



Developments in Effective Rates statistics

By Louise Johnston

Tel: +44 (0) 207 601 3426

srdd_ir@bankofengland.co.uk

This article outlines forthcoming developments in effective rates statistics arising from the five-yearly review of the Effective Rates form, implemented from January 2016, and advises users of changes to certain series.

Introduction

The Bank of England publishes a range of statistics on monetary financial institutions' (MFIs) average interest rates across deposit and loan accounts, calculated using interest flows and balances reported to the Bank on statistical Form ER. These data are available in *Bankstats* Table G1.4 and on the Bank's statistical interactive database (IADB).

A review of Form ER was conducted as part of the rolling programme of reviews of statistical returns outlined in the Bank's Statistical Code of Practice. As part of this review, the Bank will start to collect data on individuals and individual trusts' fixed-rate bonds, new business ISAs, credit cards and overdrafts, as well as on SME lending. The Bank will monitor the reliability of these new data during 2016, ahead of an announcement of future publication.

Other changes will come into effect with the publication of January 2016 data, available in the February *Bankstats* publication; these changes are outlined below.

Summary of developments

Definitional changes

- i. Interest bearing balances will be redefined from all accounts that bear interest to accounts that are eligible to earn interest (even if they are not currently doing so). This reflects market conditions where interest bearing deposits may yield a rate of 0%. This means that there may be a shift of balances currently classified as non-interest bearing to interest bearing, reducing the average rates on interest bearing deposits.

- ii. Floating interest rates on all lending are to be redefined from a rate that can change at any time to an interest rate linked to a reference rate (e.g. Bank Rate, LIBOR, lenders' Standard Variable Rates). This will improve the representation of both floating and fixed-rate lending rates. This is most likely to impact rates on lending to private non-financial corporations (PNFCs) where a large proportion of existing loans currently classified as fixed-rate will be reclassified as floating rate loans. For example, if a product is linked to a reference rate, but does not change immediately upon the change in reference rate, this will now be classified as floating.
- iii. Guaranteed Equity Bonds (GEBs), which pay a return based on the performance of the stock market, will be removed from time deposits. As GEBs pay interest in lump sums they can have a distortionary impact on average monthly interest rates.

Changes to existing published series

- iv. Due to the relatively small amount of fixed-rate lending to individuals with initial fixation of less than one year, this series will be discontinued. Business in this category will be incorporated within lending with initial fixation of up to two years. Similarly, fixed-rate lending to individuals with initial fixation of four years will be combined with the existing 'of which 3 years' series and renamed 'of which 3&4 years'.
- v. Bridging loans to households will be discontinued due to the small balances reported.

Changes to sectoral breakdown

- vi. The existing household sector has been split into unincorporated businesses and individuals & individual trusts, to provide a more detailed sectoral breakdown¹ and be consistent with other published statistics relating to lending to individuals. The Bank will continue to calculate and publish stock and new business rates for the total household sector where these data are available. Where a household series cannot be compiled using individuals & individual trusts and unincorporated businesses data, the Bank will publish the corresponding series for individuals & individual trusts. Given that unincorporated businesses make up less than 2% of the total household sector, these series should not be materially different from current household series. Additional series relating to unincorporated businesses will be published in due course.
- vii. Detailed breakdowns of corporate lending previously collected for PNFCs will be collected for small & medium sized enterprises (SMEs) only from January 2016. Thereafter, only effective rates on total PNFC lending, split by fixed and floating rate, will be published. New series showing interest rates on lending to SMEs will be published in due course. PNFC deposit series are unaffected.

The impact of these changes on published series are detailed in Annex 1.

Effective rates sample review

Form ER is reported by a stratified sample of MFIs, where each stratum represents an economic sector or product type. The coverage target for each stratum is at least 75% of total MFI business. To achieve this target with the fewest institutions – and thus minimise the overall reporting burden – only the largest institutions by market share are included. A review of the Form ER reporting sample has been carried out based on balance sheet data reported by all MFIs, resulting in a small change to the sample from January 2016, from 22 to 19 MFIs. No material impact on data quality is expected.

Quarterly distribution of balances

The distribution of balances from effective interest rates data show the percentage share of MFI

business by different loan and deposit types, and fixation periods or maturities, for households and PNFCs.

These data, published in *Bankstats* Table G1.5, will also be impacted by the changes, primarily due to the changes to the PNFC and household sectors. These changes are summarised in Annex 1, Table 2.

Any material step changes in the data associated with these changes will be explained in series footnotes in *Bankstats* Tables' G1.4 and G1.5 and on the IADB.

Benefits to weighting of quoted rates statistics

The Bank also publishes data on quoted interest rates in *Bankstats* Table G1.3 and on the IADB. These data show advertised rates offered to individuals on a range of secured and unsecured lending and deposit products. The average rates are calculated by collecting headline rates advertised by the Effective Rates reporting institutions and weighting by the balances reported on the Form ER.

From January 2016 quoted rates data will be weighted using data reported on Form ER for the individuals & individual trusts sector. This change, from using data for the household sector, is not expected to have a significant effect on published quoted rates.

¹ The current household sector contains unincorporated businesses (i.e. sole traders) as defined by the Office for National Statistics (ONS) sector classifications.

Annex 1: Changes to effective rates series from January 2016 data

Table 1: New and discontinued effective rates series

		Series code	Change
Outstanding deposits			
Households time	of which fixed-rate bonds	CFMB9XX	Discontinued (replaced with CFMZ6I2)
	of which ISAs	CFMB9XZ	Discontinued (replaced with CFMZ6I3)
Individuals & individual trusts time	of which fixed-rate bonds	CFMZ6I2	New series
	of which ISAs	CFMZ6I3	New series
New deposits			
Households time	of which fixed-rate bonds	CFMBX2N	Discontinued (replaced with CFMZ6IE)
Individuals & individual trusts time	of which fixed-rate bonds	CFMZ6IE	New series
Outstanding loans			
PNFC	Fixed up to 1 year	CFMBI59	Discontinued
	Fixed 1-5 years	CFMBI62	Discontinued
	Fixed over 5 years	CFMBI63	Discontinued
Households unsecured	Credit cards - interest bearing	CFMHSDG	Discontinued (replaced with CFMZ6IR)
	Credit cards - all	CFMHSDP	Discontinued (replaced with CFMZ6IS)
Individuals & individual trusts unsecured	Credit cards - interest bearing	CFMZ6IR	New series
	Credit cards - all	CFMZ6IS	New series
Households secured	of which SVR	CFMBX2D	Discontinued (replaced with CFMZ6IX)
	of which Lifetime tracker	CFMBX2E	Discontinued (replaced with CFMZ6IY)
	Fixed up to 1 year	CFMBI65	Discontinued
	Fixed 1-5 years	CFMBI66	Discontinued (replaced with CFMZ6J7)
	Fixed - of which 2 years	CFMBX2F	Discontinued (replaced with CFMZ6J2)
	Fixed - of which 3 years	CFMBX2G	Discontinued (replaced with CFMZ6J3)
	Fixed - of which 5 years	CFMBX2H	Discontinued (replaced with CFMZ6J4)
	Fixed 5-10 years	CFMBI67	Discontinued (replaced with CFMZ6J6)
	Fixed over 10 years	CFMBI68	Discontinued (replaced with CFMZ6J5)
	Bridging loans	CFMHSDD	Discontinued
Individuals & individual trusts secured	of which SVR	CFMZ6IX	New series
	of which Lifetime tracker	CFMZ6IY	New series
	Fixed - up to 5 years	CFMZ6J7	New series
	Fixed - up to 2 years	CFMZ6J2	New series
	Fixed - of which 3&4 years	CFMZ6J3	New series
	Fixed - of which 5 years	CFMZ6J4	New series
	Fixed 5-10 years	CFMZ6J6	New series
	Fixed over 10 years	CFMZ6J5	New series
New loans			
PNFC	Fixed up to 1 year	CFMBJ85	Discontinued
	Fixed 1-5 years	CFMBJ86	Discontinued
	Fixed over 5 years	CFMBJ87	Discontinued
	Up to £1mn	CFMBJ88	Discontinued
	£1mn - £20mn	CFMBJ89	Discontinued
	Over £20mn	CFMBJ92	Discontinued
Household secured	Fixed up to 1 year	CFMBJ42	Discontinued
	Fixed 1-5 years	CFMBJ43	Discontinued (replaced with CFMZ6JS)
	Fixed 5-10 years	CFMBJ44	Discontinued (replaced with CFMZ6JR)
	Fixed over 10 years	CFMBJ45	Discontinued (replaced with CFMZ6JQ)
	Bridging loans	CFMBJ38	Discontinued
Individuals & individual trusts secured	Fixed up to 5 years	CFMZ6JS	New series
	Fixed 5-10 years	CFMZ6JR	New series
	Fixed over 10 years	CFMZ6JQ	New series

Table 2: New and discontinued quarterly distribution of balances series from 2016 Q1 data

		Series code	Change
Outstanding loans			
PNFC loans	Fixed up to 1 year	CFQB3RV	Discontinued
	Fixed 1-5 years	CFQB3RW	Discontinued
	Fixed over 5 years	CFQB3RX	Discontinued
Household secured	Fixed up to 1 year	CFQBK2I	Discontinued
	Fixed 1-5 years	CFQBK2J	Discontinued (replaced with CFQZ6KT)
	Fixed 5-10 years	CFQBK2K	Discontinued (replaced with CFQZ6KS)
	Fixed over 10 years	CFQBK2L	Discontinued (replaced with CFQZ6KR)
Individuals & individual trusts secured	Fixed up to 5 years	CFQZ6KT	New series
	Fixed 5-10 years	CFQZ6KS	New series
	Fixed over 10 years	CFQZ6KR	New series
New loans			
PNFC loans	Fixed up to 1 year	CFQB4VL	Discontinued
	Fixed 1-5 years	CFQB4VM	Discontinued
	Fixed over 5 years	CFQB4VN	Discontinued
Household secured	Fixed up to 1 year	CFQB4VA	Discontinued
	Fixed 1-5 years	CFQB4VB	Discontinued (replaced with CFQZ6LC)
	Fixed 5-10 years	CFQB4VC	Discontinued (replaced with CFQZ6LB)
	Fixed over 10 years	CFQB4VD	Discontinued (replaced with CFQZ6LA)
Individuals & individual trusts secured	Fixed up to 5 years	CFQZ6LC	New series
	Fixed 5-10 years	CFQZ6LB	New series
	Fixed over 10 years	CFQZ6LA	New series