EUROSTAT QUALITY PROFILE

Indicator (definition)	**Convergence of interest rates**: is measured by the coefficient of variation of interest rates between the euro area and the EU Member States. It is split in three sub-indicators: loans to households for house purchases, loans to non-financial corporations up to 1 year and loans to non-financial corporations over 1 year.
Eurostat Unit	Validation of public accounts
Other Commission DGs	DG Economic and Financial Affairs DG Internal Market and Services
European Statistical System Working Group (WG)	None
Date	July 2008

1. Overall assessment of accuracy and comparability (Description of quality grades under the following link: http://circa.europa.eu/Public/irc/dsis/structind/library?l=/general_information/quality_profiles/annex_enpdf/_EN_1.0_&a=d

☐ A ☒ B ☐ C ☐ Indicator to be developed

Data is collected from reliable sources applying high standards with regard to the methodology. Interpretation of the indicator should take into account restriction as regards the comparability over time. Only aggregated data are given.

2. Objective and relevance of the indicator:

The indicator is based on interest rates across the euro area members, the EU-15 and the EU-25 Member States and measure the trend towards integration of financial markets. A rising coefficient of variation of interest rates over time does not necessarily indicate a decreasing degree of financial market integration. The indicator is split in three sub-indicators: loans to households for house purchase, loans to non-financial corporations with agreed maturity up to one year and medium and long-term loans non-financial corporations with agreed maturity over one year. The three sub-indicators are measured for the euro area and the EU only, i.e. they are not available by Member State. It should be noted that variation of retail interest rates is influenced by several determinant factors at both the demand and supply side such as differences in GDP growth rate, household disposable income, the risk profile of borrowers, customer preferences, he average firm size, the concentration in the banking market and the level of foreign bank presence etc.

The indicator has a special importance for the euro area countries that share the same central bank rate. One important aim of the monetary union and the single currency is to build a more harmonised banking system across Europe.

Restriction of the indicator's relevance and other characteristics which may lead to restrictions in using it in monitoring and reporting

3. Data availability: details

(t_1: earliest reference year available; t_2: latest reference year available in July 2008)

	EU-25	EU-15	Euro area	Euro area 12
t_1	1996	1990	1990	1990
t_2	2006	2006	2006	2006

4. Overall accuracy

High ☒
Restricted ☐

As of 2003 the data is collected for the euro area countries via a harmonised process of high quality from the ECB according to ECB Regulation 63/2002 of 20 December 2001 (or ECB/2001/18).
The regulation ensures accuracy requiring either a census of financial institutions or a stratified sample with adequate sample size. The

minimum sample size is such that the length of a 90% confidence interval of the estimate of the average retail interest rate to new enterprises is less than 0.1%. At the same time, the regulation defines in detail the variables that should be reported as well as auxiliary information.
For non EMU countries and for years prior to 2003 for all countries, data are estimated by Eurostat, using the available non-harmonised national retail interest rates. The lack of comparability between these non-harmonised national series, as well as missing series, and the fact that the geographical coverage varies over time, have implications for the results.
Despite the limitations of data before 2003, the dataset provide a general picture of the changes over time in geographical spread of interest rates.

5. Comparability across countries

High	☐	The comparability across countries is not applicable for this indicator, because aggregated data are available only. Comparability between the EU-25 and the euro area may be affected by differences in the non-harmonised data collection of the countries not in the EMU as well as by differences in the design of financial systems and regulatory frameworks.
restricted	☐	
Not applicable	☒	

6. Comparability over time

High	☐	The indicators of convergence of interest rates are not always based on a full data set. The coverage has been improved from 1996 onwards. As the indicator is based on the variance and the mean of average national rates changes in the coverage cause breaks in time series.
Restricted	☒	

7. Development perspective for improving the quality of this indicator (including as far as possible an indication of the burden on Member States and respondents.)

8. Contribution to the coherence of the set/potential to qualify for an integrated policy analysis

Convergence in bank lending rates measures the trend towards integration of financial markets. It constitutes only a small part of the entire interest rate statistics data range available from Eurostat. Links can be established with other interest rate indicators such as Euro yield curves, Long-term interest rates, Central bank interest rates, Short-term interest rates and Retail bank interest rates. Links can also be established with other indicators from the Economic Reform theme.

Relevant European legislation
ECB Regulation 63/2002 of 20 December 2001 (or ECB/2001/18) for the compilation of MFI interest rates.

Council Regulation (CE) No 322/97 of 17 February 1997 (OJ No L 52/1) and Council Regulation (EURATOM, EEC) no 1588/90 of 11 June 1990 on the transmission of the data subject to statistical confidentiality to the Statistical Office of the European Communities (OJ No L 151/ 1).

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