

Monetary Development

- **Slow down of M_2 growth**

Money stock (M_2) reached by the end of Q1 2005 CZK 1 844.9 bn and its year-on-year growth 5.3 % was by 2.5 p. p. slower on a year ago. This slowdown was caused on the demand side especially by decreased level of net foreign assets and on the supply side relaxation of fast growth of transaction money in the previous period. Change of structure of M_2 was notably larger on the demand rather than supply side; the ratio of net domestic assets and net foreign assets levels shifted by notable 13.5 p. p. (from 87.8 % in Q1 2004 to 101.3 % in Q1 2005), while the ratio of transaction and non-transaction money levels increased from 104.1 % in Q1 2004 to 111.5 % in Q1 2005. Year-on-year growth of M_2 was on the demand side exclusively affected by increased net domestic assets (6.2 p. p.) and on the demand side by increase of transaction money (4.5 p. p.).
- **Income velocity of money slowed down**

Average level of money stock grew faster than final balances and it reached 65.7 % in relation to annualised GDP in current prices, the same proportion in year-on-year comparison. The amount of money to needed to service GDP and average income velocity of money remained the same.
- **Fall in the foreign money creation balanced by domestic credit issues**

On the demand side the net foreign assets fell year-on-year by 1.7 % by the end of Q1 2005, especially as a result of its drop in CNB by more than one tenth. Considerable increase of net domestic assets (by 13.4 %) influenced by the same measure the decrease of negative balance of other net items (inc. securities and capital) as well as the growth of domestic credit. Their level CZK 1 146.1 bn was year-on-year higher by 5.1 % and their growth slowed down to a large extent (by 9.1 p. p.) as a reflection of notable reduction of loans to government institutions (by more than one quarter). The volume of credit to non-financial businesses and to households in particular enlarged considerably (by 9.0 % and 32.8 % respectively) and the pace of their growth quickened. Other net items contributed to the growth of M_2 by 3.1 p. p.
- **Transfer of term deposits into one-day deposits continues**

On the supply side, the year-on-year levels of transaction money increased year-on-year by the end of Q1 2005 by 8.8 %, however their growth slowed down mainly in their predominant part even though one day deposits represent already two fifths of the money stock and increased by 9.0 %. Currency growth is steadily relatively high and its level in relation to M_2 reached already 13.2 %. The level of quasi money keeps rising very slowly (only by 1.6 %), in that term deposits went down. Their share in M_2 level keeps falling. Regarding quasi money, only term deposits grew and increased the pace. Total deposits by the end of Q1 2005 amounted to CZK 1 594.2 bn and were year-on-year higher by 5.0 %. In that household deposits, forming more than two thirds of total deposits, registered faster growth compared to deposits of non-financial businesses.
- **Total indebtedness has shrunk**

Coverage of bank loans by bank deposits is high and further increased. The level of total deposit as per end of Q1 2005 exceeded the level of total credit by CZK 448.1 bn, which was by CZK 20.9 bn more on a year before, however this surplus decreased for households. Active financial position of all clients of commercial banks improved. Financial position of households remains favourable with their deposits surpassing loans by CZK 328.6 bn, however kept worsening during the year. Net loan indebtedness of the government sector CZK 221.4 bn was year-on-year lower by one fourth and its financial position improved substantially.
- **Interest rate cuts**

In the first four months of this year CNB cut the interest rates twice; results were mostly the notable appreciation of CZK exchange rate against EUR and USD, as well as the falling rate of growth of external demand. Currency-political interest rates were slashed by 0.25 p. p. to 28th January 2005 and by the same amount to 1st April 2005. At this date, the limit 2W repo rate set to 2.0 %, lombard rate to 3.0 % and discount rate to 1.0 %. Given this situation the interest rates on the money market went up, both those on deposits and credit, accompanied by the average growth of money stock by 7.0 %. In Q1 2005, average interest rates on deposits received by banks 1.361 % for households and 1.160 % for non-financial business increased year-on-year and interest rates on credit provided by banks 7.838 % for households dropped

slightly and increased for non-financial businesses to 4.604 %, thus narrowing the large differences between these institutional sectors. Interest spread in relation to households 6.477 p. b. year-on-year decreased and in relation to non-financial businesses increased to 3.444 p. p. Real interest rates on household deposits were slightly negative.