

## Monetary Development

- **Decrease of  $M_2$  velocity**

Money stock ( $M_2$ ) of CZK 2 073.0 bn at the end of H1 2006 was y-o-y higher by 8.4 % and its growth speeded up. Annual rate of growth was also higher (9.0 %). Level of  $M_2$  in relation to the annualised value of GDP reached 67.1 %, which was more than in the previous year. Velocity of money stock thus somewhat decreased and the time of its turnaround lengthened. Development of  $M_2$  was on the demand side adversely affected by the net foreign assets (3.4 p. p.), whose level of CZK 1 036.2 bn was y-o-y lower by 5.9 % and very positively affected by net domestic assets (11.8 p. p.), whose level of CZK 1 141.0 bn enlarged by 13.6 %, as a result of transfer from non-transaction money (quasi money), whose growth was low (2.5 %) and had only 1.2 p. p. contribution to  $M_2$  increase.
- **Significant rise in household credit**

On the asset side, among domestic credit the loans to households grew the most (by 32.0 %), following by a slower growing loans to non-financial businesses (by 13.9 %). The decrease of negative other net items was significant and positively contributed (2.8 p. p.) to the growth of  $M_2$ . On the liabilities side, the level of currency increased more (by 10.6 %) than the deposits level (by 7.7 %), where however demand deposits increased markedly (by 16.6 %) and term deposits decreased (by 2.4 %). While the annual rate of growth of credit went up, the annual rate of growth of deposits fell.
- **Financial position of businesses worsens**

At the end of H1 2006 the level of total deposits exceeded the level of total credit by 41.2 % (by CZK 518.7 bn), however this surplus was lower on a year before by 10.7 p. p. The passive financial position of non-financial businesses (CZK 105.6 bn) increased y-o-y 1.6 times and active financial position of households (CZK 706.2 bn) mildly decreased (by 4.8 %). Overall indebtedness was positively impacted by the sector of government institutions, whose net credit decreased by one quarter.
- **Significantly negative real interest rates on household deposits linger**

CNB left the key interest rates during H1 2006 the same; they were valid from the change executed on 31. October 2005. The 2W Repo Rate was increased on 28. July 2006 to 2.25 %, Lombard Rate to 3.25 % and discount rate to 1.25 %. For H1 2006, the average market interest rates of commercial banks on household crown deposits of 1.21 % and non-financial businesses 1.01 % were y-o-y slightly lower and those paid on crown household credit 7.02 % and credit to non-financial businesses 4.18 % were lower by 0.72 p. p. and 0.25 p. p. respectively. However real interest rates on household deposits were in H1 2006 significantly negative (- 1.7 %).