

7. Monetary Conditions

Koruna foreign exchange per both dollar and euro was appreciating in Q2.

The set up of the monetary policy-relevant rates remained at constant level in Q2. Two-week repo rate thus reached 7.00%¹ already for one year, the discount rate kept being set at 6.00% and the Lombard rate at 8.00%. Koruna foreign exchange per euro fluctuated during Q2. Koruna started at the level of 23.43 CZK/EUR at the beginning of March, but it depreciated as far as 24.02 CZK/EUR by the half of the month. Koruna was then again appreciated until half of April (as far as 23.28 CZK/EUR), but then the rate had slightly depreciating trend until the end of June (the rate was 23.73 CZK/EUR as of 30.6.). The total average per quarter attained the value of 23.59 CZK/EUR, which represented relatively notable year-on-year appreciation (by more than 1 koruna, 4.3%) and the rate was by 0.8% stronger even quarter-on-quarter. Koruna foreign exchange per dollar oscillated in wider band from 22.66 CZK/USD till the strongest levels close above 21 CZK during the quarter. The rate reached on average 21.67 CZK/USD, thus it appreciated by 6.4% year-on-year and by 2.2% quarter-on-quarter. Development of the koruna foreign exchange per both euro and dollar had anti-inflationary effect in the prices of the foreign trade.

Yields of government bonds with medium term and long term maturity were falling.

Invariable level of the monetary policy-relevant rates also provided the stability of the interest rates on the interbank market. Three-month PRIBOR rate similarly to other maturities only slightly decreased during Q2² (by 0.05 p. p. to 7.15% towards the end of June). The average yields of the government bonds were also slightly falling in case of medium- and long-term maturities during Q2. The yield fell by 0.25 p. p. to 4.64% for medium term bonds and by 0.32 p. p. to 4.35% for long-term bonds. The Czech government bonds with short-term maturity reached the average interest rate in the size of 5.37% at the end of June, which represented a small increase by 0.08 p. p.

Interests on deposits did not grow much anymore.

Client interest rates on deposits peaked after one year of gradual increase in Q1 and remained nearly unchanged in Q2. The average interest rate of one-day deposits of households was 1.52% (-0.02 p. p.) at the end of June and it was 0.28% on current accounts (+0.04 p. p.). The increase of the average interest on the deposits with agreed maturity was also a merely cosmetic in Q2 (+0.07 p. p.) to 6.11%. The interest on current accounts of non-financial businesses also grew only moderately (+0.09 p. p. to 1.10% at the end of June). Deposits with agreed maturity bore interest on average of 6.53% there (+0.04 p. p.). Total volume of client deposits was by 7.7% higher year-on-year towards the end of Q2 and the pace thus slightly strengthened. Growth of deposits of non-financial businesses markedly accelerated (13.7%) as well as financial institutions (40.8%). The year-on-year growth of deposits also strengthened (5.7%) in case of households³.

Households still faced rising interest rates of mortgages.

Consumer credit of household has on average interest of 9.51% at the end of June, which is nearly unchanged level compared to the end of March (+0.02 p. p.). The volume of consumer credit, which were provided to households in Q2 jumped up by 10.2% year-on-year, which represents a significant acceleration of the pace. The average interest on mortgages went up by 0.21 p. p. to 5.4% in Q2. The volume of provided mortgages was by 4.8% higher year-on-year at the end of June and the pace thus slightly accelerated compared to the record low level of the preceding quarter. Vast majority of provided credit for housing comprise mortgages (they increased by 4.8%), but steep expansion of the volume of standard credit from construction savings is evident in the last year. These were by 24.3% higher year-on-year at the end of June.

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.

² Unless stated otherwise, as the change of interest rates is meant the difference between value as of 30th June 2023 and 31st March 2023.

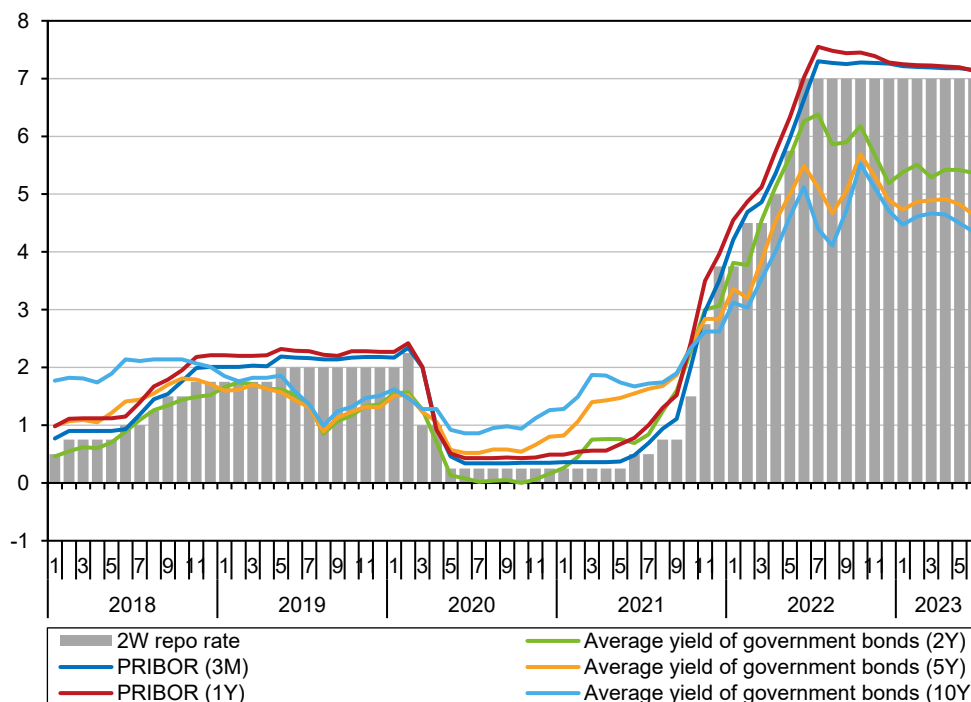
³ Population including self-employed persons.

The volume of new mortgages⁴ for Q2 (21.8 CZK bn) was similar as in Q1. In that the pure new loans including extension constituted 10.5 CZK bn and other renegotiated loans 9.7 bn. The process of negotiation of expiring loan fixations created during the last years of the mortgage boom thus continues. Refinanced credit formed only fraction of new contracts (1.6 CZK bn).

On the contrary the interest rates to non-financial businesses slightly decreased.

The price of credit financing slightly fell to non-financial businesses in Q2. The average interest rate of credit went slightly down. The average interest rate on credits in the volume up to 7.5 CZK mil inclusive was lowered by 0.63 p. p. to 8.03%, for volumes between 7.5 and 30 mil it lowered by 0.20 p. p. to 8.94% and in the highest category of credit over 30 mil the interest lowered only little by 0.09 p. p. to 9.11%. Credits and liabilities of non-financial businesses in total increased by 5.9% year-on-year. The rate of growth thus strengthened. The slump of the volume of credit denominated in CZK continued (-7.4%), which however reduced in comparison to the three preceding quarters. Credit in foreign currency were in contrast higher by 25.3% year-on-year⁵. The increase reached double digit pace for the fifth quarter in a row and the proportion of credit in foreign currency in the total volume climbed up to 47.9% at the end of June. Credit provided in financial and insurance services (20.7%), generation and distribution of electricity, gas, heat, water and sewerage (13.3%) and in construction (12.6%) notably grew year-on-year. On the contrary the credit in information and communication (-20.7%) and also in transport and storage (-11.4%) plunged.

Chart 16 Market interest rates (in %)



Source: ARAD, CNB

⁴ 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.

⁵ Credit in foreign currency started to rise steeply following the commencement of the repeated increase of the monetary policy-relevant rates in June 2021.

