

7. Monetary Conditions

The most important change was the ending of the exchange rate commitment in the area of the monetary policy in Q2.

The ending of the regime of forex interventions of the CNB was the most important event in relation to the monetary policy in Q2 2017, it occurred on 6th of April. After the period of pressure on the break of the commitment (the value of the foreign exchange rate stayed at 27.02¹ per euro for every day since 1. 1. 2017) the crown mildly depreciated in the first April days. Following the exit from the commitment, it immediately appreciated and the foreign exchange rate against euro fell to 26.53 within 10th April. However, the koruna did not maintain this value and it fluctuated around an average value 26.86 crowns per euro in the second half of April. Consequently, it started consistently appreciate. With the exception of a short depreciation on 18th May, the rate was strengthening throughout the whole May and the first half of June. It reached the minimum for Q2 on 13th June (26.15). Until the end of the quarter, it already only oscillated in a narrow range between 26.20 and 26.30.

Exit from the exchange rate commitment also meant the halting of purchases of foreign currencies.

The exchange rate commitment requiring the purchase of foreign currencies lasted still till the 5th April. The CNB purchased forex valued 0.7 bn euro. This is only a tiny fraction in comparison to the previous month, when the purchases of foreign currency attained 19.3 bn euro. Monetary policy rates, which represent the main instrument of the execution of the monetary policy did not change in Q2 and remained at the so called technical zero.

The interbank rates ceased falling further.

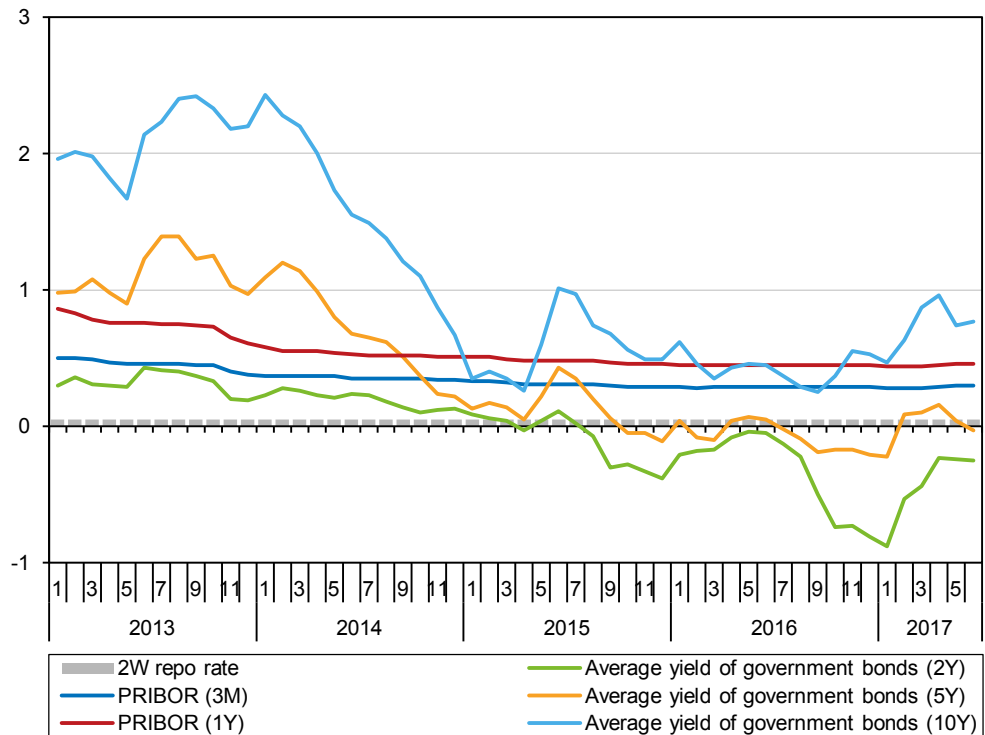
Despite the constant monetary policy rates (both Czech and European), the trend shifted for the interbank interest rates, which started to slightly grow after more than four-year period of fall. The three-month rate PRIBOR increased by 0.01 p.p. to 0.29% in April and subsequently to value 0.30% in May, where it remained. The annual PRIBOR increased from the March 0.44% to 0.45% and then to 0.46%. The yields of government bonds, which grew mildly during Q1 still slightly increased in April, then they however kept falling (medium term and short-term bonds) or stayed nearly the same (short term bonds). The yield on two-year bonds still remains negative, the interest rate for the medium-term bonds again moved narrowly below zero in June.

The growth of the amount of money in the economy accelerated.

Year-on-year growth of the amount of money in the economy accelerated during the first half of the year and crossed 10.0%. In Q2, the money stock increased by 12.5% year-on-year. One-day deposits, which grew by 14.7% were the main factor behind the growth. The volume of repo operations and participation certificates grew sharply, they however form only a small fraction of the total volume of money. On the contrary, the fall of the volume of deposits with agreed maturity, which notably decreased in 2016, mildly weakened.

¹ The CNB data. Unless stated otherwise, all data in this chapter have been taken over from the ARAD database of the Czech National Bank.

Chart 18 **Market interest rates (in %)**



Source: CNB

Deposit interest rates remain very low.

The situation remained practically the same for the deposit interest rates. The current accounts of households held nearly zero interest – the average rate was 0.04% in May and June. The short-term oscillation for deposits with agreed maturity in February to April, when the interest grew, returned to the long-term trend – the average rates fell by 0.34 p. p. from April till June and ended on 0.64%. However, in contrast to the previous two years, the low interests were not accompanied by nearly zero price growth. The deposits are thus losing the real value. Entrepreneurs did not have many options, how to keep the value of their money either. The rates on all types of accounts nearly unified and fluctuated between 0.03% and 0.05%.

Both households and businesses made use of lasting low rates on credit...

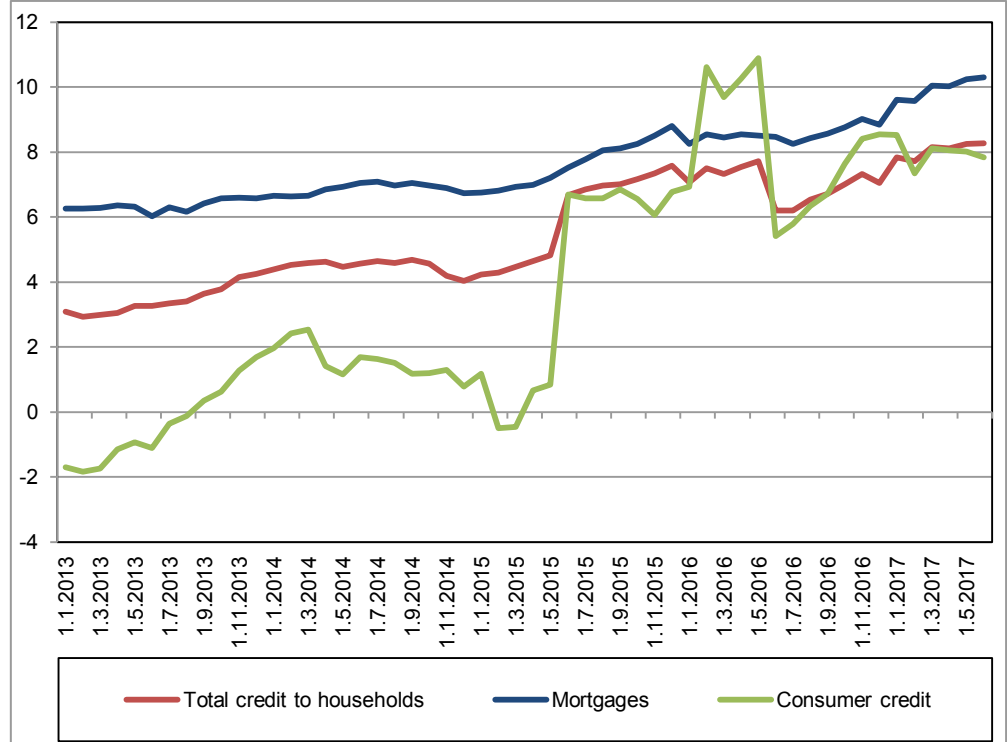
The rates for credit to households developed in a varied manner depending on the type and term of the fixed rate credit, nonetheless the several years lasting fall halted at the turn of years 2016 and 2017 and the rates were rather stagnating. The mild drop continued for interests on the consumer credit, which fell for the first time on average below 10.0% in the past quarter. Their average interest was 9.32% in June 2017. The rates started to slightly grow for the thoroughly watched mortgages already in December of the last year. Very mild growth continued also this year. The rates on fixed rate credits with terms between 1 and 5 years increased from 2.18% in March to 2.22% in June 2017. They increased for terms of the fixed rate credit between 5 and 10 years from 2.11% to 2.18% for the same time period. The interest rates on credit to non-financial business also ceased falling, but they were mildly fluctuating above the level from the end of year 2016.

...the volume of both the provided mortgages and credit to non-financial businesses increased.

The volume of credit provided to households expanded by 32.4 CZK bn during Q2. The mortgages were forming most of this increase. The volume of the provided mortgages expanded by 25.7 bn and followed thus in the extraordinarily strong increase from the previous quarter. The volume of credit and liabilities of the non-financial businesses expanded by 17.9 bn during Q2. At the same time the growth of the volume of credit provided in foreign currency, which accelerated in the second half of the last year and in Q1 2017, halted. The volume of this credit still increased in April, however it was already falling both in May and June.



Chart 19 Credit provided to households (year-on-year growth, in %)



Source: CNB