

Monetary conditions

- ***The dynamics of money supply in the economy slightly revived***

In comparison with the decreasing dynamics visible throughout the first half of 2008, in the 3rd quarter the supply of money accelerated again in the Czech economy. The monetary aggregate M2 as at the end of September increased year on year by 8.2% to 2 514.1 billion CZK, particularly due to the growth of M1 (+10%). The economy grew in nominal terms by 5.2% and the GDP growth was thus more demanding in terms of money supply. The high dynamics of credits to companies and households, however, slightly slowed down while the annual increases in deposits fluctuated.

- ***Despite the annual increase in credit balance the emissions of new credits to companies and households in the first three quarters of 2008 weakened***

The growth rate of net domestic assets significantly decreased year on year (to 13.7% from 27.3% in September 2007) due to the lower growth of domestic credits (+10% from +22.1%). This was caused not so much by the reduced growth of credits to households and companies (+27.2% and +16.7% respectively), but particularly by a significant reduction of net credit to the government, including securities (from June 2008 in total the loans exceed borrowings).

The increases in 2008 alone indicate a drop in comparison with the same period in 2007: in the nine months of 2008 the companies and households received 232.8 billion CZK in new credits, in the same period of 2007 it was 248.7 billion CZK in new credits. The negative change was more significant in credits to companies, where the new credits were year on year lower by 10.6 billion CZK, while for households new credits were lower by 5.3 billion CZK. While the emissions of new credit in the middle of 2008 stagnated, the figures from the first three quarters indicate a clear drop. However, this is apparently not due to the financial crisis – it is rather a turning point in the overall trend.

- ***Deposits grew more slowly, increases in the first three quarters in comparison with the same period in 2007 were 8 times lower***

The development of deposits (year on year +5.7% as at the end of September 2008) can be in the individual three quarters characterized with fluctuating annual increases from +2.7% to +10.8%, which is a relatively big difference – a higher difference was reported only in 1996 in connection with the currency crisis. The development can be thus characterized as uncertain, as no such multiple significant fluctuation in such a short period of nine months has been reported since 1993. The second major feature of the development of deposits is their relatively low absolute increase compared to the first three quarters of 2007 – the increase in deposits in 2007 was 39.3 billion CZK and in 2008 it was only 4.9 billion CZK. In their structure the divergence from term deposits continued towards deposits with a period of notice. The inflow of money into non-term deposits was three times lower than in the same period of 2007, due to a significant decrease of balance on company accounts, which in the nine months of 2008 decreased by 72 billion CZK (in the ten months it was even 99.9 billion CZK).

- ***Bank margins in new deals with households significantly increased while in new deals with companies they slightly decreased***

Due to the inflation development the interest rates from deposits were, despite their nominal growth, highly negative in real terms – at the end of September 2008 the banks provided the interest rate 1.43% to overall deposits made by households and the interest rate 2.09% to deposits made by companies, which was in both the cases by 0.36 p.p. more than in the same period of 2007 (the highest interests rate increase, by 0.71 p.p., was reported for deposits with a notice period made by companies). Higher interest rates for the deposits, however, were overridden by a very significant increase of interest on credits to households (year-on year increase by 0.95 p.p. to 12.46%). As a result, the banks increased their margins (by 0.59 p.p. to 11.02%), while their new deals with this segment became even more profitable. On the contrary, the significantly lower margins of new deals with companies (3.12%) decreased year on year (-0.16 p.p.).

Interest rates of credits for housing grew while interest rates of credits for purchase of real estates increased year on year from 5.02% to 5.53%.

- ***Net foreign assets grew again***

The volume of net foreign assets of the Czech Republic slightly increased year on year (+0.2%), apparently also due to the weakening of the Czech crown since 2008. The increase was contributed to by net foreign assets of other monetary institutions, except the Czech National Bank (ČNB), which by contrast reported an annual decrease (-2%).