

Report on the Calculation of the UFR for 2023

Executive summary

1. EIOPA has calculated the ultimate forward rate (UFR) for 2023 in accordance with the methodology to derive the UFR. For the euro, the applicable UFR for 2023 is 3.45%. As the current UFR for the euro is 3.45%, it doesn't change for the first time since the methodology for deriving the UFR came into effect. In general, the UFR stays the same across all currencies with the exception of the Brazilian real and the Russian ruble. The new ultimate forward rates will be applicable for the first time for the calculation of the risk-free interest rates on 1 January 2023¹.

Expected real rate

2. The UFR is the sum of an expected real rate and an expected inflation rate. The expected real rate is the same for all currencies. It is calculated as a simple average of the past real rates of a basket of representative countries since 1961. For the calculation of the expected real rate for 2023, the observed real rate of 2021, which is -2.98%, newly enters the calculation. The resulting expected real rate is 1.40%. Annex 1 sets out intermediate results of the calculation.

Expected inflation rate

3. The expected inflation rate is currency-specific. It is based on the inflation target of central banks and can take the values 1%, 2%, 3% or 4%.
4. The expected inflation rate remains unchanged for all currencies. The following table sets out the expected inflation rate per currency. Annexes 2 and 3 set out the underlying inflation targets and the determination of the expected inflation rate for currencies without inflation target.

¹ Please note that the EC Delegated act published by the Commission on the 8th of March 2019 introduced additional provisions concerning EIOPA's work on the risk-free technical information, including that the technical information shall be modified by EIOPA at the request of the European Commission.

http://ec.europa.eu/finance/docs/level-2-measures/solvency2-delegated-regulation-2019-1900_en.pdf

	Currency	Expected inflation rate
EUR	Euro	2%
CZK	Czech koruna	2%
GBP	Pound sterling	2%
HRK	Kuna	2%
HUF	Forint	3%
PLN	Zloty	2%
RON	Leu	2%
SEK	Krona	2%
CHF	Swiss franc	1%
ISK	Króna	2%
NOK	Norwegian krone	2%
AUD	Australian dollar	2%
BRL	Real	3%
CAD	Canadian dollar	2%
CLP	Chilean peso	3%
CNY	Renminbi-yuan	3%
COP	Colombian peso	3%
HKD	Hong Kong dollar	2%
INR	Indian rupee	4%
JPY	Yen	2%
KRW	South Korean won	2%
MYR	Ringgit	2%
MXN	Mexican peso	3%
NZD	New Zealand dollar	2%
RUB	Russian ruble	4%
SGD	Singapore dollar	2%
THB	Baht	2%
TRY	Turkish lira	4%
TWD	New Taiwan dollar	2%
USD	US dollar	2%
ZAR	Rand	4%

Ultimate forward rate

5. The following table sets out the calculated UFRs and the UFRs applicable in 2023.

Currency Code	Currency	Calculated UFR	UFR applicable in 2023
EUR	Euro	3.40%	3.45%
CZK	Czech koruna	3.40%	3.45%
GBP	Pound Sterling	3.40%	3.45%
HRK	Kuna	3.40%	3.45%
HUF	Forint	4.40%	4.50%
PLN	Zloty	3.40%	3.45%
RON	Leu	3.40%	3.45%
SEK	Krona	3.40%	3.45%
CHF	Swiss franc	2.40%	2.45%
ISK	Króna	3.40%	3.45%
NOK	Norwegian krone	3.40%	3.45%
AUD	Australian dollar	3.40%	3.45%
BRL	Real	4.40%	5.20%
CAD	Canadian dollar	3.40%	3.45%
CLP	Chilean peso	4.40%	4.50%
CNY	Renminbi-yuan	4.40%	4.50%
COP	Colombian peso	4.40%	4.50%
HKD	Hong Kong dollar	3.40%	3.45%
INR	Indian rupee	5.40%	5.50%
JPY	Yen	3.40%	3.50%
KRW	South Korean won	3.40%	3.45%
MYR	Ringgit	3.40%	3.45%
MXN	Mexican peso	4.40%	4.45%
NZD	New Zealand dollar	3.40%	3.45%
RUB	Russian ruble	5.40%	5.10%
SGD	Singapore dollar	3.40%	3.45%
THB	Baht	3.40%	3.45%
TRY	Turkish lira	5.40%	5.50%
TWD	New Taiwan dollar	3.40%	3.45%
USD	US dollar	3.40%	3.45%
ZAR	Rand	5.40%	5.50%

Annex 1 – Calculation of the expected real rate

The following table sets out the time series of real rates used for the calculation of the expected real rate. Real rates in the table are rounded to two decimal digits for presentational reasons.

Year	Real rates
1961	1.58%
1962	0.09%
1963	0.01%
1964	0.46%
1965	1.09%
1966	1.64%
1967	1.89%
1968	1.82%
1969	2.08%
1970	2.50%
1971	-0.23%
1972	-0.91%
1973	0.81%
1974	-1.11%
1975	-4.82%
1976	-0.94%
1977	-1.66%
1978	0.78%
1979	1.45%
1980	1.05%
1981	3.71%
1982	3.34%
1983	3.48%
1984	4.35%
1985	4.48%
1986	5.83%
1987	5.01%
1988	4.74%
1989	5.66%
1990	5.61%
1991	4.87%
1992	5.53%
1993	3.90%
1994	3.11%
1995	3.56%
1996	2.25%
1997	2.73%
1998	3.12%
1999	2.23%

2000	2.74%
2001	1.77%
2002	1.21%
2003	0.49%
2004	0.47%
2005	0.57%
2006	1.61%
2007	2.58%
2008	1.18%
2009	0.58%
2010	-0.94%
2011	-1.61%
2012	-1.79%
2013	-1.28%
2014	-0.60%
2015	-0.21%
2016	-0.74%
2017	-1.69%
2018	-1.65%
2019	-1.32%
2020	-0.89%
2021	-2.98%

Expected real rate before rounding:

= Average of real rates from 1961 to 2022

= 1.35383%

Expected real rate after rounding:

= **1.40%**

Annex 2 – Inflation targets

The following table sets out the inflation targets. The information was derived from the specified sources on 09 February 2022.

	Currency	Inflation target	Source
EUR	Euro	2%	https://www.ecb.europa.eu/ecb/tasks/monpol/html/index.en.html
CZK	Czech koruna	2% ± 100bps	https://www.cnb.cz/en/monetary-policy/strategic-documents/monetary-strategy-and-inflation-targets/index.html https://www.cnb.cz/export/sites/cnb/en/monetary-policy/.galleries/strategic_documents/inflacni_cil_cnb_en_2010.pdf
GBP	Pound sterling	2%	https://www.bankofengland.co.uk/monetary-policy/inflation
HRK	Kuna	No IT	https://www.hnb.hr/en/core-functions/monetary-policy/monetary-policy-framework
HUF	Forint	3% ± 100bps	http://www.mnb.hu/en/monetary-policy/monetary-policy-framework/inflation-targeting
PLN	Zloty	2.5% ± 100bps	http://www.nbp.pl/homen.aspx?f=/en/onbp/informacje/polityka_pieniezna.html
RON	Leu	2.5% ± 100bps	http://bnr.ro/Inflation-Targets-3241.aspx
SEK	Krona	Around 2%	https://www.riksbank.se/en-gb/monetary-policy/the-inflation-target/
CHF	Swiss franc	Less than 2 %	https://www.snb.ch/en/ifor/public/qas/id/qas_gp_strat#t6
ISK	Króna	2.50% ± 150bps	http://www.cb.is/monetary-policy/inflation-target/ , in addition also: http://www.cb.is/library/Skraarsafn---EN/Monetary-Policy-Committee/Declaration%20inflation.pdf
NOK	Norwegian krone	Close to 2%	https://www.norges-bank.no/en/topics/Statistics/Inflation/
AUD	Australian dollar	2 - 3%	http://www.rba.gov.au/inflation/inflation-target.html

BRL	Real	3.5% ± 150bps	https://www.bcb.gov.br/en/monetarypolicy/historicalpath
CAD	Canadian dollar	2% ± 100bps	https://www.bankofcanada.ca/2021/12/joint-statement-of-the-government-of-canada-and-the-bank-of-canada-on-the-renewal-of-the-monetary-policy-framework/
CLP	Chilean peso	3%	https://www.bcentral.cl/documents/33528/3321344/MPR_December2021.pdf
CNY	Renminbi-yuan	3%	http://english.www.gov.cn/news/topnews/202103/05/content_WS60418850c6d0719374afa006.html
COP	Colombian peso	3% ± 100bps	http://banrep.gov.co/en/monetary-policy/monetary-policy-inflation-targeting-strategy-colombia
HKD	Hong Kong dollar	No IT	https://www.hkma.gov.hk/eng
INR	Indian rupee	4% ± 200bps	https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=51077
JPY	Yen	2%	https://www.boj.or.jp/en/mopo/outline/qqe.htm/#p01
KRW	South Korean won	2%	https://www.bok.or.kr/eng/main/contents.do?menuNo=400015
MYR	Ringgit	No IT	
MXN	Mexican peso	3% ± 100bps	https://www.banxico.org.mx/publicaciones-y-prensa/programas-de-politica-monetaria/%7BA504AB28-7C7C-374A-DD52-7977CBC0489B%7D.pdf http://educa.banxico.org.mx/banco_mexico_banca_central/politica-monetaria-banco-mexi.html
NZD	New Zealand dollar	2% ± 100bps	https://www.rbnz.govt.nz/monetary-policy
RUB	Russian rouble	4%	http://www.cbr.ru/eng/dkp/?prtid=thin_adj#highlight=inflation%7Ctarget%7Ctargeting
SGD	Singapore dollar	No IT	https://www.mas.gov.sg/monetary-policy/Singapores-Monetary-Policy-Framework

THB	Baht	1%-3%	https://www.bot.or.th/English/MonetaryPolicy/MonetPolicyKnowledge/Pages/Target.aspx
TRY	Turkish lira	5% ± 200bps	http://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/Core+Functions/Monetary+Policy/PRICE+STABILITY+AND+INFLATION/Inflation+Targets
TWD	New Taiwan dollar	No IT	
USD	US dollar	2%	https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm
ZAR	Rand	3%-6%	https://www.resbank.co.za/en/home/what-we-do/monetary-policy/inflation-targeting-framework

Annex 3 – Derivation of the expected real rate for currencies without inflation target

For currencies without inflation target the expected inflation rate is derived from the past inflation rates and their projection to the future. The following table sets out for the affected currencies the average inflation over the last 10 years and the projected inflation rate in 2056 (in 35 years) according to an ARMA model.

Currency	Average inflation rate over the last 10 years	Projection
Croatian kuna	1.2%	2.2%
Malaysian ringgit	1.8%	2.3%
Hong Kong dollar	2.5%	2.4%
New Taiwan dollar	0.9%	1.6%
Singapore dollar	1.1%	2.4%

According to the UFR methodology, the expected inflation rate for currencies without inflation target is 2%, unless both the 10-year average and the projection clearly indicate that the inflation is expected to be at least one percentage point different from 2%. All currencies therefore fall in the 2% bucket.