

7. Monetary Conditions

Monetary policy-relevant rates continued to decrease in Q2.

The process of a gradual decrease of monetary policy-relevant rates continued in Q2. There were two half-point cuts (in May and June) and the two-week repo rate thus attained 4.75%, the discount rate 3.75% and the Lombard rate 5.75%¹ at the end of June. The koruna foreign exchange per euro reached an average value of 24.96 CZK/EUR for the whole Q2 and thus weakened 1.37 CZK (5.81%), year-on-year. Quarter-on-quarter, the koruna foreign exchange per euro strengthened slightly by 0.11 CZK (0.45%). During Q2, the exchange rate gradually strengthened from the level of 25.31 CZK/EUR to the value of 24.70 CZK/EUR during Q2, however weakened again during June and closed the quarter at 25.03 CZK/EUR. The koruna foreign exchange per dollar also strengthened to 22.56 CZK/USD until the beginning of June, but subsequently weakened and reached 23.39 CZK/USD at the end of June. The average for the whole quarter was 23.18 CZK/USD and meant a year-on-year weakening of 1.51 CZK (6.95%) and a quarter-on-quarter weakening of 0.09 CZK (0.39%).

Interest rates on government bonds were rising.

Interest rates on the interbank market also reacted by decrease to the lowering of the monetary policy-relevant rates. Rates on deposits with shorter maturities fell the most significantly. The three-month PRIBOR rate thus decreased by 0.81² p. p. to 5.03% during Q2, while the annual PRIBOR decreased by 0.23 p. p. to 4.57%. The interest rate on government bonds grew in Q2. The average interest rate on bonds with a maturity of up to two years increased by 0.49 p. p. to 4.22% at the end of June, medium-term bonds had an average interest rate of 4.12% (+0.56 p. p.) at the end of June, and interest on long-term bonds increased by 0.39 p. p. 4.21%.

The growth of term deposit volume slowed down.

Interest rates on client deposits also fell in Q2. Rates on overnight deposits of households were still increasing in Q1, nevertheless fell by 0.27 p. p. to 1.43% during Q2. For current accounts, the average interest rate fell below the 0.2% level after six quarters. Deposits with agreed maturity were remunerated at an average of 4.30% (-0.87 p.p.) at the end of June. Non-financial businesses also faced an across-the-board decreases of interest rates on their accounts - current accounts experienced decrease of 0.17 p. p. to 0.81% and the average rate on deposits with agreed maturity fell by 0.83 p. p. to 4.56%. The total volume of deposits was by 6.5% higher, year-on-year, at the end of Q2 (445.5 bn CZK), which was the slowest pace since the end of year 2022. At the same time, both term and non-term deposits grew at a similar pace. Mainly households³ contributed to the year-on-year increase of deposits (+293.0 bn), followed by the general government (+113.3 bn).

Interest rates on household consumer credit did not fall. A recovery in new mortgage loan agreements as well as a greater volume of renegotiations on new terms of existing contracts from previous years was evident.

The reduction of interest rates on household credit was significantly milder compared to deposit rates. Consumer credit had an average interest rate of 8.90% at the end of June and the rate thus increased slightly during Q2 (+0.07 p.p.). The volume of consumer credit provided went up by 8.7%, year on year. The average interest rate on mortgages fell slightly (-0.16 p. p.) and the rate reached 5.00% at the end of June. The interest rate decreased the most for mortgages with the shortest fixation period (-0.26 p.p.) and for fixation periods between 5 and 10 years (-0.24 p.p.). The volume of mortgages provided rose by 3.5%, year on year, slowing down. The slowdown was mainly due to mortgage loans (3.2% was the slightest increase in the entire time series available since year 1997). The volume of credit from building society accounts

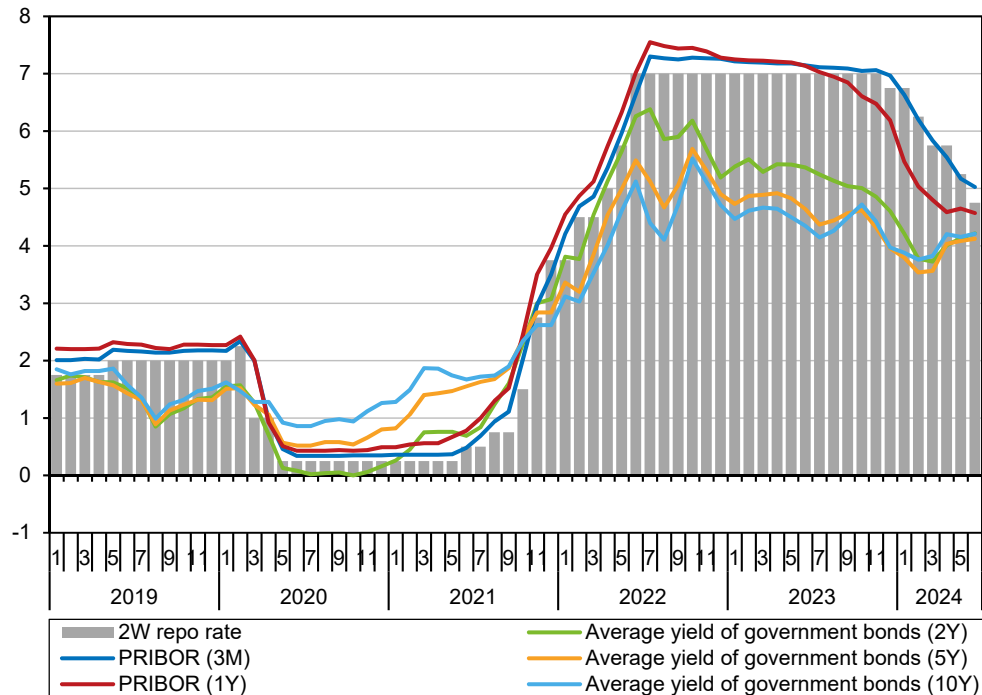
¹ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates also stem from the CNB.

² Unless stated otherwise, as the change of interest rates is meant the difference between value as of 30th June and 31st March 2024.

³ Population including self-employed persons.

continued to grow at a double-digit rate (30.9%)⁴, year on year. Recurred recovery could be observed in new mortgage loans⁵, driven mainly by net new loans. The value of new contracts concluded in Q2 amounted to 116.6 bn CZK. In that, net new loans, including extension comprised 54.5 bn CZK (+26.5 bn, year-on-year, 19.7 bn CZK, quarter-on-quarter) and other new contracts attained the volume of 54.2 bn CZK (+9.2 bn CZK, year-on-year, +13.1 bn, quarter-on-quarter). Refinanced loans accounted for 7.9 bn CZK from new contracts, up by 3.7 bn CZK, year-on-year, and 2.1 bn CZK, quarter-on-quarter. Apart from the revival of the mortgage market, it is apparent that credit concluded during the period of peak interest in 2021, when interest rates were significantly lower than at present, have reached the stage of negotiating new fixations.

Chart 16 Market interest rates (in %)



Source: ARAD, CNB

Interest in foreign currency credit diminished at non-financial businesses.

Interest rates on credit to non-financial businesses fell the most sharply in the category of credit over 30 million CZK (-0.83 p. p. to 6.92%). At the end of June, credit between 7.5 million CZK and 30 million CZK had an average interest rate of 6.96% (-0.68 p.p.) and those up to 7.5 million CZK 6.94% (-0.52 p.p.). The total volume of credit and liabilities of non-financial businesses was 7.2% higher, year on year, at the end of June. The fast growth of credit provided in foreign currency⁶ slowed down (14.8%) and the year-on-year slump of credit in CZK halted (0.1%). The share of credit denominated in foreign currency to the total volume of credit decreased slightly to 51.7%. At the end of the quarter, the volume of credit increased the most, year-on-year, in information and communication (18.9%), professional, scientific, technical and administrative activities (15.1%), real estate activities (12.3%), financial and insurance activities (12.2%) and in accommodation, food service and restaurants (11.1%). The volume of credit provided in mining and quarrying (-6.1%) and in the generation and distribution of electricity, gas, heat, air, water and wastewater (-5.8%) was lower, year-on-year.

⁴ Building savings loans have maintained a double-digit pace since the end of 2022, the increase is more than 30% for the third time in a row. Credit from the building society accounts, for which the maximum interest rate is restricted by law, have become a more advantageous financing instrument for borrowers compared to mortgage loans.

⁵ The new contracts also include the refinanced credit and other arrangements. 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.

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

