

Monetary Development

- **Annual rates of M_2 growth were falling** Total money stock (M_2) CZK 1,919.2 bln was at the end of Q3 y-o-y larger by 4.2 % and grew slower than GDP, suggesting tight monetary policy of CNB. Annual rate of growth of money stock was gradually falling and its average annual level increased by 4.8 % given annualised growth of nominal volume of GDP by 6.1 %. Ratio of M_2 and GDP in the period of Q4 2004 to Q3 2005 compared to the preceding four quarters went down by 0.7 p. p. to 65.3 %. To serve the creation of value added was thus needed less money and income velocity of money increased.
- **Rise of foreign and drop of domestic assets** On the demand side, the y-o-y development of M_2 was positively affected by net foreign assets (7.1 p. p.), which rose by 13.8 %. Adverse impact (2.9 p. p.) thus came from the net domestic assets, which dropped by 5.9 %. Total level of domestic credit declined by 1.6 %, however its development varied considerably by individual sectors; loans to non-financial businesses and households grew by notable 33.0 % and net credit to government decreased to a large extent (by 72.9 %). Other net items (negative) were higher by 15.6 % and negatively affected net domestic assets.
- **Larger increase of currency to quasi money** On the supply side, positive effect on y-o-y development of M_2 came more from currency (2.7 %) and in that mostly one-day deposits (1.6 p. p.) to quasi money (1.5 p. p.). After previous relatively high growth of currency, the annual rate of its growth started falling rapidly, however y-o-y growth of 8.2 % was even higher than the growth of M_1 . While term deposits more-or-less stagnated and grew negligibly y-o-y, deposits on demand increased by more than one tenth and thus crucially affected the quasi money.