7. Monetary Conditions

Key monetary policy-relevant interest rates were again decreased in Q2.

Koruna foreign exchange per both euro and dollar again appreciated after the March weakening.

Set up of key monetary policy-relevant rates considerably changed together with the development of the economic situation during H1. Given the strengthening inflationary pressures, the repo rate was increased from 2% to 2.25%[1] at the beginning of the year. This level however held only shortly. The rate was reduced to 1% in March and further down to 0.25 % in May, the lowest value since November 2017. The discount rate was technically zero (0.05%) at the end of June and the Lombard rate attained 1%. Koruna foreign exchange against both euro and dollar stayed at higher level during the whole April and large part of May following marked March depreciation. Koruna foreign exchange per euro remained above 27 CZK/EUR for the major part of this period. The foreign exchange again gradually appreciated to 26.65 CZK from 20th May till 2nd June. Subsequently it remained near this level until the end of month. Development in case of dollar was very similar. The koruna foreign exchange often moved above 25 CZK/USD during April and May. Koruna again strengthen up to 23.47 CZK/USD in the period from 20th May to 5th June and it was mildly depreciating in the direction of 24 CZK per dollar until the end of June. Notable deprecation of koruna towards other currencies meant strengthening of the inflationary pressures from abroad.

Interbank interest rates and also the yields of government bonds sharply dropped.

Changes of the monetary policy-relevant rates led to fast decrease of the interbank interest rates. The three-month PRIBOR thus attained 2% towards the end of March and it was 0.34% at the end of June. Interest rates on government bonds were also falling, specifically for all types of maturities. The average interest thus decreased from 1.27% to 0.08% for bonds with maturity up to 2 years, it was from 1.23% to 0.52% for maturity up to 5 years and the rate moved from 1.28% to 0.86% in case of bonds with long term maturity from the end of March till the end of June. Rates on the government bonds issued by the area followed similar pattern of development. Both short term and medium-term maturities had negative interest rate towards the end of June (–0.36% for short term, –0.04% for medium term). The average interest on long term bonds was 0.35% in the euro area towards the end of June.

Interest rates on the client accounts also reacted to the new conditions. Decrease of interests on deposits with agreed maturity was also connected to the transfer of financial funds to the non-term deposits.

Interest rates on some types of deposits also very fast reacted to the new situation. The average interest rate on the current accounts of households was 0.03% at the end of this year's June (it lowered by 0.01 p.p. compared to March). Interests on the current accounts of households stays at the nearly zero level already more than four years and did not react in any way to the previous increase of the monetary policy-relevant rates. Interests on deposits with agreed maturity sharply slumped. Total average fell since the end of March (1.43%) to 0.6%. The decrease affected all types of maturity, the most however maturity up to and including 1 year (decrease between March and June from 1.38% to 0.37%) and above 1 year till 2 years (from 2.07% to 1.53%). Rates on the current accounts dropped also to the non-financial businesses (from 0.16% to 0.04%). Slump of interest rates on deposits with agreed maturity for non-financial businesses was even stronger than for households (from 1.36% in March to 0.16% in June). It thus was not surprising, that the total volume of deposits with agreed maturity was by 1.3% lower year-on-year at the end of June, while non-term deposits strengthened by 13.3% (the most since September 2017).

Consumption possibilities were limited in Q2, which was also evident on the development of the volume of provided consumer credit.

The access of households to the credit financing was also made cheaper in Q2. The average interest rate of consumer credit decreased by 0.26 p.p. to 7.89% between March and June and it moved below the 8% boundary for the first time. The average interest on mortgages also decreased (–0.13 p.p. to 2.42% at the end of June). The

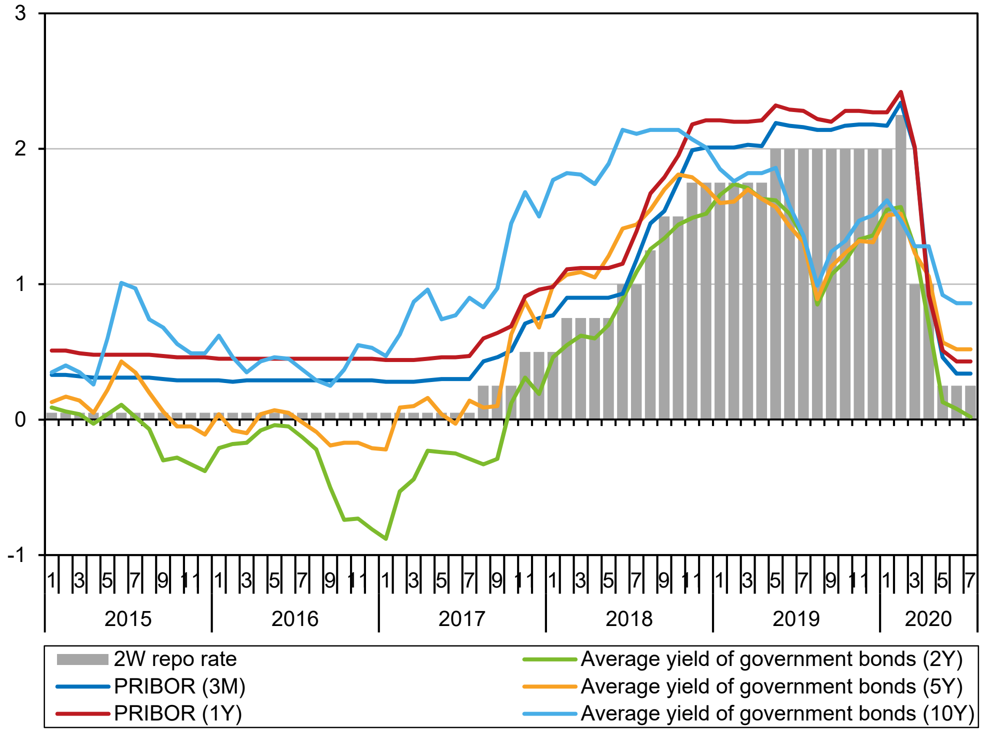
[1] Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD. Values of foreign exchange rates are also sourced from the CNB.

reduction was the most significant for fixation of the rate up to 1 year, but the cut occurred also in case of fixation above 1 year till 5 years and above 5 years till 10 years. Only interests on mortgages with fixation above 10 years went up in Q2. Ongoing restrictions had impact on marked slowdown of the year-on-year rate of growth of the volume of consumer credit in Q2. While in the previous half year the rate was 9%, at the end of June, the volume of provided credit was by 6.3% higher year-on-year. Regarding mortgages, the decrease did not manifest. Volume of provided mortgages rose by 7.9% year-on-year, the pace thus slightly accelerated.

Access to credit made cheaper for non-financial businesses. Uncertain environment however also led to moderation of the credit dynamics.

Interest rates of credit for non-financial businesses were cut across the board since March till June. The most for credit above 30 CZK mil (–1.03 p.p. to 2.07%). Credits with the volume between 7.5 to 30 mil recorded a decrease of average rate by 0.89 p.p. to 2.54%. The interest was decreasing the least for credit up to 7.5 CZK mil (–0.67 p.p. to 3.78%). Year-on-year growth of the total volume of credit and receivables of non-financial businesses slowed down in Q2. In comparison to the end of June 2019, the volume of koruna credit and receivables went down by 2.8%. Volume of credit in foreign currency on the contrary increased year-on-year by 21.7%. Growth of the volume of provided credit slowed down in manufacturing (3.5%), construction (4.8%) and in wholesale and retail, repairs and maintenance of motor vehicles (1.2%). The volume of credit to real estate activities grew on the contrary very fast (12.3%; very substantial addition 10.3% was recorded already in Q1). Part of the addition in manufacturing or financial and insurance activities is however also connected to the March depreciation of koruna, which was reflected in the recalculated value of credit in foreign currency. The volume of credit in accommodation, food service and restaurants also reached high year-on-year addition (10.2%) in March, and the year-on-year increase reached 12.5% at the end of June. The volume of credit for public administration, education, health and social work grew notably during Q2 (value was by 16.9% higher year-on-year at the end of June). Volume of credit was lower year-on-year for information and communication (–6.9%), financial and insurance activities (–2.0%) and a series of cuts continued also for mining and quarrying (–0.9%) at the end of June.

Chart 15 Market interest rates (in %)



Source: CNB