28 September 2006

PRESS RELEASE

Household and non-financial corporate sector interest rates,
interbank lending rates: August 2006

In August 2006, average interest rates on household sector forint-denominated consumer loans rose back towards earlier levels from the preceding three months’ lower values. Average interest rates on other loans to the sector fell. The average interest rate on the sector’s deposits with an agreed maturity of up to two years rose strongly, by more than 3 percentage points, due to banks’ special rate offers before the imposition of withholding tax on interest and dividends from 1 September. By contrast, average interest rates on overnight deposits fell. The increase in average interest rates on non-financial corporations’ forint-denominated loans and deposits continued.

Average interest rates on households’ euro-denominated deposits with an agreed maturity of up to one year rose at a quickening pace in August.

1 Households

1.1 Forint loans and deposits

![Chart 1 Monthly average interest rates and APR on forint loans to households]
The average interest rate on the household sector’s overdrafts moved by 6 basis points to 20.03%. The average interest rate and APR on bank housing loans\(^1\) moved by 8 basis points to 9.54% and by 11 basis points to 12.20% respectively. The average interest rate on consumer credit rose by 152 basis points to 18.81%, with the APR rising by 152 basis points to 27.06%, as a consequence of a shift towards higher-yielding facilities. The average interest rate on other loans fell by 191 basis points to 9.24%, due to interest rate changes by banks.

The monthly amount of consumer credit was HUF 25.9 billion in August. That was HUF 5.6 billion higher than in the preceding month. Excluding overdrafts, consumer credit as a proportion of new loans fell from 50.9% in July to 39.7% in the month under review.

The monthly amount of loans provided for house purchase was HUF 17.7 billion, up HUF 4.0 billion from July. Excluding overdrafts, housing loans as a proportion of new loans fell from 34.4% to 27.1% in one month.

The monthly amount of other loans was HUF 21.6 billion in August. This accounted for 33.1% of total new loans, excluding overdrafts. The amount of new other loans extended to households rose by HUF 15.7 billion and their percentage share of the total by 18.5 percentage points.

\[\text{Chart 2 Monthly average interest rates on forint consumer credit}\]

The average interest rate on consumer loans with a floating interest rate or with up to one year initial rate fixation rose by 233 basis points to 20.99%, due to a change in the composition of loans. That on consumer credit with over 1 and up to 5 years initial rate fixation moved by 11 basis points to 16.93% and that on consumer credit with over 5 years initial rate fixation by 4 basis points to 12.17%.

\[^{1}\] This press release contains market interest rates and APR on bank loans for house purchase. In the case of subsidised housing loans, average interest rates and the APR include interest rates after adjusting for the amount of government subsidy.
The average APR on consumer credit extended to the household sector with a floating interest rate or with up to one year initial rate fixation rose by 197 basis points to 28.01%; that on consumer credit with over 1 and up to 5 years initial rate fixation by 84 basis points 27.17%; and that on consumer credit with over 5 years initial rate fixation by 75 basis points to 23.25%.
The average interest rate on loans for house purchase with floating interest rates or with up to one year initial rate fixation rose by 22 basis point to 9.03%; that on loans with over 1 year and up to 5 years initial rate fixation moved by 8 basis points to 9.10%; that on loans with over 5 years and up to 10 years initial rate fixation fell by 36 basis points to 14.26%; and that on loans for house purchase with over 10 years initial rate fixation moved by 13 basis points to 6.82%.

Chart 5 Monthly average APR on forint housing loans

The average APR on loans for house purchase with floating interest rates or with up to one year initial rate fixation moved by 18 basis points to 10.86% and that on loans with over 1 year and up to 5 years initial rate fixation by 8 basis points to 12.28%. The average APR on loans with over 5 years and up to 10 years initial rate fixation fell by 73 basis points to 17.34%, due to a change in the composition of outstanding loans, and that on loans for house purchase with over 10 years initial rate fixation rose by 23 basis points to 7.61%.

Chart 6 Monthly average interest rates on household forint deposits
The average of interest rates on households’ overnight deposits fell by 38 basis points to 2.35%. The average interest rate on deposits with an agreed maturity of up to one year rose by 86 basis points to 6.51%; that on deposits with an agreed maturity of over 1 year and up to 2 years by 47 basis points to 7.36%; and that on deposits with an agreed maturity of over 2 years by 341 basis points to 7.24%. This rise in average deposits rates was caused by banks’ special rate offers for deposits before the introduction of the withholding tax on interest income in September. The amount of new time deposits from households was HUF 1,461.8 billion in August, up HUF 768.7 billion on the preceding month.

1.2 Euro loans and deposits

The average interest rate on euro overdrafts fell by 39 basis points to 6.92%, due to changes in the composition of loans. The average interest rate on loans for house purchase with floating interest rates or with up to one year initial rate fixation moved by 15 basis points to 4.15%, with the APR falling by 42 basis points to 5.88%. The rise in average interest rates on consumer credit with floating interest rates or with up to one year initial rate fixation since January 2006 continued in August. The average interest rate on consumer credit with floating interest rates or with up to one year initial rate fixation rose by 87 basis points to 11.00%, due to changes in the composition of loans, with the APR rising by 108 basis points to 13.76%. The average interest rate on other loans with floating interest rates or with up to one year initial rate fixation moved by 17 basis points to 5.14%. The amount of consumer credit extended to households with floating interest rates or with up to one year initial rate fixation remained unchanged at HUF 0.8 billion; that of housing loans with floating interest rates or with up to one year initial rate fixation rose by HUF 0.6 billion to HUF 1.0 billion; and that of other loans by HUF 1.1 billion to HUF 2.1 billion.

2 Chart 7 plots data on consumer credit, housing loans and other loans with a floating interest rate or with up to 1 year initial rate fixation.
The average interest rate on euro deposits with an agreed maturity of up to one year rose by 48 basis points to 2.77%, and that on overnight deposits moved by 3 basis points to 0.73%. The amount of deposits from households with an agreed maturity of up to one year rose by HUF 82.8 billion to HUF 164.5 billion.

1.3 Swiss franc-denominated consumer credit and housing loan rates

In August, the average annualised interest rate on Swiss franc-denominated consumer credit with floating interest rates or with up to one year initial rate fixation rose by 22 basis points to 5.87%, with the APR moving by 16 basis points to 9.20%.

The average annualised interest rate on Swiss franc-denominated loans for house purchase with floating interest rates or with up to one year initial rate fixation moved by 6 basis points to 3.17%, with the APR moving by 7 basis point to 5.56%.

\[^3\] Swiss franc-denominated consumer credit includes only personal loans and equity loans. Data on auto loans are not included, given that figures from few data providers are available. The Bank does not collect statistics on other loans denominated in Swiss francs (e.g. hire purchases).
1.4 APR on forint, euro and Swiss franc-denominated personal and equity loans

In August, the average APR on forint personal loans with floating interest rates or with up to one year initial rate fixation moved by 10 basis points to 26.12%; that on euro personal loans rose by 47 basis points to 17.23%; and that on Swiss franc personal loans moved by 19 basis points to 20.02%.

The average APR on forint equity loans with floating interest rates or with up to one year initial rate fixation moved by 16 basis points to 13.86%; that on euro equity loans fell by 38 basis points to 8.59%; and that on Swiss franc equity loans moved by 2 basis points to 7.37% in the month under review.
In August 2006, the total value of new forint-denominated personal and equity loans fell by HUF 0.1 billion to HUF 6.8 billion. The total value of euro-denominated loans rose by HUF 0.1 billion to 0.8 billion and that of Swiss franc-denominated loans by HUF 3.0 billion to HUF 39.6 billion.

In August 2006, the total value of new forint-denominated housing loans with floating interest rates or with up to one year initial rate fixation rose by HUF 1.2 billion to HUF 6.4 billion; that of euro-denominated loans by HUF 0.6 billion to HUF 1.0 billion; and that on Swiss franc-denominated loans by HUF 7.2 billion to HUF 52.7 billion.
2 Non-financial corporations

2.1 Forint loans and deposits

The average interest rate on overdrafts provided to non-financial corporations moved by 16 basis points to 8.45% and that of interest rates on loans other than overdrafts rose by 81 basis points to 8.59%. The amount of loans with floating interest rates or with up to one year initial rate fixation, excluding overdrafts, rose by HUF 46.8 billion to HUF 214.1 billion, and that of loans with over 1 year initial rate fixation by HUF 1.8 billion to HUF 13.8 billion.

The average interest rate on deposits with an agreed maturity of up to one year rose by 53 basis points to 6.35% and that of interest rates on deposits with an agreed maturity of over one year moved by 19 basis points to 6.35%. The amount of new time deposits from non-financial corporations was HUF 1,704.2 billion in August, HUF 258.5 billion higher than in July. The average interest rate on overnight deposits remained unchanged at 2.12%.
The average interest rate on forint loans provided to non-financial corporations up to the equivalent of EUR 1 million, excluding bank overdrafts, rose by 87 basis points to 9.13\% and that of forint loans over the equivalent of EUR 1 million by 56 basis points to 7.93\%.

2.2 Euro loans and deposits

Forint-denominated loans are converted into euros at the MNB’s middle exchange rate for the last day of the month. The interest rates only refer to forint loans. Consequently, loans denominated and recorded in forints are converted into euros retrospectively. Conversion is important to make Hungarian data comparable with those of the European Central Bank and euro area Member States.
In August, the average interest rate on euro overdrafts provided to non-financial corporations moved by 3 basis points to 4.46% and that on loans with floating interest rates or with up to one year initial rate fixation, other than overdrafts, by 7 basis points to 4.36%. The amount of new loans with floating interest rates or with up to one year initial rate fixation, excluding overdrafts, was HUF 127.6 billion, rising by HUF 17.3 billion relative to the preceding month.

The average of interest rates on NFCs’ overnight deposits moved by 2 basis points to 0.64% and that of interest rates on deposits with an agreed maturity up to one year by 12 basis point to 2.83%. The amount of new time deposits from non-financial corporations was higher by HUF 104.0 billion, at HUF 760.1 billion.

**Chart 15** New forint and euro-denominated loans to NFCs’ with floating interest rates or with up to one year initial interest rate fixation

![Chart showing new forint and euro-denominated loans to NFCs’ with floating interest rates or with up to one year initial interest rate fixation]
3 Differentials between loan and deposit rates

In the household market, the differential between average interest rates on consumer credit and on deposits with an agreed maturity of up to one year widened from 11.63 percentage points to 12.29 percentage points. At short maturities, which account for a significant share within NFC sector loans and deposits, the gap between average interest rates increased from 2.00 percentage points to 2.19 percentage points.
In the household market, the difference between average interest rates on euro-denominated consumer credit with floating interest rates or with up to one year initial rate fixation and on deposits with an agreed maturity of up to one year increased from 7.83 percentage points to 8.23 percentage points. The difference between average interest rates on non-financial corporations’ euro-denominated loans with floating interest rates or with up to one year initial rate fixation and on deposits with an agreed maturity of up to one year fell from 1.59 percentage points to 1.54 percentage points.

4 Interbank unsecured forint loans
Turnover in the forint interbank market amounted to HUF 3,261.9 billion in August. That was up HUF 802.2 billion on the preceding month. The average overnight lending rate, weighted by the total value of transactions, rose by 60 basis points to 6.73%; that on loans provided for one month by 34 basis points to 7.06%; and that on loans provided for three months by 21 basis points to 7.11%.

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Daily interbank rates are available on request at the MNB’s Communications Department. In addition, details of average interest rates and the amounts of new loans and deposits in the reference month which the MNB uses to calculate average interest rates as well as interest rates, weighted by month-end stocks, are available on the Bank’s website at:


under IX. Money and capital markets

MAGYAR NEMZETI BANK
STATISTICS
Appendix

Notes to the press release charts

From 2006, the Bank has been using a sampling technique to define the range of data providers, in order to reduce the cost burden on reporting institutions. The disaggregation of the reporting population into homogenous strata has served as a basis for setting the sample. As a result, the composition of reporting institutions has changed, with the number of data providers falling.

Generally, the change in the range of data providers has not influenced developments in average interest rates, except in the case of certain loan facilities (e.g. loans for house purchase with over 10 years initial rate fixation), where few data providers reported significantly different data in 2005. Here, the change in the range of reporting institutions has amplified the effect of changes in the composition of loans.

This press release includes, in addition to data on transactions in the forint interbank market, credit institutions’ lending and deposit rates applied in their loan and deposit transactions with Non-financial corporations (S.11) and Households (S.14), as well as the aggregate amounts of new loans provided to and deposits accepted from the two sectors. The interest rate statistics also include data on Non-profit institutions serving households (S.15), in addition to households. Furthermore, credit institutions also include building societies whose business is to accept deposits from households and non-financial corporations at low interest rates and to provide loans – mainly for house purchase – at below-market interest rates.

The average interest rates, published in the press release, are calculated in a multi-stage process. The different levels of aggregation are illustrated by the table below:

<table>
<thead>
<tr>
<th>Levels of aggregation (i.e. of calculating averages)</th>
<th>Stages of aggregation (calculation of averages)</th>
<th>Who aggregates?</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Average interest rate calculated for data providers</td>
<td>Magyar Nemzeti Bank</td>
</tr>
<tr>
<td>3</td>
<td>Average interest rate on all products of data provider (e.g. consumer credit)</td>
<td>Data provider</td>
</tr>
<tr>
<td>2</td>
<td>Average interest rate on one product (e.g. hire purchase)</td>
<td>Data provider</td>
</tr>
<tr>
<td>1</td>
<td>Interest rate agreed in contract</td>
<td>Data provider</td>
</tr>
</tbody>
</table>

A change in the average interest rate may be caused by a combination of a change in individual interest rates and the composition of loans. In the press release, mention is made of the effect which has more weight in changes in average interest rates (interest rate change or composition effect).

The table also shows that interest rates reported to the MNB are averages and, therefore, the MNB is only able to segregate the effects of interest rate changes or composition changes for average interest rates by data providers individually. Consequently, an interest rate change derived at the highest level of aggregation only means that (provided that there is no supplementary information available for the MNB) a change in the banking sector’s average interest rate has been caused by a change in average interest rates at data providers individually. However, individual data providers’ average interest rates may also change as a result of composition
effects, i.e. because there has been a shift in the percentage shares accounted for by the various facilities and/or within the individual facilities. Generally, the MNB has no information on the size of a composition effect or actual interest rate change occurring at individual data providers.

In the time series downloadable from the MNB’s website, consumer credit is further broken down by purpose:
- Personal loans,
- Car purchase loans,
- Mortgage loans for consumption,\(^5\)
- Loans for purchase of goods or other\(^6\)

The differences between interest rates in this press release are calculated from data before rounding. Consequently, the differences may differ from those derived from rounded interest rates published.

**Charts 1 and 7**

a) Average interest rates on consumer credit, housing loans and other loans refer to new contracts. By contrast, interest rates on overdrafts refer to end-of-month stocks. Consequently, the Bank uses the total amount of new loans and the end-of-month stocks as weights to calculate average interest rates on the first three categories of loans and on overdrafts, respectively. Average interest rates do not include those on non-performing loans.

b) Other loans include, among others, sole proprietors’ entrepreneurial loans as well as non-consumer and loans for purposes other than house purchase.

c) In addition to interest rates on consumer credit and other loans, the Bank also publishes the APR expressing total costs of consumer credit and housing loans of the household sector. The method underlying the calculation of the APR, published by the MNB, is identical to that defined by Government Decree No. 41/1997, and it is applicable to all types of consumer credit and housing loans, irrespective of maturity.

**Charts 2, 3, 4, 5, 7, 8, 9, 12**

From January 2003, contractual data on loans are broken down by initial interest rate fixation instead of original maturity. Interest rate fixation refers to the period for which the interest rate is fixed in loan contracts. All floating rate loans and those fixed interest loans, for which the interest rate is fixed for up to one year in the original contracts, are classified into the category ‘Floating rate or up to one year initial rate fixation’.

**Charts 4 and 5**

a) The weighted average interest rate on housing loans include data on home loans whether they are provided under market conditions or subsidised. Data providers adjust the averages of assets-side subsidised interest rates by adding the amount of government subsidy to the interest rate charged to customers. In the case of liabilities-side subsidised loans, difference between the reference yield on government securities, nearest to the term of the loan, and the interest rate on funds borrowed in the interbank market is added to the interest rate charged to customers. Consequently, interest rates on housing loans also depend on variations in money and capital market interest rates.

b) From January 2003, contractual data on loans are broken down by initial interest rate fixation instead of original maturity. Interest rate fixation refers to the period for which the interest rate is fixed in a loan contract. All floating rate loans and those fixed interest loans, for which the

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\(^5\) The Bank has been collecting data on forint, euro and Swiss franc equity loans since January 2005.

\(^6\) The Bank collects data only on forint instalment loans and other consumer credit.
interest rate is fixed for up to one year in the original contracts, are classified into the category 'Floating rate or up to one year initial rate fixation'.

Charts 6 and 7
Average interest rates on time deposits are calculated using the total amount of new loans as weight, while those on overnight deposits are calculated using end-of-month stocks as weights. Time deposits are classified into the various categories on the basis of original maturity.

Chart 8
Annualised interest rate is an indicator which takes into account the frequency of interest payment. If interest was paid only once a year, the annualised interest rate would be equal to the agreed interest rate. However, in the case of the majority of loan and deposit contracts, interest is paid more than once a year, so the annualised interest rate slightly exceeds the agreed interest rate. If interest was paid with a frequency of less than a year, the annualised interest rate would be lower than the agreed interest rate.

For example, assuming monthly interest payments, the annualised interest rate calculated on the basis of a 10% p.a. interest rate is 10.5%, and 10.3% assuming semi-annual interest payments.

Charts 10 and 12
Average interest rates on time deposits are calculated using the total amount of new loans as weight, while those on overnight deposits are calculated using end-of-month stocks as weights. Consequently, loans excluding overdrafts are weighted by the amounts of new loans, while overdrafts are weighted by end-of-month stocks to calculate average interest rates. Average interest rates do not include interest rates on non-performing loans.

Chart 11
The euro equivalent of forint loans is calculated using the MNB’s central exchange rate for the last day of the month. The interest rates refer only to forint-denominated loans. Consequently, loans denominated and recorded in forints are converted into euros retrospectively.