

## 7. Monetary Conditions

Monetary policy-relevant interest rates were increased five times during the year.

A gradual return to standard instruments of the monetary policy occurred in the area of the monetary conditions in 2018. The main monetary policy-relevant rate (two-week repo rate) increased five times during the year (in February, June, August, September and November). Interest rate grew from January 0.5% to 1.75%, and consequently it was the highest in the Central Europe by the end of the year 2018. Among the countries outside the euro area, only Romania featured a higher rate. Development of the koruna foreign exchange against euro was not characterised by any larger fluctuations. It balanced between 25 and 26 CZK per euro for the whole year, while it overtook the 26 CZK boundary only shortly at the beginning of July and then in November. Koruna foreign exchange against dollar markedly weakened during May (it was on 20.58 CZK per dollar on the 20th April, 22.41 CZK on 29th May). Further depreciation was observed in Q4. It shortly overtook the boundary 23 CZK per dollar in the middle of November, the year 2018 ended on 22.47 CZK.

ČNB continued in application of some instruments of macro-prudential policy.

The announced increase of the countercyclical capital buffer occurred during the year (starting 1. 7. from 0.5% to 1.0%). Growth to 1.5% was newly introduced from 1. 7. 2019 (from 1.25% from 1. 1. of this year) and 1.75% from 1. 1. 2020. ČNB executed the macro-prudential policy also using recommendations for the provision of mortgages (issued in June 2018). Newly loans above 90% of the value of the real estate purchased (LTV) should not be provided. At the same time, the banks should limit the proportion of loans with LTV between 80 and 90% to 15% of all provided loans. Further, it was accompanied by a recommendation, that the total indebtedness of a client does not exceed the nine fold of their yearly income and the yearly cost of serving the loan were not higher than 40% of their annual income.

Gradually the interbank rates also grew.

Every increase of the monetary policy-relevant interest rate also led to the growth of the interest rates on financial markets. The three-month PRIBOR rate rose by 1.26 p.p. in the course of the last year (to 2.01% as of 31. 12.). Yields of the Czech state bonds also recorded a growth, mostly the short-term (+1.33 p.p.). Bonds with ten-year maturity featured yields by 0.51 p.p. higher at the end of year 2018 than in December 2017. Rates however peaked in Q3 and gradually plummeted in Q4. Described development was valid for all bonds in the euro area. Even here however the December level of yields was higher than in the previous year.

Interest rates on current accounts bounced back especially towards the end of the year.

Relatively fast growth of the monetary policy-relevant interest rates was with various intensity mirrored also in the client interest rates last year. For current accounts, the rates remained at a very low level, even though a negligible growth of the average level in the order of hundredths did manifest (the most between Q3 and 4). For households it posed the first rise since year 2012, in case of non-financial businesses it was similar (a series of falls was interrupted in Q1 2014). Interest rates on deposits with agreed maturity grew more noticeably. For households they increased by 0.69 p.p. during the year to 1.35% as of 31. 12., for non-financial businesses they increased to 1.23% towards the end of the year. Both sectors recorded a larger addition only in the second half of the year. Growth of rates on the term deposits also altered the dynamics of the money stock. The year-on-year growth of the volume of currency and current deposits markedly slowed down last year. On the other hand, the volume of deposits with agreed maturity rose sharply (by 51.3 bn between Q1 2018 and Q4 2017, 32.2%). The new level was more or less maintained during the year. Considerable growth of the volume of tradeable instruments continued (while this item reached volume of 17.3 CZK bn at the end of year 2016, it was 120.1 bn in December 2018).

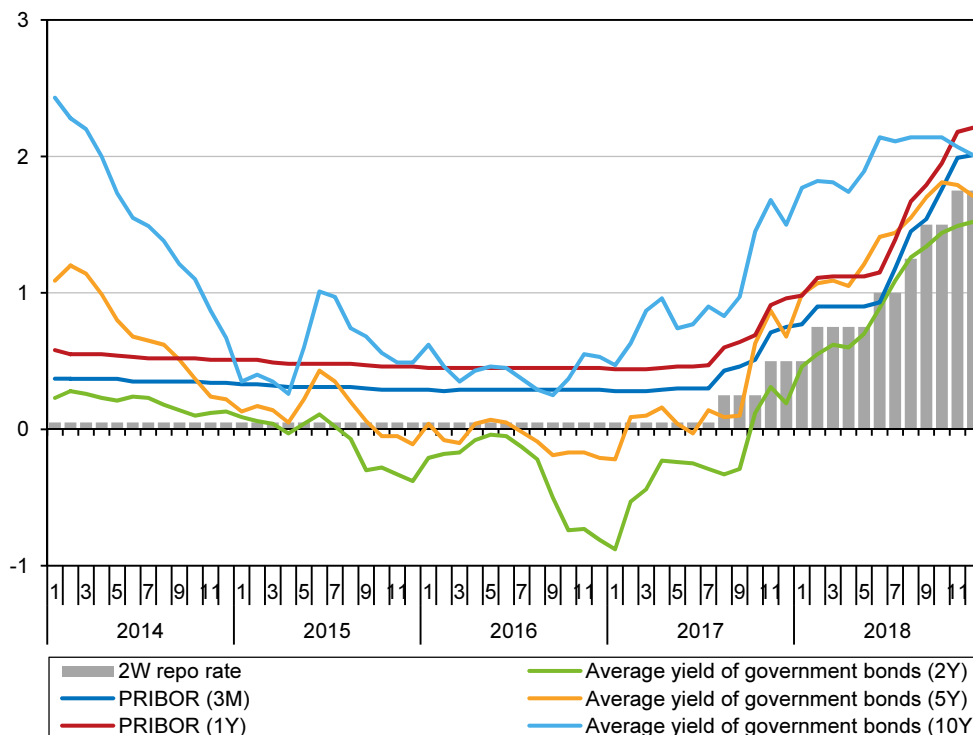
Interest rates on credit for households and non-financial businesses did not avoid growth.

Average interest rate of credit for households settled at 4.27% at the end of the last year. Consumer credit had on average assigned interest of 8.63% as of 31. 12., their rate grew for the first time since 2014 (decrease continued only for loans with rates fixed up to one year). Average interest on loans for purchasing a new housing real estate climbed to 2.92% at the end of the year. During the year, the rate was expanding relatively slowly, larger increase manifested only in Q4, specifically for all terms of fixed rate. The loans for non-financial businesses went up in price quite vigorously. Interest on loans up to 7.5 mil was 4.13% towards the end of year 2018 (year-on-year growth by 0.81 p.p.), loans between 7.5 and 30 mil had 3.55% (+1.14 p.p., difference between Q3 and 4 was +0.71 p.p.). Loans above 30 mil were charged interest 3.22% as of 31. 12. (+1.0 p.p.).

Volume of credit provided to households kept further growing. Mainly in branches which economically prospered last year, the interest in credit financing picked up.

Volume of credit provided to households totalled 1 645.8 CZK bn towards the end of the last year, which is a year-on-year increase of 116.0 bn (7.6%). The dynamics of the consumer credit remained below this level. Mortgages were expanding by a slower pace compared to year 2017, year-on-year growth nevertheless exceeded 8.0%. In that, the year-on-year dynamics of mortgages was crossing the 9% boundary except for Q3 (8.9%). On the other hand, the number of new mortgage contracts shrank year-on-year by 13.2 thousand. Year-on-year growth of credit and amounts receivables of non-financial businesses was accelerating during the last year, specifically thanks to credit denominated in foreign currency, where the dynamics reached double digit values in H2. Credit in foreign currency constituted 31.1% of the volume of credit and amount receivables of the non-financial businesses at the end of the year. Increases were mostly related to credit and amounts receivables with medium and long-term maturity. The dynamics rather precisely followed the economic development. Credit provided in construction grew by 5.5 CZK bn during the year (12.7%), by 6.7 bn in transportation and warehousing (14.0%), by 8.4 bn in information and communication (23.4%). By 38.8 bn in financial and insurance activities (14.9%). Dive continued in section mining and quarrying (-2.8 bn, -25.0%) and also in the manufacture and distribution of electricity, gas, heat, air and water (-12.4 bn, -8.9%).

Chart 17 Market interest rates (in %)



Source: CNB

