

7. Monetary Conditions

Multiple increase of monetary policy-relevant interest rates occurred towards the end of year 2021.

During Q4 2021, significant increase of the basic monetary policy-relevant rates eventuated in reaction to the price growth acceleration. The first increase occurred already at the end of October (two-week repo rate was raised by 0.75 p.p. to 1.50%¹) and the next followed in November (+1.25 p.p. to 2.75%). The repo rate was raised for another 1 p.p. to 3.75% at the end of the year, which was the most since year 2008. For the whole year 2021, the two-week repo rate increased by 3.25 p.p. The discount rate was 2.75% and Lombard rate 4.75% towards the end of year 2021. Koruna foreign exchange against euro reached an average of 25.38 CZK/EUR in Q4 and it strengthened by 4.8% year-on-year (it corresponds to 1.29 CZK). Compared to Q3, the koruna foreign exchange was stronger by 0.5% (0.12 CZK). The koruna foreign exchange strengthened especially during December 2021 and it also broke the 25 CZK boundary for the first time since February 2020. Year 2021 was closing the koruna foreign exchange against euro at 24.86 CZK/EUR. Koruna foreign exchange against dollar attained an average of 22.19 CZK/USD in Q4 and it was by 0.8% stronger year-on-year (0.17 CZK). Compared to Q3 2021, the koruna foreign exchange against dollar weakened by 2.6% (0.56 CZK). The koruna also strengthened against dollar during the December. As of 31. 12. 2021, the koruna foreign exchange against dollar reached 21.95 CZK/USD.

The interbank market rates as well as the government bond yields also hiked up sharply.

Interest rates of the interbank market reacted to the steep increase of the monetary policy-relevant rates by strong increases. The three-month PRIBOR rate went up by 2.39 p.p.² during Q4 and it reached 3.5% towards the end of year 2021. The rising of yields on domestic government bonds of all maturities also further continued. As of 31. 12., the interest rate attained 3.07% on bonds with short-term maturity (increase by 1.47 p.p.), which is the most since April 2009. Yields of medium-term bonds rose by 0.97 p.p. to 2.84% and the long-term by 0.72 p.p. to 2.62%. Yields of the bonds also mildly grew in the euro area. Those with ten-year maturity were having interest of 0.28% (+0.08 p.p.) towards the end of year 2021.

The interest on term deposits of households and non-financial businesses grew.

The average interest on the current accounts of households very slightly increased, but it was still practically at a zero level (0.06%) towards the end of year 2021. The situation was different in case of deposits with agreed maturity. There the interest rates gradually increased during the whole year and it was the most just in Q4. The average interest on the deposits of households with agreed maturity was 2.32% (increase from 30. September by 1.59%) at the end of year 2021. The interest on current accounts of non-financial businesses went up by 0.15 p.p. to 0.2% in Q4. The average interest rates of deposits with agreed maturity of non-financial businesses were 2.47% at the end of the year, which was by 1.91 p.p. more than at the end of September. The total volume of non-term deposits of clients was year-on-year higher by 5.9% at the end of year 2021, which signified a considerable slowdown of growth. Compared to the end of Q3, it dropped by 202.1 CZK bn, which is relatively atypical for non-term deposits. Mostly the non-term deposits of households³ (-59.6 CZK bn) and government (-110.5 bn) participated on this decrease. Volume of term deposits was by 10.1% higher year-on-year at the end of the year, mainly thanks to the increase of short-term and long-term deposits.

Both credit financing and consumption became more expansive for households.

The interest rates on credit for households also reacted to the general growth of interest rates in the economy. The average interest on consumer credit as of 31. 12. Reached 7.91%, which was by 0.32 p.p. more than at the end of September. The gradual increase of rates, which lasted for the whole last year, thus continued. The average

¹ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. The values of exchange rates are also taken over from the CNB.

² Unless stated otherwise, the change of the interest rates is meant the difference between the value as of 31. 12. and 30. 9.

³ Population including entrepreneurs.

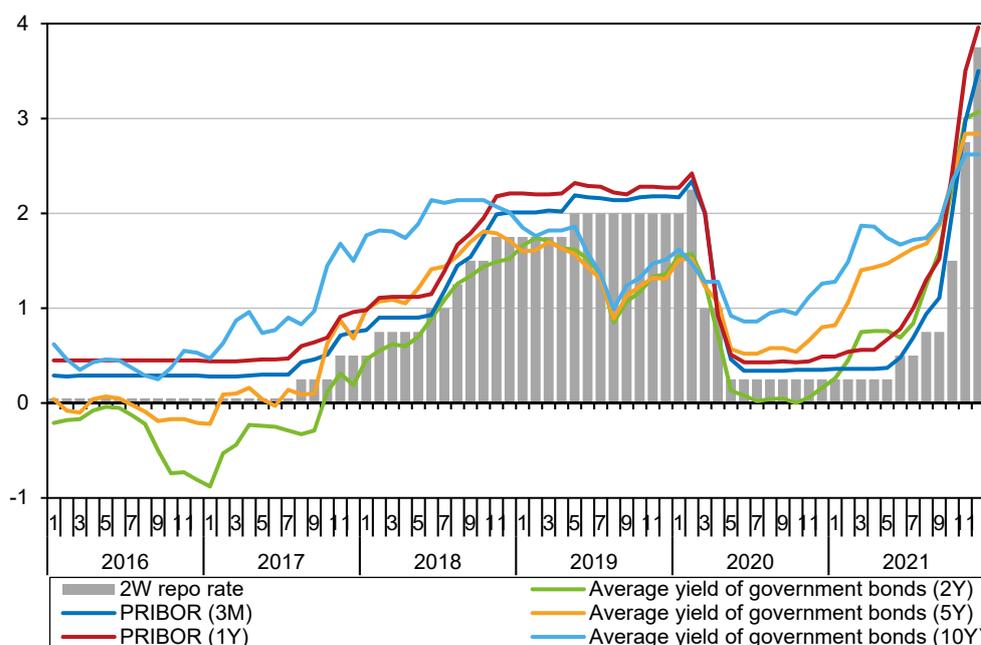


interest rate on mortgages was also higher. It increased by 0.47% to 2.92% in Q4. The interest on credit with the shortest fixation of the rate (up to 1 year). During the last year, the year-on-year growth of the volume of credit provided on consumption gradually accelerated. There were by 6.5% more of it at the end of year 2021. Mainly the restriction of retail trade and subsequent slump of households consumption halted their growth in 2020. On the contrary, the growth of mortgages further accelerated. The year-on-year increase of their volume arrived at record 11.1% at the end of year 2021. With respect to new mortgages⁴, a further growth manifested following the preceding slump of the volume of net new credit. The volume of refinanced credit and other new contracts was also higher. The household indebtedness reached 2 108.8 CZK bn at the end of December and increased by 9.5% year-on-year, the most since September 2009.

Sharp increase of interest rates also concerned the credit for businesses.

The cost of credit financing to non-financial businesses also jumped up. The average interest of credit with volume up to 7.5 CZK mil increased by 1.09 p.p. to 4.86% in Q4. For the medium category of credit with volume between 7.5 and 30 CZK mil the interest rates were raised by 1.77 p.p. to 4.71%. The rates increased the most (by 2.61 p.p.) for rates on credit above 30 CZK mil, which reached 4.35%. The year-on-year growth of volume of credit provided to non-financial businesses sharply accelerated to 6.0% at the end of the year. At the same time the volume of short-term credit increased the most (13.9%), especially those denominated in foreign currency. The increase of the volume of medium term (6.7%) and long-term (2.9 %) also strengthened. The volume of provided credit expanded year-on-year the most in transportation and warehousing (34.2%; the additions exceeded the 30% level in both Q2 and Q3), in professional, scientific, technical and administrative activities (15.2%) and wholesale, retail, repairs and maintenance of motor vehicles (11.1%). Apart from the long-term declining credit in mining and quarrying (-20.3%) the volume of credit slumped in accommodation, food service and restaurants (-10.3%, mainly the comparison with the sharp increases in year 2020 had an effect), manufacturing (-3.8%), production and distribution of electricity, gas, heat and waste management (-3.1%) and information and communication (-2.5%).

Chart 17 Market interest rates (in %)



Source: CNB

⁴ The refinanced credit and other provisions are included in the new contracts (mainly the suspensions of payments in the last year).

