

THE IMPLEMENTATION OF NEW INTEREST RATE STATISTICS IN THE CZECH REPUBLIC

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Summary

The purpose of the interest rate statistics is to provide sufficiently accurate and detailed information on the levels and evolution of the interest rates applied by monetary financial institutions (banks). These rates are one of the indicators of the functioning of the monetary transmission mechanism. They allow us to monitor how changes in official interest rates pass through into deposit and lending rates vis-à-vis banks' customers, i.e. they provide information on the effects of monetary policy on the economy.

Statistics on banks' interest rates vis-à-vis non-banks have been compiled in the Czech Republic since 1993. The original requirement was to monitor current interest rates on deposits placed by customers with the bank and loans granted by the bank to customers as of the reporting date (outstanding amounts). Further, statistical monitoring of interest rates on loans drawn in the given month (newly drawn loans) was introduced. The interest rates and corresponding volumes were broken down by type of instrument, original maturity, currency, and sector of the counterparty.

Major changes to the interest rate statistics methodology in the Czech Republic came with the changeover to the European System of National Accounts (ESA95) in 2001. Even more changes were made in relation to the harmonisation of the monetary and banking statistics with European Central Bank (ECB) requirements. The Treaty on European Union requires the European Central Bank (ECB), assisted by the national central banks, to collect the statistical information necessary in order to undertake the tasks of the European System of Central Banks (ESCB). The requirements for the harmonised MFI interest rate statistics (MIR) are laid down in Regulation ECB/2001/18, which defines the standards according to which interest rates should be collected and produced. The harmonised interest rate statistics are divided into two basic areas – interest rates on outstanding amounts and interest rates on new business. New business is defined as all new deposit and loan agreements between a bank and its customers during the period under review.

In January 1999, the ECB began to compile interest rate statistics for euro-area countries and later also non-participating and acceding countries by a process of incremental steps. In this first stage, the Czech Republic, like the other countries, reported interest rates to the ECB on the basis of available national statistics. During this interim period, the Czech Republic, just like the EU member states and other acceding countries, introduced new interest rate statistics in compliance with Regulation ECB/2001/18. Work on preparing these statistics was completed in 2003 and since January 2004 the Czech Republic has been producing a set of harmonised interest rates on outstanding amounts and interest rates on new business. Test reporting to the ECB was launched at the start of May 2004.

1. PURPOSE OF MFI INTEREST RATE STATISTICS

The MFI interest rate statistics provide a foundation for analysing the monetary policy transmission mechanism, and in particular the interest rate channel thereof. The lending and deposit interest rates declared by banks respond to changes in monetary policy interest rates. The final result is change in investment activity and weakening or strengthening pressures on inflation.

Other areas of use of the interest rate statistics include the study of interest rates for sector analysis (for example household consumption and housing, or lending to non-financial corporations). Together with loan and deposit volumes, MFI interest rates may help to explain trends in financial intermediation, thereby yielding important information for financial stability analysis.

Last but not least, the loan interest rates declared by banks provide information on the loan-financing climate in the economy, while the interest rate margins between loan and deposit rates can serve as indicators of banks' competitiveness and profitability.

2. HISTORY OF INTEREST RATE STATISTICS IN THE CZECH REPUBLIC

National interest rate statistics were monitored in the CNB since 1993 in three areas:

- deposits and loans from customers by interest rate,
- stocks of credits and claims on customers by interest rate,
- new drawings on loans by customers by interest rate.

The data were broken down by counterparty sector, original maturity, currency and, where appropriate, type of loan or deposit. However, no separate interest rate statistics existed, as the breakdown in the above statements was virtually the same as in the statements providing data on stocks (balance-sheet statistics). This led to an excessive burden on banks and to the reporting of duplicate and redundant data. Moreover, the interest rate calculation method was not explicitly defined. Despite these shortcomings, the interest rate statements were, thanks to their detailed breakdown, a valuable source of information. In particular, the interest rates on newly drawn credits, despite some limitations, provided information for the analysis of the monetary policy transmission mechanism. Historical time series of interest rates and corresponding volumes are still available in the ARAD system on the CNB's website and in the publication CNB Banking Statistics. As from 2004 the national interest rate statistics have been replaced by new harmonised interest rate statistics in compliance with Regulation ECB/2001/18.

3. HARMONISATION OF THE INTEREST RATE STATISTICS

The harmonised MFI interest rate statistics monitor the interest rates applied by monetary financial institutions to loans and deposits vis-à-vis non-financial sectors (excluding the government) resident in the EU. The MIR statistics methodology is laid down in the Regulation of the European Central Bank ECB/2001/18 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations.

3.1 Business coverage

The interest rate statistics are broken down into two basic areas – interest rates on outstanding amounts and interest rates on new business. Outstanding amounts are defined as the stock of all deposits placed by customers with the bank and the stock of all loans granted by the bank to customers as of the reporting date (i.e. the last day of the month). Interest rates on outstanding amounts therefore reflect the interest rates currently applied to the stock of deposits or loans. New business is defined as all new agreements between the banks and their customers in the course of the reference period (one month), i.e. all financial contracts that specify for the first time the interest rate agreed between the bank and the customer, and all new negotiations of existing agreements. A key criterion of new business is the customer's active involvement in negotiating the terms and conditions of the contract. Interest rates on new business therefore reflect the rates agreed for any new business during the month.

3.2 Breakdown by sector, currency, maturity and rate fixation

The MIR statistics monitor the banks' relations vis-à-vis their customers, i.e. resident households, non-financial corporations and non-profit institutions serving households. Deposit and credit transactions in domestic currency and EUR only are monitored. The original maturity bands differ according to the instrument and the type of statement (i.e. outstanding amounts or new business). Standard limits of 1 year and 5 years are used for all types of instruments. For deposits, the maturity breakdown is more detailed, with additional limits of 1 day, 3 months and 2 years. For new loan business, the original maturity requirement is replaced by a requirement of initial rate fixation.

3.3 Types of instruments

Interest rates are monitored for all deposit and loan instruments, including non-negotiable securities. In all, 45 interest rates and corresponding volumes are compiled, broken down by type of business, type of instrument, sector of the counterparty, original maturity and currency.

3.4 Interest rates

The interest rate reported is the annualised agreed rate (AAR). It is defined as the interest rate that is individually agreed between the reporting entity (the bank) and the customer for a deposit or a loan, converted to an annual basis and quoted in percentages per annum. The narrowly defined effective rate (NDER) can be applied instead of the AAR, either universally to all types of instruments in all interest rate statistics statements or only to such products for which application of the NDER is more appropriate and provides more accurate results than the AAR. Another rate is the annual percentage rate of charge (APRC). This rate is only reported for new business concerning consumer credit and loans to households for house purchases. Unlike the preceding rates, however, it covers the total costs of the credit (including charges).

4. THE CZECH REPUBLIC'S APPROACH TO IMPLEMENTING MIR STATISTICS

4.1 Reporting population

An important initial decision prior to the introduction of MIR statistics is the selection of the actual reporting population from the potential reporting population. Under Regulation

ECB/2001/18, the national central bank must decide whether to apply a sampling approach or a census. A census is the set of all resident credit institutions in the potential reporting population, whereas a sample is a representative group of selected residential credit institutions. Sampling is used in the case of a large number of banks, high diversification (in terms of region and type) or to reduce the burden on banks. Although the majority of the EU member states' national central banks apply the sampling approach, the Czech Republic has opted for a census, as the Czech banking sector has a very small number of banks and a relatively homogeneous structure (with regard to size, type and region). Moreover, the data collected in this way from the whole reporting population should be of higher quality. At present, 29 universal banks and 6 building societies are operating within the territory of the Czech Republic. An unresolved issue of the interest rate statistics in the Czech Republic is the existence of credit unions, which are classified as credit institutions. Although their share of the market is around 0.01% and steadily falling, under Regulation ECB/2001/18 the method of "cutting-off-the-tail" cannot be applied to them as it is in the balance sheet statistics. The interest rates of this subsector are not monitored, owing to its high instability.

4.2 National methodological framework

Preparations for the MIR statistics were launched at the CNB in July 2002. First of all, the ECB's methodological requirements were analysed and applicability of the existing national interest rate statistics in the Czech Republic was assessed. After internal consultations and consultations with banks it was agreed that the interest rates on outstanding amounts would be kept and adapted to the new requirements. An important decision, however, was a proposal to stop monitoring interest rates on newly drawn credits, since this information would be better reflected by the interest rates on new business. Another reason for this step was to optimise the burden on banks.

In the course of 2003, CNB representatives held meetings with the Czech Banking Association's (CBA) Expert Group on Bank Reporting. The definitive version of the methodology was agreed at these meetings and formulated in an MIR Statistics Compilation Handbook. This document then became the guide for MIR statistical reporting by banks. At the end of 2003, the MIR statistical requirements became part of the Czech National Bank's methodology and reporting regulation for 2004.

The discussions on the MIR statistics preparations with the CBA's expert group facilitated practical application of the requirements of Regulation ECB/2001/18 in the Czech banking sector. The key themes of the discussions included:

- application of the AAR or the NDER,
- acquisition of information on new business and its exact specification,
- quality control of data on new business,
- building societies' specifics,
- the treatment of state subsidies for mortgage loans and building savings schemes,
- the definition of bad loans.

4.3 National reporting scheme

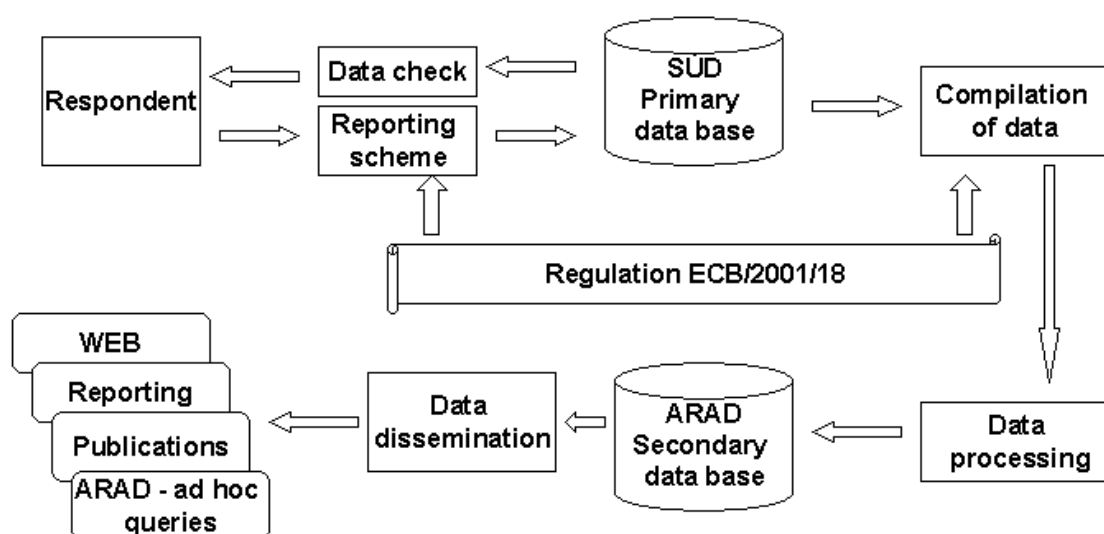
In the CNB's Provision on the Banking Reporting Methodology, the needs of the interest rate statistics are covered by six parametric statements, three on interest rates on outstanding

amounts and three on interest rates on new business. The interest rate is one of the parameters, and the data reported includes the corresponding volume of business.

- Monthly statement of interest rates on newly accepted loans and deposits
- Monthly statement of interest rates on newly granted loans
- Monthly statement of interest rates on non-negotiable debt securities in new business
- Monthly statement of interest rates on loans and deposits accepted
- Monthly statement of interest rates on loans granted
- Monthly statement of interest rates on non-negotiable debt securities

5. PRODUCTION OF MIR DATA

MIR data preparation starts with the formulation of the requirements for respondents. These requirements are created using a statement-design information system. The output of the system provides respondents with all the necessary information about reporting (report design, item definitions, data integrity checks, publishing schedule, etc.). Data are accepted into the CNB in accordance with the reporting calendar and after the prescribed checks have been conducted. They are then loaded into the primary database, where they are available for further processing. Once the relevant MIR indicators have been compiled, the final data are loaded into the presentation database, from where they are disseminated further. The entire process is depicted in the following scheme:



6. CONCLUDING REMARKS

The CNB has been compiling complete new interest rate statistics since January 2004. The data are published in the ARAD time series database on the CNB's website. Test reporting to the ECB has been ongoing since May 2004. The primary focus of these compilation activities has been to ensure maximum data quality.