In August 2007, the average interest rate and the APR on consumer credits to the household sector declined, while the average interest rate on other loans increased. The average interest rates on deposits with agreed maturity generally increased, while the average interest rates on overnight deposits declined. The amount of new Swiss-franc denominated consumer credit and housing loans was high in August as well, but the increase in the amount of new credit, which had been observed since February 2007, stopped.

The average interest rates on non-financial corporations’ forint-denominated bank overdrafts and deposits with agreed maturity over one year increased slightly. The average interest rate on non-financial corporations’ euro-denominated bank overdrafts increased moderately.

1. Households

1.1. Forint loans and deposits

Of the interest rates on loans to the household sector, the average interest rate and the APR on consumer credits declined, while the average interest rate on other loans increased. The average interest rate on overdrafts returned to the value in March 2007, and amounted to 20.40%.

The level of the average interest rate on bank overdrafts increased slightly in the last two years. In August, the market-level\(^1\) average interest rate and the APR on housing loans increased moderately. The average interest rate was 10.56%, while the average APR amounted to 13.17%.

\(^1\) 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.
From the unchanged level of the previous four months, the average interest rate and APR on consumer credits declined close to the value observed in December 2006. The average interest rate was 16.73%, while the average APR amounted to 24.26% in August. Due to changes in the composition of loans, the average interest rate on other loans increased to 13.64%.

In August 2007, the amount of new consumer credits increased, while the amount of housing loans and other loans decreased. The amount of new consumer loans, housing loans and other loans was HUF 22.1 billion, HUF 10.8 billion and HUF 4.4 billion, respectively.

**Chart 2: Monthly average interest rates on household forint deposits**

In August, the average interest rate on the household sector’s overnight deposits declined to the September 2006 level, and amounted to 2.73%.

Average interest rates on deposits with agreed maturity up to two years increased, while those on deposits with agreed maturity over two years remained unchanged. The average interest rate on deposits with agreed maturity up to one year was 7.25%, that on deposits with agreed maturity over one year and up to two years was 8.37%, while that on deposits with agreed maturity over 2 years amounted to 4.21% in August. Due to interest rate campaigns, the average interest rate on deposits with agreed maturity over one year and up to two years increased. The value of new time deposits increased by HUF 371.1 billion to HUF 966.1 billion in August. The reason underlying the increase is that the amounts deposited for one year before the introduction of the withholding tax on interest income in 2006 and expiring in August were deposited for fixed periods again.
1.2. Euro loans and deposits

In August, the value of euro-denominated new loans amounted to a total HUF 1.9 billion. Due to changes in the composition of loans, the average interest rate on euro-denominated overdrafts declined to 10.26%, from a higher value in the previous month. The average APR on consumer credits as well as the interest rate and APR on housing loans declined in August. The average interest rates on consumer credits and other loans remained practically unchanged.

The average interest rate on overnight deposits was 1.04%. Reaching the highest value to date, the average interest rate on euro deposits with agreed maturity up to one year increased by 28 basis points to 3.79%. The value of households’ new euro deposits increased by HUF 38.0 billion to HUF 171.2 billion.

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2 This chart plots data on consumer credit, housing loans and other loans with a floating interest rate or with up to 1 year initial rate fixation.
3 New loans are: consumer credit, housing loans and other loans with a floating interest rate or with up to 1 year initial rate fixation.
1.3. Swiss franc-denominated consumer credit and housing loan rates

Chart 4: Average annualised agreed rates and APR on Swiss franc consumer credit and housing loans with floating interest rates or with up to 1 year initial rate fixation

Continuing the growth trend, which had been accelerating for some months, the average annualised interest rates on Swiss-franc denominated consumer credits and housing loans with floating interest rate or with up to one year initial rate fixation increased in August.

The average annualised interest rate on consumer credits was 6.74%, while the average APR amounted to 9.97%. In August, the average annualised interest rate and the average APR on housing loans amounted to 3.84% and 6.61%, respectively.

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4 Swiss franc-denominated consumer credit includes only personal loans and mortgage loans for consumption. 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. Comparison of the household sector's forint, euro and Swiss franc loans

Chart 5: APR on forint, euro and Swiss franc personal loans and mortgage loans for consumption with floating interest rates or with up to 1 year initial rate fixation

Of the average APRs on personal loans and mortgage loans for consumption, the APRs changed considerably only in case of the euro denomination. The average APR on euro-denominated personal loans increased by 78 basis points to 16.18%, while that on mortgage loans for consumption increased by 45 basis points to 8.63%. In both cases, the underlying reason for the increase was the change in the composition of loans.

In August, the average APR on forint-denominated personal loans with floating interest rates or with up to one year initial rate fixation was 24.32%, while that on Swiss franc-denominated personal loans amounted to 18.19%.

The average APR on forint-denominated mortgage loans for consumption with floating interest rates or with up to one year initial rate fixation was 14.31%, while that on Swiss franc-denominated ones amounted to 7.29%.
In case of the Swiss franc denomination, which is dominating within new loans, the amount of new consumer credit was HUF 68.0 billion in August, HUF 6.1 billion below the value of the previous month. The decline in August seems to reflect a halt in the dynamic growth of new loans experienced since February 2007.

In case of the Swiss franc denomination, which is dominating within new housing loans, the amount of new loans did not continue its growth from the high value of the previous month. The amount of new loans was HUF 57.8 billion, i.e. HUF 0.7 billion below the value of the previous month.

2. Non-financial corporations

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5 Swiss franc-denominated consumer credit includes only personal loans and mortgage loans for consumption.
2.1. Forint loans and deposits

Chart 8: Monthly average forint borrowing and deposit rates of non-financial corporations and the BUBOR

Continuing its growing trend, the average interest rate on non-financial corporations’ forint-denominated overdrafts increased to 9.73%. The average interest rate on other loans, excluding overdrafts, stood at an unchanged 8.99% in August. In the same month, the amount of other new loans with floating interest rates or with up to one year initial rate fixation, excluding overdrafts, declined by HUF 7.1 billion to HUF 194.4 billion.

In the last one year, the average interest rate on overnight deposits increased slightly, reaching 2.38% in August. Since April, the average interest rate has been changing to a greater extent than in the previous periods. Compared to the level of the previous month, the average interest rate on deposits with agreed maturity up to one year remained unchanged at 7.10%. In August, the average interest rate on deposits with agreed maturity over one year returned to the higher level observed in March 2007, and amounted to 6.97%. The value of new time deposits was HUF 1,520.8 billion in August.
According to the breakdown by amounts of loans, the average interest rate on other loans, excluding overdrafts, hardly changed in August. The average interest rate on forint loans provided to non-financial corporations up to the equivalent of EUR 1 million was 9.70%, while that on loans over the equivalent of EUR 1 million amounted to 8.50%.

2.2. Euro loans and deposits

The average interest rate on euro-denominated overdrafts increased slightly, and amounted to 5.57% in August. In the same month there were only minor changes in the average interest rates on non-financial corporations’ euro denominated loans, excluding overdrafts, and deposits.

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Footnote 6: 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.
Compared to the previous month, the average interest rate on loans with up to one year initial rate fixation, excluding overdrafts, remained unchanged at 5.50%. The average interest rate on overnight deposits was 1.05%, while that on deposits with agreed maturity up to one year amounted to 3.82%.

In August, the amount of new loans with floating interest rates or with up to one year initial rate fixation, excluding overdrafts, declined by HUF 17.5 billion to HUF 125.4 billion. At the same time, the amount of new deposits with agreed maturity up to one year was HUF 1,019.7 billion.

Chart 11: Amount of new forint and euro loans to non-financial corporations with floating interest rates or with up to 1 year initial rate fixation

3. Differentials between loan and deposit rates

Chart 12: Differential between non-financial corporate and household sector forint borrowing and deposit rates

In the household market, the differential between average interest rates on consumer credits and on deposits with agreed maturity up to one year has shown a declining trend since February. The interest rate spread declined to 9.48 percentage points in August. At short maturities, which
account for a significant share within NFC sector loans and deposits, the gap between average interest rates was 1.87 percentage points.

**Chart 13: Differential between non-financial corporate and household sector euro borrowing and deposit rates**

In the household market, the difference between the average interest rates on euro-denominated consumer credits with floating interest rates or with up to one year initial rate fixation and on euro deposits with agreed maturity up to one year amounted to 5.96 percentage points in August. 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 euro deposits with agreed maturity up to one year was 1.69 percentage points. In the household market, the amount of new euro-denominated loans is negligible compared to the forint and Swiss franc denominations.

**4. Interbank unsecured forint loans**

**Chart 14: Average official and forint interbank rates in August 2007**

**Chart 15: Average official and forint interbank rates**
In August 2007, the turnover in the forint interbank market increased by HUF 222.3 billion to HUF 2,748.0 billion. The average overnight lending rate, weighted by the total value of transactions, increased by 30 basis points to 7.67%. The average interest rates on interbank loans with maturities up to one and three months remained unchanged at 7.76% and 7.83%, respectively.

Interbank rates for the days of the month are published daily by the MNB on the REUTERS pages. The daily average interest rate on overnight interbank forint loans is available on the MNB’s website as well:


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:

Appendix

Notes to the press release charts

From 2006, the Bank has been using a sample 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 is 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 above 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,\(^7\)
- Loans for purchase of goods or other.\(^8\)

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.

The conclusions regarding interest rate trends are based on trend data from the Demetra Tramo/Seats seasonal adjustment programme.

**Charts 1 and 3**

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 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.

d) The weighted average interest rate on housing loans includes data on housing loans whether they are provided under market conditions or subsidised. The interest rate on state-subsidised loans also includes the extent of state subsidy. 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, the 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.

**Charts 3, 4, 5, and 10**

Since January 2003, contractual data on loans have been 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 1 year in the original contracts, are classified into the category ‘Floating rate or up to 1 year initial rate fixation’.

**Charts 2 and 3**

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 4**

Annualised interest rate is an indicator which takes into account the frequency of interest payment as well. 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,

\(^7\) The Bank has been collecting data on forint, euro and Swiss franc mortgage loans for consumption since January 2005.

\(^8\) The Bank collects data only on forint instalment loans and other consumer credit.
interest is paid more often 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 8 and 10
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 those on non-performing loans.

Chart 9
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.