7. Monetary Conditions

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| Monetary policy-relevant interest rates were changed three times during Q2. |  | In the environment of significantly accelerating inflation, the monetary policy-relevant interest rates were raised three times during Q2. At first, the two-week repo rate was increased by 0.50 p.p. to 5.00% in April[[1]](#footnote-1), another increase to 5.75 % took place in May and another one to 7.00% in June. The discount rate reached 6.00 %at the end of Q2 and the Lombard rate 8.0%. Koruna foreign exchange per euro attained an average value of 24.64 CZK/EUR in Q2. The CNB forex intervention played a major role, which following the steep depreciation, which manifested in the half of May returned the koruna foreign exchange to the previous level and were preventing further depreciation. The koruna foreign exchange per euro was stronger by 3.9% compared to last year’s Q2 and it nearly did not change quarter-on-quarter. Koruna foreign exchange per dollar fluctuated more substantially during Q2. The average reached 23.16 CZK/USD for the whole Q2, the koruna foreign exchange per dollar however depreciated from the level of 22.06 CZK per dollar at the beginning of April up to 23.82 CZK at the end of June. The jump depreciation, which was common to all countries of the Central Europe with own currencies, occurred in the second half of April in connection to the interruption of supplies of gas to Europe and the timing of May as well as June shift of the koruna foreign exchange coincided with the period of inflation data publishing. Koruna foreign exchange per dollar was weaker by 8.9% year-on-year in Q2 and by 5.3% quarter-on-quarter.  |
| Yields of government bonds went up. |  | The interbank rates reacted to the increase of the monetary policy-relevant interest rates by analogous increase. The three-month PRIBOR rate rose by 1.78 p.p.[[2]](#footnote-2) to 6.64% in Q2 and the interest rates of other maturities also behaved similarly. The yields of government bonds continued growing in Q2, which lasts since the second half of year 2020. Bonds with short-term maturity thus bore interest on average of 6.26% at the end of June 2022 (increase by 1.72 p.p.), with medium-term maturity 5.49% (+1.64 p.p.) and with long-term maturity 5.12% (+1.59 p. p).  |
| Strong inflow of funds to term deposits continued.  |  | Interest rates on client deposits also generally moved upwards. In case of current accounts of households[[3]](#footnote-3) the interest rates stayed at a very low level (0.08%), but the average interest on one-day deposits went up by 0.26 p.p. to 0.77% in Q2. Deposits with agreed maturity recorded a large shift (by 1.86 p. p. to 5.37%). Current accounts of non-financial businesses bore interest of 0.7% on average at the end of Q2, which represents an increase of 0.33 p.p. The average interest rate on their deposits with agreed maturity rose by 1.9 p. p. to 5.8%. The development of the volume of deposits reflected the growing inflation and shift of interest rates. In Q2, the decrease of volume of non-term deposits atypical from the long-term point of view further continued (by 261.6 CZK bn year-on-year, by 54.9 bn quarter-on-quarter). This decrease was evidently absorbed by term deposits, which bear much better interest currently. They expanded by 746.9 CZK bn year-on-year and by 223.2 bn quarter-on-quarter. The dynamics of the total volume of deposits did not alter significantly.  |
| Increase of interest rates on credit for households was accompanied by cooling of their provision.  |  | The growth of interest rates on credit for households also continued. The average interest on consumer credit increased by 0.64 p. p. to 8.84% during Q2, which is the most since the end of Q3 2017. The average interest rate on credit to purchase residential real estate also had another large increase (by 0.59 p. p. to 4.43%). Expansion of the volume of credit provided to households markedly slowed down in Q2. The year-on-year increase of consumer credit slowed down to 7.1% in Q2. The still relatively strong increase was assisted by the weaker comparative basis of last year’s Q2, when the retail trade set in motion after the pandemics shutdown. The quarter-on-quarter increase however slowed down to 0.4%, while it was more than 2% in the previous four quarters. Volume of provided mortgages was by 8.8% higher year-on-year at the end of June 2022. Their expansion nevertheless slowed down to 0.7% between the end of June and March, which was the least since Q1 2014. The sharp hike of rates put further brakes on the provision of new mortgages. The volume of new mortgage credits attained 28.2 CZK bn, which was the least since the end of year 2019. Mainly the pure new loans dropped[[4]](#footnote-4). Total indebtedness of households went up by 8.1% year-on-year, but quarter-on-quarter addition slowed down to 0.7%.  |
| Volume of credit and liabilities of non-financial businesses in foreign currencies sharply increased.  |  | The cost of credit financing was raised also to non-financial businesses. The interest on loans with volume above 30 CZK mil went up the most in Q2 (by 1.92 p.p. to 8.14%). The medium category of credit between 7.5 and 30 mil the interest rate was raised by 0.78 p.p. to 6.56% and by 0.63 p.p. to 6.9% in case of credit up to 7.5 mil. The total volume of credit and liabilities of non-financial businesses was by 7.7% year-on-year in Q2. Mainly short term credit expanded (17.6%). At the same time the volume of credit provided in CZK was lower year-on-year (−5.7%), while those denominated in foreign currencies increased by 36.2% and their proportion in total volume of provided credit climbed above 40%. From the view of individual branches, the volume of credit was growing the most year-on-year in wholesale, retail and repairs and maintenance of motor vehicles (20.4%), in transportation and storage (17.1%) and the pace briskly accelerated in financial and insurance activities (12.6%). The year-on-year increase of the volume of credit in real estate activities (7.9%) also strengthened. Apart from the usual slump of credit for mining and quarrying (−45.0%), credit in public administration, mandatory social security, education, health and social works (−27.9%) also shrank markedly. The volume of credit for production and distribution of electricity, gas, heat, air, water and waste water shrank by 7.2%.  |
|  |  | **Chart 16 Market interest rates** (in %) |
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| Source: CNB |

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. [↑](#footnote-ref-1)
2. Unless stated otherwise, as the change of interest rates is meant the difference between value as of 30th June 2022 and 31st March 2022. [↑](#footnote-ref-2)
3. Population including self-employed persons. [↑](#footnote-ref-3)
4. New contracts also include the refinanced credit and other agreements (mainly the suspension of payments in the last two years). [↑](#footnote-ref-4)