7. Monetary Conditions

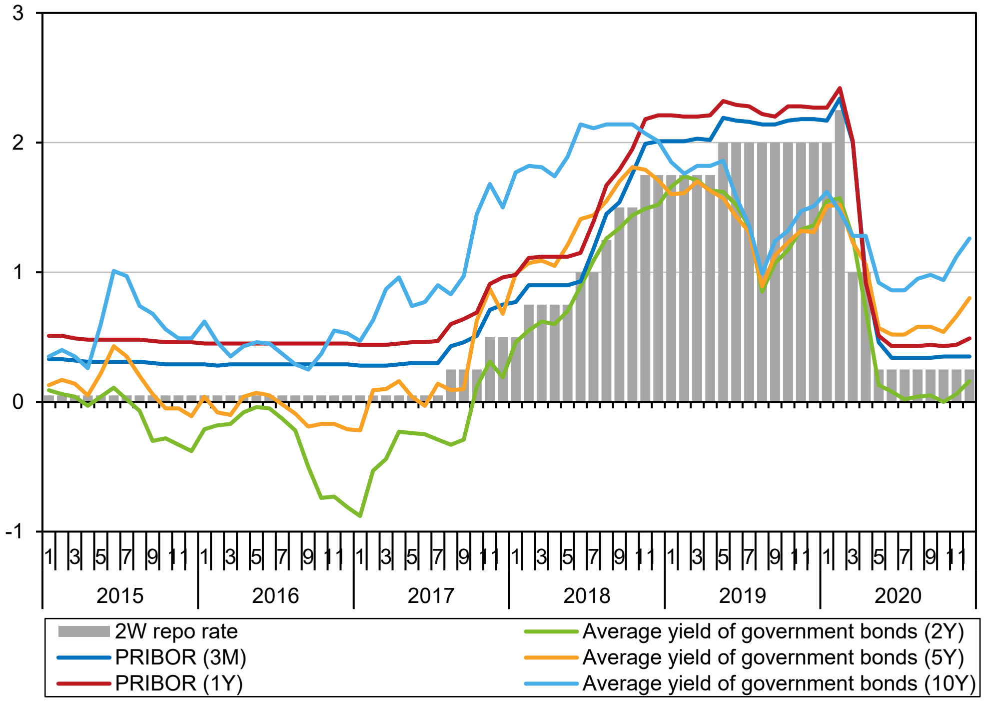
Repeated lowering of monetary policy-relevant rates occurred in year 2020.

Economic development was markedly turbulent in year 2020, which also left its mark on the development of main monetary policy-relevant rates. At the beginning of the year, the rates were raised still in reaction to the inflationary pressures in the economy (maximum was 2.25 for the 2W repo rate)[1]. The arrival of the crisis however led to the fast easing of the monetary policy – repo rate was lowered to 1.00% in March and to 0.25% in May. Repo rate remained unchanged at this level until the end of the year. At the same time, the discount rate was set to 0.05% and Lombard rate to 1.0%. The economic situation also notably influenced the development of the koruna foreign exchange. Koruna sharply depreciated against both euro and dollar during March. In case of the dollar foreign exchange, the trend headed to the repeated strengthening and the koruna foreign exchange against dollar was already stronger year-on-year at the end of the year (foreign exchange reached 21.39 CZK/USD at the end of the year). Mild correction also took place in case of foreign exchange against euro; however the foreign exchange did not drop below the level of 26 CZK/EUR since 13th March 2020. It resulted in pressures on the growth of prices of goods traded in euros.

Government bond yields increased towards the end of year.

Interbank interest rate PRIBOR is closely tied to the monetary policy-relevant rates, and thus it practically did not change since June. Three-month PRIBOR rate was 0.36% at the end of year 2020 (it was 2.17% at the end of year 2019). The yields on domestic government bonds were comparatively strongly changing during the year. In January, the interest rate on short term bonds amounted to 1.55%, 1.51% on those with medium term maturity and 1.62% on long term bonds. Rates for all maturities were then falling during the year and hit the bottom in October (0%, 0.54% and 0.94% for individual maturities). Afterwards, rates relatively fast grew towards the end of the year. As of 31. 12. 2020, the average yield of short-term bonds reached 0.16%, medium term bonds 0.8% and long-term bonds 1.26%.

Chart 16 Market interest rates (in %)



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 are also sourced from the CNB.

Interest rates on term deposits markedly decreased.

The decline did not avoid even some client interest rates, especially those on the term deposits. On the deposits of households on current accounts, the rates practically did not have further space for decline (they are below 0.1% since the beginning of year 2016 and were on average 0.02% at the end of December 2020). On the other hand, the rates on deposits with agreed maturity grew during the years 2018 and 2019. They could thus be amended very fast last year in reaction to the decrease of the main economic rates (the average interest rate on deposits with agreed maturity was 1.43% at the end of March, it was already 0.6% at the end of June). The average interest on these deposits arrived at 0.59% at the end of the year. Rates for deposits with maturity up to 1 year were falling the most – the banks likely assumed, that the level of interest will go up in the nearest future. Non-financial businesses could only shortly benefit from the increase of rates on current accounts – they again dived nearly to zero during the last year. At the same time, the interest rates on deposits with agreed maturity of non-financial businesses considerably fell – even more than to households (the average interest reached 0.16% at the end of December, by 1.36 p.p. less year-on-year at the end of December). The change of rate manifestly affected the volume of terms deposits – they were shrinking year-on-year from Q2. The view of the household deposits is also interesting – substantial increase of their volume in line with the increased savings rate, which is connected to the limited opportunity of consumption by the adopted restrictions on the operations of retail and services, can be observed since Q2.

Credit financing for households became cheaper further.

Slight decrease was also apparent on the interest rates of credit for households during the year. Cut interest on consumption credit is long term and year 2020 followed in this trend. The average rate was 7.69% at the end of December, which is by 0.59 p.p. less year-on-year. Interest on mortgages were also cut last year. At the end of the year, it was on average 2.1%, which is by 0.39 p.p. less year-on-year. Dynamics of consumer credit substantially slowed down since Q2 as expected. Combination of limited consumption as well as considerable uncertainty of households slashed the year-on-year addition to the volume of consumer credit down to 2.6% at the end of the year. On the contrary, the year-on-year pace of the growth of volume of mortgages remained relatively high (it did not drop below 7.5% during the year and accelerated to 8% in H2). As a result, the indebtedness of households grew by a similar rate of growth as in the previous years (as of 31. December, it was by 6.1% higher year-on-year). Indebtedness for consumption was thus lower by 0.1% year-on-year at the end of the year and mortgage debt by 8.0% higher.

In many branches, the credit dynamics considerably stepped on the brakes.

Average interest rate of credit to non-financial businesses was falling during the year and hit the bottom in Q3. It however sharply increased at the year´s end. This development was mostly influenced by the category of credit above 30 CZK mil. Here, the interest dropped down to 1.15% in Q3, but climbed up to 1.72% by the end of December. Credits between 7.5 and 30 mil also featured similar dynamics (interest rate fell to 2.3% here by the end of September but increased again up to 2.54%). On the contrary, the interest on credit up to 7.5 CZK mil was falling during the whole year. It was 3.26% by the end of December 2020 and lowered by 0.85 p.p. year-on-year. Total volume of credit and receivables of the non-financial businesses was gauged at 1 123.0 CZK bn at the end of 2020 and went up by 2.3% year-on-year. While the volume of credit and receivables in CZK was falling year-on-year since Q2, the volume of credit in foreign currencies again substantially accelerated, mainly the short term[2] and long-term credit. Volume of provided credit was lower year-on-year towards the end of 2020, especially in branches production and distribution of electricity, gas, heat, air, water (–20.8%), in cultural, amusement, recreational and other activities (–13.8%),

[2] Steep growth of the volume of short term credit in foreign currency was associated with anticipated appreciation of the foreign exchange (for instance before completion of interventions in 2017) in the past. In year 2020, the depreciation of foreign exchange against euro and dollar had rather temporary character, which enhanced speculations.

wholesale and retail, repairs and maintenance of motor vehicles (–4.5%) and information and communication (–4.3%). Growth of credit to manufacturing was markedly slowing down during the whole year (volume was by 0.9% higher year-on-year at the end of December). Pace in contrast strengthened for transportation and warehousing and accommodation (up to 11.0% at the end of year) and food service and restaurants (19.7%).