

Monetary development

- ***Growth of money supply slowed down moderately like in the same period of 2005***

Money stock measured by M2 aggregate increased in the end of September by 11%, y-o-y, and accounted for CZK 2,324.6 billion. The money increase thus reflects still very high economic growth rate and demands of new-created value added for money supply (nominal GDP rose in Q3 by 9.5% and by 9.9% for Q1-Q3). Compared with the previous quarters the increase of money supply showed a very moderate slow-down and also in the year-on-year comparison a deceleration of growth rate is apparent (dynamics was by 1.8 p. p. higher, while in Q1 and Q2 by 2.9 p. p.). Quarter-on quarter deceleration of growth rate was last apparent in the end of Q3 2005. Moderate increases of money in the economy occurs, however, at further acceleration of credits provided to enterprises and households which increased by almost a fourth.

- ***Households borrowed almost 3.5times more money than they deposited on savings accounts***

Expenditure on economic growth is massively funded by debt. While compared to the balance as of the end of September 2006 household deposits grew by CZK 47.3 billion and company deposits by CZK 22.1 billion, the y-o-y increase of credits in these segments was CZK 159.4 billion and 139.4 billion. Total loans then significantly exceeded the amount of deposits with long-term maturity and notice period (quasi money) and this trend has a markedly accelerating trend – by the end of June the increase of credits exceeded 3.7times the increase of deposits, and, by the end of September, 4.3times.

- ***High growth rates of total deposits without notice terms slowed down***

Unfavourable proportion of deposits and loans in the household sector is typical not only for long-term deposits. It apparently reflects lower expectations in relation to their future financial standing and the need of their own living because 70% of loans granted within this segment are mortgage credits and credits from saving in a building society. In contrast, households increased their on-call (one-day) deposits by 15.2%, y-o-y. Yet even here a decelerating trend is observed which is, however, more marked for deposits on current company accounts (+12% compared to 15.1% in Q1 and Q2). In total, on call deposits increased by 13.8% which is, in spite of a two-digit growth, the lowest quarterly growth rate since March 2006. Just these deposits contributed most to the growth of M1 aggregate since the volume of money in circulation grew more slowly.

- ***Housing credits showed the fastest growth***

Mortgage credits increased compared with the same period of 2006 by 33.9% (+CZK 117.4% billion) and represented thus the fastest growing segment on the credit market. In the trend of the last three quarters it is another acceleration – in Q3 they increased compared with Q2 by 8% while the average growth for the previous three quarters was 7.4%. Interests rates on new deposits grew, y-o-y, (for households from 0.91 % p.a. up to 1.08 % p.a., for non-financial corporations from 1.29 % up to 1.74 % p.a. However, credits and mainly company credits are becoming more expensive which poses a risk for the beginning of the company expansion slow-down – rates grew y-o-y to 5.02% from 4.27% p.a. Banks raised interest rates from credits from 10.8 % to 11.5 % p.a. and sustained their margins from retail trade on a two-digit level.