

7. Monetary Conditions

One cut of monetary policy-relevant rates occurred in Q1 2025.

There was one quarter-point cut in key monetary policy-relevant rates in Q1 2025. In February, the two-week repo rate was lowered to 3.75%¹, the discount rate to 2.75% and the Lombard rate to 4.75%. The CZK exchange rate per euro strengthened very moderately throughout the quarter. The average for the total Q1 reached 25.08 CZK/EUR. The CZK exchange rate per euro remained almost unchanged, year-on-year, and the koruna strengthened slightly against the euro, quarter-on-quarter (by 0.17 CZK, 0.66%). The CZK exchange rate per dollar strengthened significantly during the quarter, which was reflected in particular in March international trade prices. At the beginning of the year, the foreign exchange rate reached a level of around 24.50 CZK/USD and briefly exceeded this limit during January. Subsequently, the koruna gradually strengthened to 24.00 CZK/USD by the beginning of March. In the first week of March, however, the foreign exchange rate strengthened sharply to 23.00 CZK/USD and the koruna was at 23.08 CZK/USD at the end of March. On average, the foreign exchange rate was 23.84 CZK/USD for the whole quarter. This meant a year-on-year weakening of 0.75 CZK (3.27%) and the average CZK exchange rate per dollar was weaker by 0.20 CZK (0.86%).

Interbank interest rates also dropped.

The reduction of interbank interest rates was uniform across maturities in Q1. The three-month PRIBOR fell by 0.19 p. p.² to 3.72%, the six-month PRIBOR by 0.18 p. p. to 3.61% and annual by 0.16 p. p. to 3.53% at the end of March. In case of government bond yields, the average interest rate on bonds with the shortest maturity of up to two years declined (−0.20 p. p. to 3.44% at the end of March). Bonds with a maturity between 5 and 10 years yielded an average of 3.79% (+0.06 p.p.) at the end of the quarter, and those with a long-term maturity of 4.26% (+0.13 p. p.).

The volume of term deposits decreased, year-on-year.

In the 1st quarter, interest rates on deposits continued to fall. Current accounts of households received an average interest rate of 0.12% (−0.03 p. p.) at the end of March. The average interest rate on deposits with an agreed maturity (−0.19 p. p.), which stood at 3.01% at the end of March, declined more significantly. Non-financial corporations had slightly higher interest rates on current accounts than households (0.61%). However, the interest rate on deposits with an agreed maturity was also reduced for them (−0.18 p. p. to 3.10%). The total year-on-year growth rate of the volume of deposits slowed down significantly to 4.1% in Q1 (an increase of CZK 296.5 bn). This was mainly caused by the year-on-year outflow of funds from term deposits (CZK −129.0 bn, −4.5%). In the case of non-term deposits, the strong growth rate remained (9.9%, CZK +425.5 bn). The vast majority of the total year-on-year increase in the volume of deposits was accounted for by households³ (CZK +214.4 bn). Significantly more moderate deposit increases were recorded in non-financial corporations (CZK +31.2 bn), financial institutions (CZK +26.1 bn), and general government institutions (CZK +21.2 bn). Deposits of non-residents in Czechia decreased slightly (CZK −3.7 bn).

Interest rates on consumer credit have fallen.

The beginning of 2025 brought a more significant reduction of interest rates on consumer credit to households compared to previous quarters. The average interest rate fell by 0.47 p. p. to 8.16% at the end of March, which was the lowest since the end of 2021. On the contrary, the average interest rate on mortgages remained almost the same (+0.03 p. p., 4.74% at the end of March). Interest rates moved in the opposite direction for mortgages with a fixation period of 1 year or less (−0.24 p. p. to 4.91%) and those with a fixation period between 5 and 10 years (+0.92% to 4.15%). The volume of

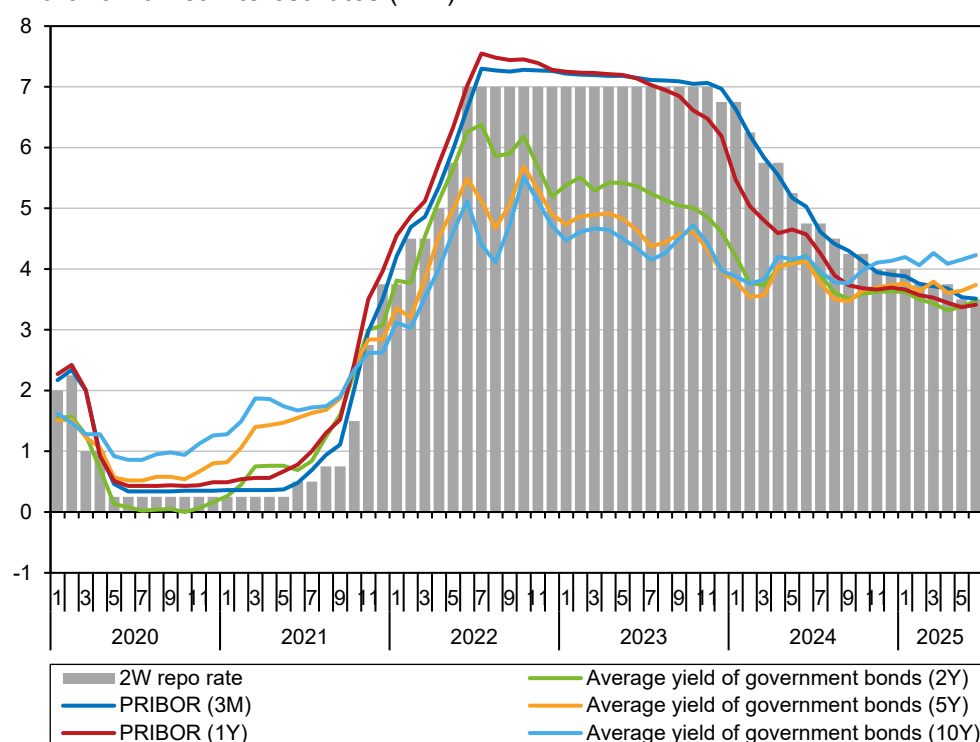
¹ The ARAD database of the Czech National Bank (CNB) is the data source in this chapter. Values of exchange rates are also from the CNB.

² Unless otherwise stated, the difference between the value as of 31 March 2025 and 31 December 2024 is understood as the change of interest rates.

³ Population including self-employed persons.

consumer credit provided maintained a high year-on-year growth rate (9.7%) in Q1 2025. The year-on-year increase of housing credit stood at 6.0% at the end of March, which was the highest growth in more than two years. This acceleration was mainly influenced by mortgage loans. The growth rate of credit from the building society accounts continued to slow down, but it remained in double digits for the tenth quarter in a row. The continued recovery of the mortgage market was evident in the development of the volume of new mortgage contracts. In total, contracts worth 139.8 bn CZK were concluded in Q1 (+57.9 bn, year-on-year). In that, net new loans including increases⁴ comprised 65.3 bn CZK (+30.3 bn). Other new arrangements amounted to 64.9 bn CZK (+23.8 bn) in Q1. Newly refinanced loans presented 9.5 bn CZK (+3.8 bn) from new contracts. Total household debt stood at 2,485.7 bn CZK at the end of March, up 6.3%, year-on-year.

Chart 16 Market interest rates (in %)



Source: ARAD, CNB

The share of loans to non-financial businesses denominated in foreign currency decreased slightly.

Non-financial businesses borrowed cheaper in total on average in Q1 (5.54% at the end of March, -0.21 p. p.). This was due to loans over 30 mil CZK, for which the average interest rate decreased by 0.25 p. p. to 5.52%, and loans between 7.5 mil CZK and 30 mil CZK (-0.18 p. p. to 5.35%). On the contrary, the average interest rate for the category of loans below 7.5 mil CZK increased by 0.13 p. p. to 6.0%. The total volume of credit and claims of non-financial businesses was 4.0% higher, year-on-year, at the end of March. The growth of the volume of loans denominated in koruna was significantly more pronounced (6.1%, mainly short-term loans increased by 14.6%) than those denominated in foreign currency (2.0%, a decrease in short-term loans by 5.1%). The proportion of credit in foreign currency on the total credit volume thus decreased slightly to 51.4%. The volume of credit provided increased the most, year-on-year, in professional, scientific, technical and administrative activities (24.3%), accommodation, food service activities (19.4%), public administration and defence, mandatory social security. security, education, human health and social work activities (16.1%) and

⁴ 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.

construction (10.6%). The volume of credit decreased in a number of activities. In addition to the continuing decline in mining and quarrying (−25.7%), this was recorded in information and communication (−10.9%), cultural, entertainment, recreational and other activities and activities of extraterritorial organizations and bodies (−9.4%), in the generation and distribution of electricity, gas, heat, air, water and wastewater (−9.1%), in wholesale, retail sale and repair and maintenance of motor vehicles and motorcycles (−3.8%), manufacturing (−1.2%), finance and insurance activities (−0.5%) and transportation and storage (−0.2%).