

Monetary conditions

- *Monetary conditions stimulate expansion, but no recovery occurred***

The level of recession of the Czech economy is evidenced by a significant drop in the rate of loans provided to businesses and households. Even the historically lowest basic interest rates cannot help the economy to recover. The money stock increased by 6.3%, while the half year nominal GDP at current prices grew only by 0.7%. Therefore, the monetary conditions work towards expansion, and are not a restrictive factor.
- *Money stock in the economy exceeded the threshold of CZK 3 trillion***

The growth of the money stock is influenced by the high increase of deposits of businesses on their current accounts with a constant – although lower when compared to businesses – year on year rate of household deposits. The dynamics of loans provided to businesses and households has weakened. Therefore, the money stock in April 2012 exceeded the threshold of 3 trillion for the first time and at the end of June (CZK 3029.6 billion), it was year on year CZK 184.7 billion higher. For this growth, an increase of one-day deposits is responsible for 75% (+139.5 billion), while the increase in other deposits (with maturity and notice period) contributed only by one eighth (CZK +23 billion).
- *Accumulating uncertainty leads businesses to rapid accumulation of short-term liquidity on their current accounts ...***

Businesses withhold cash and are not investing, which in turn raises balances on their current accounts. Despite the fact that in 2011 the slump of business deposits with notice period was viewed as dramatic – from CZK 28.2 billion to 1.7 billion, which almost annulled their balances – against the total amount of deposits of businesses and households that reached CZK 916 billion back then, it was a marginal drop. In the half year of 2012 these deposits stood at the margin of interest of businesses (CZK 2.9 billion). On the contrary, business deposits with maturity recorded a year on year increase by 15.5% (CZK +31 billion). However, their balances in fact remained on the level from June 2010, as in the half year of 2011 there was a drop of CZK 29 billion. (The movement is highly volatile. In June 2012, a year on year decrease by 5% occurred again.)

General uncertainty is thus cumulating in the cash that has not been invested by companies on their overnight deposits. At the half year mark, their balances rose year on year by 12.1% (in July already by 21%, that is, by CZK +107 billion when such strong growth was recorded in May 2010 for the last time). At the same time, corporate profits, according to the data available for Q1, were in a year on year comparison higher than after the stagnation in 2011 and their gross value added recorded only a slower increase. The same situation occurred in Q2 when the gross value added even dropped. The accumulation of cash and short-term liquidity has its own logic.
- *...with still lower increase of deposits of households***

On the contrary, the willingness and ability of people to deposit money was significantly dampened. Despite the fact that the balances of their overnight deposits (giro accounts) with monetary-financial institutions rose in a year on year comparison by 7.4%, the deposits with maturity increased only by 1.1% and there was a steady decline with regard to deposits with notice period (-2.8%), but not so significant as in the same period in 2011 (-12.6%). In July, the deposits of households with notice period increased only by 0.3%, recording the lowest growth since November 2009.

The significant reduction of the growth of household deposits can be evidenced by the comparison of absolute data against the same period in the previous year – while based on balances from June 2011, people increased their deposits on overnight deposits in a year on year comparison by CZK 117 billion, until June 2012 it was only by CZK 77 billion. A similar significant drop in increase was apparent with regard to deposits with maturity (from CZK +16 billion to +4 billion). However, despite drawing cash from accounts with notice period, it was significantly less in a year on year comparison (-10 billion) than in the same period of 2011 (CZK -49 billion). Given the fact that their final consumptions expenditures continue to weaken, that declining increase of household deposits can be seen as an unfavourable factor in their

financial situation related to significant reduction of disposable income. According to data for Q1 2012, people set aside 9.2% of their gross disposable income in the form of gross savings against 11.7% in Q4 2011.

- **Loans on the decline**

The lending rate of companies is on the decline depending on the slump of their activity. The recovered growth of lending – which appeared after permanent drops after the crisis as late as Q1 2011 and which had been on a moderate increase until Q3 – slowed its pace again. In the half year, the loans provided to companies were in a year on year comparison higher only by 3.3% than in Q1 (+4.6%) and towards the end of 2011 (+5.1%).

For households, the year on year slump of the loans provided is longstanding. In June 2012, it dropped below the 5% threshold (+4.9%) for the first time. The debts of households towards banks (1133 billion) were in the half year of 2012 higher by CZK 170 billion than the debt of businesses (CZK 965 billion).

- **The rate of loans provided to households or housing has started to decline again since Q2**

Since April 2012, the dynamics of loans for housing started to decline again (to year on year +5.9% towards the end of the first half of the year). A moderate growth increase thus lasted only one quarter. In addition, the rate of mortgage loans decreased, and bridging loans have been on a steady decline since October 2010, as well as ordinary loans from building savings since June 2011. It can be said that clients with less creditworthiness are no longer willing to take loans for housing, and these make up the greatest part of clients of building savings institutions, using them to finance their housing needs.

Since 2011, consumer credits have been on a steady decline – by 1.7% based on the data at the end of June – with less use of non-special-purpose consumer credit (-4.9%, in the half year of 2011 only -1.1%). Their ratio share in relation to loans for housing is changing as well – in June 2011 these were 3.8 times higher than consumer credit, but in June 2012 already 4.1 times higher.

- **Drop in interest rates with new loans for housing, stronger with deposits for households with longer maturity**

Margins of banks in new transactions with clients have been influenced by the movement of rates. A downward movement was seen with loans for housing (from 4.42% to 3.91%). However, rates for consumer credit increased (from 13.97% to 14.10%), and business loans grew on price as well (from 3.00% to 3.03%). The price of one-day deposits of households forming the highest share of the money deposited, was increased by a mere 0.01 per mil to 0.715%, while rates for deposits of households with maturity over 2 years even recorded a significant drop (from 2.27% to 1.23%).

- **Net domestic assets increased only moderately, net foreign assets more significantly**

The significant decrease of the growth of net domestic assets, +1% in a year on year comparison against +12.9% in the same period in 2011, was affected by lost dynamics of domestic loans (despite the fact that net loans to the government sector increased year on year by one fifth). Their growth was also decreased by the development of other net “non-credit” items (including securities and capital). On the contrary, the balance of financial liabilities and liabilities of monetary-financial institutions in the Czech Republic towards the rest of the world increased by 18.3% (predominantly influenced by the growth of foreign assets of banks).

Chart No. 15 Deposits (in million CZK)

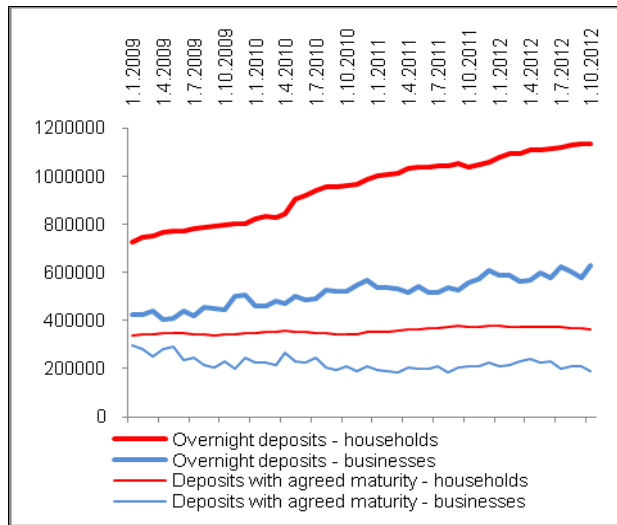
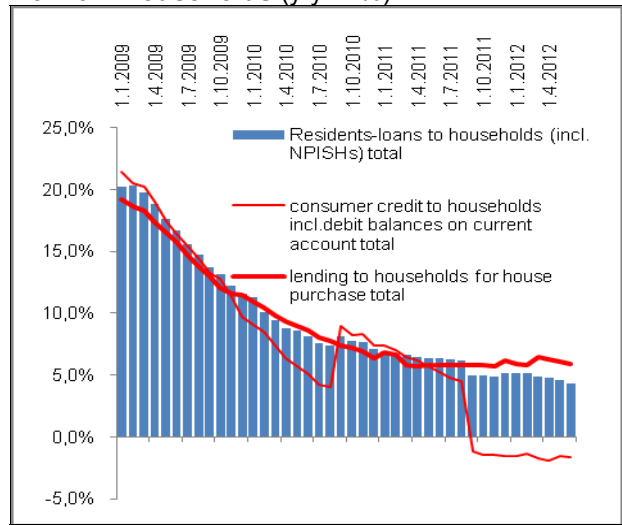


Chart No. 16 Dynamics of loans provided to households (y/y in %)



Source: CNB