

## 7. Monetary Conditions

Monetary policy-relevant interest rates were lowered after one year and half in December.

Monetary policy-relevant rates changed for the first time since June 2022 at the end of Q4 2023. Two-week repo rate was decreased from the level of 7.00% to 6.75%<sup>1</sup> on 21<sup>st</sup> December and the discount rate fell similarly to 5.75% and Lombard to 7.75%. Koruna foreign exchange per euro reacted to the change in the setup of rates by mild weakening down to 24.73 CZK/EUR towards the end of December, while the exchange per dollar stagnated and considerably weakened only on the last December day to 22.38 CZK/USD. Koruna foreign exchange per euro was on average 24.52 CZK/EUR for the whole Q4 and was thus weaker by 0.39 CZK quarter-on-quarter and weakened by 0.13 CZK year-on-year. Koruna foreign exchange per euro fluctuated around the level of 24.50 CZK/EUR during the quarter. Exchange per dollar started the quarter at 23.23 CZK/USD and strengthened by nearly one koruna to 22.38 CZK/USD. The koruna foreign exchange per dollar however reached on average 22.82 CZK/USD in Q4 and thus was by 0.65 CZK weaker than in Q3. Compared to the level of Q4 2022, the koruna foreign exchange per dollar was by 1.10 CZK stronger.

Interbank interest rates on deposits with longer maturity started to decrease in advance.

Decrease of the monetary policy-relevant rates also manifested on the interest rates on the interbank market in Q4. Monthly PRIBOR rate dropped by 0.10 p.p.<sup>2</sup> to 6.98% and three-month by 0.12 p.p. to 6.97%. While the rates on deposits with short maturity however changed only in December in reaction to the loosening of the monetary conditions, rates of deposits with longer maturity were gradually falling in the anticipation of the change of monetary policy-relevant rates set up during the whole quarter. Six-month PRIBOR (-0.35 p.p. to 6.71%) started to decrease in October more notably. Annual PRIBOR (-0.66 p.p. to 6.19%) featured a downward movement already in the summer months. Yields on all government bonds of all types of maturities fell in Q4. Interest rate on short-term bonds thus ended the year 2023 4.61% (-0.44 p.p.), it was 3.96% for medium-term bonds (-0.61 p.p.) and 3.97% for long-term bonds (-0.52 p.p.)

Interest rates on term deposits decreased.

Impact of changes on the set-up of the monetary conditions on rates of the client accounts was mixed in Q4. While one-day deposits and current accounts of households did not experience any larger shift, term deposits had their interest on average markedly decreased. In total, the deposits with agreed maturity bore interest on average 5.72% (-0.29 p.p.) and interest on deposits with maturity above one year was falling faster. The average interest of one-day deposits relatively substantially fell for the non-financial businesses (-0.49 p.p. to 1.57%) and the average interest rate on deposits with agreed maturity was also lower (-0.19 p.p. to 1.03%). Total volume of deposits attained 6 701.2 CZK bn at the end of year 2023 and it was by 842.3 bn higher year-on-year (14.4%). After slowdown, which occurred in Q2 and Q3, the year-on-year increase of the volume of term deposits again gained pace (42.7%), likely also in connection to the effort to close contracts before the anticipated decrease of interest rates. The volume of non-term deposits (3.3%) was also slightly expanding at the end of the year. Their downfall, apparent since the beginning of year 2022, when in connection to strong inflation the funds were transferred to term deposits, thus halted. From the view of sectors, the government institutions contributed to the increase of volume of deposits the most (+325.2 CZK bn) followed by households<sup>3</sup> (+254.7 bn) and financial institutions (+151.0 bn). Deposits of non-financial businesses went also up (+103.2 CZK bn).

<sup>1</sup> 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.

<sup>2</sup> Unless stated otherwise, as the change of interest rates is meant the difference between value as of 31<sup>st</sup> December 2023 and 30<sup>th</sup> September 2023.

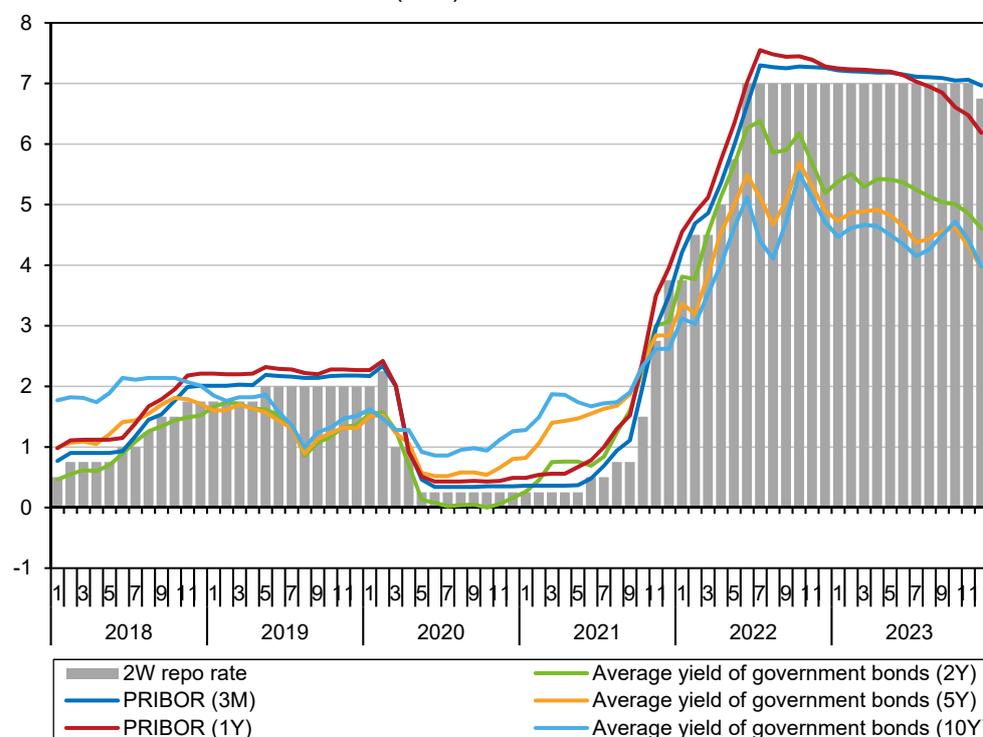
<sup>3</sup> Population including self-employed persons.



Interest rates on consumer credit as well as mortgages started to fall.

Expected change of the monetary conditions set-up also partially manifested in the interest rates of credit for households. The average interest on consumer credit slightly decreased (by 0.23 p.p. to 9.29% as of 31.12.) in Q4. From the peak reached in Q3 2023, the interest rates on mortgages also descended lower (total average arrived at 5.41% and fell by 0.09 p.p.). The interest rates for all fixations of the interest rate fell, the most for fixations between 5 and 10 years, where the interest was at the same time the lowest (-0.29 p.p. to 4.14%). Total household indebtedness was 2 315.9 CZK bn towards the end of year 2023 and it was thus by 4.7% higher year-on-year. The volume of provided consumer credit was by 8.5% higher and the pace again decreased below 10% after two quarters. The volume of credit provided for housing further grew only slightly (4.1%). While the mortgages were by 3.9% higher, the growth of credit from the building society accounts strengthened to substantial 32.1%<sup>4</sup>. Number of new mortgages<sup>5</sup> expanded more in Q4 than in the preceding quarters. Amount of net new credit including extension was in fact the same and other new contracts, mainly renegotiated credit after the end of the fixation were the source of growth.

**Chart 17 Market interest rates (in %)**



Source: ARAD, CNB

Interest rates of credit for businesses also dropped at the end of the year.

Businesses also felt the loosening of the monetary conditions via the lowering of interest rates at the end of year 2023. Credit in the volume up to 7.5 mil thus bore interest on average 7.76% (-0.54 p.p.), credit between 7.5 and 30 mil 8.60% (-0.37 p.p.) and the highest category of credit over 30 mil had on average interest rate 8.52% (-0.30 p.p.). Total volume of credit of businesses reached 4 356.5 CZK bn towards the end of year 2023 and it was by 7.0% higher year-on-year. The largest year-on-year increase of credit was recorded in professional, scientific, technical and administrative activities (36.8%), generation and distribution of electricity, gas, heat, air, water and sewerage (16.9%) and real estate activities (13.2%). Volume of provided credit was in

<sup>4</sup> The credit from the building society accounts expanded by double digit pace since the end of year 2022. Credit from the building society account, where the maximum interest is restricted by the law, became more advantageous financing instrument for the debtors thanks to the substantial increase of interest rates on mortgages.

<sup>5</sup> 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.

contrast falling for entities in the area of transport and warehousing (−5.7%), wholesale, retail and repairs and maintenance of motor vehicles (−0.8%) and in manufacturing (−0.7%). Trend of growing number of credits in foreign currency, which overtook the boundary of one half of total credit and claims of the non-financial businesses (51.1%<sup>6</sup>) for the first time towards the end of year 2023, remained the same.

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

