

Monetary conditions

- ***The dynamics of money supply in the economy compared to 2007 makes only 50%***

The dynamics of money supply in the economy significantly dropped to show the lowest y-o-y increase since 2004. While the growing volume of money in circulation compared to the dynamics of money supply doubled, its deceleration came mainly from a significant slowdown of on-call deposits. On the side of assets a marked slowdown of the growth of loans to households and especially to companies was observed.

While the nominal GDP increased by 4.9%, money aggregate M2 increased, y-o-y, by 6.5% to CZK 2 639.1 billion. In 2007 money supply increased by 13.2%.

- ***Company deposits in 2008 tumbled, savings of households reached its peak value since 2002***

The development in deposits of households and company deposits was markedly different. While the on-call deposits of households increased by CZK 108 billion in 2008, from term deposits CZK 102 billion was collected. By contrast, on-call deposits of households increased by CZK 139 billion. In total, people in 2008 increased their savings by CZK 144.8 billion, which was the biggest figure since 2002 when this methodology was first used to monitor the development.

By contrast, company deposits compared with 2007 dropped by CZK 33 billion, which was quite unusual. Reported unfavourable development of company deposits was influenced by wider comparable basis only partially. In 2008 the increase of deposits with the period of notice and also term deposits was the lowest for the last years mainly due to the development in Q4. Company current account balance showed also a significant fall. This might indicate weakening of company cash-flows in the Czech Republic and limited provision of credits. Companies were obviously forced to replace money flowing from operational credit lines by its own funds.

Loss of company deposits and big increase of household deposits resulted in total downturn. In 2007 banks granted CZK 342 billion as new loans to companies and households and in 2008 only CZK 262 billion of new loans were awarded. This can be classified as an impact of financial crisis coming from lost bank confidence in solvency of debtors.

- ***Credit crunch***

The growth of net domestic assets (+9.8%) was substantially smaller compared to the previous year (+24%) due to tumbling credit activity. A significant reduction of net credit to government sector incl. securities (-62%) stood against the growth rate of company credits (+11.9%) and household credits (+16.1%), whose growth for companies and households slowed down by more than 10 p. p. The volume of net foreign assets stagnated. .

- ***Bank margins in new deals with companies stagnated, while in new deals with households margins continued to grow***

In spite of price drops in the last months of 2008 and moderate decrease of nominal rates the interest rates for deposits remained negative. In December 2008 household deposits in CZK borne interest in the amount of 1.46% (in the corresponding period in 2007 the interest was 1.21%), for company deposits the interest was 1.36% (in 2007 1.77%). Bank margins in deals with companies stagnated, y-o-y, (3.52 p. p. against 3.53 p. p.), in deals with households a significant increase was recorded (11.83 p. p. from 10.6 p. p. in 2007).