EUROPEAN CENTRAL BANK

EUROSYSTEM

27 June 2011

BACKGROUND NOTE

FIRST RESULTS OF THE NEW MONETARY AND FINANCIAL STATISTICS

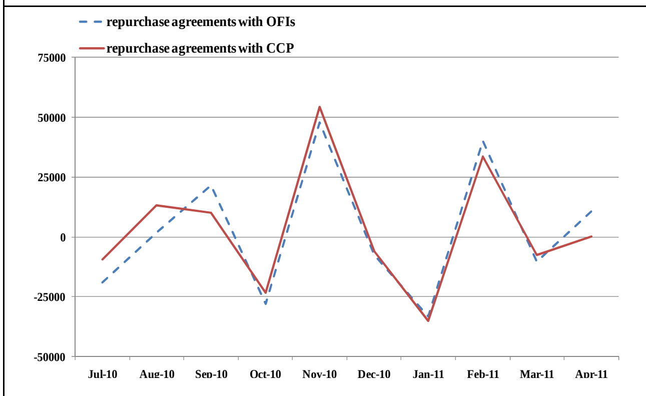
This note outlines some preliminary results of the enhanced or new statistics.

MFI balance sheet statistics

MFI balance sheet statistics provide core information for the ECB's analysis of monetary aggregates and their counterparts. Regulation ECB/2008/32 on the collection of MFI balance sheet statistics enhances the existing dataset through the inclusion of more detailed breakdowns with respect to specific instruments, counterparties and maturities.

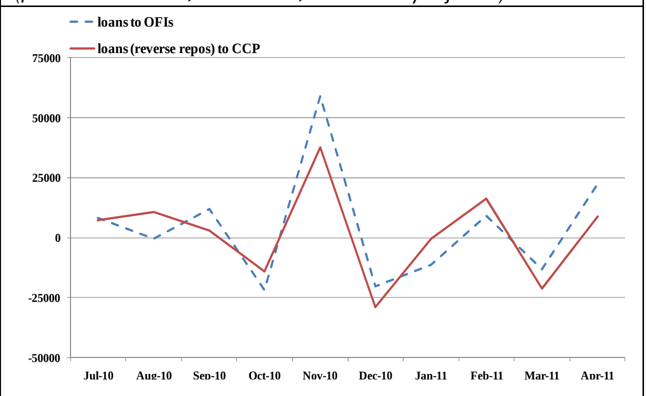
For purposes of monetary analysis, the new statistics include information on the **business conducted by MFIs with central counterparties (CCPs)**. In recent years, CCPs have increasingly acted as an intermediary for secured lending between MFIs, partially replacing direct inter-MFI lending in the short-term secured money market. In particular, the broad monetary aggregate M3 (through its repurchase agreement component) and short-term loan growth (through its reverse repurchase agreement component) reflect MFI business with CCPs and can now be better assessed. CCPs are classified as "other financial intermediaries" and thus belong to the money holding sector. This implies that, contrary to traditional inter-MFI positions, they enter into the consolidated balance sheet for euro area MFIs. Charts 1 and 2 illustrate how the recent developments in repurchase agreements with "other financial intermediaries" and MFI loans to this sector have been strongly influenced by MFIs' business with CCPs.

Chart 1: MFI repurchase agreements with "other financial intermediaries" and CCPs
(financial transactions; EUR millions; not seasonally adjusted)



Source: ECB.

Chart 2: MFI loans to "other financial intermediaries" and reverse repurchase agreements with CCPs
(financial transactions; EUR millions; not seasonally adjusted)

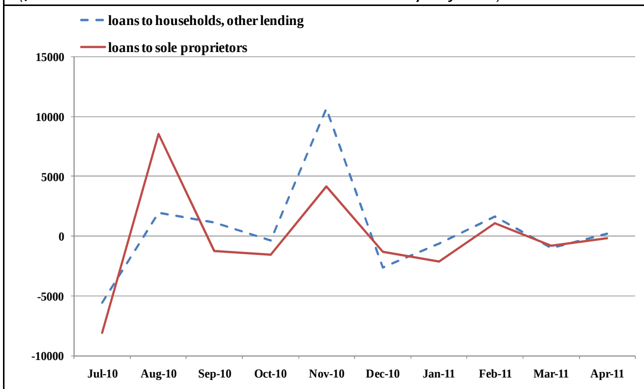


Source: ECB.

Moreover, the new data allow **lending to sole proprietors and unincorporated partnerships** to be identified separately as a component of MFIs' lending to households. Loans to small unincorporated business, as well as to self employed natural persons such as architects or doctors, have thus far been included indistinguishably in the "other loans" component of MFI loans to households. Chart 3 illustrates how loans to sole proprietors and unincorporated partnerships that are economic units producing goods and services have driven financial transactions in this lending category in recent months.

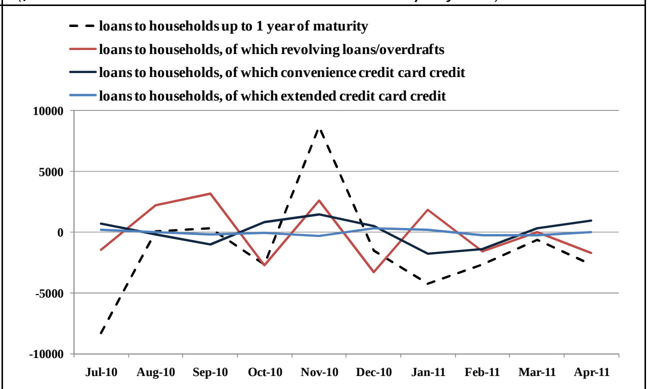
In addition, the new collection framework includes data on **revolving loans/overdrafts** and **credit card debt** for both households and non financial corporations, with corresponding harmonised definitions in the updated MIR regulation. Chart 4 presents a comparison of the series with MFIs' total **short term loans**[1] to the household sector. The availability of the new data will thus allow a more differentiated interpretation of lending developments.

Chart 3: The "other lending" component of MFI loans to households[1)] and the proportion thereof accounted for by MFI loans to sole proprietorships
(financial transactions; EUR millions; not seasonally adjusted)



Source: ECB.
1) Loans other than "consumer credit" and "loans for house purchase".

Chart 4: MFI loans to households with a maturity of up to one year and newly available breakdowns by loan type
(financial transactions; EUR millions; not seasonally adjusted)



Source: ECB.

For further information regarding additional statistical data that have become available with the new balance sheet statistics regulation, please see Annex 1.

MFI interest rate (MIR) statistics

The second important dataset reported by MFIs refers to interest rates on loans and deposits denominated in euro, broken down for households and non-financial corporations. The data on these interest rates distinguish between rates on new business and those on outstanding amounts. Business volumes for both categories are provided as well. The MFI interest rates dataset reported since January 2003 has now been expanded and covers, among others, a higher granularity of new business loans and overdraft instrument categories. Specifically, a more detailed breakdown of size classes makes it possible to show new loans to non-financial corporations, with the smallest size class now that of new loans of up to €250,000 (compared with previously new loans of up to €1 million). Assuming that the size of loans indirectly reflects the fact that small and medium-sized enterprises are likely to take out smaller loans than large corporations, this

1 Loans with a maturity of up to one year.

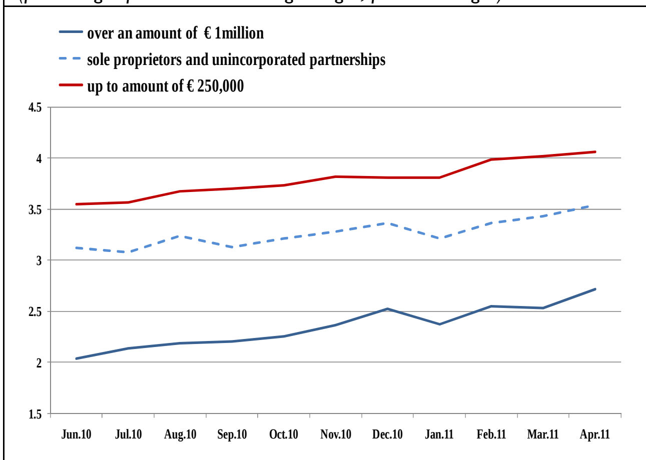
improves the insight into the financing of small and medium-sized enterprises. In addition, as in the case of MFI balance sheet, interest rates on new loans to sole proprietors and unincorporated partnerships are now reported as a sub-category of their own (separate from the rest of loans to households for other purposes), enabling an analysis of their financing conditions. In turn, this separation allows a more homogeneous analysis of loans to households for other purposes (see Chart 3). The new data also show interest rates on, and business volumes in, new loans to households and non-financial corporations with collateral or guarantees, allowing a better understanding of trends in the pricing of risk.

Finally, new breakdowns on revolving loans (including overdrafts and used credit lines) and extended credit card credit have been introduced. This breakdown allows extended credit card credit, for which relative high interest rates are charged, to be distinguished from interest rates on revolving loans (with relatively lower rates) and from convenience credit card debt (carrying 0 interest). In the following section, the recent behaviour of some of these new series is presented.

<u>First results</u>

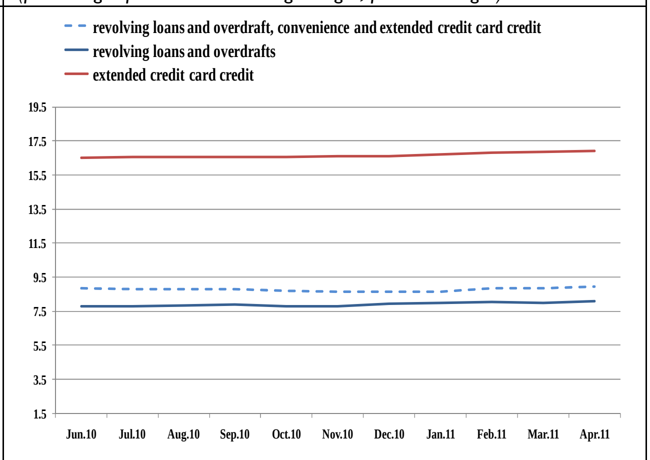
Data collected as of the June 2010 reference period have shown empirically that the differentiation of size classes chosen for new lending to non-financial corporations is characterised by persistently different interest rate levels. The rates applied to small-sized loans are significantly higher than those applied to large-sized loans. This might be seen as an indication that the cost of borrowing is generally higher for small and medium-sized non-financial corporations than for larger corporations. The difference between MFI interest rates on loans of up to €250,000 (loans with a floating rate and an initial rate fixation period of up to three months) and those on loans in excess of €1 million for the same fixation period fluctuated between 1.51 and 1.34 percentage points between June 2010 and April 2011.

Chart 5: Evolution of MFI interest rates on new loans to non-financial corporations and sole proprietorships[1)]
(percentages per annum excluding charges; period averages)



Source: ECB.
1) Floating rate loans with an initial rate fixation period of up to three months, broken down by loan size.

Chart 6: Evolution of MFI interest rates on revolving loans, overdraft and credit card debt extended to the household sector
(percentages per annum excluding charges; period averages)



Source: ECB.

MFI interest rates on new loans to sole proprietors or unincorporated partnerships (loans with a floating rate and an initial rate fixation period of up to one year) also appear to be higher than rates charged on new loans of more than €1 million, but lower than the rates on new loans of up to €250,000. Chart 5 shows that the interest rate on loans to sole proprietors has fluctuated between the rates charged on the larger and smaller-sized loans to non-financial corporations – for all initial rate fixation periods.

In addition, the comparison of MFI interest rates on revolving loans and overdrafts to households with MFI interest rates on extended credit card debt (credit granted following the due date of a credit card's billing cycle), which excludes convenience credit card debt (credit granted at an interest rate of 0% over one billing cycle), shows the significant difference between the two items. MFI interest rates charged on revolving loans and overdrafts fluctuated between 7.79% and 8.10% between June 2010 and April 2011, while the rates charged on convenience credit card credit were zero and rates on extended credit card debt varied between 16.52% and 16.92% over the same period.

Statistics on MFI securitisations and financial vehicle corporations (FVCs)

Euro area statistics on MFI lending have been enhanced by new data on **securitisations and other loan transfers by MFIs**. Securitisation is a practice whereby an asset or a pool of cash flow-producing assets is converted into marketable securities. Flows of loans on MFI balance sheets are affected by securitisation activity, loan sales and, in the period following the financial crisis, transfers of impaired loan assets to so-called "bad bank" structures. New and fully harmonised data for the period as of end-2009 allow flows in credit to be adjusted for loans transferred and derecognised from MFI balance sheets, and so better reflect underlying developments in lending to the non-MFI sector. Previously, only limited and non-harmonised data were available on such transfers. The harmonised data are now available on a monthly basis, broken down by borrowing sector. In addition, on a quarterly basis, non-financial corporations' loans transferred are broken down by maturity, and loans to households by purpose of the loans. The table below shows the **significant impact of these adjustments to flows and growth rates of loans to non-financial corporations and households** from February 2011 to April 2011.

Unadjusted and adjusted loan flows	**END-OF-MONTH LEVELS**	**MONTHLY TRANSACTIONS [a)]**			**ANNUAL GROWTH RATES**		
EUR billions and annual percentage changes, not seasonally adjusted	APR. 2011	FEB. 2011	MAR. 2011	APR. 2011	FEB. 2011	MAR. 2011	APR. 2011
Loans to households [b)]	5227	2	31	9	3.1	3.4	3.4
loans derecognised from the balance sheet		*4*	*-20*	*3*			
loans adjusted for sales and securitisation		*6*	*11*	*11*	*3.0*	*2.9*	*3.0*
Loans to non-financial corporations	4702	9	4	5	0.6	0.8	1.0
loans derecognised from the balance sheet		*0*	*1*	*2*			
loans adjusted for sales and securitisation		*10*	*5*	*6*	*1.7*	*1.9*	*2.1*

a) Calculated from the monthly difference in levels adjusted for write-offs/write-downs, reclassifications, exchange rate variations and any other changes that are not due to transactions.

b) Including loans to non-profit institutions serving households.

Statistics on MFI securitisation are complemented by new quarterly statistics on **financial vehicle corporations** (FVCs) resident in the euro area collected under Regulation ECB/2008/30. FVCs are entities that are typically set up for the purpose of carrying out securitisations of loans or other assets and issuing debt securities that are backed by these assets. However, the FVC sector is quite broad in its definition, also encompassing synthetic securitisations of loans (where the loans are not transferred, but the credit risk is instead transferred through derivatives or other mechanisms) and securitisations of both trade receivables of non financial corporations and tax receivables of general government. Also included are FVCs which re-securitise already securitised assets. At the end of the first quarter of 2011, **assets of FVCs resident in the euro area totalled €2,255 billion** (around one-tenth of the non-MFI financial sector) and **debt securities issued by the sector stood at €1,886 billion**. The new data on outstanding amounts and financial transactions in the main asset and liability categories of FVCs are now released starting from the fourth quarter of 2009. Aside from being useful as an insight into the development of lending and financing in the euro area, they also provide an important new source of information on credit risk transfer, and thus for the analysis of financial stability.

A large proportion of the assets held by FVCs consists of securitised loans, as shown in the table below. Outstanding loans **originated by euro area MFIs** totalled €1,195 billion at the end of the first quarter of 2011. Of this total, €590 billion continue to be recognised on euro area MFIs' balance sheets. Over half of the securitised loans originated by MFIs are loans to **euro area households** – €807 billion in the first quarter of 2011 – with a large proportion being accounted for by residential mortgages. Securitised loans to **non-financial corporations** in the **euro area** amounted to €248 billion. Loans granted by other euro area originators totalled €159 billion, and those by non-euro area originators €130 billion. Other significant items on FVC balance sheets are **deposits and loan claims** (€353 billion in the first quarter of 2011) and **securities other than shares** (€240 billion).

Euro area FVC assets	**END-OF-QUARTER LEVEL**	**QUARTERLY TRANSACTIONS**		
EUR billions and annual percentage changes, not seasonally adjusted	Q1 2011	Q3 2010	Q4 2010	Q1 2011
Total assets	**2,255**	**-6**	**45**	**-93**
Securitised loans	**1,484**	**22**	**25**	**-38**
Originated by euro area MFIs	1,195	33	30	-44
remaining on the MFIs' balance sheet	*590*	-	-	-
to euro area households	*807*	*11*	*13*	*-52*
to euro area non-financial corporations	*248*	*0*	*16*	*3*
Originated by other euro area residents	159	-5	-7	8
Originated by non-euro area residents	130	-6	2	-2
Deposits and loan claims	**353**	**-12**	**24**	**-23**
Securities other than shares	**240**	**-17**	**-5**	**-10**

Statistics on insurance corporations and pension funds (ICPFs)

The new ECB statistics on the euro area ICPF sector, which follow the concepts and definitions set out in the European System of Accounts 1995 (ESA 95), permit the analysis of the structure of, and trends in, a sector that accounts for more than one-third of all non-bank financial intermediaries (as measured by total assets). The new dataset provides for more detailed and timely statistics on the assets and liabilities of insurers and pension funds.[2] It mainly comprises quarterly stock data. Data are published around three months after the end of the reference quarter and are disaggregated by type of financial instrument (with a maturity breakdown, where applicable), by type of issuer (euro area and non-euro area) and by institutional sector counterparty. They cover all business activities of ICPFs resident in the euro area, whether domestic or foreign-owned, on a non-consolidated basis. Besides improved timeliness, the new ICPF statistics also provide an annual breakdown of insurance corporation and pension fund sub-sectors, as well as more detailed information on the breakdown of insurance technical reserves, the only item for which proper results for financial transactions[3] are also published.

Euro area ICPFs: selected balance sheet items	**END-OF-QUARTER LEVEL**	
EUR billions	**Q4 2010**	**% of total**
Total financial assets	**6,932**	**100%**
Insurance corporations	5,579	80%
Pension funds	1,353	20%
Euro area residents	*6058*	*87%*
Deposits with MFIs	*732*	*11%*
Securities issued by MFIs	*583*	*8%*
Securities issued by the general government	*1,209*	*17%*
Investment fund and money market fund shares/units	*1,537*	*22%*
Total liabilities	**6,797**	**100%**
Euro area residents	*6,457*	*95%*
Insurance technical reserves	5,659	86%
Net equity of households in life insurance reserves	*3,323*	*50%*
Net equity of households in pension funds	*1,569*	*23%*
Prepayments of insurance premiums and reserves for outstanding claims	*766*	*13%*

At the end of 2010, euro area ICPFs accounted for 14% (€6.9 trillion) of the financial assets of the euro area financial sector and had close links with the other sectors of the euro area. In particular, ICPFs held around 21% (€1,209 billion) of the total debt securities issued by euro area governments, 57% (€1,537 billion) of the mutual fund shares issued by euro area investment funds and about 9% (€583 billion) of the total amount outstanding of debt securities issued by euro area MFIs. In parallel with this active role as providers of financing, euro area ICPF liabilities represent an important component of euro area households' financial assets (accounting for around 30% of the total) and compete with MFI deposits in attracting household investment. In particular, the net equity of euro area households in life insurance and

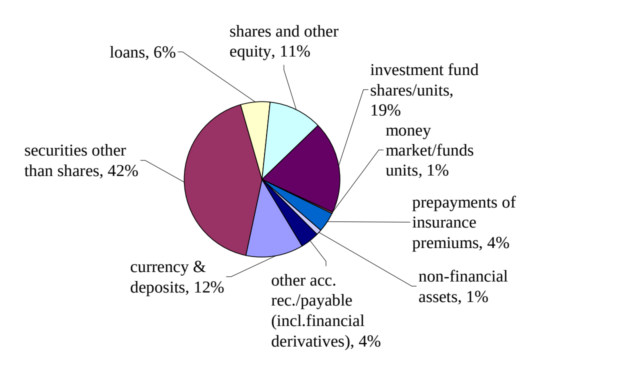
[2] Data on the ICPF sector have also been part of the euro area accounts (see Table 3.5 in the Statistical Section of the ECB's Monthly Bulletin and the ECB Statistical Data Warehouse (SDW), both available on the ECB's website at www.ecb.europa.eu). Although the statistics follow the same concepts, differences between the results are possible on account of, for example, different data sources at the national level, different data vintages and the balancing of the results for sectors to obtain consistent euro area accounts for the whole economy.

[3] Financial transactions differ from changes in stocks because they exclude the effect of valuation changes, exchange rate changes, reclassifications and write-offs/write-downs.

pension funds reserves amounted up to €3,323 billion and €1,569 billion respectively. Finally, the liabilities of ICPFs with regard to prepayments of insurance premiums and reserves for outstanding amounts with euro area residents totalled €766 billion. Besides non-life insurance liabilities vis-à-vis policyholders in other sectors, this component also includes the liabilities of reinsurance corporations resident in the euro area vis-à-vis the insurance sector.

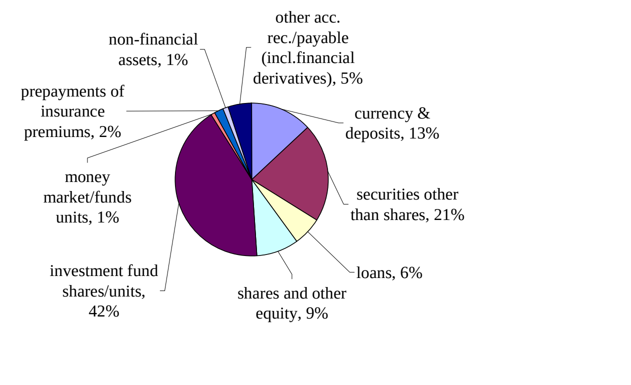
Finally, euro area insurance corporations account for around 80% of the ICPF sector's total financial assets. The composition of their assets differs from that of pension funds (see Charts 7 and 8). Insurance corporations invest mainly in securities (42% of their total financial assets), followed by mutual fund shares (19% of their total financial assets). For pension funds, investment fund shares represent the largest investment class (42% of their total financial assets), ahead of securities other than shares, the second largest (21% of their total financial assets). This also reflects the fact that pension funds have partly transferred their investment portfolios to specialised investment funds, and instead keep the corresponding fund shares/units in their portfolios.

Chart 7: Asset allocation of insurance companies
(percentages of total; data as of end-2010)



Source: ECB.

Chart 8: Asset allocation of pension funds
(percentages of total; data as of end-2010)



Source: ECB.

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Annex I: New breakdowns for MFI balance sheet BSI data

Table 1:

New monthly data – April 2011 *(previously existing reference series to which the breakdowns refer)*		**END-OF-MONTH LEVEL (EUR billions)**	**PERCENTAGE OF REFERENCE SERIES**
Business with central counterparties *(business with other financial intermediaries)*	Repurchase agreements	245	69%
	Reverse repurchase agreements	147	13%
Other lending to sole proprietors/unincorporated partnerships *(other lending to households)*		400	49%
Revolving loans and overdrafts to households *(short term (up to 1 year) lending to households)*		194	64%
Revolving loans and overdrafts to non-financial corporations *(short term (up to 1 year) lending to NFC*		682	59%
Credit card debt of households *(short term (up to 1 year) lending for consumption to households*		51	37%
Credit card debt of non-financial corporations *(short term (up to 1 year) lending to NFC*		2	0%
Business with financial vehicle corporations *(business with other financial intermediaries)*	Holdings of securities other than shares issued by financial vehicle corporations	894	59%
	Deposits placed by financial vehicle corporations	828	38%
Transferable deposits *(deposits)*	By credit institutions	534	8%
	By government	169	31%
	By other euro area residents	2,202	21%
	By non-euro area banks	292	12%
	By non-euro area non-banks	158	16%
Debt securities issued with a capital guarantee of less than 100% *(total debt securities issued)*		23	2%

New quarterly data – First quarter 2011 *(previously existing reference series to which the breakdowns refer)*		**END-OF-QUARTER LEVEL (EUR billions)**	**PERCENTAGE OF REFERENCE SERIES**
Loans to households, broken down by remaining maturity/ interest rate reset period *(loans with an original maturity of over one year)*	Original maturity of over 1 year and remaining maturity of <1 year, or remaining maturity of >1 year and interest rate reset within next 12 months	1,745	36%
	Original maturity of over 2 years and remaining maturity of ≤2 years or remaining maturity of >2 years and interest rate reset within next 24 months	2,138	44%
Loans to non-financial corporations, broken down by remaining maturity/ interest rate reset period *(loans with an original maturity of over one year)*	Original maturity of over 1 year and remaining maturity of <1 year or remaining maturity of >1 year and interest rate reset within next 12 months	1,920	54%
	Original maturity of over 2 years and remaining maturity of ≤2 years or remaining maturity of >2 years and interest rate reset within next 24 months	2,148	60%