

7. Monetary Conditions

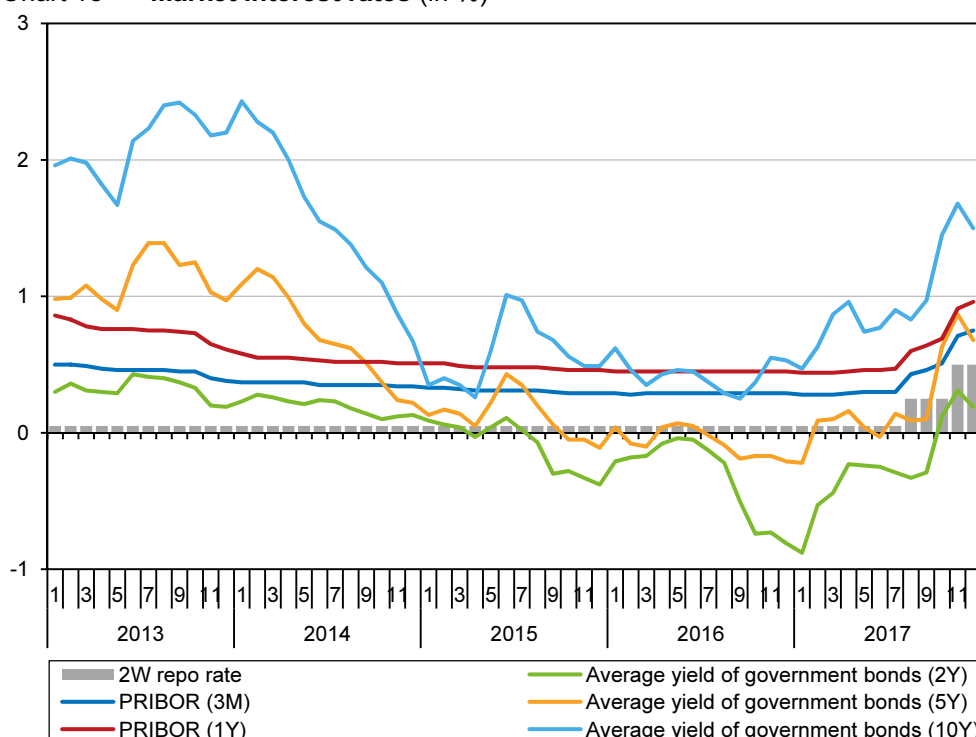
Since the April termination of the regime of forex intervention the koruna foreign exchange was appreciating against both euro and dollar.

CNB decided twice for the increase of the monetary policy-relevant interest rates in 2017.

Year 2017 brought a range of changes in the area of the monetary conditions. After the April termination of the forex intervention, koruna returned to the regime of the managed floating. The koruna foreign exchange was thus appreciating against the important foreign currencies during the year. Foreign exchange against euro kept on the value 27.02 CZK/EUR¹ for the whole Q1. After the termination of intervention, it gradually appreciated and its average value was 25.65 CZK/EUR in Q4. Koruna appreciated against euro by 5.5% since the 2nd January till the 29 the December. The koruna foreign exchange appreciated even more significantly towards the American dollar. Its average value reached 25.38 CZK/USD in Q1, it was 21,79 CZK/USD in the final quarter. For the whole year 2017, koruna appreciated against dollar by 17.5%. The slump of the prices of the foreign trade represented the immediate impact of this appreciation

Termination of the regime of interventions was to certain extent the return to the classical instruments of the monetary policy. The change of the monetary policy-relevant interest rates manifests for the first time since November 2012. At first, the repo rate was increased from 0.05% to 0.25% at the beginning of August and the lombard rate from 0.25% to 0.50%. It was the first growth since year 2008. Further shift upwards eventuated at the beginning of November. The repo rate was increased to 0.50% and the lombard rate to 1.00%. In connection to the discussion regarding the stability of the financial system, the CNB also applied some instruments of the macro-prudent policy. For once, it tightened the recommendations related to the provision of mortgages and also increased the rate of the capital reserve for some banks. At the end of year 2017, it also announced the increase of the rate of the counter-cycle capital reserve valid as of 1. 7. 2018 (from 0.5% to 1.0%, further increase to 1.25% as of 1. 1. 2019).

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



Source: CNB

Interbank rate as well as yields on the government bonds

Increase of the monetary policy-relevant rates directly impacted the interbank interest rates. The three-month PRIBOR rate rose by 0.47 p.p. since January till

¹ Foreign Exchange rates announced by the CNB data in working days. Unless stated otherwise, all data in this chapter have been taken over from the ARAD database of the Czech National Bank.



increased.

December 2017 and it was 0.77% in December (the most since September 2012). The one-year PRIBOR increased by 0.52 p.p. The December value of 0.96% was the highest since October 2010. The yields of the government bonds went also up. Bonds with the maturity of two years reached the record minimum of the yield with the value of -0,88% in January, but they kept above zero already in Q4 (0.12% in October, 0.31% in November, 0.19% in December). The yields of the short-term bonds thus remained in the negative numbers since August 2015 till September 2017. Yields of bonds with the maturity of 5 years increased from -0.22% to 0.68% from January till December 2017 (they reached a maximum of 0.87% in November). The growth of yields of the long-term bonds (maturity 10 years and more) commenced already in Q4 2016. The growth trend was confirmed in year 2017 and the yields improved from 0.47% in January to 1.50% in December.

Interests on the current accounts still remain on nearly zero values. Rates on the consumer credits were falling, those on mortgages mildly rising.

Interest rates on deposits did not mirror neither the shifts in the monetary policy-relevant nor the interbank rates in 2017. Interests on the current accounts of households (0.04%) as well as non-financial businesses (0.02%) remained at the practically zero level. Some shifts upwards were evident towards the end of the year on deposits with the agreed maturity for the non-financial businesses (they had nearly zero interest in Q1 to Q3). The only type of deposit, whose interest copied the development of the main rates were the deposits with maturity between 1 and 2 years. Their interest increased from the April minimum of 0.42% to 1.12% in December. The drop of interests on the consumer credit for households continued. Their interest fell below 10.0% in February, in December the average interest already moved at the level of 8.7%. On the contrary, the interest rates of mortgages gradually increased. Interests on fixed rate credits with terms between 1 to 10 years grew the most (by 0.29 p.p.). Rates for this type of mortgages are still however the lowest in comparison to the other fixed rates. Interest rates on credit for the non-financial businesses did not change significantly during the year. A slight growth was apparent only in Q4.

Households took on debt for the reason of the purchase of real estate as well as consumption. Data regarding the number of new contracts however show stagnation.

The volume of credit provided to households grew throughout the whole year 2017. It increased by 109.6 CZK bn for the 12 months (credit in CZK; credit in foreign currency is negligible for the Czech households) and the total volume of credit provided to households overtook 1.5 trillion in Q4. Considerable increase manifested especially in the first half of the year (52.9 CZK bn), H2 2017 lagged behind the same period of the previous year by 2.8 bn. The Czech households utilise the credit mostly for the reason of purchasing a real estate. The volume of mortgages provided increased by 91.5 bn last year (by 14.5 bn more than in year 2016) and it reached 1 035.2 CZK bn as of 31. 12. Data related to the number of new contracts to mortgages (available only as of 30. 9.) nevertheless show, that while the volume of credit grew, the number of new contracts fell year-on-year in both Q2 and Q3. Q4 2016 can be seen as the peak, when 60.0 thousand new contracts were signed (year-on-year increase by 12.5 thousand, number grew year-on-year also in Q1 2017). The reason of this development could be the expected tightening of the conditions for the provision of mortgages as well as the sharp increase of the prices of real estate. The volume of consumption credit increased by 13.1 CZK bn last year (by 1.6bn less than in 2016) and it arrived at 198.5 CZK bn as of 31. 12. Total indebtedness of households was 1 595.8 CZK bn as of 31. 12. Debts connected to housing participated from 72.2%.

Credit in foreign currency affected the most the financial and insurance activities last year. In recent years however, they play important role also for the non-financial businesses.

The volume of credit and liabilities for the non-financial businesses increased by 45.9 CZK bn for year 2017. The largest share (55.8%) had as of 31. 12. the long-term credit, which also expanded the most (by 20.8 CZK bn). The volume of short term credit also however recorded a marked increase (by 17.3 bn.). Credit denominated in the foreign currency held an important role (they comprised 29.6% of the total volume of credit as of 31. 12.), whose volume expressed in korunas affected the last year's strengthening. Volume of credit and liabilities in the foreign currency thus increased by 35.1 CZK bn for Q1 (12.9%) and the short-term credit formed one half of this increase. In the remaining quarters, a weakened interest for credit in currency was apparent (drop by 4.4 bn, in 2016 in the same period an increase by 34.9 bn). Credits in foreign currency were reflected also in the view according to branches. Their major increase was apparent for financial and

insurance activities in Q1 (by 39.1%, 40.0 CZK bn), fall of 51.9 bn occurred in Q4. Less extreme, but similar development of the volume of credit was also apparent for the real estate activities. Manufacturing also increased the proportion of credit in the foreign currency up to 50.4% at the beginning of the year towards the end of March (it was 46.8% at the end of year 2016). For the rest of the year, the value in CZK was gradually sinking (given more by the appreciation of koruna). Total volume of credit in manufacturing grew equally throughout the year (average year-on-year pace of 4.2%). Transport and storage (+6.3 CZK bn, 15.2%) followed in the long-term strong growth of the credit financing in 2017, credit financing for accommodation, food service and restaurants (28.6%) also markedly increased. Volume of credit was falling for mining and quarrying for the whole year (by 9.6 CZK bn for the whole year, 46.2%).

