

## Retail Interest Rates – May 2016

### Key Developments in Loans

- The rate on all new floating rate loan agreements for house purchase<sup>1</sup> (including renegotiations) was 3.12 per cent at end-May 2016, corresponding to a 10 basis point decline over the past twelve months. The equivalent euro rate was 1.84 per cent (Chart 1).
- Excluding renegotiations, new mortgage agreements amounted to €369 million in the month, bringing total new mortgage agreements, over the past twelve months, to €4.5 billion. The weighted average interest rate on pure new mortgage agreements, once renegotiations are excluded, declined 34 basis points over this period and stood at 3.52 per cent in May.
- Variable rate mortgages accounted for just over 60 per cent of all new mortgage agreements in Ireland over the past year. This is significantly above the equivalent euro-area share.
- Renegotiated loans for house purchase totalled €359 million in May 2016 (Chart 2), with variable rate products accounting for the majority of renegotiated contracts. The weighted average interest rate for renegotiated mortgages was 3.01 in May.
- Supplementary quarterly data, however, allows us to examine variation within the variable rate category and across PDH and BTL properties.
- The most pronounced fall in **principal dwelling house (PDH) mortgage rates** was observed for standard

Chart 1: Interest Rates on new floating rate loans agreements to households for house purchase

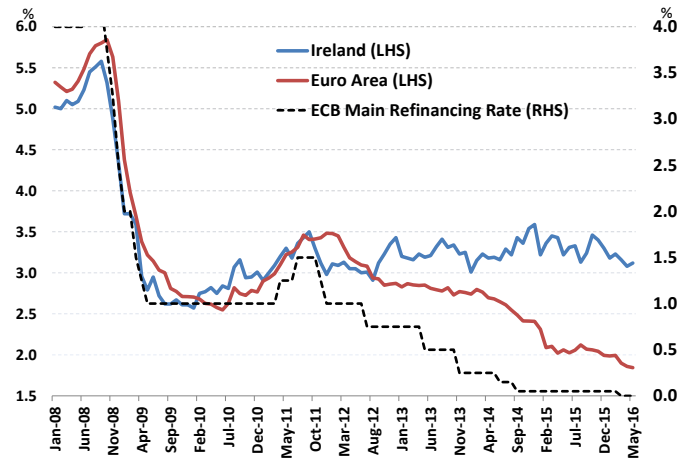


Chart 2: Renegotiated household loans for house purchase

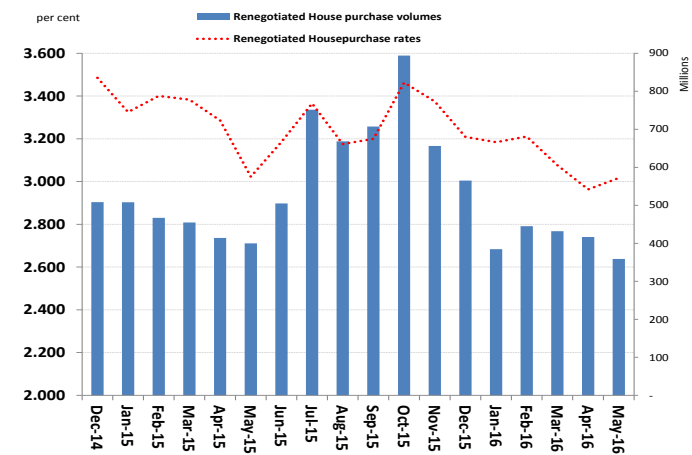
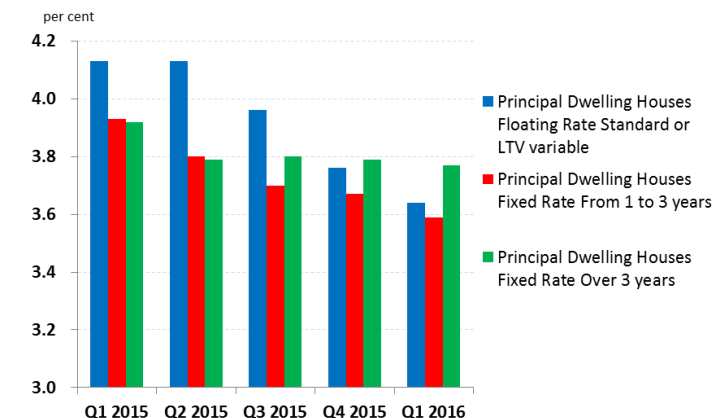


Chart 3: PDH Mortgage Interest Rates<sup>3</sup>



<sup>1</sup> Floating rates include variable rates and loans with an initial fixation up to one year.

variable rate mortgages, which fell by 49 basis points to 3.64 per cent over the year to end Q1-2016 (Chart 3). Fixed rate PDH mortgage rates also declined, with rates fixed for 1-3 years falling by 34 basis points over the same period. The share of fixed PDH mortgages increased over the year and accounted for 50 per cent of all new PDH mortgages in Q1 2016.

- Both **fixed and floating Buy-To-Let (BTL) mortgage rates** declined over the year to end-Q1 2016 (Chart 4). BTL rates fixed for over 3 years declined by the largest margin, falling by 65 basis points to 5.36 per cent over the period. Variable rates for BTLs also declined, falling by 26 basis points to 4.9 per cent over the year.

### Key Developments in Deposits

- **Interest rates on household term deposits** remained subdued in May 2016, at 0.17 per cent (Chart 5). This represented a 22 basis point decline over the year for depositors; comparable to a 29 basis point decline to 0.56 per cent in the corresponding euro area rate.
- **New business NFC term deposits** fell by 14 basis point over the year to stand at 0.04 per cent in May. Corresponding NFC term deposits for the euro area fell by 17 basis point over the year, but recorded a slightly higher rate during May, of 0.15 per cent (Chart 5).
- **The loan to deposit spread remained relatively stable** in recent months, falling by 2 basis point to stand at 367 basis points in May (Chart 6).<sup>2</sup> The rise since 2012 reflects declining deposit and relatively stable loans rates.

Chart 4: BTL Mortgage Interest Rates<sup>3</sup>

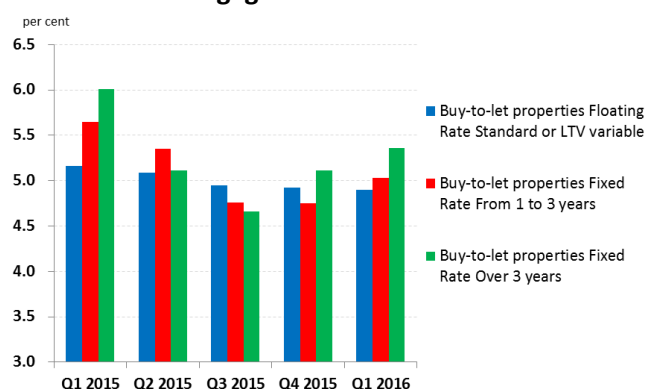


Chart 5: Interest Rates on Household & NFC term deposits

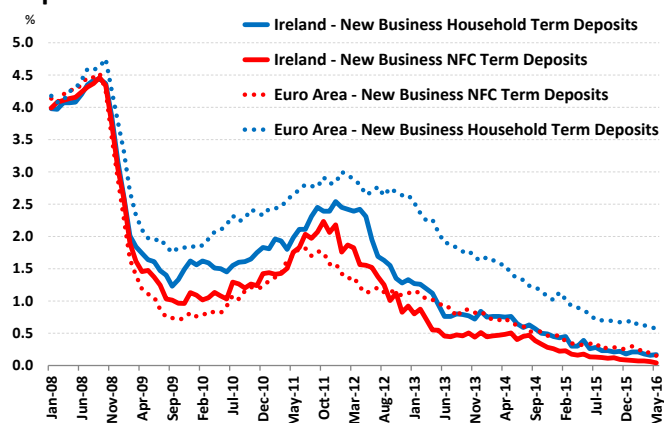
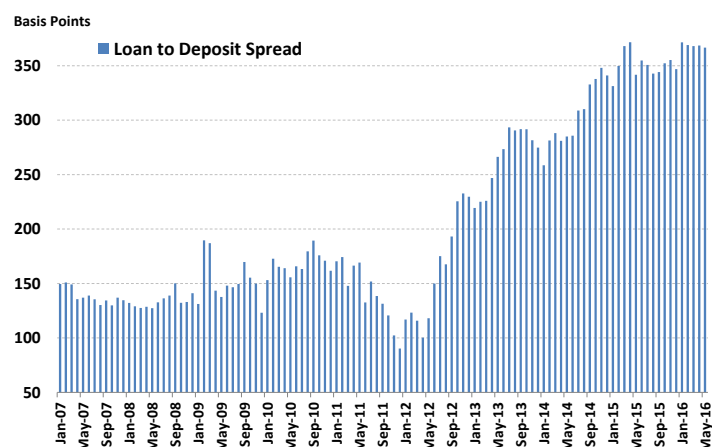


Chart 6: Loan-to-Deposit Spread for Domestic Banks



<sup>2</sup> The loan to deposit spread is the difference between new business term deposits and the weighted average rate on new business loans to Households for either house purchase or consumer purposes, with a floating or up to one year initial fixation rate.

<sup>3</sup> Refers to the volume of new business mortgages drawn down over the respective quarter.

**Note:**

A number of enhancements to the calculation of the national weighted average interest rates and national total business volumes have been introduced in ECB Guideline (ECB/2014/15) on monetary and financial statistics. These enhancements introduced in the Guideline involve changes to the sampling methods. The changes made contribute to a further harmonization of the data compilation process thus improving cross-country data comparison. The changes apply as of January 2015 for reference period December 2014. As a result of these enhancements, data have been recalculated, as per the requirements of Guideline ECB/2014/15, for previous reference periods in order to ensure a consistent and coherent compilation of data across time and to allow for time series analysis. The extensive set of [Retail Interest Rate Statistics](#) tables are available on the Central Bank of Ireland website.

Retail Interest Rate Statistics cover all euro-denominated lending to, and deposits from, households and non-financial corporations (NFCs) in the euro area by credit institutions resident in Ireland. Interest rates on outstanding amounts cover all loans and deposits outstanding on the last working day of the month, while interest rates applicable to new business volumes cover all new loan and deposit business agreed during the month.

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. New business volumes have been exceptionally low in various instrument categories during the last number of months. Low volumes of this nature can result in increased volatility within the interest rate series.

New loan agreements to households for house purchase with either a floating or initial rate fixation period of up to one year are broader in scope than just 'new mortgages', issued at variable interest rates. There are a number of factors that can lead to differences between MIR statistics and interest rates advertised by resident credit institutions, including renegotiated loans, the inclusion of home improvement loans, and the underlying MIR compilation methodology. New data on mortgage interest rates are available, and outlined above, these rates are not part of the MIR framework and represent drawdowns broken down by type of interest rate (i.e. Fixed, Tracker and SVR). These data will be available on a quarterly basis.