

Monetary Development

- **Lowering of the annual rate of growth**

Money stock gauged by the M_2 aggregate by the end of H1 2005 amounted to CZK 1 912,8 bln and compared to its level previous year increased by 5.2 %, which was a significant year-on-year slowdown. Annual rate of growth was continually falling. Average annual level of M_2 went up by 5.9 % and in relation to annualised nominal volume of GDP reached 65.8 %. Income velocity of money increased and its turnover period shortened.
- **Net domestic assets fall and foreign grow**

On the demand side the development of M_2 was positively affected by net foreign assets (NFA) and negatively by net domestic assets (NDA). Regarding the way of money emission the stock of NFA has already overtaken the level of NDA by more than one third. NFA increased year-on-year by 12.3 % and its growth fastened by 4.0 p. p. Specifically in H1 the growth of NFA was even faster (27.5 %). NDA were year-on-year lower by 3.1 %, which negatively impacted M_2 by 1.4 p. p. The differential of 15.5 p. p. between last-year's growth and this year's decrease has recently belonged to the largest. Given the fact, that the level of other net items went down mildly, NDA were mostly affected by the year-on-year decrease of domestic credit by 2.6 %, which experienced different development in each sector. They grew sharply in the household sector (by 32.5 %) and slower in the business sector (by 11.5 %); net government loans dipped considerably (by 62.2 %).
- **Fast growth of currency**

On the supply side the development of M_2 was positively affected by both of its basic components. Given the types of money in circulation, the level of transaction money (M_1) is higher than the level of quasi money ($M_2 - M_1$) by more than one tenth. The level of M_1 year-on-year increased by 6.2 % and even though it slowed down markedly, it affected the development of M_2 to a crucial extent (3.2 p. p.). Remaining 2.0 p. p. of impact came from the growth of quasi money, whose level was year-on-year, larger by 4.2 %. Given nominal volume of M_1 the currency grew faster (7.8 %) to one-day deposits (5.7 %). Annual rate of growth of currency kept falling, however its average level for the last twelve months increased by 11.0 %. This in relation to the annualised volume of GDP means, that the velocity of currency went down by 4.0 %.
- **Financial position of bank clients improved**

Coverage of total domestic credit to all clients of commercial banks by their total deposits went up markedly (8.1 %) and their financial position improved. In the household sector, the credit indebtedness has further increased and the coverage of loans by deposits went down by one fifth, but remains high.
- **Dip of market interest rates**

CNB cut the key interest rates during H1 2005 three times, the last time effective as of the 29. April. Accompanying this change, the repo rate – 2 weeks was set to 1.75 %, lombard rate to 2.75 % and discount rate to 0.75 %. Market average interest rates from crown deposits remained year-on-year nearly the same and from crown loans went mildly down. On average for H1 2005 the interest rates on household deposits received by banks amounted to 1.29 % and from non-financial businesses to 1.06 %, the same as in the previous year. In the same period, the interest rates on loans paid out to households reached 7.74 % and those to non-financial businesses 4.43 %, which was year-on-year less by 0.43 p. p. and 0.10 p. p. more respectively. Real interest rates on household deposits were in H1 2005 slightly negative (0.3 %). Interest spread of commercial banks in relation to households 6.45 p. p. and in relation to non-financial businesses 3.37 p. p. changed year-on-year by above mentioned percentage points.