

Methodological sheet

Monetary base

I. Definition and content

The monetary base (i.e. the reserve money) includes currency in circulation and reserves which commercial banks and credit unions (since 2012) hold in their accounts with the central bank. Both the items represent the **use of the monetary base**.

- Currency in circulation is cash held by households and companies and cash in vaults of banks and credit unions (since 2012).
- Reserves of banks and credit unions (since 2012) include required minimum reserves and excess reserves in the accounts with the central bank.

The monetary base expresses the relations of the central bank towards the other sectors of the economy. Therefore, the counterparts of the monetary base represent the external sector, the government sector, the banking sector and the non-banking sector. These factors influencing the level of the monetary base are designated as the **sources of the monetary base**.

The methodology of compilation of the monetary base is unified on the international level within the framework of the member countries of the International Monetary Fund. The compiling and publishing of the monetary base serves mainly for statistical and comparative purposes.

The basic break-down of items in the monetary base:

ASSETS

External sector represents the balance of short-term and long-term assets and liabilities of the central bank in relation to non-residents in the domestic currency and in foreign currencies. This item also includes the foreign exchange position in relation to residents (domestic banks).

Government sector expresses the difference between the assets and liabilities of the central bank towards the government sector.

Financial Market Guarantee System includes the Deposit Insurance Fund and the Crisis Resolution Fund.

Claims on non-bank entities represent the claims of the central bank on different non-bank entities. They include banks without license e.g.

Other assets, net include various other items, for example the central bank's own resources, tangible and intangible property, claims on commercial banks by virtue of drawing the currency in circulation, other deposits of commercial banks with the central bank, other non-government deposits, non-government securities and participation, etc.

Volume of sterilisation expresses the volume of CNB bills in the holding of commercial banks, credit unions, other non-bank entities and the Ministry of Finance.

Stand-by facilities include lending and deposit facilities with O/N maturity, which allow individual banks and credit unions (since 2012) to fine-tune their daily reserve positions in order to optimise the balance of the payment system account.

- Lombard repo (lending facility): a repo operation that serves to give liquidity to commercial banks and credit unions (since 2012). On granting the credit, 100% cover by securities, as a rule by Treasury Bills and CNB bills, is applied. Interest on the credit is calculated at the Lombard rate. The minimum volume is not stipulated.
- Overnight (O/N) deposit (deposit facility): commercial banks and credit unions (since 2012) have a possibility to deposit their free funds with the central bank. The deposit involved is not secured, interest on it is calculated at the discount rate. The stipulated minimum volume is CZK 10 million.

LIABILITIES

Currency in circulation represents the liability of the central bank by virtue of the issued banknotes and coins that are held by banks, credit unions (since 2012) and the non-bank public.

Reserves of banks and credit unions (since 2012) include required minimum reserves and excess reserves in the accounts with the central bank:

- The required minimum reserves are the funds which banks and credit unions (since 2012) are obliged to maintain in their accounts maintained with the central bank. The prescribed volume amounts to 2% of primary liabilities of banks with maturity up to 2 years in Czech and foreign currencies. The required minimum reserves are maintained in one-month cycles. The interest on these reserves is calculated at the valid repo rate.
- The excess reserves represent the difference between the prescribed and the real volume of the required minimum reserves.

II. Sources and methodology of ascertainment

The basic data for the compilation of the monetary base are the data taken over from the Balance Sheet of the CNB for analytical purposes.

III. Reporting entities

The reporting entity is the Czech National Bank.