
Retail Interest Rates in Denmark and the Euro Area

Sabina Persson, Statistics

INTRODUCTION AND SUMMARY

In January 2003 the euro area member states and Denmark introduced harmonised interest-rate statistics that illustrate the financing conditions for households and the corporate sector. The statistics enable comparison of retail interest rates across member states and are, *inter alia*, used for analysis of financial integration, market structures, business cycles, monetary-policy adjustments and the stability of the financial system.

This article describes the characteristics of the interest-rate statistics and the key structural reasons for differences in interest rates between Denmark and the euro area.

No conclusions can be drawn regarding competitiveness solely on the basis of the level of interest rates or margins since many other factors, such as fee and loan structures, pledging of collateral and fixed-interest periods, also affect the level of interest rates. Fees, e.g. establishment fees and guarantee costs, which account for a substantial share of the retail banks' earnings, are not included in the interest rates. Furthermore, the products offered vary greatly from one member state to another, which makes it difficult to conclude directly from the statistics what a borrower pays for the same loan in different member states. Differences in interest rates between Denmark and the euro area may also be attributable to the different currencies, but since the krone is very closely tied to the euro this only plays a minor role and is therefore disregarded. Differences in the overall debt burden, and thus the lending risk, between member states are not taken into account either.

A comparison of interest rates shows substantial differences in interest rates between Denmark and the euro area, and also among the euro area member states. This to a high degree reflects the considerable national differences that persist in the retail banking market, in terms of product range, loan structure, market structure and legislation. Interest rates differ the most in the household sector, where the barriers to cross-border lending activities are greatest.

In Denmark, lending rates are generally slightly higher and deposit rates a little lower than the euro area average. The key exceptions are the relatively low interest rates for overdraft facilities in Denmark and the relatively high interest rates on demand deposits, both of which are more important products in Denmark than in the euro area.

Interest rates for housing loans are particularly difficult to compare across member states, in view of the fundamental differences in the markets for home financing. Denmark has a well-developed and unique mortgage-credit sector where lending is based on the issue of bonds. The level of interest on housing loans is slightly higher in Denmark than in most euro area member states due to a relatively high percentage of fixed-rate loans, relatively long maturities and an inherent right to premature redemption. The gap to the euro area has narrowed as a consequence of a structural shift in Denmark towards more loans with short fixed-interest periods.

Finally, the interest-rate statistics show relatively rapid adjustment to changes in official interest rates in Denmark, compared with the euro area.

Below is a brief introduction to retail interest rates in Denmark and the euro area. This is followed by a presentation of the general development in retail interest rates from January 2003 to August 2005, and then by a discussion of interest rates for, respectively, households and the corporate sector. Finally, further development of the interest-rate statistics is outlined.

RETAIL INTEREST RATES IN DENMARK AND THE EURO AREA

There is considerable variation between retail interest rates in the various EU member states, particularly in the household sector where interest rates are influenced by national traditions and regulation. For the largest lending segment, housing loans with a maturity¹ of more than 5 years, the difference between the highest and lowest euro area interest rates exceeded 2 percentage points in both August 2003 and May 2005, cf. Chart 1. Similar gaps are seen for the other deposit and lending segments, and a survey of interest-rate spreads shows that the gaps have not narrowed in the period since the statistics were introduced.² The Appendix provides a detailed overview of interest rates in Denmark and the euro area. The interest-rate statistics are described in Box 1.

Retail interest rates are influenced by such factors as the structure of the MFI sector, competition, financial stability, product differentiation,

¹ Outstanding loans are grouped by maturity rather than fixed-interest period.

² Cf. *Indicators of Financial Integration in the Euro Area*, ECB, September 2005.

The interest-rate statistics include the interest rates of banks, mortgage-credit institutes and other credit institutions (MFIs¹) for deposit and lending transactions with households and the corporate sector (non-financial companies).² Interest-rate statistics for Denmark and the euro area comprise deposit and lending in the national currency with households and enterprises resident in, respectively, Denmark and the euro area. The interest rates are weighted averages based on actual lending volumes and interest rates. The statistics include detailed breakdowns by borrower group, product type, maturity and new and outstanding business.

Interest on *new* business is affected by changes in the customer and product structure from month to month, while renegotiation of short-term loans creates a different loan structure than for outstanding business. Interest on new business is of particular interest in relation to monetary policy since it reflects the retail interest rates' adjustment to changes in the official monetary policy interest rates (the transmission mechanism).

Interest-rate statistics for *outstanding* business comprise loans raised over a long period and thus reflect the historical development in interest rates. A high proportion of fixed-rate loans therefore entails that the interest-rate development lags behind new business. Interest on outstanding business gives a broad picture of the fundamental structure and the overall interest-rate conditions in the member states, and consequently this article focuses especially on outstanding business.

An important difference in the methods for compiling interest rates on new and outstanding lending is that new lending is broken down by initial fixed-interest period (the period until the first interest-rate adjustment), while outstanding lending is broken down by original term to maturity. In addition, new lending, as opposed to outstanding lending, is compiled exclusive of overdraft facilities. Consequently, the interest rates within the individual fixed-interest and maturity bands are not immediately comparable for new and outstanding lending, respectively.

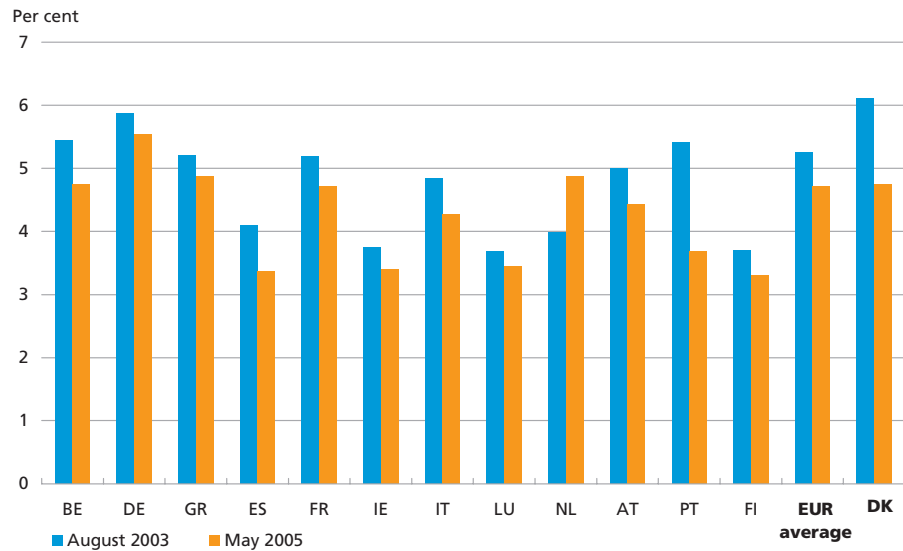
The interest rates solely include interest accrued during the month and current commission, but not non-recurring commission, establishment fees, guarantee fees, stamp duties, etc. Differences in interest rates may therefore be attributable to differences in the distribution of loan costs on, respectively, interest and other costs across the member states. An indication of the total loan costs is given in the interest-rate statistics' information on annual percentage rate of charge (APRC) for new lending to households respectively for housing purposes and as consumer credit. For example, APRC for new consumer credits in Denmark and in the euro area were, respectively, 8.9 and 7.8 per cent on average in March-August 2005, i.e. 1.1 and 0.8 percentage points higher than the effective interest rates alone, cf. the Appendix, Table B. APRC depends on the maturity of the loan since the costs are distributed over the term of the loan. The compilation of APRC is based on the EU's Consumer Credit Directive. The implementation of the Directive may vary across the member states and APRC should therefore be interpreted with some caution.

¹ Monetary Financial Institutions.

² See the introduction to the interest-rate statistics in Tina Christoffersen and Marie Jakobsen, New Interest-Rate Statistics, Danmarks Nationalbank, *Monetary Review*, 2nd Quarter 2003.

MFI SECTOR'S INTEREST RATES ON OUTSTANDING LENDING FOR HOUSING PURPOSES (MATURITY EXCEEDING 5 YEARS) TO HOUSEHOLDS IN DENMARK AND THE EURO AREA

Chart 1



Note: August 2003 (rather than e.g. January 2003) is chosen because this gives a period without any changes in official monetary policy interest rates.

Source: ECB, Danmarks Nationalbank and own calculations.

the use of collateral, and legislation. Interest rates also depend on the borrowers' circumstances, e.g. the finances of the households and the corporate sector, and the borrowers' size, structure and relationship with the financial institution. Product differentiation, including different degrees of collateralisation and the fixed-interest period, is a major explanation for differences in interest rates between Denmark and the euro area.

General development in retail interest rates since 2003

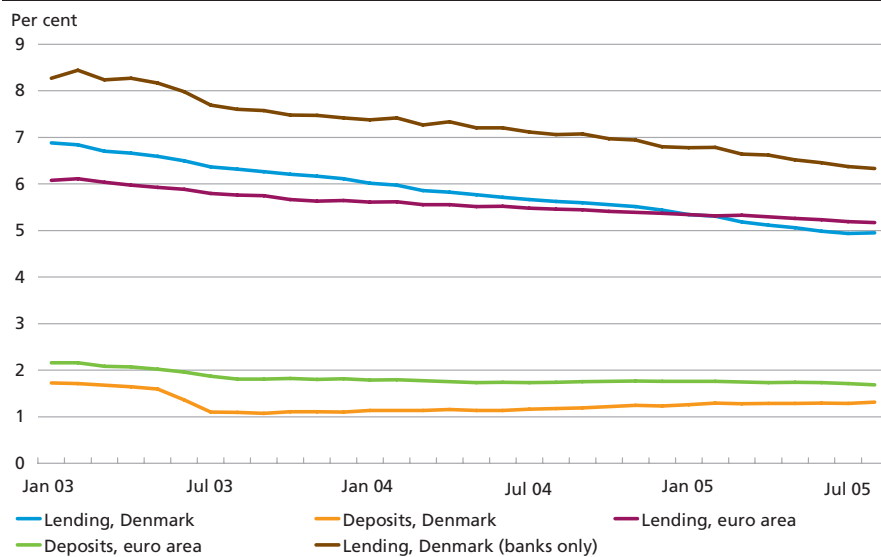
The official monetary policy interest rates and market interest rates have a very significant impact on the general development in retail interest rates. In Denmark, official monetary policy interest rates and money-market interest rates fell by approximately 0.8 percentage point in the period from January 2003 to August 2005. The long-term yields on Danish mortgage-credit bonds have declined more than short-term yields, i.e. the yield curve has flattened.

The development in market interest rates is reflected in retail interest rates, cf. Charts 2 and 3. Both market and retail interest rates have generally fallen slightly less in the euro area than in Denmark.

There are substantial differences in the formation of interest rates between the Danish and euro area MFI sectors. In Denmark, the deposit side solely comprises banks. Their interest rates mirror Danmarks National-

MFI SECTOR'S INTEREST RATES ON OUTSTANDING LENDING TO AND DEPOSITS FROM HOUSEHOLDS IN DENMARK AND THE EURO AREA

Chart 2



Source: ECB, Danmarks Nationalbank and own calculations.

bank's lending rate and the money-market interest rates very closely. When Danmarks Nationalbank lowered its discount rate on 6 June 2003, the banks' deposit and lending rates soon followed suit, cf. Charts 2 and 3. The same degree of adjustment is not seen in the euro area overall.

In Denmark, interest on mortgage-credit loans is governed by the bond market. A considerable proportion of the loans are at fixed interest rates. In comparison with the banks, the development in the mortgage-credit institutes' average lending rate is therefore sluggish. Lending by mortgage-credit institutes comprises approximately 81 and 60 per cent of the MFI sector's total lending to, respectively, households and the corporate sector.¹

The mortgage-credit institutes finance their lending by issuing bonds, which are not included as deposits in the interest-rate statistics. Lending is characterised by a high degree of collateralisation, as well as relatively long maturities (up to 30 years) compared to the euro area. In the euro area, banks account for a higher share of home financing.² The large proportion of mortgage-credit loans makes total deposits as a ratio of total lending to households only 0.3 in Denmark compared to 1.1 in the euro area.³ For Danish banks alone the ratio is 1.3.

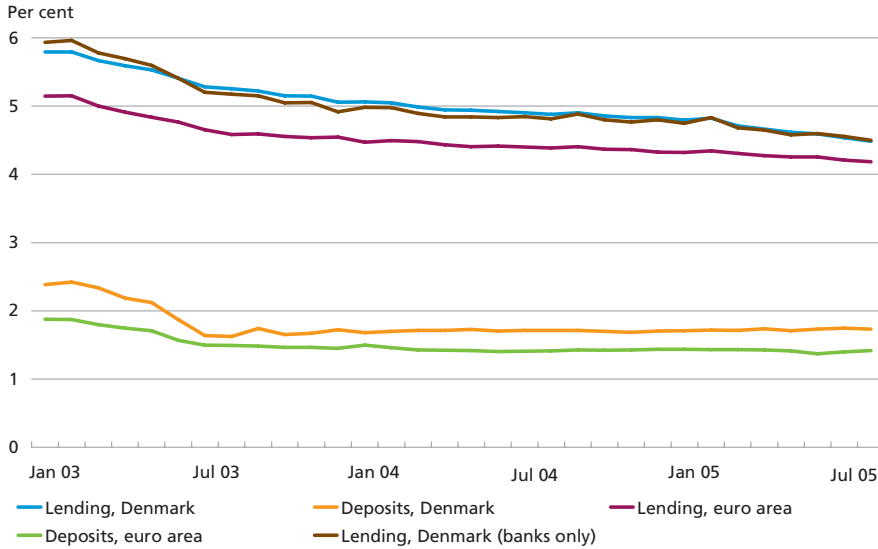
¹ 3-month average for June-August 2005, cf. the Appendix, Table A.

² Some euro area banks, e.g. in France, Italy and Spain, divest parts of their lending portfolios to Financial Vehicle Corporations (FVCs) outside the MFI sector. FVCs are classified as other financial intermediaries. Such divestments reduce the MFI sector's lending.

³ Deposit/lending ratios calculated on the basis of 3-month averages for June-August 2005.

MFI SECTOR'S INTEREST RATES ON OUTSTANDING LENDING TO AND DEPOSITS FROM THE CORPORATE SECTOR IN DENMARK AND THE EURO AREA

Chart 3



Source: ECB, Danmarks Nationalbank and own calculations.

The ratio between total deposits from and lending to the corporate sector is approximately 0.3 in both Denmark and the euro area. The low ratio reflects that liquidity has a price (compared to alternative placement options) and that enterprises therefore seek to minimise their liquid funds.

Lending rates have declined more than deposit rates in both Denmark and the euro area, so that the interest margin has been falling. The interest margin of Danish banks is described in Box 2.

The households' interest rates

The MFI sector's outstanding lending to households is dominated by lending for housing purposes, in both Denmark and the euro area, cf. Chart 4. The interest rates on housing loans to households are at around the same level in Denmark and the euro area (average), cf. Table 1.¹ The mortgage-credit institutes account for 91 per cent of housing loans to households in Denmark.²

There have been relatively large decreases in interest rates on housing loans to households in Denmark, cf. Table 1. The mortgage-credit institutes' interest rates have fallen as a result of lower bond yields, ongoing conversion activity and a structural shift towards a higher proportion of

¹ A more detailed table of interest rates by maturity segments can be found in the Appendix.

² 3-month average for June-August 2005, cf. the Appendix, Table A.

THE BANKS' INTEREST MARGIN

Box 2

The interest margin is the spread between lending and deposit rates and is part of the banks' earnings base. It is normally defined only for the banks since mortgage-credit institutes in Denmark do not receive deposits. The interest margin is influenced by e.g. the option to reduce costs, earnings substitution between interest and fees, competition and the general development in interest rates and the business cycle. For instance, the interest margin typically narrows if interest rates fall from an already low level, because deposit rates decline at a slower rate when approaching zero.

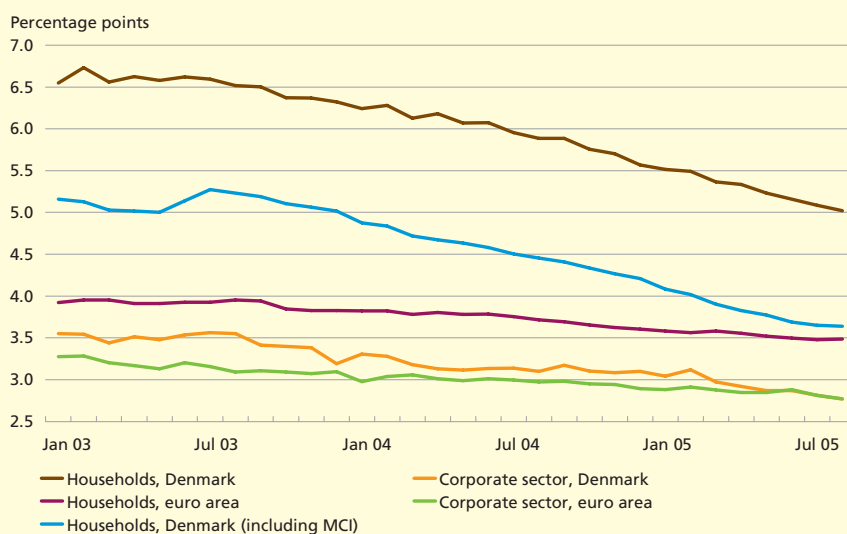
The significance of the interest margin to the banks' earnings has been diminishing over the last 15 years, partly as a result of a structural shift towards fee-based earnings. In 1991 fees accounted for only 14 per cent of total net income from interest and fees, but almost 30 per cent in 2004.¹ Euro area banks have seen equivalent structural earnings substitution.²

The banks' *general* interest margin is defined as the spread between the banks' average lending and deposit rates. *Specific* lending and deposit margins can be calculated by deducting, respectively, a reference interest rate such as 3-month Cibur, from a lending rate, and a deposit rate from a reference interest rate. The interest-rate statistics can be used to monitor the development in general and specific interest margins.

The banks' general interest margin for households has narrowed considerably in Denmark, cf. Chart A. The widespread use of mortgage loans against real property as collateral has contributed to reducing the banks' interest margin in Denmark. In addition, competition may have exerted downward pressure on interest margins. The banks' interest margin for households is, however, still substantially higher in Denmark than in the euro area, while the interest margin for the corporate sector, which is generally closer to money-market equivalent terms, is lower and more in line with that of the euro area.

GENERAL INTEREST MARGINS IN DENMARK AND THE EURO AREA

Chart A



Note: MCI is an abbreviation for mortgage-credit institutes.

Source: ECB, Danmarks Nationalbank and own calculations.

CONTINUED

Box 2

Housing loans secured against real property are included in the euro area's interest margin for households, while mortgage credit with the highest degree of collateralisation is not included in the Danish banks' interest margin. This means that the interest margin is lower in the euro area. Convergence can be achieved by including mortgage credit in the interest margin for Denmark. In that case the gap between the interest margins in Denmark and the euro area narrows considerably, particularly towards the end of the period, cf. Chart A. The more sluggish adjustment of the mortgage-credit institutes' lending rates as a consequence of a higher proportion of fixed-rate loans is reflected in a considerable widening of the interest margin after the lowering of official monetary policy interest rates on 6 June 2003. Even if mortgage credit is included in the Danish interest margin, the figures are still not directly comparable since the mortgage-credit institutes' financing (bond issues) is not included. The mortgage-credit institutes' contribution rate, which by and large corresponds to the banks' interest margin, is around 0.5 percentage point. This indicates that the interest margin for the total Danish MFI sector would be even lower if the deposit side of bond issues was included in the statistics.

- 1 Cf. e.g. Financial Stability 2005, Danmarks Nationalbank, and Michael Olsen and Morten Linnemann Bech, The Banks' Earnings, Danmarks Nationalbank, *Monetary Review*, 2nd Quarter 1998.
- 2 Cf. Financial Stability Review, ECB, June 2005.

MFI SECTOR'S INTEREST RATES FOR OUTSTANDING LENDING AND DEPOSITS IN THE EURO AREA AND DENMARK, JUNE-AUGUST 2005 (3-MONTH AVERAGES)

Table 1

Per cent	Euro area		Denmark		Gap DK - EUR
	Interest rate	Change ¹	Interest rate	Change ¹	
Lending	4.76	-0.86	4.84	-1.65	0.08
Households	5.20	-0.88	4.96	-1.85	-0.24
Lending for housing purposes ² ..	4.63	-0.95	4.67	-1.89	0.04
Consumer credit and other loans ²	6.47	-0.59	7.32	-1.22	0.85
Of which overdraft facilities	9.57	-0.49	6.88	-2.19	-2.69
Corporate sector	4.22	-0.88	4.54	-1.21	0.32
Of which overdraft facilities	5.09	-1.04	4.25	-1.09	-0.84
Deposits	1.65	-0.43	1.45	-0.49	-0.20
Households	1.71	-0.43	1.30	-0.41	-0.41
Demand deposits	0.69	-0.20	1.25	-0.24	0.56
Time deposits	2.64	-0.45	1.46	-0.70	-1.18
Deposits redeemable at notice ³ ..	2.13	-0.26	1.37	-0.62	-0.76
Corporate sector	1.40	-0.45	1.74	-0.64	0.34
Demand deposits	0.94	-0.23	1.52	-0.62	0.58
Time deposits	2.40	-0.68	2.12	-0.67	-0.28

Note: Interest rates for deposits and loans in national currencies. Overdraft facilities are not broken down by purpose. Source: European Central Bank, Danmarks Nationalbank and own calculations.

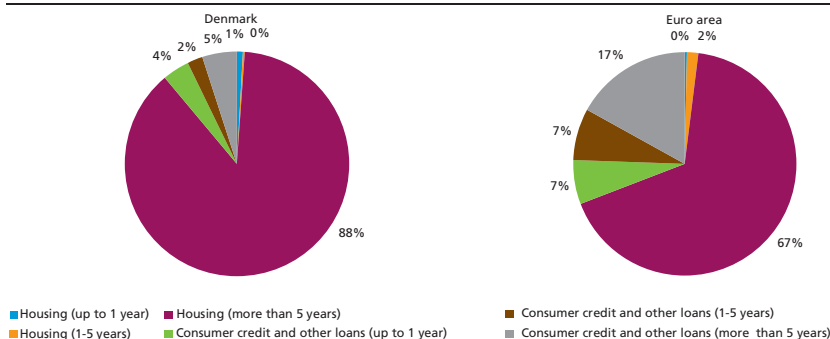
¹ Change in relation to 1st quarter 2003.

² Including overdraft facilities.

³ Deposits redeemable at notice from the corporate sector are included under households since the total volume is very limited.

MFI SECTOR'S OUTSTANDING LENDING TO HOUSEHOLDS BY PURPOSE AND MATURITY, JUNE-AUGUST 2005

Chart 4



Note: The maturity is stated in parenthesis.

Source: ECB, Danmarks Nationalbank and own calculations.

loans with short fixed-interest periods, including capped-rate loans.¹ The loan structure in Denmark has thus approached that of the euro area, where variable-rate loans are far more prevalent, cf. Chart 5. The structural shift has entailed lower interest costs, while at the same time the households' sensitivity to changes in interest rates has increased. This development has taken place even though the yield curve has generally been relatively flat throughout the period, which normally makes it an advantage to raise long-term, fixed-interest loans.

The banks have seen a sharper decline in interest rates on lending for housing purposes than the mortgage-credit institutes. Besides the general development in interest rates, this decline is attributable especially to the banks' introduction of loans on terms equivalent to mortgage credit against real property as collateral (mortgage loans).² Consequently, the banks have won considerable market shares from the mortgage-credit institutes. The banks' share of housing loans has thus risen from 5 per cent in the 1st quarter of 2003 to 9 per cent on average in June-August 2005, an increase from kr. 46 billion to kr. 114 billion.³

Besides large decreases in interest rates on housing loans, Denmark has also seen a relatively large decline in interest rates on overdraft facilities for households, cf. Table 1. Combined with the fact that interest rates on overdraft facilities were already low in Denmark, this meant that on average interest rates on overdraft facilities for households were 2.7 percentage points lower in Denmark than in the euro area in June-August 2005. Bank overdraft facilities are more prevalent in Denmark

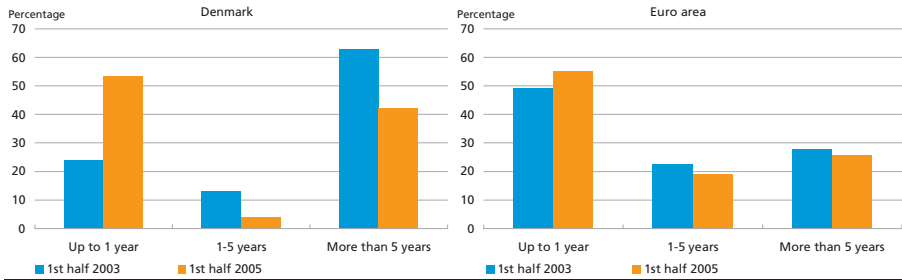
¹ The mortgage-credit institutes' capped-rate loans and their classification in the interest-rate statistics are described in Box 3.

² The banks' mortgage loans and their classification in the interest-rate statistics are described in Box 3.

³ The banks' shares of lending and deposits in Denmark are shown in the Appendix, Table A.

MFI SECTOR'S NEW LENDING (EXCLUDING OVERDRAFT FACILITIES) TO HOUSEHOLDS BY FIXED-INTEREST PERIOD

Chart 5



Source: ECB, Danmarks Nationalbank and own calculations.

than in the euro area in general, and interest rates depend on the customer's total exposure with the bank.¹ A large proportion of both housing and consumer loans in Denmark are granted as overdraft facilities. Particularly for housing loans, the degree of collateralisation is high, which may help to explain the relatively low interest rates in Denmark. New mortgage overdraft facilities against real property as collateral have to some extent helped to reduce interest rates on overdraft facilities for households. In addition, competition in this area may have had an impact on interest rates.

The interest on consumer credit and other loans to households was 0.9 percentage point higher in Denmark than in the euro area on average in June-August 2005, cf. Table 1. This segment consists of very diverse loan types. For instance, the "other loans" category comprises both business-related loans, employee loans, student loans and loans to non-profit organisations. In Denmark, consumer credit and other loans constitute a relatively small proportion of total lending to households, cf. Chart 4. The degree of collateralisation may possibly be lower or the collateral of lower quality for consumer credit and other loans in Denmark than in the euro area, since the mortgage-credit institutes hold a large share of mortgages on real property. In several euro area member states interest rates are low due to a relatively high degree of collateralisation, as well as a relatively large proportion of low-interest loans to students and non-profit organisations. Interest-rates differences may also reflect differences in fee levels.

On the deposit side, the product structure varies greatly for households in, respectively, Denmark and the euro area, cf. Chart 6. Demand

¹ Overdraft facilities constitute approximately 27 per cent of Danish banks' total lending to households. Mortgage-credit institutes and other credit institutions in Denmark do not offer overdraft facilities to households. In the euro area, overdraft facilities account for approximately 5 per cent of the total MFI sector's lending to households.

Users of the statistics often wish to monitor the development in the underlying product types. However, it is also important to limit the number of product subcategories that may subsequently be developed further or discontinued from the market, and it is also expensive to change reporting systems, both for those reporting and for those compiling the statistics. It is therefore important to strike the right balance between level of detail and cost-effectiveness. Below are two examples of how new products are handled in the interest-rate statistics.

Mortgage-credit institutes' capped-rate loans

The mortgage-credit institutes' capped-rate loans are subject to interest-rate adjustment every six months and, irrespective of the cap, they are therefore categorised along with traditional adjustable-rate loans with fixed interest rates for up to 1 year under new business. Under outstanding business, capped-rate loans, like other lending, are grouped by original term to maturity. If the cap comes into force, the loan is therefore not reclassified under outstanding business. Loans for housing purposes with original maturities exceeding 5 years comprise fixed-rate loans, adjustable-rate loans and capped-rate loans with and without deferred amortisation. Interest rates in this segment are therefore particularly sensitive to the loan structure due to the very diverse fixed-interest periods of the loans.

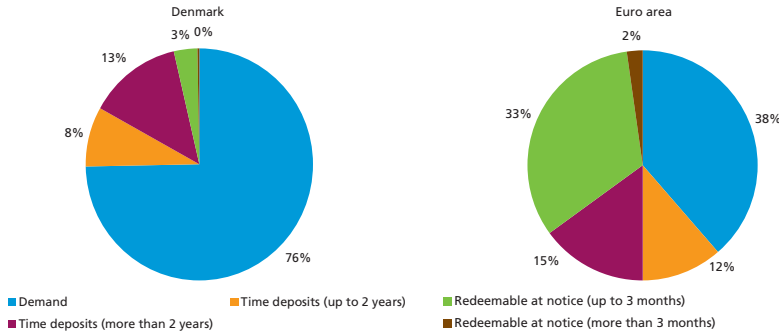
Banks' mortgage loans with real property as collateral

The banks' mortgage loans may be structured as ordinary housing loans with a principal, or as overdraft facilities. The key issue is whether the whole principal or only the net loan amount is booked on the lending side. In the former case, the loan is classified as an ordinary housing loan, and in the latter case as an overdraft facility. In both cases the purpose is housing, but since overdraft facilities are not included under new business, mortgage overdraft facilities, unlike ordinary housing loans, are not reflected in the interest rate for new lending for housing purposes. The vast majority of mortgage loans are ordinary housing loans with a deposit account accruing interest at the same rate as the interest payable on the loan.

deposits are by far the largest deposit product in Denmark, while, in contrast to the euro area, deposits redeemable at notice constitute a very small proportion of total deposits. The interest rate on demand deposits is relatively high in Denmark, while the interest rate on loans redeemable at notice is relatively low compared with the euro area. In Denmark, the interest rate on demand deposits has in fact been increasing marginally since the discount rate was lowered in June 2003, *inter alia* as a result of the growth in the banks' mortgage loans. In France, before 1 March 2005 the demand deposits of households could not accrue interest, which has contributed to a low average for the euro area. The conditions for the households' demand deposits are gradually changing in France.

MFI SECTOR'S TOTAL DEPOSITS FROM HOUSEHOLDS BY PRODUCT TYPE AND MATURITY, JUNE-AUGUST 2005

Chart 6



Note: The maturity is stated in brackets. Demand deposits are not broken down by maturity.
Source: ECB, Danmarks Nationalbank and own calculations.

In Denmark, time deposits include special deposit types such as "millionaire accounts" (a type of lottery account) and tax-privileged deposits such as child savings accounts, pension savings accounts and index-linked accounts. The tax-privileged products in Denmark could be part of the explanation for the relatively low interest rate on time deposits compared to the euro area.¹

Corporate interest rates

Many of the factors that influence households' interest rates in Denmark and the euro area also apply to the corporate sector. However, the conditions are less pronounced, and the structure is more uniform across the member states.

In both Denmark and the euro area the largest segment of outstanding lending to the corporate sector is loans with maturities exceeding 5 years, cf. Chart 7. Mortgage-credit lending constitutes 83 per cent of this segment in Denmark.²

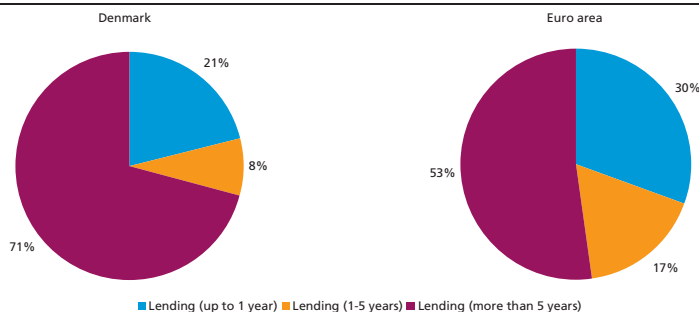
The average interest rate on lending to the corporate sector is higher in Denmark than in the euro area, cf. Table 1. This applies to the total Danish MFI sector, but also to Danish banks alone, cf. Chart 3. A borrower's right to premature redemption, a higher proportion of fixed-rate loans, and a longer average maturity for mortgage-credit institutes' lending contribute to a higher interest-rate level in Denmark. The size of the enterprise and the degree of collateralisation may also be important factors in relation to banks' interest rates.

¹ In Denmark, interest rates on time deposits with maturities exceeding 2 years are lower than on time deposits with shorter maturities (see the Appendix, Table A) since long-term time deposits are typically tax-privileged pension and child savings accounts, while short-term time deposits are mainly fixed-term loans at a higher rate of interest than tax-privileged deposits.

² 3-month average for June-August 2005, cf. the Appendix, Table A.

MFI SECTOR'S OUTSTANDING LENDING TO THE CORPORATE SECTOR BY MATURITY, JUNE-AUGUST 2005

Chart 7



Note: The maturity is stated in brackets.

Source: ECB, Danmarks Nationalbank and own calculations.

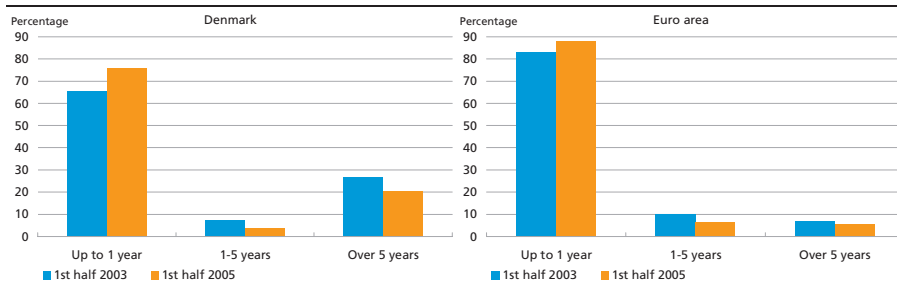
Interest rates for corporate overdraft facilities are lower in Denmark than in the euro area, cf. Table 1. As is the case for households, corporate overdraft facilities are an important product for Danish banks, and in many cases interest rates are negotiated with each customer in relation to the customer's total business with the bank.

Like the households, the corporate sector has increasingly opted for new loans with short fixed-interest periods, cf. Chart 8. Business enterprises in both Denmark and the euro area already had a high proportion of loans with short fixed-interest periods compared with the household sector.

The statistics for interest rates on new business give a more nuanced picture of the corporate sector's borrowing in terms of the interest rates on small and large loans by fixed-interest period. In Denmark, as in the euro area, by far the majority of the loans have fixed interest rates for up to 1 year. Interest rates are generally higher on small loans (up to kr. 7.5 million) than on large loans (over kr. 7.5 million), cf. Chart 9, since large business enterprises often have access to more favourable loan terms.

MFI SECTOR'S LENDING (EXCLUDING OVERDRAFT FACILITIES) TO THE CORPORATE SECTOR BY FIXED-INTEREST PERIOD

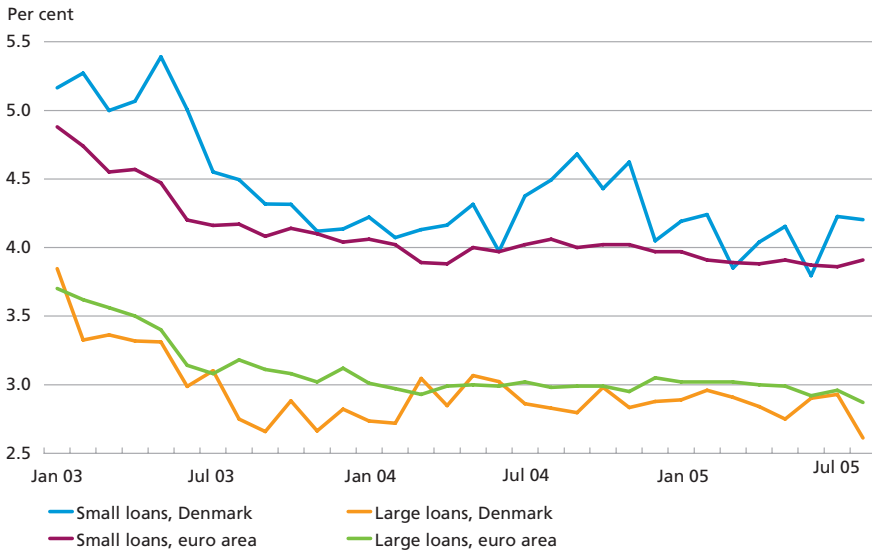
Chart 8



Source: ECB, Danmarks Nationalbank and own calculations.

MFI SECTOR'S INTEREST RATES FOR NEW LENDING TO THE CORPORATE SECTOR EXCLUDING OVERDRAFT FACILITIES (FIXED INTEREST RATES FOR UP TO 1 YEAR)

Chart 9



Source: ECB, Danmarks Nationalbank and own calculations.

Interest rates on small loans are generally higher, and interest rates on large loans lower, in Denmark than in the euro area. In Denmark, most new lending to the corporate sector with fixed interest rates for up to 1 year is granted by banks.

The corporate sector's deposit rates reflect a high proportion of demand deposits, in both Denmark and the euro area, cf. Chart 10. As is the case for households, business enterprises' demand deposits earn interest at a higher rate, and time deposits at a lower rate, in Denmark than in the euro area, cf. Table 1.

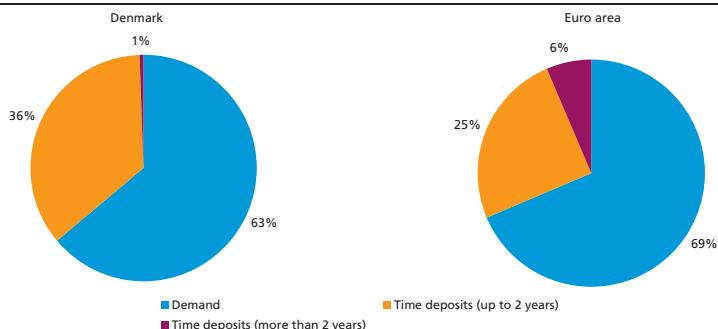
FURTHER DEVELOPMENT OF THE INTEREST-RATE STATISTICS

The advantage of the interest-rate statistics is that they give a very detailed picture of the financial retail markets and provide a far better basis for comparing interest rates across member states than was previously the case.

Owing to a fragmented retail banking market, interest rates vary considerably across Europe. A substantial part of the variation is attributable to different financial structures, product characteristics and national regulation. The period since the interest-rate statistics were introduced is still too short to register large changes in the financial

MFI SECTOR'S TOTAL DEPOSITS FROM THE CORPORATE SECTOR BY PRODUCT TYPE AND MATURITY, JUNE-AUGUST 2005

Chart 10



Note: The maturity of the loan is stated in parenthesis. Demand deposits are not broken down by maturity.
 Source: ECB, Danmarks Nationalbank and own calculations.

integration of the retail banking market in Europe. The interest-rate statistics are a key tool for monitoring future developments.

The ECB is currently further developing the interest-rate statistics in order to enhance the basis for comparison and shed more light on interest-rate differences. Information about collateralisation and fees will give important input on the reasons for interest-rate differences. Another ongoing task is to harmonise the implementation of the breakdown by purpose in view of considerable product variations across member states and difficulties related to the determination of loan purposes in practice. In addition, information on the average fixed-interest period and maturity would contribute to explaining differences in interest rates across member states.

LITERATURE

Bech, M. L. and M. Olsen, The Banks' Earnings, Danmarks Nationalbank, *Monetary Review*, 2nd Quarter 1998.

Christoffersen, T. and M. Jakobsen, New Interest-Rate Statistics, Danmarks Nationalbank, *Monetary Review*, 2nd Quarter 2003.

ECB, *Indicators of Financial Integration in the Euro Area*, September 2005.

Financial Stability Review, ECB, June 2005.

Financial Stability 2005, Danmarks Nationalbank.

APPENDIX

MFI SECTOR'S INTEREST RATES ON OUTSTANDING LENDING AND DEPOSITS IN THE EURO AREA AND DENMARK, JUNE-AUGUST 2005 (3-MONTH AVERAGES) Table A

Per cent	Euro area	Change ¹	Denmark	Change ¹	Gap DK - EUR	Banks' share ²	Change ¹
Lending	4.76	-0.86	4.84	-1.65	0.08	25	1
Households	5.20	-0.88	4.96	-1.85	-0.24	19	2
Housing purposes ³	4.63	-0.95	4.67	-1.89	0.04	9	4
Maturity up to 1 year	4.59	-0.88	5.05	-1.59	0.46	100	7
Maturity 1-5 years	4.29	-1.11	5.82	-0.74	1.53	68	12
Maturity over 5 years	4.64	-0.95	4.66	-1.90	0.02	8	4
Consumer credit and other loans ³	6.47	-0.59	7.32	-1.22	0.85	100	0
Maturity up to 1 year	7.92	-0.71	7.38	-1.01	-0.54	100	0
Maturity 1-5 years	6.88	-0.60	7.72	-1.34	0.84	100	0
Maturity over 5 years	5.72	-0.50	7.10	-1.32	1.38	100	0
Of which overdraft facilities ..	9.57	-0.49	6.88	-2.19	-2.69	100	0
Corporate sector ³	4.22	-0.88	4.54	-1.21	0.32	40	0
Maturity up to 1 year	4.29	-0.85	4.33	-1.42	0.04	100	0
Maturity 1-5 years	3.82	-0.95	4.50	-1.24	0.68	90	2
Maturity over 5 years	4.31	-0.88	4.58	-1.08	0.27	17	1
Of which overdraft facilities ..	5.09	-1.04	4.25	-1.09	-0.84	100	1
Deposits	1.65	-0.43	1.45	-0.49	-0.20	100	0
Households	1.71	-0.43	1.30	-0.41	-0.41	100	0
Demand deposits.....	0.69	-0.20	1.25	-0.24	0.56	100	0
Time deposits	2.64	-0.45	1.46	-0.70	-1.18	100	0
Maturity up to 2 years	1.92	-0.64	1.62	-0.69	-0.30	100	0
Maturity over 2 years	3.19	-0.41	1.36	-0.70	-1.83	100	0
Deposits redeemable at notice ⁴	2.13	-0.26	1.37	-0.62	-0.76	100	0
up to 3 months	2.12	-0.21	1.34	-0.63	-0.78	100	0
over 3 months	2.34	-0.89	1.81	-0.36	-0.53	100	0
Corporate sector	1.40	-0.45	1.74	-0.64	0.34	100	0
Demand deposits	0.94	-0.23	1.52	-0.62	0.58	100	0
Time deposits	2.40	-0.68	2.12	-0.67	-0.28	100	0
Maturity up to 2 years	2.11	-0.61	2.12	-0.68	0.01	100	0
Maturity over 2 years	3.52	-1.16	2.27	-0.29	-1.25	100	0

Note: Euro area interest rates are for loans in euro, and Danish interest rates for loans in Danish kroner. Interest on outstanding loans is grouped by original term to maturity. Overdraft facilities are not specified independently by purpose and maturity.

Source: ECB, Danmarks Nationalbank and own calculations.

¹ Change compared to 1st quarter 2003.

² The banks' share of deposits and lending in Denmark, average June-August 2005.

³ Including overdraft facilities.

⁴ Since the volume is very low, deposits redeemable at notice from the corporate sector are included under the household sector. On average deposits redeemable at notice from the corporate sector have accounted for 13 per cent of all deposits redeemable at notice in Denmark.

MFI SECTOR'S INTEREST RATES ON NEW LENDING AND DEPOSITS IN THE EURO AREA AND DENMARK, MARCH-AUGUST 2005 (6-MONTH AVERAGES)

Table B

Per cent	Euro area	Change ¹	Denmark	Change ¹	Gap DK - EUR	Banks' share ²
Lending	3.65	-0.67	4.14	-1.12	0.49	30
Households	4.44	-0.87	4.46	-1.29	0.02	15
Housing purposes ³	3.68	-0.83	4.25	-1.16	0.57	9
Fixed interest up to 1 year	3.36	-0.75	3.72	-1.21	0.36	22
Fixed interest 1-5 years	3.80	-0.62	3.20	-0.83	-0.60	1
Fixed interest 5-10 years	4.20	-0.85	3.77	-0.97	-0.43	4
Fixed interest over 10 years	4.15	-0.87	4.76	-1.05	0.61	1
APRC, housing purposes	3.92	-0.78	4.47	-1.28	0.55	9
Consumer credit ³	7.04	-0.42	7.75	-1.57	0.71	100
Fixed interest up to 1 year	6.74	-0.66	7.77	-1.55	1.03	100
Fixed interest 1-5 years	6.62	-0.45	6.36	-0.28	-0.26	100
Fixed interest over 5 years	8.05	-0.28	6.21	-1.40	-1.84	100
APRC, consumer credit	7.83	-0.31	8.91	-1.58	1.08	100
Other loans ³	4.03	-0.75	6.30	-1.20	2.27	100
Fixed interest up to 1 year	3.87	-0.73	6.37	-1.27	2.50	100
Fixed interest 1-5 years	4.62	-0.74	4.78	-2.12	0.16	100
Fixed interest over 5 years	4.51	-0.81	4.79	-1.78	0.28	100
Corporate sector ³	3.30	-0.61	3.37	-0.81	0.07	63
Amounts up to kr. 7.5 million	3.95	-0.69	4.35	-1.00	0.40	29
Fixed interest up to 1 year	3.89	-0.68	4.05	-1.10	0.16	60
Fixed interest 1-5 years	4.46	-0.49	5.00	0.35	0.54	55
Fixed interest over 5 years	4.21	-0.81	4.60	-1.06	0.39	7
Amounts exceeding kr. 7.5 million	3.04	-0.53	3.17	-0.70	0.13	70
Fixed interest up to 1 year	2.96	-0.53	2.82	-0.54	-0.14	88
Fixed interest 1-5 years	3.53	-0.19	3.91	-0.62	0.38	67
Fixed interest over 5 years	3.89	-0.58	4.37	-0.91	0.48	17
Deposits (time deposits).....	2.01	-0.41	2.03	-0.56	0.02	100
Households	1.98	-0.36	1.84	-0.56	-0.14	100
Maturity up to 1 year	1.95	-0.35	1.85	-0.56	-0.10	100
Maturity 1-2 years	2.09	-0.43	1.95	-0.24	-0.14	100
Maturity over 2 years	2.27	-0.55	1.59	-0.60	-0.68	100
Corporate sector	2.02	-0.46	2.10	-0.57	0.08	100
Maturity up to 1 year	2.01	-0.46	2.10	-0.57	0.09	100
Maturity 1-2 years	2.20	-0.42	2.07	-0.16	-0.13	100
Maturity over 2 years	3.14	-0.31	2.12	-0.60	-1.02	100

Note: Euro area interest rates are for loans in euro, and Danish interest rates for loans in Danish kroner. Interest on new lending is grouped by fixed-interest period, while interest on new time deposits is grouped by original term to maturity. Interest on overdraft facilities, demand deposits and deposits redeemable at notice is only stated for outstanding lending and deposits.

Source: ECB, Danmarks Nationalbank and own calculations.

¹ Change in relation to 1st half of 2003.

² The banks' share of lending and deposits in Denmark, average March-August 2005.

³ Excluding overdraft facilities.