Interest rates

Published: 1/2/2015 Modified: 30/8/2019
Interest is the price charged by credit institutions for the use of the funds advanced under a granted loan or the price paid by credit institutions for the funds deposited by consumers either as a deposit or a savings deposit.

The interest rate depends on the amount of loan/deposit, maturity of the loan/deposit, the level of the agreed interest rate and method of interest rate calculation used by a credit institution. It is usually calculated using the interest rate on the amount of funds granted or deposited. There are several different methods of interest rate calculation. The level of interest rate depends on the type of loan or deposit, loan/deposit maturity, competition, inflation rate, the country's credit rating, etc. Interest rates may be fixed or variable. When considering a loan agreement, attention should also be paid to the difference between the nominal and effective interest rates as well as interim and default interest rates.

IMPORTANT: Regardless of whether it is a loan or a deposit/savings deposit, a vital piece of information is whether a fixed or variable interest rate is applied to the specific type of loan or deposit. In general, fixed interest rates are safer as they remain the same throughout the life of the agreement, but the downside of these interest rates is that credit institutions generally offer higher fixed than variable interest rates. By contrast, the interest rate agreed as variable may change throughout the life of the agreement depending on developments in variability parameters and, its potential increase has a direct impact on your obligations under a loan, or in the case of your deposits, a decrease in the agreed variable interest rate will result in lower interest earned than expected. Therefore it is very important, especially in the case of loans, that you avoid maximum borrowing that you at the time of negotiating a loan estimate that you can pay since any subsequent negative change in your financial condition may threaten your regular loan repayments and face you with the risk of default interest and termination of the loan agreement by the bank.

Types of interest rates

Nominal interest rate − key interest rate for the calculation of interest, typically shown as an annual interest rate which has to be recalculated for shorter periods and is agreed either as a fixed or variable interest rate.

Note: The maximum nominal interest rate on consumer loans is prescribed by Articles 11.b and 11.c of the Consumer Credit Act.

Effective interest rate − a uniform method of showing interest rates aimed at improving transparency and easier comparison of the terms and conditions for granting loans/making deposits between all credit institutions and credit unions. In addition to the nominal interest rate, the calculation of this interest rate also includes fees charged when a loan is granted or a deposit made and as such this interest rate gives a more accurate presentation of the total price of a loan/deposit. EIR provides more comprehensive information and enables comparison between individual offers so as to reach a decision on the interest rate best suited to your possibilities and expectations.

IMPORTANT: The following is not included in the calculation of effective interest rates on loans:

- public notary fees;
- default interest or any other charges incurred as a result of the borrower's default on loan agreement terms and conditions; and
- postage, telegram and telefax charges.

Note: The maximum effective interest rate that consumers may be charged is prescribed by provisions of Article 20.a of the Consumer Credit Act and Article 17 of the Act on Consumer Housing Loans.

Interim interest rate − this rate is used to calculate and charge interest payable from the moment a loan is granted until the first loan annuity/instalment payment. Where a credit institution charges an interim interest rate, before concluding an agreement, the consumer is advised to check the best timing for the advancement of the loan so as to minimise the interim interest rate.

Default interest rate − charged on the amount of due unpaid liabilities under your loan agreement.

Note: The maximum permitted default interest rate that consumers may be charged is regulated by the Civil Obligations Act.

Interest calculation

Interest may be calculated by applying the simple or compound interest calculation method. Irrespective of the interest calculation method, interest may be calculated and paid at the end of period or at the beginning of period.