Notwithstanding improved household debt sustainability, the level of mortgage arrears continues to be a cause for concern. The number of mortgage accounts for principal dwelling houses (PDH) in arrears continues to decline. This, however, masks an increase in arrears of 720 days (Chart 6). In terms of buy-to-let (BTL) mortgages, accounts in arrears of over 90 days increased during Q2 2014, with a more pronounced increase among those accounts in arrears of over 720 days. For both PDH and BTL mortgages, the stock of restructured accounts increased over the quarter, with the largest increases recorded in the categories of split mortgages, arrears capitalisations, and reduced payment arrangements. Close to 102,000 PDH mortgage accounts were restructured at end-June, representing an increase of over 10 per cent during Q2. Of these, just over 81 per cent are meeting the terms of the restructure arrangement.

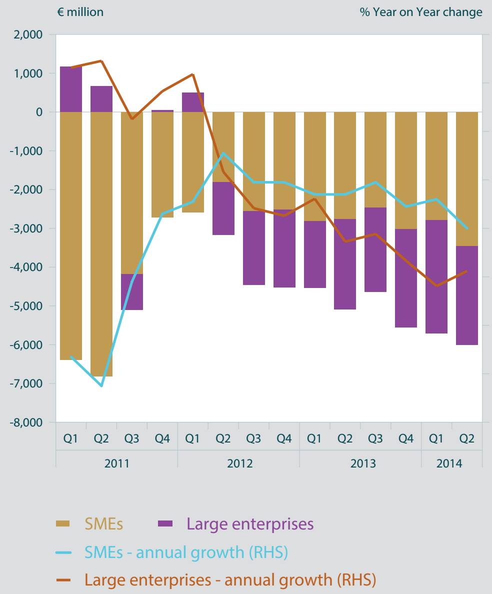
The interest rate on new loan agreements to households for house purchase (with either a floating rate or initial rate fixation of up to one year) fell by 14 basis points to 3.29 per cent at end-July 2014. This is some 66 basis points higher than the equivalent euro area rate. Lending rates for non-housing loans have not fallen over the past year despite ECB rate reductions. Overdraft rates for households were 86 basis points higher at end-July, compared to one year earlier. The methodology underlying the interest rate calculations is further elaborated in Box B.

Box A: Trends in Bank Credit, Deposits and Real Economy Indicators for the SME Sector

by Martina Sherman[2]

Recently released data show that total credit advanced to domestic private-sector enterprises by Irish credit institutions continues to decline, as it has been since mid-2009. The first six months of 2014 registered an annual decline of 9.8 per cent in bank credit extended to Irish businesses (excluding financial-intermediation related sectors) as repayments continued to outpace new lending (see Box A Chart 1). Even when property-related sectors are excluded, credit advanced has shown a deteriorating trend in recent quarters.

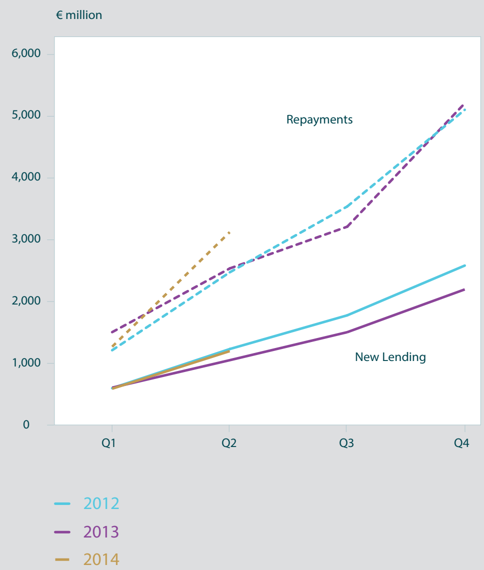
Box A Chart 1: Net Flows in Credit to Irish Private-Sector Enterprises (12-month moving sum) and Annual Percentage Change



Note: Chart excludes Financial Intermediation sectors.

Source: Money and Banking Statistics, Central Bank of Ireland.

Box A Chart 2: Irish SME Cumulative Gross New Lending and Repayments

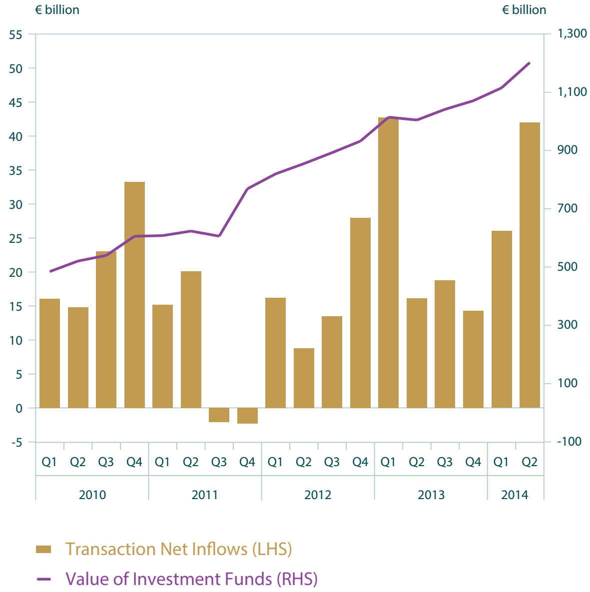


Note: Chart excludes Financial Intermediation sectors. Repayments series is a proxy.

Source: Money and Banking Statistics, Central Bank of Ireland.

2 The author is an Economist in the Statistics Division of the Central Bank of Ireland.

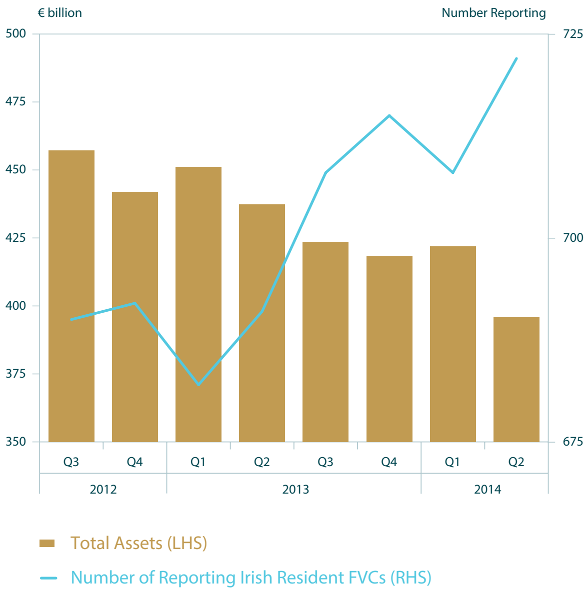
Chart 9: Value of Investment Funds Shares/Units



Note: The movement from Q3 2011 to Q4 2011 includes €114 billion of money market funds that were reclassified as investment funds.

Source: Investment Funds Statistics, Central Bank of Ireland.

Chart 10: Total Assets and Number of Reporting Irish Resident FVCs



Source: Financial Vehicle Corporations Statistics, Central Bank of Ireland.

Box B: MIR - Interest Rate Statistics
by Gavin Doheny[7]

Background

Monetary Financial Institution Interest Rate (MIR) statistics are compiled on a monthly basis from data submitted to the Central Bank by resident monetary financial institutions (MFIs). MIR statistics relate to euro-denominated loans and deposits vis-à-vis both households and non-financial corporations (NFCs). The aim of MIR statistics is to produce a comparable set of euro area interest rates on deposit and lending business compiled on a harmonised basis across countries, primarily for monetary policy purposes. MIR statistics are primarily used for:

- Facilitating a more complete assessment of the impact of monetary policy on the macro economy.
- Analysing the monetary policy transmission mechanism, and particularly, the extent and speed of the interest rate pass-through between official/market rates and lending/ deposit rates.
- Assessing the effect of interest rate movements on the cost of capital and how this influences investment and saving decisions of various economic agents.
- Monitoring structural developments in the banking and financial system arising from changes in MFI interest rates and in volumes of both lending and borrowing.

7 The author is an Economist in the Statistics Division of the Central Bank of Ireland.

Box B: MIR - Interest Rate Statistics
by Gavin Doheny

New Business Rates

MIR statistics are collected on the volumes and corresponding interest rates for both outstanding amounts and new business with respect to loans and deposits. For retail interest rate statistics purposes, new business is defined as any new agreement between the customer and the credit institution. This agreement covers all financial contracts that specify, for the first time, the interest rate of the deposit or loan, including any renegotiation of existing deposits and loans. Automatic renewals of existing contracts, which occur without any involvement by the customer, are not included in new business. The rationale for the MIR new business series is, therefore, to capture interest rate changes for all transactions within each instrument category.

The instrument category pertaining to new household loans for house purchase with a 'floating rate or initial fixation period of up to 1 year' is broader in scope than just 'new mortgages'. There are a number of reasons the definition of this instrument category does not track headline mortgage rates as advertised:

- New business for MIR series includes 'renegotiated' contracts which increases the volume of new business above the level of new mortgages issued.
- In the MIR framework, loans to households for house purchase are defined as '*…for the purpose of investing in housing, including building and home improvements*'. This includes home improvement loans in addition to mortgages issued.
- Interest rates derived from agreed contract rates between customers and issuing institutions will differ from broader rates typically advertised by credit institutions.

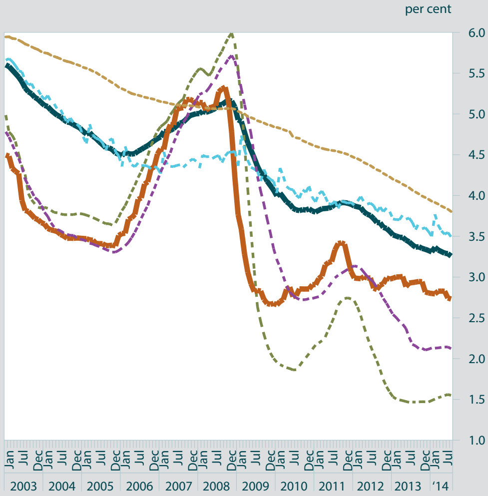
Euro Area Comparisons

Following the creation of a harmonised MIR statistical framework, one might have expected credit institutions with the same monetary environment and broadly similar wholesale funding market conditions to converge in their pricing of retail banking products. However, as Box B Chart 1 shows, retail interest rates have continued to diverge across countries in recent years. A number of factors can contribute to these differences:

- Credit Risk – The perceived risk of credit default has an obvious link with the pricing of retail banking products. In countries with a higher perceived risk of default, higher retail interest rates may be offered. The perceived risk of default can be influenced by developments in house prices, weakening household/NFC financial strength and the growth prospects of the wider macro economy.

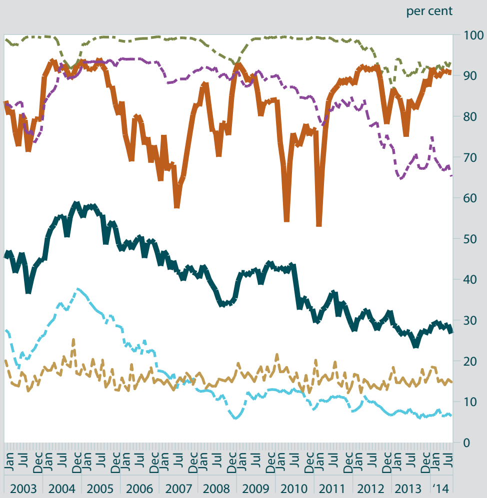
Box B: MIR - Interest Rate Statistics
by Gavin Doheny

Box B Chart 1: Interest Rates on Outstanding Loans to Households for House Purchase



Source: Retail Interest Rate Statistics, Central Bank of Ireland.

Box B Chart 2: Volume of New Business Loans for House Purchase



Note: Box B Chart 2 depicts Loans with a 'floating or initial fixation period of up to one year' as a percentage of the Total New Business Loans to Households for House Purchases.

Source: Retail Interest Rate Statistics, Central Bank of Ireland.

- Market Structure – Structural differences in retail financial markets can lead to divergent interest rates. For example, some markets tend to have higher levels of loan collateralisation. The level of collateralisation can impact on the prevailing interest rate offered. In addition, different levels of competition can lead to interest rate variations across markets and affect the pass-through mechanism.
- Regulatory Framework – While great strides have been made in recent years to harmonise regulatory structures across Europe, legislation at national level can still impact retail interest rates differently. National regulations may restrict the number of times a variable interest rate can be changed annually or control the maximum rate than can be applied to customers.

Initial Period of Loan Rate Fixation

MIR loans are categorised based on the initial period of interest rate fixation, while deposits are classified on their respective maturity length. For loans with an initial fixation period of between 1 and 5 years, some countries may have an average fixation period of just 1 year, while others might average 5 years. This variance will lead to different retail interest rates being reported within the same instrument category across countries. In Ireland, credit institutions have a large portion of loans for house purchase on variable rates. For illustrative purposes, Box B Chart 2 outlines the volume of new business loans for house purchase with a *'floating rate or initial fixation period of up to 1 year'* as a percentage of total household loans. In Ireland and Portugal, variable or one year fixation contracts constitute a very high percentage of their respective mortgage markets. In contrast, Germany and France have a much lower proportion, as longer-term fixed-rate contracts tend to be much more prevalent. This structural difference means countries are impacted differently by movements in benchmark ECB rates.

Box B: MIR - Interest Rate Statistics
by Gavin Doheny

Future Developments

The forthcoming regulation (EU) No 1072/2013, effective from 2015, will introduce a number of changes to the MIR statistics. The MIR statistics will be enhanced to provide increased granularity to the existing data. In addition, the sample of banks submitting MIR data to the Central Bank will be increased.

The current new business series does not distinguish between actual new business and renegotiated contracts. The forthcoming enhancement of the MIR series will allow this distinction. Data will also be collected on rates applicable to standard variable rate, tracked and fixed rate instrument categories.

The interest rate applicable to lower volume loans to NFCs is often used to measure rates offered to the SME sector, although the accuracy of this proxy is somewhat uncertain. The new reporting template will provide a sectoral breakdown of the interest rates charged to SME loans in order to provide increased granularity.

For detailed commentary on the latest developments in financial statistics, please see the following:

- **Monetary Financial Institutions**

  Money and Banking Statistics, July 2014
  http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx

  Security Issues Statistics, July 2014
  http://www.centralbank.ie/polstats/stats/sis/Pages/releases.aspx

  Locational Banking Statistics, Q2 2014
  http://www.centralbank.ie/polstats/stats/locational/Pages/releases.aspx

  Consolidated Banking Statistics, Q1 2014
  http://www.centralbank.ie/polstats/stats/conbs/Pages/releases.aspx

- **Non-Financial Private Sector**

  Money and Banking Statistics, July 2014
  http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx

  Trends in Personal Credit and Deposits, June 2014
  http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx

  Trends in Business Credit and Deposits, June 2014
  http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx

  Interest Rate Statistics, July 2014
  http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx

  Quarterly Financial Accounts, 2014 Q1
  http://www.centralbank.ie/polstats/stats/qfaccounts/Pages/releases.aspx

  Mortgage Arrears Statistics, June 2014
  http://www.centralbank.ie/polstats/stats/mortgagearrears/Pages/releases.aspx

- **Government**

  Quarterly Financial Accounts, 2014 Q1
  http://www.centralbank.ie/polstats/stats/qfaccounts/Pages/releases.aspx

  Holders of Irish Government Bonds, July 2014
  http://www.centralbank.ie/polstats/stats/sis/Pages/releases.aspx