

Latest developments on interest rates, in 2007

Euro area central bank rates have been increasing for 22 months, reaching highest level since August 2001

Statistics in focus

ECONOMY AND FINANCE

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Interest rates

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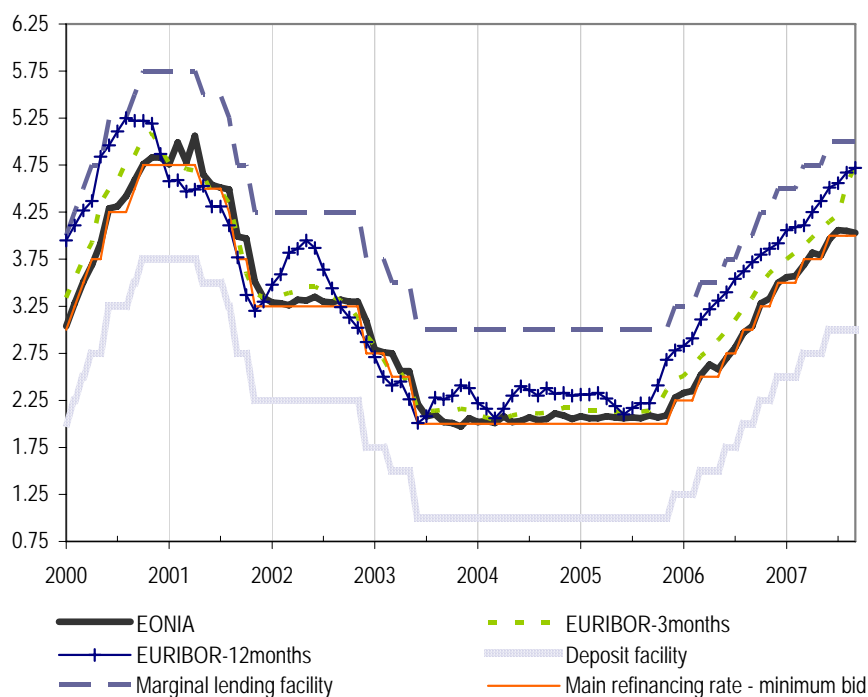
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Highlights

- The European Central Bank last increased key interest rates in June 2007 to its highest level since August 2001;
- The June increase was only one of eight in 22 months after 30 months of record low rates;
- The level of central bank rates decreased between 2000 and 2006 for almost all non euro area Member States;
- Money market rates in the euro area have been rising for 24 consecutive months;
- The gap between euro area and non-euro area countries' money market rates has been considerably reduced over the last seven years and nine months;
- The September 2007 figures revealed that the gap between the EU average and the euro area countries long term interest rates has fallen since 2005.
- The decrease in the standard deviation of retail interest rates demonstrates progress towards an integrated financial market in the EU.

Money market and central bank rates in the euro area, monthly average data, 2000 to September 2007



Source: Eurostat, Economy and finance, Interest rates, Central bank interest rates (ECB).

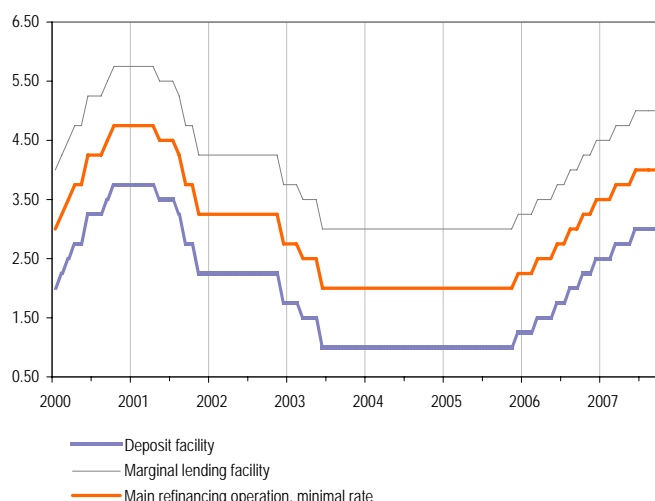


CENTRAL BANK INTEREST RATES

Key interest rates are those rates that a central bank applies vis-à-vis the banking sector. They reflect the overall direction of the monetary policy pursued by the central bank setting the rates. The European Central Bank raised key interest rates eight times in 22 months after 30 months of record low rates

The chain of cause and effect linking monetary policy decisions with their key target, such as notably price stability relies most often on a change in official interest rates which are one of the central banks main instruments, in order to implement their monetary policy decisions. In the euro area, monetary policy decisions reflect the evolution of various economic and financial indicators, are taken by the Governing Council of the European Central Bank with the aim of achieving the main objectives: price stability, economic growth and job creation. Main refinancing operation, deposit facility and marginal lending facility are the key reference rates for the euro area. These normally provide a ceiling and a floor for the overnight money market. The ECB monetary policy stance is indicated by the minimum bid rate on main refinancing operations. The marginal rate is variable and reflects the lowest rate among the accepted bids at each weekly auction. The deposit facility is a standing facility vis-à-vis the banking sector, representing the floor for movements in short-term money market rates under normal circumstances.

Figure 1: Official interest rates set by the ECB, monthly data 2000 to September 2007



Source: Eurostat, *Economy and finance, Interest rates, Central bank interest rates (ECB)*. [For methodological notes see Eurostat web site.](#)

At its meeting in June 2007, the Governing Council of the ECB decided to increase the key ECB rates by 25 basis points. The level of the minimum bid rate of the main refinancing operation rose to 4.00%, whilst the deposit facility and marginal lending facility

reached 3.00% and 5.00% respectively. This is the eighth rise in 22 months, after 30 months of record low rates.

Table 1: Central bank interest rates in the euro area, end of period, 2000 to September 2007

	2000	2001	2002	2003	2004	2005	2006	2007 sept
Deposit facility	3.75	2.25	1.75	1.00	1.00	1.25	2.50	3.00
Main refinancing operation (minimal rate)	4.75	3.25	2.75	2.00	2.00	2.25	3.50	4.00
Main refinancing operation (marginal rate)	4.79	3.45	2.85	2.02	2.09	2.25	3.58	4.27
Marginal lending facility	5.75	4.25	3.75	3.00	3.00	3.25	4.50	5.00

Source: Eurostat, *Economy and finance, Interest rates, Central bank interest rates (ECB)*. Interest rates for 2007 are effective from 13 June 2007.

Almost all non-euro area countries saw the level of official lending rates decrease between 2000 and 2007, closing the gap with the ECB level

Despite the decreases, most non-euro area rates are still above those of the euro area. Denmark, Sweden and the Czech Republic were the only countries to report rates below the ECB. The highest level for the official lending rate was observed for Poland in 2000, four times higher than the ECB rate, but since then it has been progressively decreasing. A number of other non-euro area countries also reporting high levels saw the gap close between 2000 and 2006. However, the Hungarian and Lithuanian rates are still over 70% above the ECB rate. For most non-euro area members, official lending rates hit the bottom in 2005 and have thereafter gradually been increasing. Estonia has a currency board system where the Estonian kroon is pegged to the euro, and the Bank of Estonia does not set any official interest rate.

Table 2: Central bank interest rates, official lending rates, in euro area and non-euro area countries, end of period, 2000 to September 2007

	2000	2001	2002	2003	2004	2005	2006	2007 sept
Euro area	5.75	4.25	3.75	3.00	3.00	3.25	4.50	5.00
Czech Republic	7.50	5.75	3.75	3.00	3.50	3.00	3.50	4.25
Denmark	5.40	3.60	2.95	2.15	2.15	2.40	3.75	4.25
Cyprus	7.00	5.50	5.00	4.50	5.50	4.25	4.25	5.00
Latvia	5.50	5.50	5.00	5.00	5.00	5.00	6.00	7.50
Lithuania ¹⁾	10.38	5.50	10.00	4.27	4.02	4.01	5.00	8.52
Hungary	13.75	11.25	9.50	13.50	10.50	7.00	9.00	8.50
Malta	5.30	4.80	4.30	3.55	4.50	4.25	4.75	5.25
Poland	23.00	15.50	8.75	6.75	8.00	6.00	5.50	6.25
Romania	35.00	35.00	20.40	20.41	17.96	7.50	8.75	6.48
Slovakia	9.25	9.00	8.00	7.50	5.50	4.00	6.25	5.75
Sweden*	4.75	4.50	4.50	3.50	2.75	2.25	3.75	4.00
UK*	6.00	4.00	4.00	3.75	4.75	4.50	5.00	5.50

Source: Eurostat, *Economy and finance, Interest rates, Central bank interest rates (ECB)*. (1) Lithuania: since 2004 data refers to 'other official rates'. (*) Data for 2007 refers to May 2007. The rate used for the UK is REPO.

During this reference period the strongest reduction in official lending rates was observed for the New EU Members. Particularly strong was the reduction for Romania and Poland, which started the millennium at 35% and 23% respectively. Since then, levels have been reduced with lending rates in Romania reaching the lowest in 2007 (6.5%), while the bottom was reached two years earlier in Poland (5.5%).

Between the end of 2000 and 2005, the interest rates in Denmark (Certificates of deposits), Sweden (lending rate) and the Czech Republic (Lombard rate), decreased by 3.0, 2.5 and 4.5 percentage points respectively. Compared with the level of the euro area marginal lending facility, they are lower by 75 (The Czech Republic) to 100 basis points (Denmark and Sweden). Official interest rates for Denmark were below the euro area marginal lending facility for the entire reference period. Compared with the end of 2005, September 2007 levels were respectively 125, 160 and 175 basis points higher in these three countries (The Czech Republic, Denmark and Sweden).

From 2002, the United Kingdom official interest rate (REPO rate) was higher than the euro area marginal lending facility; in June 2007 the UK's rate was half a percentage point higher than the euro area rate. After falling for more than three years, the trend in UK official rates changed in November 2003 and since then the rates have increased constantly until 2007. The lowest level was 3.5% in July 2003 which lasted for 4 months.

All non-euro area central banks with the exception of Latvia increased the level of the deposit facility from 2005

This upturn comes after almost half a decade of decreasing levels. As a result, six out of ten¹ non-euro area central banks now maintain a two per cent or smaller gap between lending and deposit in 2007. The smallest room for manoeuvre was allowed by the Danish Central Bank, which kept the gap between 0.65% in 2000 and only 0.25% in September 2007. The gap between lending and deposit was biggest for Latvia (5.5%) and Romania (4.48%).

While the ECB kept the 'corridor' at a constant 2% or $\pm 1\%$ for main refinancing operations, eight out of ten non-euro area banks reduced it or kept it constant, between 2000 and 2007.

¹ Only ten EU central banks in the non-euro area uses both lending and deposit facility.

Table 3: Central bank interest rates, official deposit facility rates, in euro area and non-euro area countries, end of period, 2000 to September 2007

	2000	2001	2002	2003	2004	2005	2006	2007 sept
Euro area	3.75	2.25	1.75	1.00	1.00	1.25	2.50	3.00
Czech Republic	5.00	3.75	1.75	1.00	1.50	1.00	1.50	2.25
Denmark	4.75	3.25	2.75	2.00	2.00	2.25	3.50	4.00
Cyprus	4.00	2.50	2.50	2.50	3.50	2.25	2.50	3.00
Latvia	1.50	3.00	2.00	2.00	2.00	2.00	2.00	2.00
Hungary	9.75	8.25	7.50	11.50	8.50	5.00	7.00	6.50
Malta	1.80	1.30	0.80	0.30	1.50	2.25	2.75	3.25
Poland	-	-	4.75	3.75	5.00	3.00	2.50	3.25
Romania	5.00	6.00	5.00	5.00	5.00	1.00	1.00	2.00
Slovakia	6.25	6.00	5.00	4.50	2.50	2.00	3.25	2.25
Sweden*	3.25	3.00	3.00	2.00	1.25	0.75	2.25	2.50

Source: Eurostat, *Economy and finance, Interest rates, Central bank interest rates (ECB)*. (*) Data for 2007 refers to May 2007.

US 'FED rate' lower than euro area after two years of higher rates, while Japan lending rates remain low

Since 2000 and up to today, the euro area (the marginal lending facility) and the United States (the Federal Funds rate) have followed a similar pattern, with declining rates until 2003 and then an upturn starting in 2004 for the US and one year later for the euro area. The marginal lending facility (MLF) for the euro area was always higher than the Federal Funds rate between 2001 and 2004. In fact, the Federal Funds rate reached its historical low in June 2003 at 1% and stayed at this level for one year. In 2005, the "Fed Funds" rate exceeded the MLF for the first time in six years, and remained higher for two years. The official discount rate of Japan reached its lowest value in September 2001 and then remained at 0.1%, up to 2006. In 2007 the lending rate for Japan reached its highest value in eight years (0.75%).

Table 4: Central bank interest rates, official lending rates, in the euro area, Japan and United States, end of period

	2000	2001	2002	2003	2004	2005	2006	2007 sept
Euro area	5.75	4.25	3.75	3.00	3.00	3.25	4.50	5.00
United States	6.50	1.75	1.25	1.00	2.25	4.25	5.25	4.75
Japan	0.50	0.10	0.10	0.10	0.10	0.10	0.40	0.75

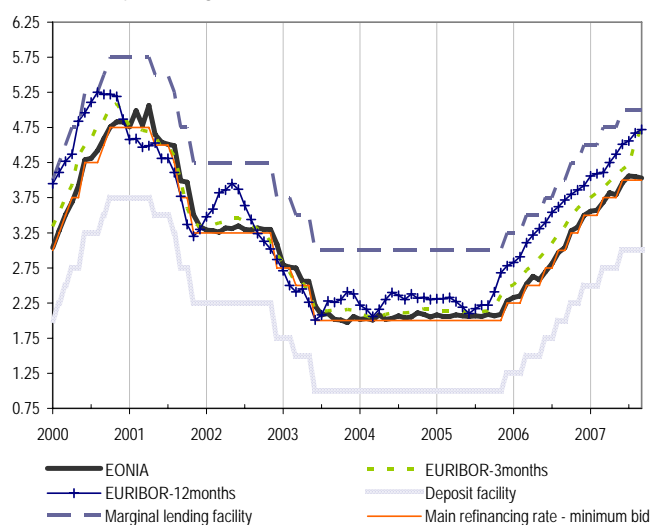
Source: Eurostat, *Economy and finance, Interest rates, Central bank interest rates (ECB)*.

MONEY MARKET RATES

Money market rates in the euro area rising for 24 consecutive months, the effect of market turmoil

Money market rates, also known as inter-bank rates, are interest rates used by banks for operations between themselves. In the money market, banks are able to trade their money surpluses and deficits. The level of money market rates is generally influenced by the level of central bank rates, as well as future expectations. Since the central bank thereby affects the funding cost of the liquidity for banks, these determine the level of retail bank interest rates as well. There are two important references for the money market, the EONIA (euro overnight index average) and EURIBOR (euro interbank offered rate), which together provide a uniform price reference for maturities from overnight to one year. By setting the rates of marginal lending facility and deposit facility, the ECB Governing Council determines the corridor within which the overnight money market rate can fluctuate. Figure 2, which shows the development of key ECB interest rates since 2000, also shows how the key interest rates have provided a ceiling and a floor for the overnight market interest rate (EONIA).

Figure 2: Money market and central bank rates in the euro area, monthly average data, 2000 to September 2007



Source: Eurostat, *Economy and finance, Interest rates, Central bank and Money market interest rates (ECB)*. [For methodological notes, see Eurostat web site.](#)

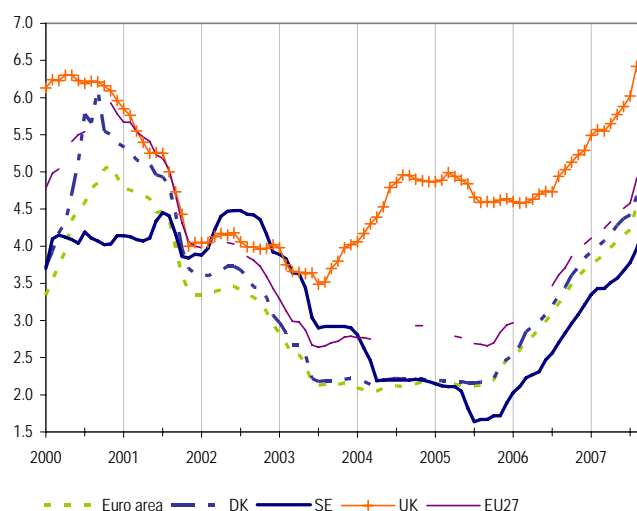
As can be seen from figure 2, the EONIA has generally remained close to the rate on main refinancing operations, thus illustrating the importance of these operations as the main monetary policy instrument of the Eurosystem. One can also see that EONIA exhibits a pattern of occasional spikes, which are even more profound in the daily data. In general EONIA followed the main refinancing operations more closely as time passed. EONIA passed the 5% mark, its highest value ever, at the

beginning of 2001, after a period of strong increase. It then dropped, to reach the lowest level in November 2003 (1.97%). EONIA remained close to the 2 per cent level until December 2005 when it increased by 19 basis points compared to the previous month. Since then, all money market rates have shown an upward trend. More or less the same pattern was reported for 3- and 12-month EURIBOR. As money market rates for longer maturities are increasingly influenced by bond market developments, the 12-month EURIBOR displayed stronger variation from one month to another. The largest difference between the two EURIBOR rates was recorded in January 2000 when EURIBOR-12 exceeded EURIBOR-3 by 61 basis points. Similar gaps (more than 50 bp) were observed in February, March and July 2000. The smallest gap between the two rates was registered in June 2005, at only 1 basis point.

Money market rates in Denmark and Sweden moving up after a long downturn

The difference between the Danish and the euro area 3-month money market rate was gradually reduced between 2000 and September 2007; since 2003 the difference has been almost eliminated. After having reported rates very close to those of the euro area for almost 12 months, July 2005 marked the turning point for the Swedish money market rate. It dropped 48 basis points below EURIBOR and the gap has remained for 27 months. Sweden, Denmark and the euro area all have increasing money market rates, which started in October 2005. The evolution of the UK's money market interest rates was completely different. In 2004 and 2005 the gap between EURIBOR and LIBOR (London InterBank Offered Rate) was more than 200 basis points. The gap has been closing since October last year when EURIBOR started its climb.

Figure 3: 3-month interest rates in EU-27, euro area, Denmark, Sweden and the UK, monthly average data, 2000 to September 2007

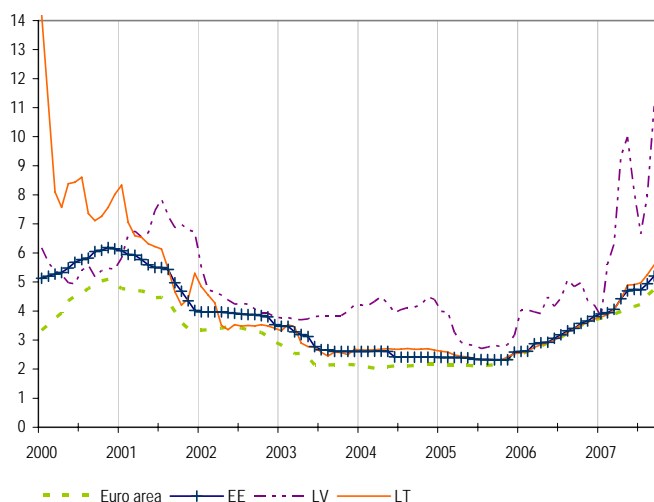


Source: Eurostat, *Economy and finance, Interest rates, Money market rates (ECB)*.

Money market rates in the Baltic States moving closer to the euro area

The money market rates of the three Baltic States and the 3-month EURIBOR are presented below (see figure 4). The gap between the Baltic money market rate and EURIBOR clearly narrowed between 2000 and June 2006. As from November 2005, the curves for Lithuania and Estonia almost overlapped EURIBOR. In April 2007 the gap once again increased for both countries. For Lithuania, from November 2005 to February 2007, the difference never exceeded 6 basis points. This is interesting considering that Lithuanian rates were over 3 times higher than EURIBOR in January 2000. Rates in Latvia did not quite follow the trend displayed by the other Baltic States, but the money market rate reached its lowest in July 2007, after its three times higher peak value in July 2001. After it hit bottom, the rate has gradually been climbing and reached its maximum in September 2007 (11.06%).

Figure 4: 3-month interest rates in euro area, Estonia, Latvia, Lithuania, monthly average data, 2000 to September 2007



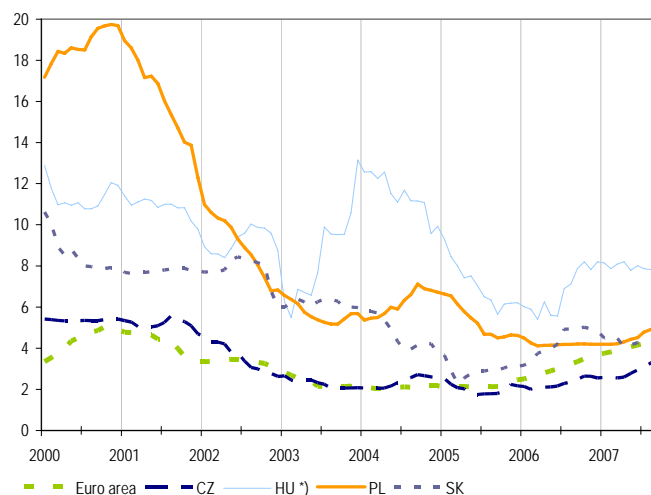
Source: Eurostat, *Economy and finance, Interest rates, Money market rates (ECB)*.

The gap between euro area and the Czech Republic, Hungary, Poland and Slovakia money market rates considerably reduced

All the above mentioned countries, with the exception of the Czech Republic, started off with money market rates above 10% in January 2000. The rate in Poland was particularly high, peaking in November 2000 at almost 20%. All countries saw rates fall during this period, but the drop was largest for Poland; from its highest value in 2000, the rate fell to almost one fifth in April 2006. The 3-month Czech money market rate, on the other hand, closely followed the 3-month EURIBOR for the whole period, and has actually been lower since March 2005. Hungary followed the others in the sense that the money market rate dropped for the period in question, but a strong increase in 2003 took it back up to over 13%. It then

continued to fall and ended at over 6% in June 2007, still relatively high compared to the other three. From that point in time it bounced back again, finishing at 7.7% in September 2007. Considering the large difference between the euro area and these countries in 2000, it is interesting to see that the gap is today less than 3%.

Figure 5: 3-month interest rates in euro area, Czech Republic, Hungary, Poland and Slovakia, monthly average data, 2000 to September 2007



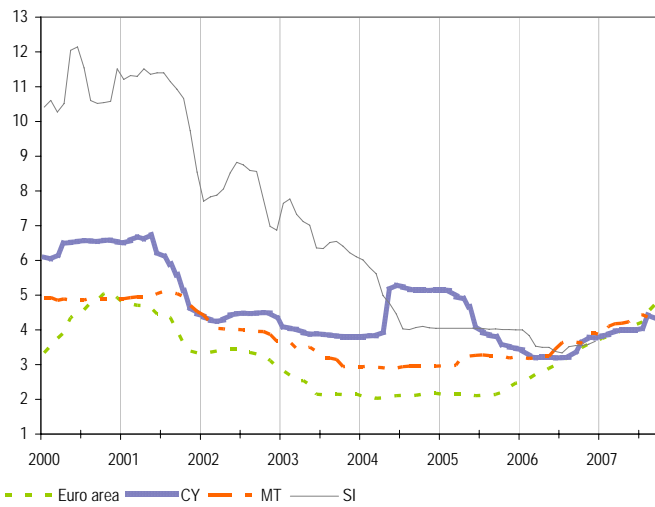
Source: Eurostat, *Economy and finance, Interest rates, Money market rates (ECB)*. (*) Hungary: for several months day-to-day rates were used where the 3-month rate was not reported.

Money market rate for Slovenia reduced to 1, Cyprus and Malta down to over 37 basis points below EURIBOR

The 3-month interest rate in Slovenia fell rapidly until July 2004, when it stabilised around 4% for 19 months. The money market rate reached its lowest value in July 2006, only 24 basis points higher than EURIBOR. In November and December 2006, the rate was briefly below the EURIBOR (1 basis point).

Slovenia was the first of the new Member States to adopt the euro as its currency (1 January 2007). As a result EURIBOR is the money market rate for Slovenia, starting from January 2007. Cyprus and Malta will adopt the euro on 1 January 2008 (ECOFIN Council of 10 July 2007), extending the euro area to 15 member countries.

Figure 6: 3-month interest rates in euro area, Slovenia, Malta and Cyprus monthly average data, 2000 to September 2007



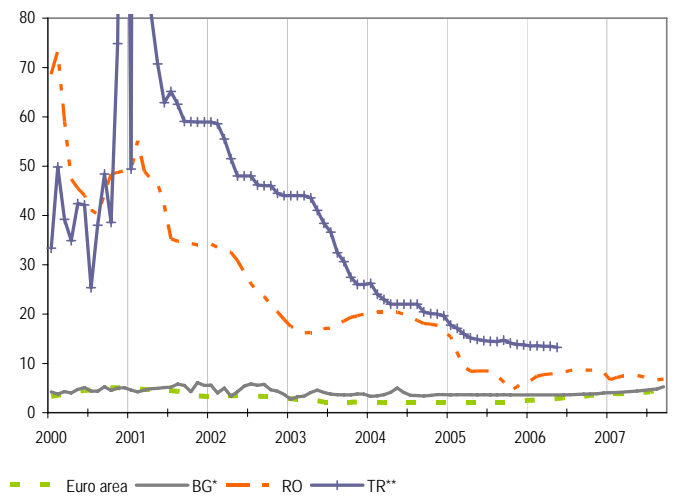
Source: Eurostat, Economy and finance, Interest rates, Money market rates (ECB).

For the last two months for Malta and five months for Cyprus, money market rates have been below the euro area. The Maltese 3-month rate started off in January 2000 with its largest gap to EURIBOR. Thereafter the rate followed a general downward trend. The 3-month rate was even, for a short period of time in 2000, lower than the corresponding euro area rate. Since 2001 the Maltese curve (interest rate) has displayed a similar shape to the euro area, but about one percentage point higher. At the end of 2001 the gap narrowed gradually and after October 2006 the difference never exceeded 30 basis points. Cyprus money market rates generally followed a downward trend, apart from a strong upturn in May 2004 when the difference between Cypriot rates and EURIBOR also reached (in June) its highest value at 319 basis points. From July 2007 the difference was reduced to 10 points above the euro area and in May the rate dropped for the first time below EURIBOR. It remained below for the rest of the reference period and finished 43 basis points lower than the euro area.

Rates in Turkey and Romania dropping while Bulgaria continues to shadow euro area

Money market rates in Romania and Turkey followed a similar pattern. After an extreme peak in February 2001, with Turkish rates above 430%, rates continuously dropped to 13% in May 2006 (see figure 7). The gap between the Romanian rate and EURIBOR reached its minimum in September 2007 at 208 basis points. For Bulgaria, the picture was totally different. Bulgarian rates stayed relatively close to the EURIBOR which is related to their currency board. At the end of 2000 the difference between these two rates was only 12 basis points, but increased to reach its biggest gap in May 2004. After June 2004, fluctuations became less strong and the rate once again approached the EURIBOR; for the last 15 months the gap was 52 basis points or less.

Figure 7: 3-month interest rates in euro area, Romania, Bulgaria and Turkey, monthly average data, 2000 to September 2007



Source: Eurostat, Economy and finance, Interest rates, Money market rates (ECB). Peaks for Turkey in December 2000 (205%) and February 2001 (431%), could for practical reasons not be included in the chart. (*) Bulgaria: for several months the 1-month rates were used where the 3-month rate was not reported.

Table 5: 3-month interest rates in euro area, Bulgaria, Romania and Turkey, annual average 2000 to 2006

	2000	2001	2002	2003	2004	2005	2006
Euro area	4.39	4.26	3.32	2.33	2.11	2.19	3.08
Bulgaria	4.63	5.06	4.91	3.68	3.74	3.62	3.69
Romania	50.71	41.28	27.31	17.73	19.14	8.35	8.09
Turkey *)	56.09	93.04	49.56	36.14	21.95	15.05	15.77

Source: Eurostat, Economy and finance, Interest rates, Money market rates (ECB). (*) For Turkey, the day-to-day interest rates were used.

LONG TERM INTEREST RATES

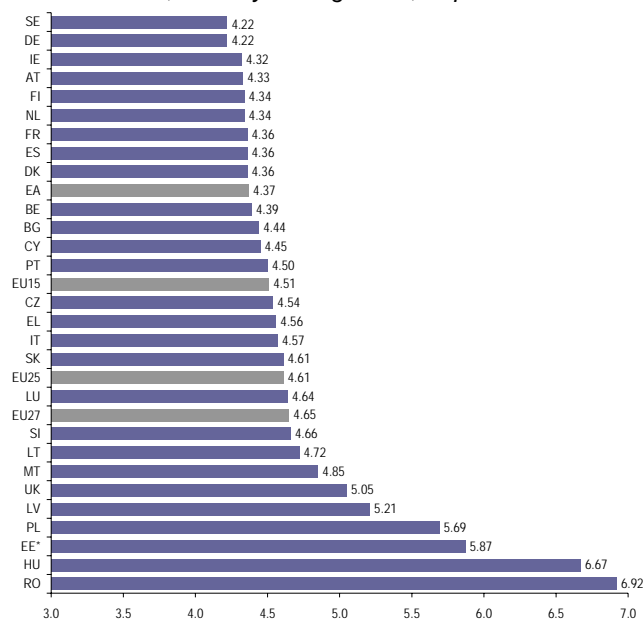
Long-term interest rates, one convergence criteria for the EMU

Long-term interest rates are one of the convergence criteria indicators for EMU (Article 121 of the European Union Treaty). Article 4 of the Protocol on the convergence criteria annexed to the Treaty states that a Member State has to have an average nominal long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best performing Member States in terms of price stability. The interest rate levels should be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions. This means in practice that for each country data on long-term (close to 10-year maturity) central government bonds (or a basket of several of these bonds), which are liquid on the secondary market (the interest rates for Cyprus and Lithuania are based on primary market rates) have to be collected. For all countries except Luxembourg and Estonia the same principles for the calculation of the long-term interest rates have been used.

Long-term interest rates in the EU still varies across countries

In September 2007, the gap between EU27 Member States' rates remained significant. The lowest rates were recorded for Sweden, Germany and Ireland, while the highest rates were found in Romania and Hungary. The 2007 figures revealed that the gap between euro area and EU27 long term interest rates has decreased by 8 basis points since April 2005. The gap amounted to 28 basis points in September 2007.

Figure 8: Long term interest rates for the EU and its Member States, monthly average data, September 2007



Source: Eurostat, Economy and finance, Interest rates, Long term interest rates, Maastricht criterion interest rates (ECB). * For Estonia August 2007 data was used.

EU long term interest rates lower than those of the USA in 2006

Table 6 shows the evolution of long term interest rates for EU25 Member States, EU aggregates, euro area aggregates and for some OECD countries. As Estonia and Luxembourg have very limited government debt, there are currently no suitable long-term government bonds available on the financial market. For this reason only comparable interest rate indicators are shown. For the years covered, euro area long term interest rates remained below the EU25 average. The rates in general decreased between 2000 and 2005. In 2006 rates for all countries providing data increased, with the exception of Cyprus, Malta and the UK.

Table 6: Long term interest rates for EU Member States, US, and JP, annual average from 2000 to 2006

	2000	2001	2002	2003	2004	2005	2006
EU27	:	:	:	:	:	:	4.09
EU25	:	:	:	4.35	4.45	3.71	4.03
EU15	5.44	5.01	4.93	4.24	4.27	3.60	3.93
NMS10	:	:	:	5.61	6.33	4.85	5.07
EA	5.44	5.00	4.91	4.14	4.12	3.42	3.84
BE	5.59	5.13	4.99	4.18	4.15	3.43	3.81
BG	:	:	:	6.45	5.36	3.87	4.18
CZ	:	6.31	4.88	4.12	4.75	3.51	3.78
DK	5.64	5.08	5.06	4.31	4.30	3.40	3.81
DE	5.26	4.80	4.78	4.07	4.04	3.35	3.76
EE(1)	10.48	10.15	8.42	5.25	4.39	3.98	4.30
IE	5.51	5.01	5.01	4.13	4.08	3.33	3.76
EL	6.10	5.30	5.12	4.27	4.26	3.59	4.07
ES	5.53	5.12	4.96	4.12	4.10	3.39	3.78
FR	5.39	4.94	4.86	4.13	4.10	3.41	3.80
IT	5.58	5.19	5.03	4.25	4.26	3.56	4.05
CY	:	7.63	5.70	4.74	5.80	5.16	4.13
LV	:	7.57	5.41	4.90	4.86	3.88	4.13
LT	:	8.15	6.06	5.32	4.50	3.70	4.08
LU	5.52	4.86	4.70	4.03	4.18	3.37	3.92
HU	:	7.95	7.09	6.82	8.19	6.60	7.12
MT	:	6.19	5.82	5.04	4.69	4.56	4.32
NL	5.40	4.96	4.89	4.12	4.10	3.37	3.78
AT	5.56	5.07	4.97	4.15	4.15	3.39	3.80
PL	:	10.68	7.36	5.78	6.90	5.22	5.23
PT	5.59	5.16	5.01	4.18	4.14	3.44	3.91
RO	:	:	:	:	:	:	7.23
SI	:	:	8.71	6.40	4.68	3.81	3.85
SK	:	8.04	6.94	4.99	5.03	3.52	4.41
FI	5.48	5.04	4.98	4.13	4.11	3.35	3.78
SE	5.37	5.11	5.30	4.64	4.42	3.38	3.70
UK	5.33	5.01	4.91	4.58	4.93	4.46	4.37
US (2)	6.03	5.01	4.60	4.00	4.26	4.28	4.79
JP (2)	1.76	1.34	1.27	0.99	1.50	1.39	1.74

Source: Eurostat, Economy and finance, Interest rates, Long term interest rates, Maastricht criterion interest rates (ECB). (1) Estonia: based on new EEK-denominated loans to non-financial corporations and households with maturities over five years. (2) Government bond yields- 10 years' maturity was used.

RETAIL BANK INTEREST RATES IN THE EURO AREA

New harmonised data on retail bank interest rates

Retail interest rates are those interest rates that banks charge on loans and pay on deposits to customers. As from January 2003 a new set of statistics on retail interest rates, the MFI interest rates, replaced the non-harmonised retail interest rates for the euro area. The MFI interest rate covers interest rates that resident credit institutions and other institutions apply to euro-denominated deposits and loans vis-à-vis non-financial sectors, other than government, resident in the euro area. This set of harmonised statistics marked an important improvement in the data available to analyse the mechanism for the transmission of monetary policy, and particularly the link between changes in official interest rates and the average rates charged to smaller businesses and households. This Statistics in Focus covers MFI interest rates on new business only.

Interest rates on deposits by households and non-financial corporations, at their highest in four years

The deposit rates for households show no common trend across maturities. While the interest rates on deposits up to 1 year have increased, the situation is the contrary for the over 1 year maturity, as these rates have decreased over the past 3 years. Only in 2006 did the rate increase to its highest level in four years. For non-financial corporations the evolution of rates followed the same trends. It is worth mentioning that non-financial corporations' deposits have a higher interest rate than households' and that is especially the case in maturities over 2 years.

Table 7: MFI interest rates on euro denominated deposits of households and non-financial corporations, new business rates for the euro area

	Agreed maturity	2003	2004	2005	2006
Households	Less than 1 year	1.89	1.95	2.15	3.27
	Between 1 and 2 years	2.40	2.17	2.25	3.31
	Over 2 years	2.41	2.31	2.21	2.79
Non-financial corporations	Less than 1 year	2.00	2.08	2.25	3.47
	Between 1 and 2 years	2.45	2.47	2.48	4.99
	Over 2 years	3.34	3.50	3.55	3.87

Source: Eurostat, Economy and finance, Interest rates, Retail bank interest rates, Harmonised MFI interest rates (ECB). [For methodological notes see Eurostat web site.](#)

Interest charged for loans to households and non-financial corporations

Interest rates charged to households are considerably higher than those charged to non-financial corporations. For households the interest rates were highest in 2003 and 2006. For non-financial corporations, the rates remained more or less unchanged up to 2005. In 2006 rates for loans of over a million euro took a leap upward by 124 basis points.

Table 8: MFI interest rates on euro denominated loans of households and non-financial corporations, new business rates, floating rate and up to 1 year initial rate fixation for the euro area

	Type of loan	2003	2004	2005	2006
Households	Loans for consumption	7.14	6.74	6.68	7.56
	Loans for house purchase	3.63	3.43	3.49	4.56
Non-financial corporations	Other loans up to EUR 1 million	4.06	3.98	3.99	5.08
	Other loans over EUR 1 million	3.12	3.05	3.26	4.50

Source: Eurostat, Economy and finance, Interest rates, Retail bank interest rates, Harmonised MFI interest rates (ECB).

Table 9: MFI interest rates on euro denominated loans of households, new business rates, floating rate and up to 1 year initial rate fixation for the euro area

	Loans for consumption				Loans for house purchase			
	2003	2004	2005	2006	2003	2004	2005	2006
EA	7.14	6.74	6.68	7.56	3.63	3.43	3.49	4.56
BE	6.46	5.84	5.98	6.49	3.72	3.36	3.18	4.47
DE	5.02	4.90	4.85	5.31	4.63	4.37	4.44	5.23
IE	5.04	4.73	4.83	5.89	3.47	3.39	3.50	4.57
EL	9.60	8.58	7.78	6.82	4.31	4.21	3.86	4.36
ES	8.91	8.40	8.13	9.48	3.29	3.19	3.29	4.53
FR	5.19	4.76	4.91	7.02	3.81	3.61	3.37	4.22
IT	10.87	10.99	10.18	10.62	3.61	3.54	3.60	4.71
LU	:	:	:	:	3.40	3.38	3.62	4.51
NL	7.72	7.33	7.51	8.64	3.51	3.10	3.44	4.51
AT	5.29	5.11	4.95	5.89	4.40	4.17	3.99	4.79
PT	8.59	7.43	8.02	7.29	3.43	3.39	3.50	4.40
FI	5.00	4.90	3.95	4.90	3.27	3.10	3.22	4.15

Source: Eurostat, Economy and finance, Interest rates, Retail bank interest rates, Harmonised MFI interest rates (ECB).

Table 10: MFI interest rates on euro denominated loans of non-financial corporations, new business rates, floating rate and up to 1 year initial rate fixation for the euro area

	Amounts equal to or less than 1 million				Amounts greater than 1 million			
	2003	2004	2005	2006	2003	2004	2005	2006
EA	4.06	3.98	3.99	5.08	3.12	3.05	3.26	4.50
BE	3.81	3.80	4.02	5.02	2.90	2.91	2.95	4.39
DE	4.55	4.50	4.57	5.67	3.32	3.34	3.46	4.58
IE	4.35	4.38	4.55	5.68	4.33	4.09	4.22	5.50
EL	5.13	5.04	5.41	6.30	3.78	3.77	3.93	5.16
ES	3.89	3.74	3.69	4.83	2.94	2.87	3.12	4.43
FR	3.21	3.60	3.53	4.93	2.91	2.67	2.70	4.33
IT	4.06	4.04	4.07	5.03	3.13	2.98	3.25	4.47
LU	3.51	3.91	4.04	5.15	3.23	3.16	3.41	4.45
NL	3.68	3.50	3.60	4.69	2.91	2.97	3.63	4.34
AT	3.98	3.48	3.66	4.57	3.04	3.03	3.13	4.24
PT	5.63	5.52	5.73	6.52	3.59	3.53	3.93	5.03
FI	3.68	3.54	3.75	4.92	2.99	2.98	3.19	4.42

Source: Eurostat, Economy and finance, Interest rates, Retail bank interest rates, Harmonised MFI interest rates (ECB).

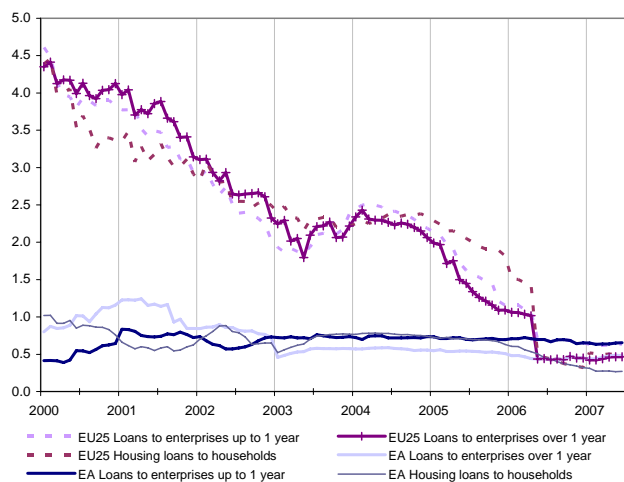
Convergence of interest rates in the EU

The structural indicator "convergence of interest rates" (European Commission Report to the European Council of 21 March 2003) is designed to provide a measure of financial market integration in the EU. Two statistics measure the convergence of interest rates: the standard deviation and the variation coefficient.

The indicators encompass three retail bank rates: housing loans to households, loans to enterprises up to one year (short-term) and loans to enterprises over one year (long-term). In figure 9 the standard deviation of the selected interest rates is shown. The smaller the standard deviation, the higher is the financial integration between the Member States.

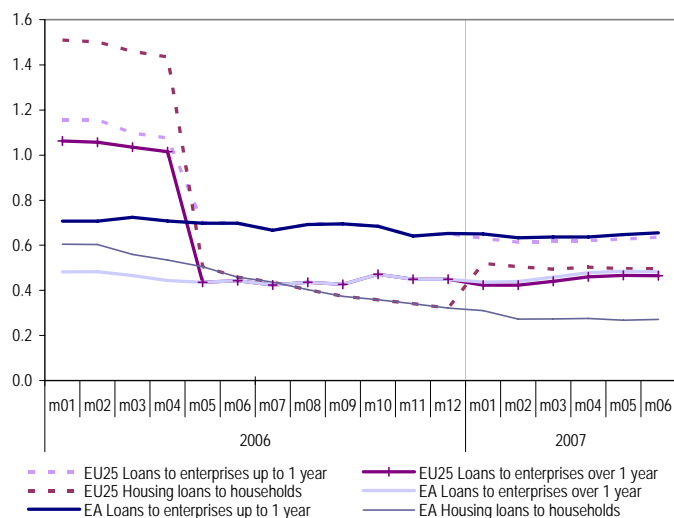
As the graph illustrates the financial integration between euro area countries is much higher. Taking the non-euro area countries into account the standard deviation is higher but shows a downward trend, which reflects progress towards an integrated European financial market.

Figure 9: Standard deviation for interest rates in the EU-25 and euro area, 2000 to 2007



Source: Eurostat, Economy and finance, Interest rates, Convergence of interest rates (ECB).

Figure 10: Standard deviation for interest rates in the EU-25 and euro area, 2006 to June 2007



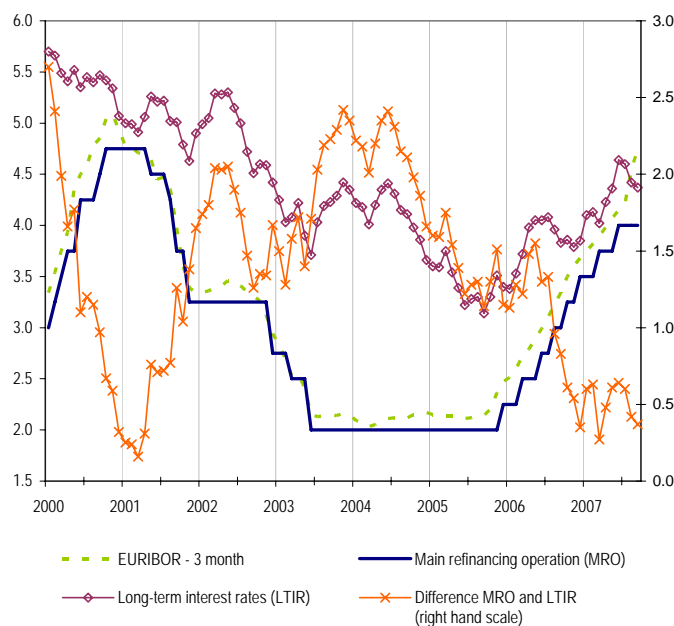
Source: Eurostat, Economy and finance, Interest rates, Convergence of interest rates (ECB).

THE IMPACT OF CENTRAL BANK INTEREST RATES

The impact of central bank interest rates in the euro area

The link between central bank rates, money market rates and retail rates has been discussed in the previous section. Figure 11 shows the strong influence of central bank interest rates on the level of the money market rate, EURIBOR. As could be expected, the influence is generally stronger for short term interest rates. The graph illustrates that the influence of the official rates is considerably weaker on long-term interest rates. It is also clear that the difference between the main financing operation (MRO) and the long term interest rates are reduced with increasing levels of the MRO and vice versa. The difference is plotted below (right hand scale), and the smallest gap (16 basis points) was observed in March 2001 when the MRO reached its highest value of 4.75%. The biggest difference was in November 2003 (242 basis points), six months after the main financing operations reached its historical low (2%).

Figure 11: Euro area 13, interest rates, 2000 to September 2007



Source: Eurostat, Economy and finance, Interest rates (ECB).

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

This part gives some background information with regards to interest rates. More exhaustive information can be found on [Eurostat's homepage](#).

CENTRAL BANK INTEREST RATES

The way in which monetary policy exerts its influence on the economy can be explained as follows. The central bank is the sole issuer of banknotes and sole provider of bank reserves, i.e. it is the monopoly supplier of the monetary base. By virtue of this monopoly, the central bank is able to influence money market conditions and steer short term interest rates. Generally speaking the deposit rate forms the floor to money market rate movements; the lending rate forms the ceiling, while the refinancing operation rate is the most-used intervention rate. Note that not all central banks set all forms of interest rates. For a detailed list of interest rates set, see [here](#).

Main refinancing operations, MRO, are the most important open market operations conducted by the Eurosystem, playing a pivotal role in pursuing the aims of steering interest rates, managing the liquidity situation in the market and signalling the stance of monetary policy. They also provide the bulk of refinancing to the financial sector.

Main refinancing operations, minimum bid rate, MRO_MBR, is the interest rate on main refinancing operations, which provide the bulk of liquidity to the banking system. The Eurosystem may execute its tenders in the form of fixed rate or variable rate tenders. Since 27 June 2000 the MRO have been conducted as variable rate tenders with a minimum bid rate.

Main refinancing operations, marginal rate, MRO_MR, is the marginal rate of variable rate tenders on the main refinancing operations. The main refinancing operations are part of the open market operations which play an important role in steering interest rates, managing the liquidity situation in the market and signalling the stance of monetary policy.

The deposit facility rate, DF, is the rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem. The deposits are remunerated at a pre-specified interest rate. Under normal circumstances, the interest rate on the facility provides the floor for the overnight market interest rate. The terms and conditions of the deposit facility are essentially identical throughout the euro area.

The rate on the marginal lending facility, MFL, is charged on overnight credit to banks from the Eurosystem. They may use it to obtain overnight liquidity from euro area national central banks at a pre-specified interest rate against eligible assets. The facility is intended to satisfy counterparties' temporary liquidity needs. Under normal circumstances, the interest rate on the facility provides a ceiling for the overnight market interest rate. The terms and conditions of the facility are identical throughout the euro area.

MONEY MARKET RATES (SHORT TERM INTEREST RATES)

Euro Overnight Index Average, EONIA, is the effective overnight reference rate for the euro, computed as a weighted average of all overnight unsecured lending transactions in the interbank market initiated within the euro area by the contributing panel banks. EONIA is computed with the help of the European Central Bank.

Euro InterBank Offered Rate, EURIBOR, is the benchmark rate of the euro money market that has emerged since 1999. It is the rate at which euro interbank term deposits are offered by one prime bank to another. It is published at 11.00 a.m. CET for spot value (T+2 days). The contributors to EURIBOR are the banks with the highest volume of business in the euro area money markets. EURIBOR has existed since January 1999, and the euro area rates are for 1 to 12-month.

RETAIL BANK INTEREST RATES/MFI RATES

Monetary Financial Institution rates, MFI, are the interest rates that are applied by resident credit institutions and other MFIs, excluding central banks and money market funds, to euro-denominated deposits and loans vis-à-vis households and non-financial corporations resident in the euro area. The coverage and definition of the statistics differ substantially from those of the previously published (non-harmonised) retail interest rates. Therefore, a direct comparison of the new and old rates is not possible. Harmonised statistics on interest rates applied by monetary financial institutions in the euro area countries (MFI rates) were obtained through Regulation (EC) No 63/2002 of the European Central Bank 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 (ECB/2001/18), in the euro area countries and on a voluntary basis, on those applied in the other EU countries.

LINKS TO THE DATA

More data can be found on Eurostat's homepage. If you wish to download more data on this subject, the following links are useful:

- [1. Central bank interest rates;](#)
- [2. Money market rates \(short term interest rates\);](#)
- [3. Convergence of interest rates;](#)

Data for retail bank interest rates are available on Eurostat home page in a number of tables. (See under "Economy and finance, Interest rates, Retail bank interest rates and Harmonised MFI interest rates").

PREVIOUS RELEASES

Several statistical documents on this subject have been published by Eurostat in the past. One example is:

- Statistics in focus 22/2006, Latest developments on interest rates KS-NJ-06-022-EN-N;

ABBREVIATIONS

Euro area 12: BE (Belgium), DE (Germany), EL (Greece), ES (Spain), FR (France), IE (Ireland), IT (Italy), LU (Luxembourg), NL (the Netherlands), AT (Austria), PT (Portugal) and FI (Finland).

Euro Area 13 (EA13): Euro area 12 plus Slovenia.

EU or EU-25 (European Union of 25 Member States): Euro area countries plus CZ (Czech Republic), DK (Denmark), EE (Estonia), CY (Cyprus), LV (Latvia), LT (Lithuania), HU (Hungary), MT (Malta), PL (Poland), SI (Slovenia), SK (Slovakia), SE (Sweden), and UK (United Kingdom).

EU-27 (European Union of 27 Member States): EU-25 plus Romania and Bulgaria.

bp: basis point is one hundredth of a percentage point.

Eurosystem: European Central Bank and national central banks of the euro area.

SYMBOLS

: Not available

"-" not applicable

Further information:

Data: [EUROSTAT Website/Home page/Economy and finance/Data/Interest rates](#)

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European Statistical Data Support:

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

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