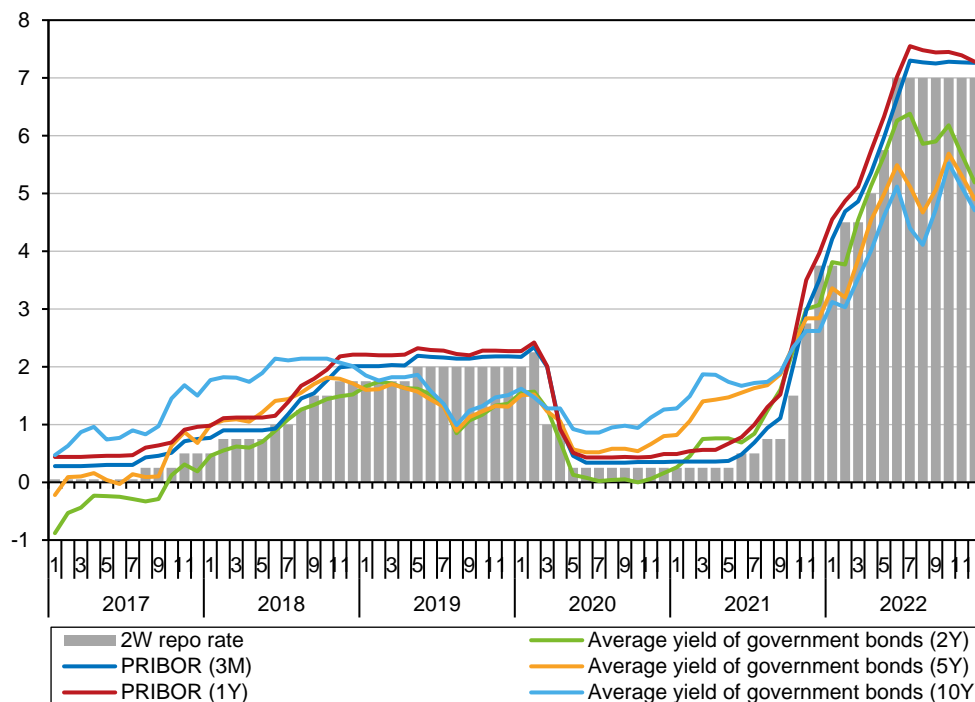


## 7. Monetary Conditions

Set up of monetary policy-relevant rates was not changed in H2.

Level of the basic monetary policy-relevant rates did not change in Q4. After the fast increase in H1, two-week repo rate remained at 7.00%, discount rate at 6.00% and Lombard rate at 8.00% till the end of the year.<sup>1</sup> In case of koruna foreign exchange per euro, the development was affected by the forex interventions against depreciation last year, which the CNB launched since half of May. The interventions manifested on the ridged exchange rate the most clearly in May and June, then however a mild appreciation occurred, which lasted till the end of the year. In Q4, the average value of koruna exchange rate per euro attained 24.39 CZK/EUR. Koruna appreciated per euro by 3.9% year-on-year. The rate was by 0.8% stronger quarter-on-quarter. The development was more turbulent for the koruna foreign exchange per dollar. Koruna followed a weakening trend apart from temporary exceptions since the beginning of the year, which peaked at the turn of Q3 and 4. Considerable strengthening from the level above 25 koruna per dollar to 23.50 koruna occurred during November. The foreign exchange fell to 22.62 CZK/USD till the end of December, which is still lower level than at the beginning of the year (the highest value was 21.18 CZK/USD in February). The average for the whole Q4 was 23.92 CZK/USD, which represents year-on-year weakening by 7.8% and quarter-on-year strengthening by 2.0%.

Chart 17 Market interest rates (in %)



Source: CNB

Bond yields were falling at the end of the year.

Rates of the interbank market imitated the development of the monetary policy-relevant rates and kept a stable level since July. The three months PRIBOR rate ended the year 2022 at the value of 7.26%. Certain expectations of future decrease of monetary policy-relevant rates were evident on the six-month and annual PRIBOR rate, which slightly dropped in the last months of year 2022 (the annual rate more perceptibly – from 7.44% at the end of September to 7.28% at the end of December). Bond yields markedly increased in the first half of the last year but were falling in Q4. The average interest in case of short-term bonds lowered the most (-0.71 p.p.<sup>2</sup>), nevertheless they still

<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, the difference between the value as of 31.12.2022 and 30.9.2022 is intended by the change of interest rates.

maintained the highest level of interest, when they finished the year at 5.38%. Medium-term bonds held interests 4.73% (−0.16 p.p.) and long-term 4.47% (−0.01 p.p.) at the end of December.

Volume of non-term deposits, which savers transferred to term accounts, reduced last year.

Interest on client accounts gradually climbed up during the year. One-day deposits of households held average interest 1.33% towards the end of the year (increase by 1.04 p.p. year-on-year and 0.26 p.p. since the end of September). Small shift occurred also on the current accounts, where the interest rates remained at zero for the several last years (by +0.16 p.p. year-on-year to 0.22% at the end of December 2022). Largest increase was observed in case of interest rates on deposits with agreed maturity last year, mainly for the maturity below two years. The average interest rate on deposits with agreed maturity attained 6.0% at the end of year 2022 and it increased by 3.68 p.p. year-on-year. In total rates rather stagnated (−0.08 p.p.) here quarter-on-quarter, which can be ascribed to deposits with maturity below one year, which comprise the largest proportion among population. On the contrary, the rates grew quarter-on-quarter for longer maturities. Current accounts of non-financial businesses bore interest on average 0.81% at the end of the year (year-on-year +0.61 p.p., quarter-on-quarter −0.07 p.p.). The average rate of their deposits with agreed maturity was 5.78% (+3.31 p.p. year-on-year). Rate dropped by 0.67 p.p. quarter-on-quarter. The volume of non-term deposits was falling completely uncharacteristically for the entire last year, with savers likely transferring funds to term deposits. The total volume of deposits was by 356.6 CZK bn higher year-on-year at the end of year 2022. In that however non-term deposits dropped by 315.4 CZK bn and on the contrary the term deposits expanded by 671.9 bn. Households<sup>3</sup> shared the most in the described increase (+131.8 CZK bn), followed by financial institutions (+104.3 bn), government institutions (+73.3 bn) and non-financial businesses (+58.1 bn). Deposits of non-residents fell by 16.6 CZK bn year-on-year.

Credit interest rates went swiftly up.

Credit financing kept becoming more expensive last year. Household consumption credit bore interest on average 9.66% at the end of the year, which presented a year-on-year increase of 1.75 p.p. and quarter-on-quarter stagnation (−0.04 p.p.). The volume of consumer credit was by 7.3% higher year-on-year at the end of the year. It is relatively solid increase, which however lagged behind the price growth. The average interest rate of mortgages was by 1.96 p.p. higher year-on-year at the end of the last year (4.88%). The year-on-year dynamics of mortgages thus continued in decline. Volume of provided mortgage credit was by 4.8% higher year-on-year at the end of the year, which is the smallest increase since Q2 2013. Volume of new mortgage credit<sup>4</sup> sharply plunged last year following the immense expansion from year 2021. The decrease concerned mainly net new credit. Other agreements, that is credit, where the fixation of the interest rate ended formed the majority of new credit in H2 2022.

Businesses to a higher extent acquired credit in foreign currency.

Interest rates on credit for businesses also hiked up rapidly last year. Credit with volume up to 7.5 CZK mil bore interest on average 7.54% (+2.68 p.p. year-on-year.) at the end of the year, credit between 7.5 and 30 mil had average rate 8.03% (+3.32 p.p.) and credit above 30 mil charged interest 9.17% (+4.79 p.p. year-on-year). Total volume of credit and liabilities of non-financial businesses was by 4.1% higher year-on-year at the end of December. At the same time the credit and liabilities in CZK plunged by 13.2% year-on-year, while credit in foreign currency jumped up by 36.6%<sup>5</sup>. Credit provided in financial and insurance activities (22.0%), public administration, mandatory social security, education, health and social care (10.1%), wholesale and retail, repairs and

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

<sup>4</sup> Refinanced credit as well as other agreements are included in the new contracts. Refinanced credit includes existing contracts agreed newly at a different bank, while other new agreements are existing contracts agreed with new conditions at the same bank.

<sup>5</sup> Credit in foreign currency started sharply grow after the beginning of repeated increase of monetary policy-relevant rates in June 2021. Their volume expanded by 198.9 CZK bn (54.8%) until December 2022.



maintenance of motor vehicles (9.2%), construction and real estate activities (similarly by 7.1%) showed the largest year-on-year increase at the end of December. Credit for information and communication was by 11.1% lower year-on-year at the end of year 2022.