

7. Monetary Conditions

Monetary policy-relevant interest rates were changed only once last year.

Set up of basic monetary policy-relevant rates of the CNB was last year adjusted only once, concretely in May. Thus, repo rate was 2%, discount rate 1% and Lombard rate 3% till the end of the year. Koruna foreign exchange against euro moved in the range between 25.40 and 25.90 koruna per euro¹ for the whole year. Average value of the foreign exchange attained 25.68 koruna in Q1 and Q2 and 25.74 koruna in Q3 and 25.58 koruna in Q4. Neither the year-on-year nor the quarter-on-quarter movement of the exchange rate thus were not very significant. Koruna foreign exchange against dollar was characterised by a tendency to depreciate in Q1 to 3 (with the exception of short appreciation during June, average foreign exchange was 22.61, 22.86 and 23.15 koruna in Q1., 2. and 3). Koruna foreign exchange mildly appreciated in Q4 (average 23.11 koruna per dollar). Compared to year 2018, the foreign exchange rate against dollar was markedly weaker (annual average was 21.74 CZK/USD in 2018, it was 22.93 CZK/USD last year).

Yields of government bonds have been growing since September.

Interbank interest rates essentially copy the development of those monetary policy-relevant rates, so the PRIBOR interest rate (all types) did not change much following the May increase. Three-month rate PRIBOR came up to 2.18% towards the end of the year. The development of yields of government bonds was more interesting last year. Average rate of all bond maturities (short-term, medium-term and long-term) slightly oscillated (around 1.65% for short-term, 1.60% for medium-term and 1.80% for long-term) from January till May, but did not change much. Nevertheless, the yields considerably declined during June to August (averages of all bond types fell below 1% in August). The government bond yields then kept growing till the end of the year and amounted to 1.36% for short-term, 1.31% for medium-term and 1.51% for long-term as of 31.12.

Interests on deposits with agreed maturity were growing last year, which attracted relatively large volume of funds.

Even though the interests on current accounts for households remained on the same (nearly zero) level for the whole year, deposits with agreed maturity had their average rates changed during the year. More notable upward shift was captured already in H2 2018 and last year's Q1 to 3 built on this development. The average interest rate on deposits with agreed maturity increased by 0.25 p.p. to 1.6% from January till September 2019. But the interest rates decreased in Q4 (average amounted to 1.52% as of 31.12.). Non-financial businesses enjoyed slightly better terms on the current accounts than households last year – the average interest rate went up to 0.22% during H1 2019 and stayed at this level till the end of the year (0.21% as of 31. 12.). Average interest on deposits with agreed maturity for non-financial businesses followed similar development as for households – it grew during Q1 to 3 and slightly fell in Q4 (it was 1.52% as of 31.12.). Described development of the interest rates also affected the structure of the money stock. Its year-on-year growth notably moderated in years 2018 and 2019, mainly under the influence of currency and one day deposits. But the volume of funds in the form of deposits with agreed maturity sharply hiked up (it expanded by 128.7 CZK bn during the year 2019, 59.2%).

Year-on-year growth of volume of mortgages provided to households slowed down last year.

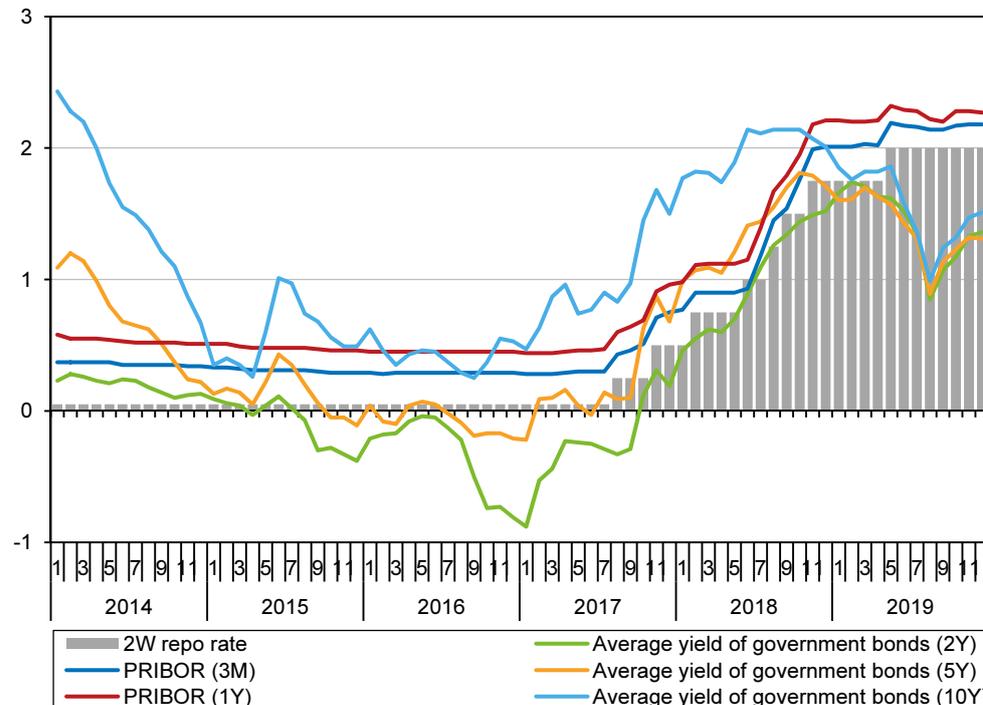
Level of interest rates of credit for households was decreasing during the last year. Average interest on consumer credit went down (it was 8.28% as of 31.12., it decreased by 0.35 p.p. year-on-year). The average interest on mortgages fell even more markedly. The rate did slightly increase in Q1 (to 2.97% as of 31.3.), however a large cut occurred during following quarters down to 2.49% towards the end of year 2019. Described cut was evident for all types of fixation of the rate. Year-on-year growth of the volume of consumer credit accelerated to 8.9% towards the end of the

¹ Unless stated otherwise, the source of data in the chapter is the Czech National Bank database ARAD.



last year and the volume of provided credit totalled 234.4 CZK bn as of 31.12. (year-on-year increase of 19.1 bn). Year-on-year growth of the volume of mortgages has been gradually slowing down since the beginning of the year. In Q4, their volume expanded by 6.7% (for the first time since Q2 2015 the pace dropped below 7%). Number of new mortgage contracts reached 154.2 thousand last year and it thus sank by 29.3 thousand year-on-year. Total indebtedness of households arrived at 1 816.4 CZK bn at the end of year 2019 and it enlarged by 103.3 CZK bn year-on-year (6.0%). Mortgages comprised the majority of this debt (82.1 bn).

Chart 15 Market interest rates (in %)



Source: CNB

Credit denominated in foreign currencies formed a large part of credit provided to non-financial corporations.

Terms of credit provision for non-financial businesses were changing depending on the volume of provided funds in 2019. The average interest grew to 4.33% in Q1 and 4.42% in Q3 for credit category up to 7.5 CZK mil, but decrease emerged to 4.11% at the end of the year. Rates for the medium category of credit (7.5–30 CZK mil) fluctuated throughout the whole year (3.32%, 3.45% and 3.39% at the end of Q1., 2. and 3) and climbed up to 3.53% at the end of the year. Interest on credit over 30 mil oscillated the least last year – only in the order of hundredths p.p. – and amounted to 3.76% as of 31. 12. Following relatively strong year-on-year increase in Q1 (6.2%), the pace of volume of credit and receivables of non-financial businesses moderated. As of 31. 12., the balance was by 3.7% year-on-year higher. Volume of medium term (5.8%) and long-term credit (5.0%) was expanding. Credit financing denominated in foreign currencies became the standard. It comprised 33.3% of all credit and receivables as of 31.12. and the year-on-year increase of the total volume of credit (39.7 CZK bn) consisted for the absolute majority of those denominated in foreign currency (37.2 bn). The year-on-year rate of growth of the volume of credit considerably sank in some branches in the past year. Reason was however among other things the high comparative basis of year 2018². Volume of provided credit decreased year-on-year in transportation and storage as of 31. 12. (-9.5%, increase was 14.0% in 2018), accommodation, food service and restaurants (-5.5%, 15.4% in

² Construction, where the cycle of financing from European funds is often obvious, represents the primary example. Volume of provided credit increased by 12.7% here during year 2018.

2018) or information and communication (-5.1%, 15.4% in 2018). Increase of credit in manufacturing was only small (1.6%). In spite of slowdown in comparison to the previous year, the favourable development of the situation in the branch was reflected in the increase of credit provided in construction (8.8%). The volume of credit also solidly grew in the area of real estate activities (7.5%).

