

7. Monetary Conditions

Monetary policy-relevant rates were again raised in Q2.

While the setup of basic monetary policy-relevant rates did not change in Q1 2019, it was decided to increase the two-week repo rate from 1.75% to 2.00% in May. Discount rate (to 1.00%) and Lombard rate (3.00%) also increased. The difference between the rates in the CR and in the euro area thus further widened (ECB did not change rates since March 2016 and repo rate is zero). The koruna foreign exchange against euro was in contrast to dollar or pound relatively stable throughout the whole half-year (it moved in the corridor between 25.40 and 25.90 koruna per euro¹). The rate was then mildly weakening from April to May 2019 (maximum value of 25.86 CZK/EUR on the 29th May). Subsequently, the trend turned and the koruna foreign exchange appreciated up to the level of 25.44 CZK/EUR until 27th June. The koruna foreign exchange against dollar was weakening from January to May down to 23.15 CZK/USD on 31st May. Koruna however appreciated during June and completed the half-year at the level of 22.36 CZK per dollar.

Interests on government bonds fell.

Interbank interest rates also naturally reacted to the growth of the monetary policy-relevant rates. Three-months PRIBOR rate increased by 0.14 p.p. to 2.17% during Q2. In the opposite direction, the yields of bonds were decreasing, specifically for all types of maturities. Short term government bonds (2 years) bore interest 1.52% as of 30.6., by 0.19 p.p. less compared to the end of March. Medium term bonds (5 years) featured more significant fall – by 0.27 p.p. to 1.43%. Yield on long-term bonds decreased by 0.24 p.p. to 1.58%. Euro area bonds were also characterised by falling trend – the short term ones aimed deeper below the zero level (–0.34% as of 30.6.).

Interest rates on deposits with agreed maturity continued to grow.

Development of interest rates on client accounts did not divert from trends set in the last year. Interest rates on the current accounts of households remained practically unchanged (0.05% to 30.6.). On the contrary, the interests on deposits with agreed maturity mildly rose (by 0.08 p.p. to 1.54% as of 30.6.) also in Q2. Exclusively the rates on accounts with agreed maturity up to 1 year (inclusive) grew, other maturities recorded a decrease in Q2. Interest rates on current accounts of non-financial businesses followed a different path. They were rising five quarters in a row and attained on average 0.22% as of 30.6. For non-financial businesses, interest rates also increased on deposits with agreed maturity (by 0.28 p.p. to 1.63% during Q2) as well as deposits redeemable at notice (by 0.1 p.p. to 1.35%).

Volume of deposits expanded markedly in Q2 year-on-year, especially due to the deposits of government institutions.

Total volume of deposits expanded by 514.4 CZK bn year-on-year in Q2. It is the most since Q3 2017. Deposits from residents expanded, on the contrary non-residents were withdrawing their deposits – their volume shrank by 8.2 CZK bn year-on-year in Q2 (total deposits of non-residents fell by 40.6 bn year-on-year during H1). Deposits of all sectors enlarged, government institutions however contributed the most to the year-on-year acceleration of dynamics. These doubled their deposits to 630.8 CZK bn between the end of year 2018 and 30th June 2019. According to the time perspective, the year-on-year growth of the volume of term deposits accelerated in Q2, even though part from the 35.4% increase can also be ascribed to the methodological changes². The growth focal point lay mainly in the short-term deposits, which also corresponds to the development of the interest rates.

Interests on credit to households again fell.

Following a short period of growth in Q2 to Q4 last year, the average interest on credit to households was cut in H1. Interests fell by 0.23 p.p. to 8.4% quarter-on-quarter in

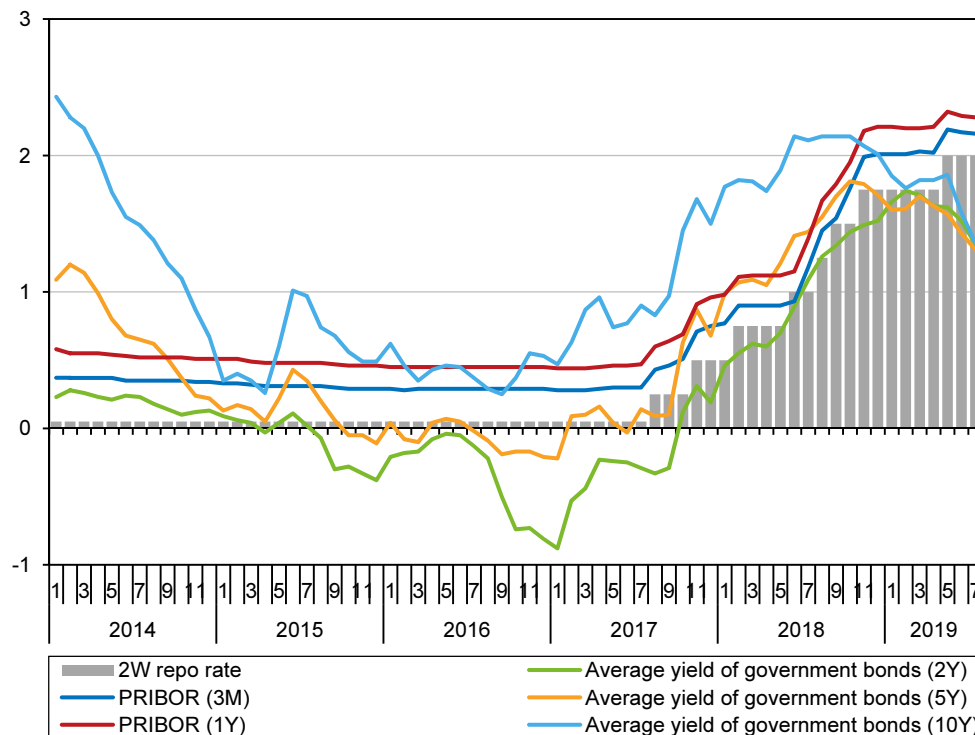
¹ Unless stated otherwise, public database ARAD of the Czech National Bank is the source of data in this chapter.

² According to the CNB commentary, a decrease of credit balances on the current accounts occurred in the bank statistics in January 2019 compared to December 2018, mainly in the household sector. This fluctuation was caused by the one-off re-classification on the part of the reporting entities into savings deposits redeemable on notice.



Q1 and further down to 8.37% until 30.6. Conditions of mortgages for households also became slightly more advantageous in Q2, the average interest fell by 0.1 p.p. to 2.87%. Especially prices of loans fixed for a medium term were cut – above 1 year up to and including 5 years by 0.08 p.p. and above 5 years up to and including 10 years by 0.13 p.p. It was possible to observe similar development for interests rates on credit to non-financial businesses. They grew in the last year and attained their maximum on 31st March 2019. The average interest on credit to non-financial businesses however again fell in Q2, mainly under the influence of large loans (above 30 CZK mil). Their average interest rate fell by 0.12 p.p. to 3.11% during Q2. Subtle decrease was also recorded in case of credit up to 7.5 CZK mil. The interest in contrast grew for other categories.

Chart 16 Market interest rates (in %)



Source: CNB

Growth of volume of provided consumer credit slackened.

Year-on-year growth of the total volume of credit provided to households remained at bay with 6.7% in Q2 (the pace fell below 7% for the first time since Q3 2016). Growth of volume of provided consumer credit (to 7.7%) as well as credit for housing (7.5%, below 8% for the first time since Q1 2016) slowed. Development of mortgages is distorted due to the re-classification of part of the consumer credit for housing to mortgages³. Year-on-year growth of the volume of mortgages thus based on the CNB statistics reached 10.3% in Q2, if we however deduct approximately 20 bn, which were transferred between individual types of credit on 1st January, we get an approximate value of 8.5%, less than in the past year. 40.7 thousand mortgage contracts were closed in Q2, by 10.7 thousand less year-on-year.

Rate of growth of volume of credit to non-financial businesses markedly fell.

Volume of credit provided to non-financial businesses (both in CZK and foreign currency) increased in total by 3.5% year-on-year in Q2. Volume of credit in foreign currency again followed a more dynamic development, growing by 6.6%. However,

³ As a result of modification of the mortgage definition in the amendment to the Act No. 190/2004 Col., on Bonds, effective as of 4th January 2019.

the observed growth markedly narrowed compared to the preceding quarter (all credit grew by 6.2% in Q1, by 14.5% in foreign currency). Volume of credit denominated in CZK rose by 2.2%. Slower growth of the provided credit did not avoid manufacturing (from 6.4% in Q1 to 1.7% in Q2), construction (from 13.7% to 7.6%) or wholesale and retail, motor vehicle repairs and maintenance (from 4.6% to 1.4%). Information and communication kept a strong pace (13.7%).

