



Retail Interest Rates: January 2016

Key Developments

- In January 2016, the volume of renegotiated loans for house purchase stood at circa €385m, decreasing by over €509m since October 2015, when renegotiations stood at almost €894m (Chart 1). In general, the majority of renegotiated contracts occur in the floating and up to 1 year fixation category. **Renegotiated interest rates for house purchase loans declined by 28 basis points to 3.18 per cent in Jan 2016.**
- The loan to deposit spread increased by 25 basis points over the month in January 2016, to stand at 369 basis points. The majority of this increase was accounted for by an increase in variable rate loans for consumption purposes. **New business loan-to-deposit spreads¹ for households have risen sharply since 2012, reflecting a combination of declining deposit rates and stable loans rates (Chart 2).**
- During the fourth quarter of 2014, 61 per cent of all new business mortgages were variable interest rate products. However, **the proportion of new business variable rate mortgages has declined significantly over the last number of quarters to end-December 2015 (Chart 3).** The ratio of fixed versus variable rate mortgages has shifted to an approximate 50-50 split from Q2 onwards. This change reflects the preference for cheaper fixed rate products currently on offer from domestic banks.

Chart 1: Renegotiated Loans

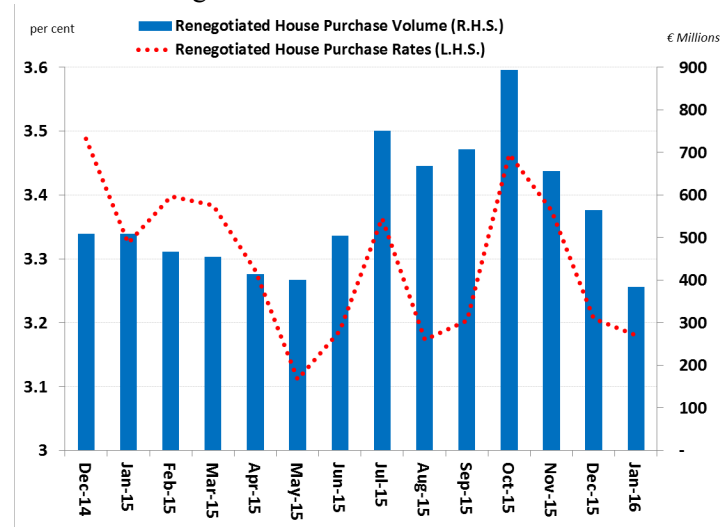


Chart 2: Loan to Deposit Spread for Domestic Banks

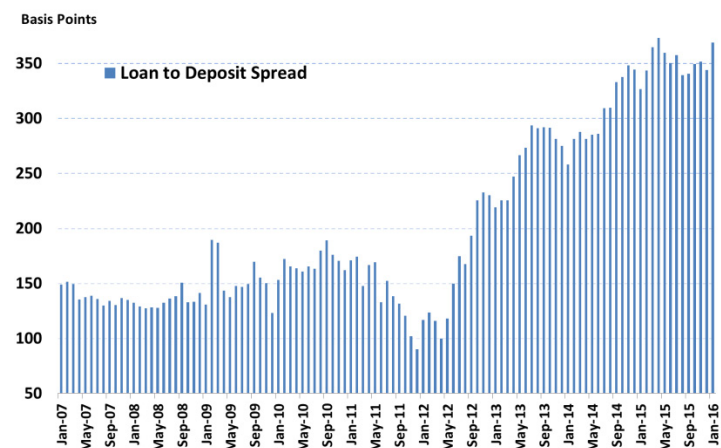
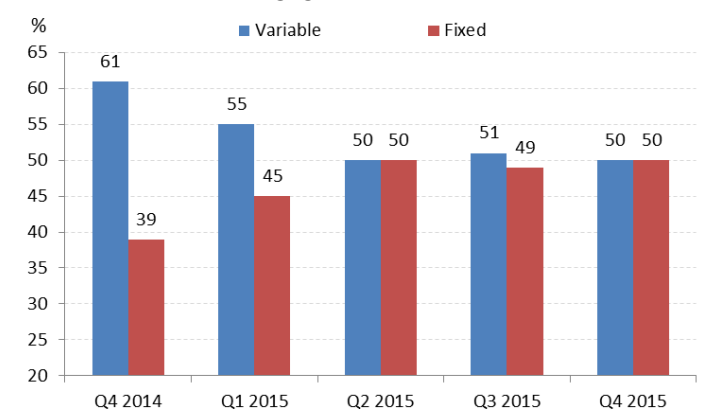


Chart 3: Share of fixed versus variable interest rates for new business mortgages² (as of December 2015)



¹ 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.

² Refers to the volume of new business mortgages drawn down over the respective quarter.

- In general, interest rates on household term deposits continued to decline** in January 2016 (Chart 4). Household deposit rates for outstanding amounts decreased by 4 basis points to 0.98 per cent at end-January 2016. The corresponding deposit rate for new business rose by 2 basis points to 0.23 per cent over the same period. Over the month, **NFC term deposit rates declined for new business and outstanding amounts**, by 1 and 3 basis points, respectively.
- The rate on new floating rate loan agreements³ for house purchase (which includes renegotiations), was **3.18 per cent** at end-January 2016, representing a decrease of 12 basis points over the month. The equivalent euro rate was 1.98 per cent (Chart 5).

Chart 4: Interest Rates on Household and NFC term Deposits

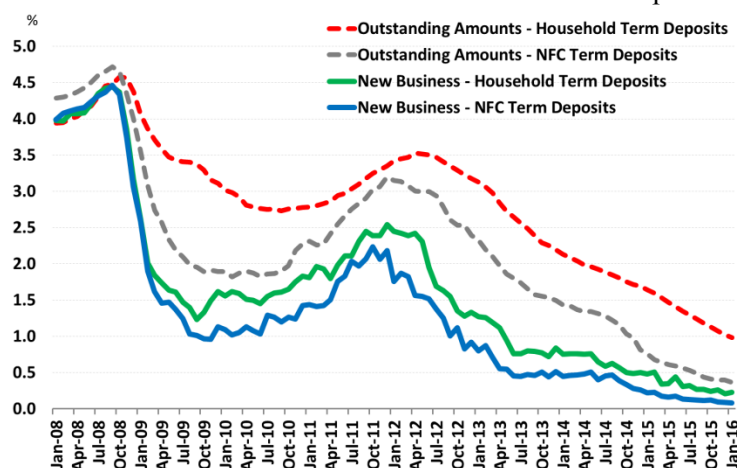
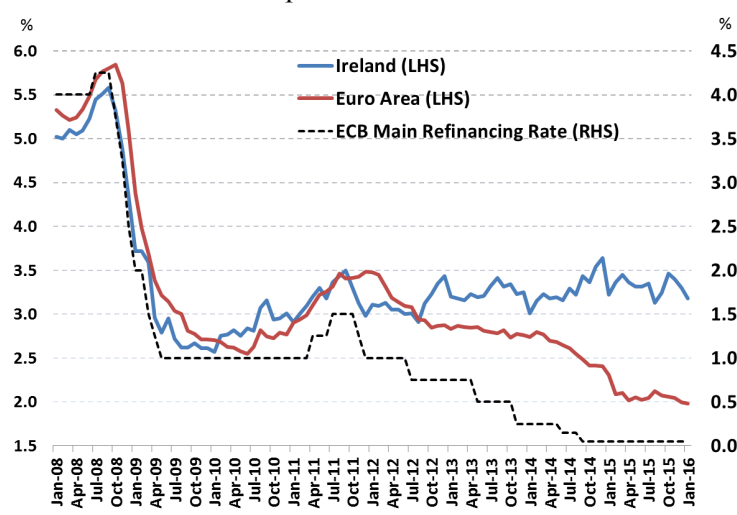


Chart 5: Interest Rates on new floating rate loans agreements to Households for house purchase



³ Floating rates include variable rates and loans with an initial fixation up to one year.

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.