

## 7. Monetary Conditions

Increase of the monetary policy-relevant rates continued.

One year passed since the termination of the forex intervention in Q2 2018. Gradual transition to the standard conception of the monetary policy continued and increase of the monetary policy-relevant rates as of 28.6. was the reaction to the acceleration of inflation and possible overheating of the economy. Two-week repo rate was raised by 0.25 p.p. to 1.00% and the Lombard rate by 0.50 p.p. to 2.00%. Koruna foreign exchange against euro commenced at the level of approximately 25.30<sup>1</sup> CZK per euro in Q2. It however gradually depreciated since April and tightly exceeded 26 CZK towards the end of June. Growth of the amount of money in the economy slowed down this year when compared to the last year's double digit rate of growth. The volume of currency and one day deposits, which dominated the dynamics of the money stock in the last years expanded markedly slower. On the other hand, marked increase of the deposits with agreed maturity up to 2 years can be observed starting the beginning of the year. Their volume grew by 30.5% in the first six months. Repo operations started to play a relatively significant role in H1, their volume consisted of 2.9% of the total money stock towards the end of June (129.6 CZK bn). This item grew by 44.1 CZK bn from January till June of this year.

Repo operations gained more significant role in the money stock compared to the past.

Monetary policy-relevant rates and bond yields went also up.

Gradual growth of the monetary policy-relevant rates pushed up also the interest rates on the interbank market. The three-month PRIBOR rate reacted by rising to 0.9% already in February, the shift of the repo rate then provided further impulse and in June it jumped to 0.93% (it is the average influenced only by the last two June days, July value of 1.18% provides a better picture). All interbank rates portrayed a similar dynamic in H1. State bond yields also rose regardless of the maturity. Short term bonds increased their interest rates by 0.7 p.p. to 0.89% since the end of the last year, medium term ones recorded increase of 0.73 p.p. to 1.41% and bonds with the long-term maturity depicted the lowest shift from – 0.64 p.p. to 2.14%.

Changes on the interbank market however were not reflected in the development on the client accounts, especially the current accounts.

Growth of the interbank rates was not reflected in any notable extent into the environment on the client accounts. The average interest on the current accounts of households amounted to 0.05% in H1, which can be considered the level of technically zero and did not basically change in the last two years. The interest rates on the current accounts of non-financial businesses followed a similar development. Different situation is in case of deposits with agreed maturity. Their interest rates were raised in comparison to the level from the last year at the beginning of year 2018, afterwards however the interest rather stagnated. Practically zero interest on the one day deposits led to the decrease of the volume of deposited funds of non-financial businesses. It was 36.4 CZK bn for the whole H1. On the contrary the volume of deposits with agreed maturity expanded by 18.0 CZK bn since January till June. Households directed their funds more to the one-day deposits – their volume expanded by 103.9 bn.

Consumer credit for households became cheaper.

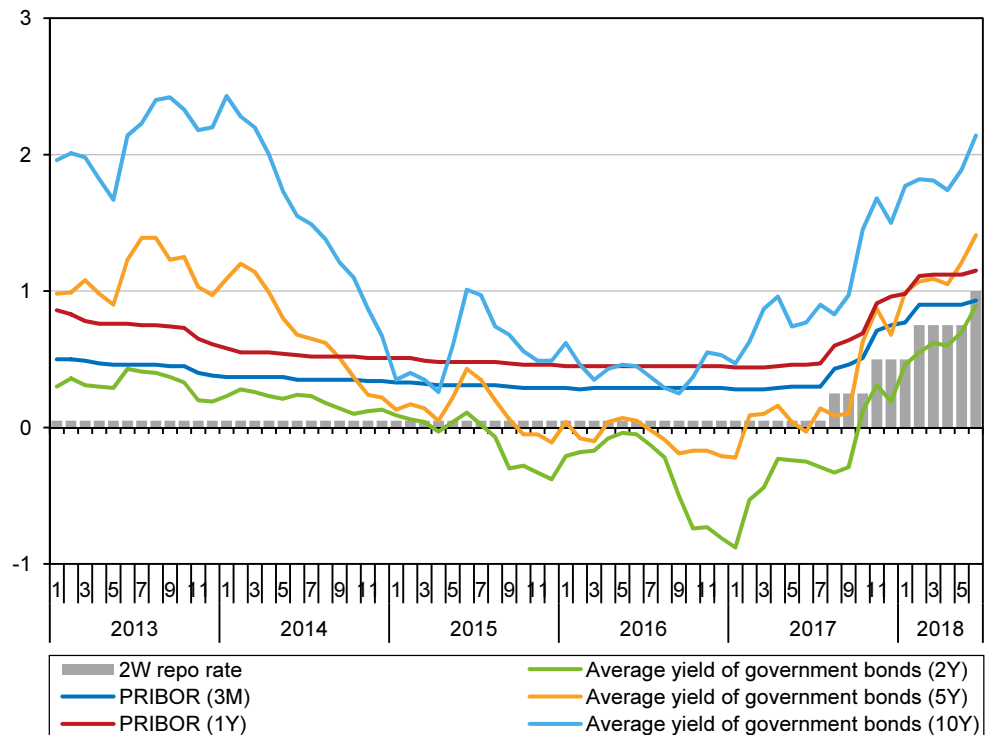
Two opposing factors exerted influence upon the interest rates on the credit for households. Interest rates on consumer credit continued in the falling trend in the first half of the year and the average interest was 8.53% in Q2. On the other side, the interest rates on mortgages mildly grew since the beginning of the year. Average interest maintained at the level of 2.62% in Q2. The volume of provided consumer credit expanded by 9.4 CZK bn from January till June, which is more than in the same period of the last year. In contrast the volume of mortgages increased less in H1 compared to the last year (44.5 CZK bn). Number of new contracts arrived at 93.1 thousand in H1. That is by 8.1% less than in the last year. Total household indebtedness reached 1 651.5 CZK

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



bn towards the end of June and it expanded by 53.6 bn since the beginning of the year. The debt incurred on housing still had the most impact, its year-on-year growth however slightly slowed down this year compared to the last year. On the contrary the debt for consumption grew stronger.

**Chart 17 Market interest rates (in %)**



Source: CNB

Interest rates on credit to businesses did not grow much so far.

Development of credit in individual branches mirrored the overall economic development.

The interest rates on credit for businesses rather fluctuated in H1. From January till April, it was possible to observe mild growth tendencies, however the rates were falling in the subsequent months. Growth trend was apparent for credit up to 7.5 CZK mil for the entire period. From January till the end of June, the shift of the average interest up by 0.35 p.p. to 3.67% occurred. Described dynamics of the total growth of the interest rates was evident for the credit of larger volumes, the most significantly then for those above 30 CZK mil. Their average interest moved around 2.33% at the end of June. In total, the volume of credit and liabilities of non-financial businesses increased by 43.0 CZK bn (4.2%) from January till June. Especially the medium-term credit increased. Their volume grew by 19.8 bn (10.0%) from January till June. The increase of the volume and liabilities denominated in foreign currency was also more pronounced. It increased in total by 20.7 bn (6.9%) in H1. The growth of volume of individual maturities of credit in foreign currency was then relatively balanced. Dynamics of the development of credit according to the individual branches to considerable extent reflected the overall economic development. The expansion of credit for financial and insurance activities (62.4 bn, 24.0% from January till June) was the most significant. Marked revival launched the growth of the volume of credit in construction (7.7 CZK bn, 17.7%). The volume of credit rose by 18.4 CZK bn in manufacturing (7.0%). The heightened demands of the accelerating economy on the branch transportation and warehousing showed already in the past year. The volume of credit also notably increased in this branch in H1 2018 (2.8 CZK bn, 5.9%). Their volume on the contrary sank in the supply and distribution of electricity, gas, heat and air by 14.4 CZK bn (-10.3%) in H1. Long term slump of the volume of credit in mining and quarrying also continued (-3.2 bn, -28.5%).

