

## 7. Monetary Conditions

Monetary conditions worked towards the growth of the Czech economy

Money stock in the economy rose by the balances as of the end of June 2013 year-on-year by 4.3 % given the stagnation of nominal GDP, resulting in the monetary conditions in the Czech economy confirming their expansiveness. The growth of M2 aggregate was affected mostly by the increase of non-term (one day) deposits, on the contrary so called quasi money (other deposits apart from non-term deposits) fell year-on-year (-4.6 %) already for a third quarter in a row. Addition to loans to firms and households (+2.3 %) was year-on-year the second lowest since September 2010 and proves for one thing the lower need for operational financing of companies, for another their prudence regarding investment and also the prudence of households (as well as banks) regarding new indebtedness.

The rate of growth of domestic loans again slowed down

The growth of domestic loans (i.e. loans to government and private sectors) decreased its pace to +1.8 % year-on-year in their balances as of the end of June 2013. During the same period of 2012 the domestic loans grew year-on-year by 6.1 % (in Q1 2013 also faster, by 2.7 %). This loss of pace resulted from the lowering of indebtedness of the government sector (-1.1 % compared to the same period of 2012), repeated marked decrease of the rate of loans provided to firms, which grew close to year-on-year stagnation (+0.4 %). This fact proves the uncertainty and weakness of the economy regarding the upcoming recovery. Loans to households rose in H1 year-on-year by 3.9 %, in the same period of 2012 by 5 %.

Housing loans grow year-on-year, loans from banks for consumption fall already seventh quarter in a row

Loans to population from banks for housing were according to their balances as of the end of June 2013 year-on-year higher by 4.6 % thanks to a more notable addition to mortgages (+6.3 %) against loans provided to population by the building savings societies. Loans for consumption provided by banks on the contrary decreased by 1.2 % and their balances keep falling continuously already since September 2011. The population again probably tilts towards non-bank borrowing – balances of loans provided by leasing companies and instalment sale companies increased year-on-year for already second quarter in a row (by 3 % as of the end of June 2013). The reason lies most likely in lower requirements on clients solvency of these providers.

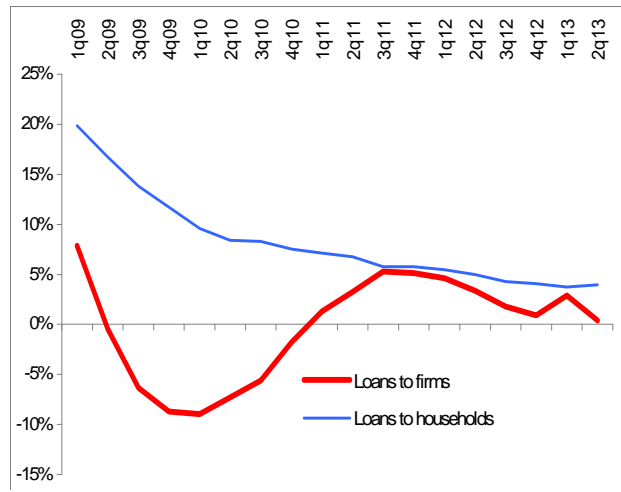
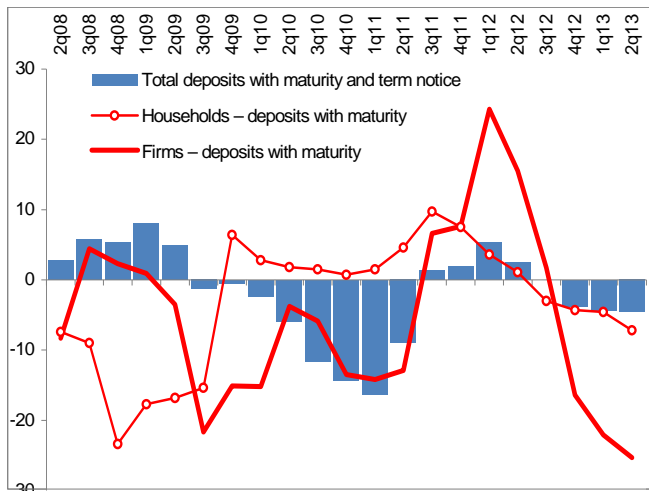
Preference to strengthen the balances on current and saving accounts continues, in case of households the dynamics somewhat softened

With respect to the deposit deals of banks, their mark-up is positively influenced by the fact, that people further increase their balances on non-term deposits (+6.8 % year-on-year as of the end of June 2013), which less burdens the volume of cost interest of banks. One-day deposits of households thus came to 1 197 bn crowns by the end of H1, current accounts of companies then summed up to 662.3 bn crowns. While additions of these funds in case of households rather fall (+6.8 % year-on-year from +7.4 % in the half of 2012), for companies there is an obvious higher growth (+14.4 %, against +12.1 %) – this phenomenon is most likely a consequence of worsened possibilities of companies to employ these funds either in an investment activity or by financing of the production activity.

Chart 19 **Term deposits of households and firms** (y/y, in %)

Chart 20 **Loans to firms and households** (without securities, y/y, in %)





Source: CNB, own calculations