

Monetary Development

- **Highest increase of money stock in the economy since mid-2004**

The added value created in Q1 2007 in the Czech economy was again more demanding on money service. The money stock measured by M2 aggregate reached in the end of March CZK 2 222.5 billion, which represented a year-on-year increase by 10.6% (nominal GDP increased by 9.9%). The acceleration of the money stock growth by 1.7 p.p. compared to March 2006 was still influenced by the very high dynamics of loans to enterprises and households (20.8%), however, the preceding strong acceleration thereof was not recorded.
- **The highest recovery of deposits since the end of 2001**

The quasi money volume increased in year-on-year terms by CZK 60.2 billion to CZK 983 billion, which was a significant change compared to the preceding years – the increment by 6.5% from March 2006 was the highest since the end of 2001. After the year-on-year decrements of time deposits of households recorded since mid-2005 an increase was recorded in February 2007 to 0.5% in March. Except for corporate time deposits all the other types of deposits of households and non-financial companies grew considerably compared to the same period of the preceding year, the highest growth rates were shown by households' deposits with notice terms (19.3%).
- **Money grew more rapidly than deposits, highest increase in money in circulation since end of 2002**

Notwithstanding the recovered dynamics of quasi money the growth rate of money (14.1%) remains almost twice as high and on the liabilities side represents the main driver of the M2 money stock increments. The strong growth of the money in circulation (12.4%) with the highest dynamics since 4Q 2003 was accompanied by an even higher growth of one-day deposits (14.7%), particularly in the households sector (15%). Their growth in this segment was higher than in the preceding year (12.5%), but the significant year-on-year acceleration recorded in the remaining three quarters in 2006, which peaked in the December growth by 15.9%, weakened in Q1 2007.
- **Changes in savings structure, growth of banks' interest margins for new deals with non-financial companies**

The strengthening of time and notice term deposits may reflect a positive shift in the ability to save due to growth of corporate profits and improvement of household finance and wage growth. Interest terms probably do not matter much, because rates on deposits in Q1 2007 recorded only a very mild year-on-year increase (for households from 0.92% to 0.99%, non-financial corporations from 1.24% to 1.41%). For new credit deals banks reduced the rates for households in year-on-year terms (from 10.71% to 10.55%) but increased the price of money for non-financial companies (from 3.95% to 4.41%). This influenced the movements of interest margins of banks (positively in trading with non-financial companies, negatively in trading with households). The structure of households' savings by the type of saving seems to change, with a commencing return to bank deposits, as shown by the weakening dynamics of savings in mutual funds. In the end of March households held more than CZK 280 billion in domestic and foreign mutual funds. In Q1 2007 assets in mutual funds increased by more than CZK 9 billion, with a stronger growth of savings in foreign mutual funds (CZK +5.9 billion).
- **Huge acceleration of net domestic assets particularly due to loans to households**

The net domestic assets volume since Q1 2006 increased by more than one quarter (27.9%) to CZK 1 215.9 billion. The huge acceleration thereof derives from the loans expansion particularly in the households sector, in terms of dynamics, as well as in terms of loans volume. Compared to the same period of 2006 the volume of loans provided by banks to households increased by CZK 133.3 billion (30.4%), while corporate loans increased only by CZK 96.8 billion (14.4%). Despite the very strong increase the loans to households amounted to approximately three quarters of corporate loans. The highest dynamics was recorded by the net credit to the government sector, which in year-on-year terms grew by approximately CZK 28.1 billion to CZK 112 billion. The volume of net foreign assets since mid-2006 had continued to decline and reached CZK 100.6 billion in the end of March 2007. Approximately since mid-2005 net foreign assets of other monetary institutions have represented about one half of net foreign assets of the Czech National Bank.