

Monetary Development

- ***Huge credit and loans volume results in increase of money stock in the economy***

The money stock in the economy recorded the highest growth rate since mid-2004. The M2 aggregate in the end of year reached CZK 2 188.4 bn. and in the year-on-year comparison grew by 9.9 %, exceeding the growth rate of nominal GDP (7.9 %). The Czech economy spent more money to produce the added value. Monetary terms become more expansive. The growth rate of the volume of money in the economy results from the huge amount of credit and loans provided, which makes the net domestic assets to grow.

- ***Net credit to the government sector substantially higher, loans to households and enterprises slowed down slightly***

The very high dynamics of loans provided to enterprises and households in the end of the year slowed down upon a significant increase of the net credit to the government sector. This item represented the most significant turning point of the monetary development in 2006. It reflected the need to finance deficit operations of the state budget – the amount of net credit to the central government (CZK 206.9 bn.) reached its peak value since May 2005 (after the budget was positively influenced by higher tax revenues).

Since November the rate of loans provided to households had been declining and in December it fell under the 30 % limit for the first time since April 2004. After the peak in March (+33.5 %) the December slowdown to +29.4 % was accompanied also by a reduced rate of credits provided to enterprises (+14.8 %). In aggregate domestic loans and credits increased (+22 %) also thanks to strong increase of the net credit to the government sector (+38.1 %). However, after its year-on-year declines in the first half of the year the average annual growth rate remained negative (minus 27.3 %). The highest growth rate was recorded by retail loans to households (32.1 %), average annual growth rate of loans to the business sector amounted to 13.9 % and for domestic loans in aggregate 12.9 %.

- ***Absolute decrease of net foreign assets in Q4***

In the last quarter banks were withdrawing their assets back to the Czech Republic. Since June the volume of net foreign assets of the Czech Republic decreased in year-on-year terms, provided that in course of spring months their increments amounted almost to one fifth – due to that a positive trend according to the average growth rate was recorded (+1.1 %) resulting from the development in other monetary institutions (+5.8 %), because net foreign assets of CNB according to average data stagnated.

- ***Money grew faster than quasi money***

The low liquidity and interest rate resulted in a continued lower popularity of time deposits (deposits with agreed maturity terms) and saving accounts (deposits with notice terms). These deposits grew in case of households and enterprises with a less than half growth rate compared to the increase of money in circulation and current account (one-day) deposits. They also grew more slowly than the money stock, the dynamics of which doubled in comparison to the increase of quasi money (+4.8 %) not only due to the high dynamics of money in circulation (+12 %), but particularly of one-day deposits (+14.7 %). The preference on current deposits continued with a far higher intensity – while in 2004 one-day deposits increased by CZK 44.2 bn., in 2005 by CZK 98 bn. and in 2006 even by CZK 121 bn., the agreed term deposits recorded +8.9 bn., -4.0 bn. and +3.3 bn, respectively. Households preferred deposits with notice terms to time deposits, however, their increments were substantially lower than the amounts of current deposits. Real interest rates on deposits of households and non-financial corporations reached minus values.

- ***Reduced bank margins for new retail deals, increase for deals with enterprises***

The rough competition in retail banking forced the banks to give up a part of their very high margins. On the other hand, margins in new deals with non-financial corporations continued to grow. This development resulted from the interest rate fluctuations. In Q4 interest rates on deposits for new deals with households and non-financial corporations increased in quarter-on-quarter terms, but non-financial corporations showed a decreasing trend in the last three months. Banks prefer enterprises as depositors (deposit rates are by 0.4 p.p. higher than deposits of

households). In case of loans in Q4 this difference was 6.6 p.p.