

Monetary conditions

- ***The growth of the supply of money in the economy slowed down***

The growth rate of the supply of money supply in the economy returned to a one digit level. The monetary supply, measured with the M2 aggregate, reached 2421.4 billion CZK at the end of the first quarter, which was 9.0% more in comparison to the same period in 2007. With the growth of the nominal GDP by 8.7%, the monetary conditions remained virtually unchanged in comparison to the same period in 2007. The dynamics of M2 declined not only in a year on year comparison (10.6% in the 1st quarter of 2007), but declined especially against the rate for the entire 2007 (+13.2%).
- ***A strong year on year growth of loans to companies and households, but a slight slowdown in comparison to the dynamics of 2007***

The very high increase in the loans to companies and households (+25% represents the highest year on year growth for all first quarters since 1994), did not lead to the maintaining of the rate of household loans (+16.8%), which was lower due to the strong decline of net loans to the government (-82%). In comparison to the dynamics of the entire 2007, in the 1st quarter of 2008 there was a slowing down of the growth rate of all mentioned components. The loan expansion thus probably reached its peak in the last quarter of 2007.
- ***The rejuvenation of deposits was not permanent***

In deposits, there was an acceleration of the transfer of money from term deposits (i.e., deposits with an agreed upon due date) towards non-term deposits, but also towards deposits with a notice period. For companies, deposits with a notice period grew by one quarter, for households by more than one fifth. The year on year decrease of money in term deposits (-6%) thus lead to the relatively low growth of the component of quasi money (+3.2% was the lowest year on year increase for a first quarter since 2004). The volume of money (currency in circulation and non-term deposits) thus grew four times faster year on year than the volume of quasi money, mainly thanks to the increases of non-term deposits by households - there was a lower increase in the currency in circulation, both in a year on year comparison as well as in comparison to the rate for 2007. But due to the loss of the dynamics of deposits, it is the rate of the growth of money that is the main driver of the increase of the M2 money supply.
- ***Significant increasing of the rates for new transactions by banks with a further growth of their margins***

Business banks react to the outflow of money from term deposits with the increasing of their interest rates. Rates for new transactions here grew the fastest (for company deposits by 1.1 percentage points to 3.38 p.a. and for household deposits by 1.2 percentage points to 3.02% p.a.). Overall, the interest rate levels of new deposit transactions of banks with households grew year on year to 1.32% p.a., and for companies to 1.98% p.a. The growth was considerably more vigorous than in the same period of 2007. In real terms, the interest rate levels of deposits were negative.

But the margins of banks continued to grow, because in comparison with deposits, the growth of interest rates of new loan transactions was even steeper. For example, interest rates on loans to households for the purchase of real estate grew year on year on average by 0.9 percentage points to 5.4% p.a., for fixations of rates for 1-5 years by 1.5 percentage points to 5.8% p.a. The banks increased interest rates on loans more to households than to companies (+1.9 percentage points, resp. +1.0 percentage points).
- ***Net domestic and foreign assets***

The volume of CR net foreign assets continued in its decline, which accelerated in year on year terms. The dynamics of domestic loans participated less in the strong growth of net domestic assets (+23.7%). Bigger contributions were made by changes in other net components, especially capital and reserves, as well as securities held.