement to the statistics may enable an even better assessment of the impact of changes in the ECB key interest rates on the outstanding loans of MFIs to households and non-financial corporations.
- In that respect, the rich discussion on the pass-through held today, involving competition aspects (including the measurement of competition), and the interaction between the banking industry and the financial markets, innovation and integration will be taken into account in the upcoming statistical work. In turn, a better knowledge of the pass-through may contribute to an optimal interest rate setting.
- The separate identification of interest rates on loans granted to **sole proprietors** within the household sector (or, alternatively, the addition of a business purpose split for loans to the household sector) is another possible statistical improvement. Its usefulness is supported by the conclusion in the paper presented by Fabio Farabullini that “sole proprietors behave more similarly to firms than to consumer loans”.
- Another important subject is the separate reporting of **collateralised** and non-collateralised loans, in terms of both interest rates and MFI balance sheet positions, possibly complemented by an annual collection of the loan-to-value ratio. This has several implications also for the estimation of Mortgage Equity Withdrawal. The importance of collateral and in particular mortgages has been stressed in several presentations (e.g. by Luciana Barbosa).

- **Financial innovation**, as emphasised in the presentation by Reint Gropp, creates an opportunity for market participants but provides an additional difficulty for collecting statistics and for their analysis, for instance when attempting to disentangle structural from more conjunctural developments. These issues are dealt with in several directions, such as discussing the feasibility of a data collection on securitisation, and of the separate reporting of data on “extended credit” granted through credit cards;
- **Syndicated loans**, as presented by Luciana Barbosa, are also relevant to monetary policy analysis and a proposal for the regular collection of balance sheet amounts of syndicated loans is being considered as well. Other possible improvements to the statistical framework include an additional breakdown of interest rates and balance sheet positions by size of the loan in order to separately capture smaller loans to Non-Financial Corporations (up to EUR 0.25 million). As shown by Hannah Hempell and Laura Vajanne, the distinction between large and small loans is relevant for analysis, although they did not provide further insights into whether loan size is a good proxy for **firm size**.
- The analytical usefulness of a database with individual interest rate data, as shown in the presentation by Renaud Lacroix and Fabio Farabullini, is certainly worth some further considerations. In the near future, the potential merits and costs of credit registers may be further investigated, in the light of the example provided by Banque de France concerning the collection of individual interest rate data. In this regard, further analysis of individual data may help to understand differences in MIR.
- Furthermore, work on a possible index on MIR statistics, as mentioned today, is already in the ECB DG-Statistics work programme for 2007. Similarly, additional work on the impact of fees on MIR is also being considered. However, on this latter aspect, Barbosa and Ribeiro (2006) found that fees seem to be rather a complement than a substitute to interest income for banks.

- All proposals for a further enhancement of MIR statistics are at present examined and the most relevant and feasible of them may be subject to a merits and costs procedure. Evidently, the Governing Council will eventually decide which enhancements will actually be carried out. Nevertheless, the Workshop will certainly have an impact on the forthcoming work and much supports the endeavours to further enhance the quality and coverage of our statistics.
- To finalise, let me again express my appreciation to all contributors to this Workshop, especially to the presenters and their co-authors. This Workshop has also demonstrated the cross-fertilisation that takes place in discussions that involve academia, central bank users and producers of statistics. I hope that the good co-operation and fruitful exchange of views by all participants today will continue in the future.