

Monetary Conditions

- ***Growth of nominal GDP was markedly lower than the dynamics of money supply and monetary conditions had an expansive effect***

The growth of money supply in the Czech economy was in 2011 compared to 2010 from three quarters influenced by the addition of one-day deposits (+7.1 %), on the asset side then the growth of domestic loans (+9.9 %) driven by the expansion of loans to the government sector (+48 %). In total the money aggregate M2 showed year-on-year growth of 5.2 % and reached 2993.8 bn crowns. With respect to the fact that the GDP grew in nominal terms notably slower, the monetary conditions had in this regard an expansive effect, in that more intensively in the second part of the year.

The level of term deposits (i.e. deposits with maturity and notice period) increased in 2011 by 18.8 bn crowns (year-on-year +2 %). Revival occurred only in the last four months of the year. In the 1st quarter these deposits were each month markedly lower than in the same period of 2010 (on average by 14.2 %). Enhanced tendency of households to save, notable in the last quarter was apparently accompanied by the anxiety regarding the future financial health, which they also reported in the answers for Business Cycle Survey.

Since half of the year the growth of currency (money in circulation) in the economy also increased its pace (in December by +5.7 % year-on-year). Even this concentration of cash reflects the weak consumer confidence.

- ***Household deposits to all types of accounts rose by 82.7 bn crowns***

In total, people increased their deposits in 2011 according to the bank statistics by the same rate as in 2010 – their one-day deposits, term deposits and deposits with maturity and at redeemable notice period in total by 82.7 bn crowns, i.e. similarly as in 2010 (80.7 bn crowns). However, in 2009 this increment was higher by one half (125.2 bn crowns).

However sharp reversal occurred for the savings of enterprises, whose deposits in this aggregate view grew in 2009 and 2010 year-on-year only negligibly (by 6 bn., resp. 9 bn crowns), but in 2011 much sharper (+54 bn). It was the consequence of weak investment activity.

- ***People behave rationally also regarding the debts: limit „the most expansive„, loans, take less and less of new for consumption...***

Household loans grow, even though by a lower rate of growth. It is determined by the dynamics of mortgages, which remained from March till November stable at the +5.8 % level and in December it grew to +6.1 %, which could have been linked to the coming growth of the VAT rate on new houses. In total the people borrowed year-on-year more by 5.7 %, in 2010 by 7.5 % and in 2009 by 11.7 %. Currency risk is nearly negligible for deposits – compared to for example Hungary the loans in foreign currencies amounts in the CR only to 0.7 ‰ of total loans to population and 0.3 ‰ loans for consumption.

People are mostly repaying their actual liabilities. Consumer loans representing roughly one quarter of the volume of mortgages was year-on-year by 1.6 % lower. They started to fall beginning September and their decrease accelerated mostly due to the weakening consumer non-purpose loan, whose levels were in December lower by 3.5 %.

- ***... and are repaying their liabilities on credit cards and overdrafts***

Eliminated is also the credit drawn by means of debit and overdraft balances on the current accounts, which did not grow year-on-year. They are very expensive featuring usually the same interest rates as the credit cards. Even they reveal the change in the behaviour of clients. While in 2010 the credit drawn by their means went up on average annually by 26.8 %, by the end of 2011 the increment amounted only to 2.6 %, again characterised by a falling tendency especially in the second part of the year. Households thus react – as in the case of limiting their consumption and enlarging the term deposits – to the weak supply of vacancies, lasting higher unemployment and only very mild growth of wages.

- **The market of building savings societies is shrinking**

Already since November 2010 the people started to limit taking bridging loans from building savings societies, whose rate of fall is accelerating (-17.3 % in December). Since the half of the year the balances of standard loans from building savings societies started to drop (-2 %). Apart from the fast reduction of loans the sector of building savings societies is „shrinking“ also thanks to the immense loss of the deposit dynamics. While in the period of 2003-2006 the deposits at building savings societies rose every year on average by 19.2 % and in the period of 2007-2010 by 4.6%, in 2011 their addition came to mere 1.1 %, that is 4.8 bn crowns.

- **Households more in debt than the business sector**

Despite mentioned development in the area of consumption loans from building saving societies was by the end of the year the households sector more indebted (1118 bn crowns) than the business sector (952 bn crowns). Levels of business loans has not reached the precrisis levels yet, on the contrary following their continuous growth from February till November their year-on-year addition in December mildly slowed down (+5.1 %). In total the credit to businesses and households in 2011 increased by 5.5 % against +3 % in 2010 and +0.8 % in 2009.

- **Responsible repaying of debts with a lower share of risky loans**

While in 2010 the proportion of risky loans out of total level of loans was growing, in 2011 their share decreased, in that more for enterprises (from 9 % to 8.2 % of total loans of non-financial businesses) than the household sector (from 5.2 % to 5 %). More disciplined proved in this sector the segment of entrepreneurs, since with respect to households the share of risky loans (that is failed loans) on their total loans was the same (5 %). Still the mentioned proportions were in 2011 worse in comparison to 2009 (comparably for sectors 7.9 %, 4.1 % and 3.8 %).

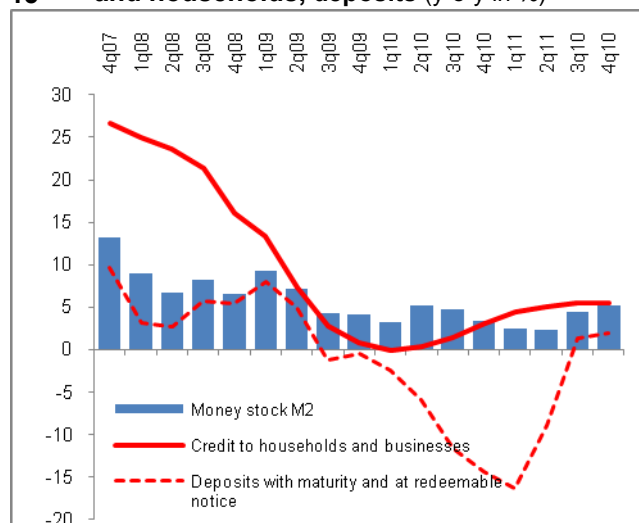
- **Mild drop of the rates on credit, stagnation of rates on household deposits**

Commercial banks left the interest rates on household deposits practically the same as in 2010 (-0.01 p.p. to 1.21 %), for deposits of companies they were slightly increased (+0.04 p.p. to 5.1 %). Regarding the loans the interest rates slightly fell in relation to both sectors – especially in case of new mortgages from 4.55 % to 3.94 %, but also consumption loans (from 14.05 % to 13.58 %). Due to this the drop in the margin of banks in both cases continued. The difference between the client interest rates and the price of money on the interbank market also diminished.

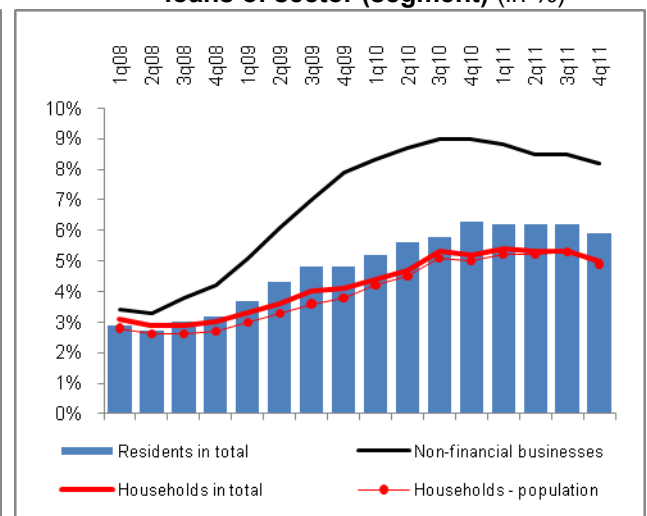
- **Drop of net foreign assets**

For the first time since 2007 the net foreign assets of the Czech Republic fell year-on-year (-1.6 %) due to their lowering on the part of business banks. Net domestic assets grew by 9 % thanks to the growth of domestic credit, mostly to the government sector, whose net credit including securities increased year-on-year by 109 bn crowns.

Graf 15 Money supply, change in loans to businesses and households, deposits (y-o-y in %)



Graf č. 16 Proportion of failed loans on total loans of sector (segment) (in %)



Source: CNB