

Monetary development

- **Monetary reserve grew most rapidly for the last twelve months**

Monetary supply in the Czech economy measured by M2 aggregate increased in compliance with the national monetary review by the end of 2007 to CZK 2,478.3 billion. As against the level reached at the end of 2006 it increased by 13.2%. Its strong y-o-y growth which was almost four times higher compared to 2002 came from the culminating economic boom – GDP at current prices increased in Q4 by 9.9%, over the whole year by 10.1%. Higher growth rate of money was last recorded in the Czech economy in 1995 when strong inflow of money from abroad made the central bank to sterilize the currency (however, in mid-1990's a two-digit growth of GDP came from inflation). The y-o-y increases of M2 show an accelerated growth for the sixth quarter in a row. In 2007 the increases were accompanied by a marked increase of money in circulation and by on-call deposits (M1), on the assets side by the accelerating credit expansion. Value added production in the Czech economy continued to require increasing amounts of money.

- **Loans granted to households reached record highs**

Loans granted to households increased, y-o-y, by almost a fifth (+19,6 %) given the reduction of the government debt and significant escalation of credits granted to non-financial enterprises and households – while the net government credit including securities dropped, y-o-y, by 47.1 %, debts of enterprises and households in total increased by 26.6 %. Debts of Czech households were by CZK 186 billion higher (+34.3%) by the end of 2007 than in the corresponding period of 2006, company credits increased by CZK 157 billion. Increases of loans to household accelerate intensively – both in nominal and percentage expression – which is remarkable with respect to the expanding statistical base. The growing purchase price of dwellings is regarded as one of factors..

- **Contribution of housing credits to the volume of household debts still increasing**

Proportion between the volume of housing credits granted to households and volume of their consumer credits further increased for the benefit of housing credits which exceeded half a billion CZK (+37,6 %). Faster growth was recorded for mortgage credits (+40 % to CZK 334 billion) compared to credits from saving in a building society where it is obvious that investors do not have sufficient resources from savings available – dynamics and volume of stand-by credits (+39.2 % to CZK 115.8 billion) are higher than standard credits from saving in a building society (+11.7 % to CZK 34.9 billion). Housing credits make 71% of the total volume of credits granted to households, in 2006 the share was 69%).

- **The increase of deposits came from raising interest rates**

Deposits of households with commercial banks increased by 10.9% to CZK 1,231.1 billion to record the biggest y-o-y growth since 2001. The general government not only reduced its debt with commercial banks but in 2007 it remarkably increased its deposits – their increase (+35 %) exceeded the growth of population deposits (+10,6 %) and also those of non-financial enterprises (+20,8 %). Household deposits remain the main source of money feeding the economic growth. In 2007 they grew by CZK 118 billion given the company deposit growth by CZK 84 billion to CZK 485.9 billion and the growth of general government deposits by CZK 53 billion to CZK 207.8 billion.

The growth of bank deposits was affected by improved interest rates. Interest rates of household new deposits increased over 2007 from 0.99% to 1.21%, company deposits from 1.41 % to 1.77 %. At current growth of interest rates from deposits bank margins in new deals with households strengthened, in deals with company clients weakened.

- **Stagnation of net foreign assets**

Net foreign assets of the Czech Republic stagnated given a significant decrease of net foreign assets of the Czech National Bank; in contrast, commercial banks strengthened their assets. Net domestic assets increased compared with 2006 at slower rate. This came from the decrease of net credit granted to the government sector (incl. securities).