

## 7. Monetary Conditions

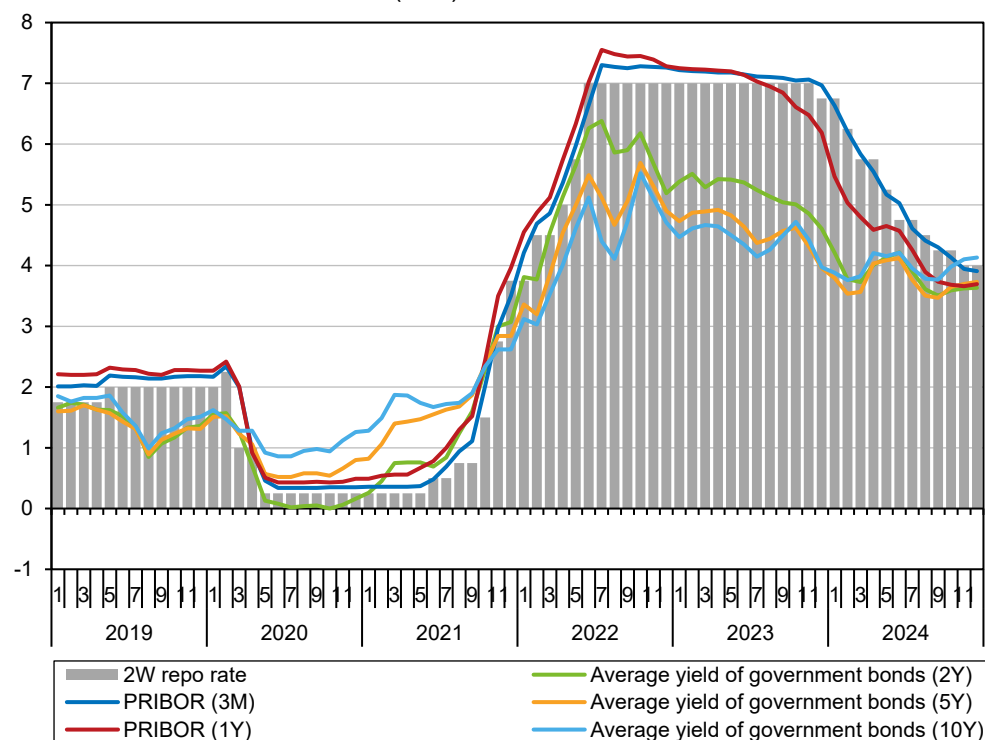
The decrease of monetary policy-relevant interest rates moderated in the second half of 2024.

Monetary policy-relevant rates were cut once during Q4 2024. The two-week repo rate fell by 0.25 p. p. 4.00%<sup>1</sup> in November, down by a total of 2.75 p. p. since the beginning of the year. The pace of reduction was only moderate at the end of the year compared to H1 (the rate fell by 1 p. p. in both Q1 and Q2). The discount rate was reduced to 3.00% and the Lombard rate to 5.00% in Q4. The koruna foreign exchange per euro averaged 25.25 CZK/EUR in Q4 and remained relatively stable throughout the quarter. It weakened by 0.05 CZK, quarter-on-quarter, and by 0.73 CZK, year-on-year. The koruna foreign exchange per dollar weakened steadily throughout Q4 2024 (from the level of 22.50 CZK/USD on 30.9. to the 24.24 CZK/USD at the end of December). On average, the koruna foreign exchange per dollar was 23.64 CZK/USD in Q4 and was 0.70 CZK weaker, quarter-on-quarter and 0.82 CZK, year-on-year.

Government bond yields rose in Q4.

Interbank interest rates also fell in Q4. Rates on deposits with shorter maturities decreased more (three-month PRIBOR by 0.39 p. p. to 3.91% at the end of December, six-month PRIBOR by 0.25 p. p. to 3.79%)<sup>2</sup>, while the annual PRIBOR rate was almost unchanged (−0.04 p. p. to 3.69%). Government bond yields rose. The average interest rate on bonds with a ten-year maturity increased the most (by 0.37 p. p. to 4.13% at the end of December). Yields on medium-term bonds (+0.26 p. p. to 3.73%) and short-term bonds (+0.13 p. p. to 3.63%) rose less.

**Chart 16 Market interest rates (in %)**



Source: ARAD, CNB

renuIn particular, non-term deposits grew.

The interest rates on household deposits also gradually decreased. Overnight deposits had an average interest rate of 1.19% (−0.12 p. p.) at the end of December. The interest rates on current accounts remained virtually unchanged and amounted to 0.15% on average at the end of December. The average interest rate on deposits with agreed

<sup>1</sup> The source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates also stem from the CNB.

<sup>2</sup> Unless stated otherwise, as the change of interest rates is meant the difference between value as of 31<sup>st</sup> December 2024 and 30<sup>th</sup> September 2024.

maturity had fallen by 2.53 p. p. since the beginning of the year and by 0.41 p. p. in Q4 and was 3.20% at the end of the year. The remuneration of deposits for non-financial businesses also shrank – deposits with agreed maturity in total were remunerated at 3.28% on average at the end of December (–0.52 p. p.). The year-on-year development of the volume of deposits reflected changes in the interest rate. The total year-on-year increase of the volume of deposits of 520.3 bn CZK was largely due to an increase in the volume of non-term deposits (+510.6 bn). The volume of term deposits increased by 9.8 bn CZK between the end of 2024 and 2023. Households<sup>3</sup> accounted for half of the year-on-year increase of deposits (+260.8 bn CZK) and deposits of the general government sector were also significantly higher, year-on-year (+143.4 bn CZK). The year-on-year growth of deposits of non-financial businesses accelerated considerably (+128.6 bn CZK) and, conversely, deposits of financial businesses declined (–46.7 bn).

Interest rates on credit to households fell only slowly.

Interest rates on credit to households decreased only slightly during the year. The average interest rate on consumer credit was 0.65 p. p. lower, year on year, at the end of December and reached 8.63%. The decline of interest rates on consumer credit was minimal (–0.06 p. p.) in Q4 alone. The recovery of domestic demand was evident in the volume of consumer credit. The year-on-year increase of volume accelerated to 9.9% at the end of December. Interest rates on mortgages were closely monitored throughout the year, but their reductions have also been only modest, as banks had already partially adjusted rates in the second half of 2023 in anticipation of the monetary policy-relevant rate cut that came in December 2023. The average interest rate on mortgages was 4.71% at the end of 2024, down by 0.70 p. p., year on year. Rates fell by 0.22 p. p. on average during Q4 alone. The total volume of mortgages was 5.3% higher, year on year, at the end of December 2024. The pace accelerated and was the highest since September 2022, mainly influenced by mortgage loans, the provided volume of which increased by 4.8%. The growth rate of credit from the building society accounts slowed to 19.4%<sup>4</sup>. New mortgage contracts<sup>5</sup> amounted to 130.5 bn CZK in Q4 2024. Of this, 61.0 bn CZK comprised the other new arrangements and 60.4 bn CZK were net new loans. Refinanced loans from new contracts amounted to 9.0 bn CZK. New contracts worth 473.2 bn CZK were concluded for the whole of 2024 (169.1 bn CZK more than in 2023) and other new arrangements accounted for the majority (226.8 bn CZK, +52.7 bn). The volume of net new loans reached 212.7 bn CZK (+101.0 bn) last year. Total household debt reached 2,453.9 bn CZK at the end of 2024.

Businesses borrowed more in foreign currencies.

The average interest rate on credit to non-financial businesses fell the most in the case of credit up to 7.5 mil CZK in Q4 (–0.53 p. p. to 5.89% at the end of December). For credit between 7.5 mil CZK and 30 mil CZK, this represented a decrease of 0.30 p. p. to 5.86%. Credit over 30 mil CZK bore an average interest rate of 5.74% at the end of December, which was 0.24 p. p. less than at the end of September 2024. The total volume of credit and claims of non-financial businesses was 5.2% higher, year on year, at the end of December 2024. The pace slowed down throughout the year. As usual, credit denominated in foreign currency grew faster (8.0%), accounting for 52.5% of the total volume of credit and claims of non-financial businesses at the end of December<sup>6</sup>. However, growth of koruna credit is also gradually reviving (2.3%). The volume of credit provided increased the most, year-on-year, in professional, scientific, technical and administrative activities (31.1%) and in accommodation, food service and restaurants (13.2%) as of 31 December. Above-average growth of credit was also recorded in real

<sup>3</sup> Population including self-employed persons.

<sup>4</sup> The credit from the building society accounts maintain double digit pace since the end of year 2022. Their maximum interest is restricted by the law, so they have become a more advantageous financing instrument compared to mortgages for the debtors.

<sup>5</sup> New contracts also include the refinanced credit and other renegotiated loans. Refinanced credit includes current contracts concluded newly at other bank, while other renegotiated loans are current contracts concluded with new conditions at the same bank.

<sup>6</sup> Credit in foreign currency started to rise steeply following the commencement of the repeated increase of the monetary policy-relevant rates in June 2021.



estate activities (7.8%), construction (6.5%) and transportation and storage (5.7%). The largest decrease was recorded in information and communication (−19.8%), electricity, gas, heat, air and water generation and distribution (−14.1%).