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SUBJECT: Press release

Information for Citizens Regarding Variable Interest Rate

In early 2018, developments in the global economy remained relatively favourable, with accelerated growth in developed countries and intensified global trade. With regard to monetary policy, divergent trends between the US and the eurozone continued. The US Fed increased the benchmark interest rate by a total of 50 basis points in March and June, while the European Central Bank (ECB) did not change the benchmark interest rates, but confirmed expectations of the gradual abolition of the bond purchase programme by the end of the year, with continued reinvestment of the principal of matured securities for as long as it is needed to maintain more favourable liquidity conditions and a high degree of flexibility of monetary policy. The Governing Council of the ECB has decided that the benchmark interest rates will remain unchanged at the current level at least during the summer of 2019 and certainly for as long as it takes to ensure a gradual adjustment of inflation in the eurozone to a level below, but close to 2% in the medium term.

Although the benchmark interest rates of the ECB are an instrument of monetary policy, information on their trends is important because they influence the trends of the benchmark interest rates on the interbank market of the eurozone, Eonia and Euribor.

As the majority of banks continue to offer the current arrangement of loan products with lower interest rates, longer repayment periods and higher loan amounts, in order to better inform and protect users of financial services, we consider it useful to once more draw attention to the types of interest rates in lending to citizens and the risks they carry with them.

When it comes to loans contracted with variable interest rates, there is a risk of interest rate growth during the loan repayment period, i.e. with such loans, the interest rate changes with a change in certain benchmark values, so the loan beneficiary cannot know in advance the final amount of interest on borrowed funds they will pay to the bank for the duration of the loan.

If a variable interest rate is contracted with the loan for the whole period, the consumer is exposed to interest rate risk for the entire duration of such a loan agreement. If a combined interest rate is contracted with the loan, which implies a fixed interest rate period and a variable interest rate period, the consumer is exposed to risk in the period in which the variable interest rate is applied.

Banks' offers of variable interest rates consist of a fixed part (margin) and a variable part, which is most often Euribor – the European benchmark interest rate on the interbank market, which has been below zero (0) for a certain period of time already. However, this does not mean that it will not increase in the future period, which would cause an increase in the interest rate on your loan, i.e. lead to your annuity increasing. The risk of a change, i.e. an increase in the interest rate is higher, the higher the loan amount and the longer the repayment period is.

On the other hand, contracting a fixed interest rate implies its unchangability for the entire repayment period, with the interest remaining the same, regardless of market trends and benchmarks.

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