

7. Monetary Conditions

Basic monetary policy-relevant rates were increased at the end of Q2.

Growing inflationary pressures as well as the progressing recovery of the Czech economy compelled the CNB to the new increase of basic monetary policy-relevant rates, which eventuated at the end of June and it was the first since last year's February. Two-week repo rate was from 0.25% raised to 0.5% and Lombard rate from 1.00% to 1.25%. Koruna foreign exchange per euro gradually depreciated in the course of the whole quarter and moved below the level of 26 CZK/EUR¹. July koruna foreign exchange ended on the value of 25.485 CZK/EUR and the average for the whole quarter (25.638 CZK/EUR) was already slightly stronger than the average of year 2019 (25.672 CZK/EUR). The koruna foreign exchange was stronger by 5.2% year-on-year. Koruna foreign exchange per dollar also featured a strengthening trend, the end of quarter however saw a mild weakening and the foreign exchange reached 21.439 CZK/USD. The average for the whole Q2 2021 was 21.3 CZK/USD, which is by 13.4% stronger value than in the last year's Q2.

Yields of government bonds did not grow as fast as in Q1 anymore.

Rates on the interbank market were falling together with the monetary policy-relevant interest rates last year, but subsequently remained nearly the same for nearly one year. Changes in the setup of the monetary policy affected them and the three month PRIBOR rate increased by 0.11 p.p. to 0.48% in July. Interest rates on the government bonds experienced less dramatic development compared to the preceding months. After the significant increase in Q1, they changed only negligibly. Rate for bonds with the shortest, two year maturity were at 0.69% at the end of June, for medium term bonds it went slightly up to 1.55% and interest on bonds with long term maturity dropped to 1.67%.

Low interest on the client term deposits still results in the outflow of funds to current accounts.

Situation for rates on the client deposits remained practically unchanged. Current accounts of households held on average the interest of 0.04% at the end of June and deposits with agreed maturity 0.55%, which represents a quarter-on-quarter increase by 0.1 p.p. Especially interests on deposits with maturity above two years were rising. Current accounts of non—financial businesses had also nearly zero interest (0.03% at the end of June). The average interest rate of their deposits with agreed maturity went up by 0.09 p.p. to 0.21%. Generally low interest rates stood behind the continuation of trend, where the increase of the volume of deposits was still fuelled mainly by the non-term deposits. Their growth maintained strong year-on-year dynamics (13.9%), even though the increase already included the high basis of the last year's Q2.

Prices of credit for households went up.

Interest rates of credit for households grew in Q2. By 0.34 p.p. to 7.31%, the average interest on consumer credit also grew quarter-on-quarter, which comprised the first rise since the end of year and the highest since Q4 2012. In case of mortgages, the interest rates were also raised. Interest on mortgages was on average 2.2% at the end of June, which is 0.14 p.p. more compared to March. Increase was recorded for all fixation periods. The dynamics of the volume of credit provided to households accelerated together with the loosening of trade and services. It is apparent mainly on the consumer credit, which grew by 2.7% year-on-year following the previous stagnation. It still consists of a very mild growth, which can be connected to the lower need of credit financing in situation, when part of households managed to accumulate cash in the last year. The growth of the volume of mortgages also increased its pace – the year-on-year addition of 9.5% was the highest since Q2 2017. At the same time more detail data suggest, that while the so called other new contracts associated with the credit moratorium played an important role in the increase last year in Q2², mainly net new credit gains importance very fast now. Total household indebtedness grew by 7.7%

Growth of volume of mortgages markedly accelerated.

¹ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates are also sourced from the CNB.

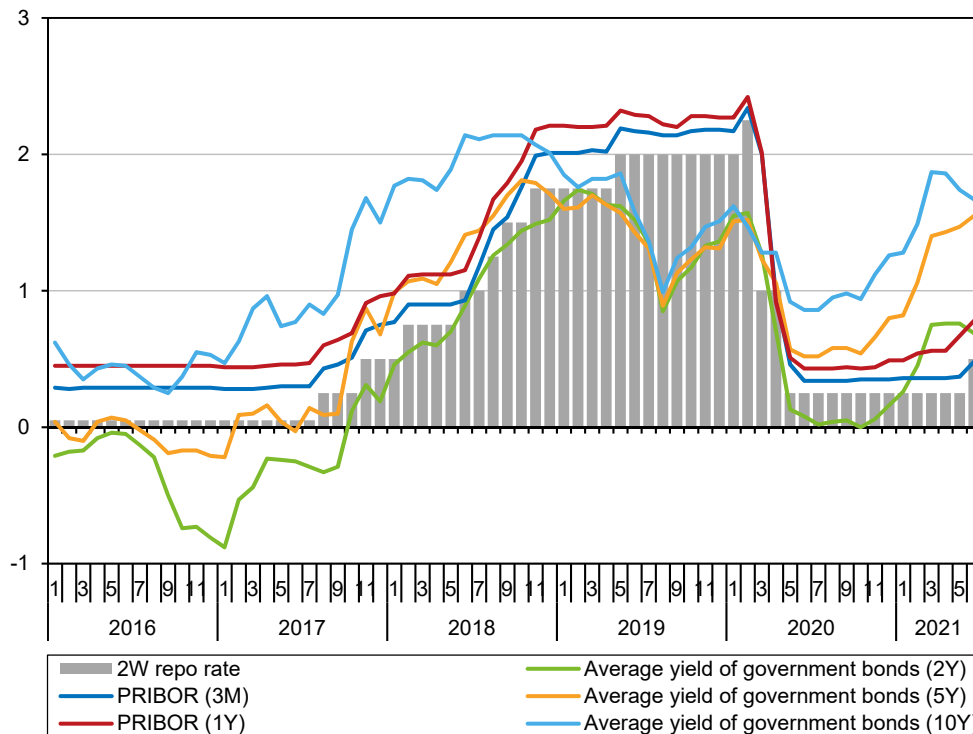
² Possibility of suspension of payments.

year-on-year, the most since Q3 2009. In that mortgages expanded by 9.5% (the most since Q1 2010) and consumption debt by 1.9%.

Interest rates of credit for non-financial businesses on the other hand decreased.

Credit financing for non-financial businesses on the contrary went down in price during Q2, specifically for all volumes of credit. Reduction of the average interest in case of the smallest volumes up to 7.5 CZK mil (by 0.05 p.p. to 3.43%) was the most moderate quarter-on-quarter. Interest rate for credits between 7.5 and 30 CZK mil dropped by 0.12 p.p. to 2.35%. The average rate in case of credit above 30 CZK mil decreased by 0.65 p.p. to 1.19%, which is a record low amount. The volume of credit and receivables of non-financial businesses (both in CZK and foreign currency) fell by 1.9% year-on-year. It constituted especially the effect of koruna appreciation per other currencies, which had a significant effect on the credit portfolio, since credit in foreign currency comprises approximately one third from the total volume of credit and receivables of the non-financial businesses. Just their volume fell by 13.4% year-on-year, while the loans in CZK increased by 4.6%. With respect to the time view, credit with medium term maturity expanded the most in Q2 (7.4%). The volume of credit in information and communication deeply shrank year-on-year (-11.5%) and lowering for cultural, amusement and other activities was also strong (-8.1%). Slump in the volume of credit provided in construction (-4.8%), manufacturing (-4.7%) as well as wholesale and retail and repair and maintenance of motor vehicles (-4.4%) still continued. For all of them it was the effect of koruna foreign exchange appreciation, the credit in CZK itself stagnated in these fields of activity, grew by 2.6% in construction. Loans in accommodation, food service and restaurants were also falling (-3.8%). Loans for transportation and warehousing (31.8%), professional, scientific and administrative activities (11.8%) on the other hand showed a large increase. Loans for financial and insurance activities mildly grew year-on-year (1.7%).

Chart 15 Market interest rates (in %)



Source: CNB

