# Monetary Conditions

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| Monetary policy remained still loose in the first half-year, the exchange rate of Koruna against euro slightly appreciated year-on-year in relation to both euro and dollar |  | Loose monetary policy of the CR was still prevailing in the first half year, stimulating both the economic growth of the local economy and the price growth. 2W repo rate as well as the discount rate (0.05%) also remained unchanged in the second quarter and the Lombard rate also did not change (0.25%). The exchange rate of Koruna against euro is regulated by the CNB commitment since November 2013. Exchange rate of Koruna against the American dollar fluctuates around CZK 25 to one dollar since the beginning of the last year; it fell to CZK 23.945 to one dollar in Q2 2016. The Koruna was against euro stronger by 1.2% in the year-on-year comparison in Q2 2016 and remained at the same level as in Q1 2016 (close to the boundary of CZK 27 to euro). The money stock expressed by the harmonised monetary aggregate M3 increased by 9.7% year-on-year in June 2016. |
| Mostly the one day deposits affected the growth of the money stock year-on-year |  | Money stock (M3) reached the size of 3 708 CZK bn by the end of Q2 2016. The year-on-year growth of 380.8 CZK bn was induced by the increase of the volume of the most liquid money – one-day deposits (by 305 CZK bn) and currency (by 41 CZK bn).. Their highest share on the money stock (M3) is also the evidence, arriving at 88.2% in Q2 2016. On the contrary, the deposits with maturity within two years nearly continuously fall in the environment of low interest rates since September 2012 (by 35.5 CZK bn compared to Q2 2015), similarly to notice deposits up to three months, which declined by 32.6 bn. The less liquid money include repo operations, securities in funds of the financial market and bonds with maturity up to two years, which comprise less than 1% of the money stock. These increased from 10 CZK bn in June 2015 to 17 bn in June 2016. |
| Long-term preference for liquidity prevails |  | Long-term rise of the preference for liquidity on the part of depositors (enhanced by the low interest rates on deposits with agreed maturity and deposits redeemable at notice) is apparent mainly for households and non-financial businesses (with the fact that deposits of these sectors comprised 84% of the resident deposits in Q2). One-day household deposits increased by 13.3% year-on-year and deposits of non-financial businesses by 9.6%. |
| Average yields of government bonds remain record low, even negative in some cases |  | Market interest rates still remain at the record low levels in the Czech Republic. Rates on the interbank market reflect nearly zero basic monetary-political rates of the CNB. Discount rate, which is projected into the interest calculation for deposits of commercial banks, has still remained 0.05% since the end of 2012, similarly to the repo rate. Lombard rate from the provided credit to commercial banks also remains at the same level (0.25%). The average yield on the ten-year government bonds is below 0.5% since November 2015; it amounted to 0.45% in June 2016. With respect to the state bonds with a remaining maturity of 2 years, their “yields” have been negative since July 2015 (-0.05% in June 2016 compared to 0.11% in June 2015). All PRIBOR interest rates stay basically at the same level in the second quarter of 2016, specifically since October 2015, with one-day PRIBOR showing the relatively lowest rate ( 0.13%) and 9month PRIBOR relatively the highest rate (0.41% since February 2016). |
| Savers face historically the lowest interest rates on their deposits |  | Development on the financial markets also transmits into the low level of interest rates – deposit rates and credit rates. Interest rates on the newly contracted one-day deposits of household and non-profit institutions serving households (NPISH) have been falling in the long-term and amounted to 0.15% in June 2016 as the lowest in the history (compared to 0.19% in June 2015). The non-financial businesses also attained a record low yields on their “new” one-day deposits (0.06%, compared to 0.12% in June 2015). Rates on the term deposits (deposits with maturity and at notice) also in total move around the low levels. Even though the interest rates from the term deposits of households and NPISH also permanently fall, their level is higher in comparison to the rates for the non-financial businesses. They amounted to 1.27% on the deposits with an agreed maturity for households and NPISH in the second quarter of this year (compared to 1.57% in the same period of 2015) and 1.11% for deposits redeemable at notice (against 1.4%); interest rates on deposits with an agreed maturity added to 0.08% for non-financial businesses (against 0.24%) and 0.47% for notice deposits (against 0.7%). |
| Record low interest rates are also on mortgages and consumption |  | Interest rates on mortgages and consumption provided to households and NPISH show (with a certain small fluctuations) a permanent decrease since the year 2012. Interest rates on credit on consumption lowered to 10.7% in June 2016 in comparison to June 2015 (12.6%) and rates on purchase of the housing real estate decreased from 2.51% to 2.25% in the same time period. Interest rates on credit provided to the non-financial businesses (excluding overdraft, revolving credit, liabilities and credit cards) oscillate around 2% and increased to 2.12% in Q2 2016 from 1.92% in Q2 2015. |
| Record interest of households in mortgages |  | The interest of households in a credit financing prevailed also in the second quarter. It was evident consequently in the increase of the total level of credit, which arrived at 1 358.6 CZK bn towards the end of the second quarter of 2016. Thus they increased by 6.4% year-on-year. In that credit in the national currency amounted to 1 356 CZK bn (they increased also by 6.4% year-on-year). The population devotes the stated credit resources mainly to housing, which share comprises nearly three quarters of total credit of households (73.9%). Simultaneously, the improved economic status of households due to the increasing economic performance is evident here to a certain extent, specifically in the development of credit in default. Credit of households for housing in default decreased by 16.5% year-on-year to 22.9 CZK bn. Consumption credit and mortgages also registered a drop of credit in default. |
| Drawing of credit by non-financial businesses grows |  | Drawing of credit funds increases also for the non-financial businesses. They received credit in the amount of 966.6 CZK bn in June 2016 (including the credit denominated in foreign currency), i.e. by 6.6% compared to June 2015. A certain oscillations are evident in credit provided to public non-financial businesses (which share in the credit to non-financial businesses by 2.7%). |
| Total debt of households grows, by 82 CZK bn year-on-year, especially thanks to mortgages |  | Total household debt reached 1 369 CZK bn in June 2016 and increased by 82 bn compared to the same month of the previous year. Mainly the credit for housing, which increased by 79 CZK bn year-on-year participated on the growth of debt similarly to Q1. |

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| Chart 17 | **Monetary aggregates and gross domestic product** (y/y in %) | Chart 18 | **Market interest rates** (in %) |
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|  | | Source: CZSO, CNB | |