
2nd Situation Report on Economic and Monetary Developments

Press conference of the Bank Board



Monetary policy decision

At its meeting today, the CNB Bank Board lowered the two-week repo rate (2W repo rate) by 75 basis points to 1.00%. At the same time, the Lombard rate was decreased to 2.00% and the discount rate to 0.05%.

All seven members voted in favour of this decision.

1.00%

2W repo
rate

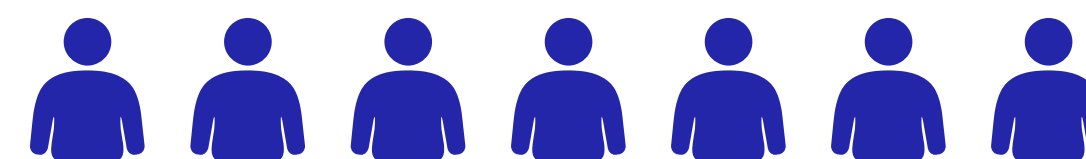
0.05%

discount
rate

2.00%

Lombard
rate

FOR DECREASE



FOR NO CHANGE

0

The Bank Board decided to cut interest rates further in reaction to the expected impacts of the coronavirus pandemic on the Czech economy.

Assessment of current economic developments (i)

- The impact of the coronavirus pandemic dramatically changes the outlooks for the global and Czech economy. The measures to stop it adopted by individual governments are having a very negative effect on global trade and the production and consumption patterns of economic agents.
- In the current situation, any point estimates of future developments should be viewed with great uncertainty.
- However, the CNB Bank Board had at its disposal an extraordinary internal update of the macroeconomic forecast for the March monetary policy meeting.
- This was complemented by additional relevant analyses and considerations from the financial stability area and information on developments in individual segments of the financial market and financial sector.

Assessment of current economic developments (ii)

- The expected significant decrease in foreign economic activity and inflation, together with the impacts of the domestic measures to counter the spread of the infection, will lead to a downturn in the Czech economy and a decline in domestic inflation.
- The coronavirus infection and the related measures will lead to a strong recession, in which the domestic economy will remain for the rest of this year. This will have a pronounced anti-inflationary effect.
- The koruna depreciated significantly owing to the worsened outlook for the economy and financial market panic. The exchange rate depreciation will partly offset the anti-inflationary and anti-growth effects of the coronavirus epidemic, but its impact will probably not materialise to a larger extent until after the situation returns to normal.
- Overall, these developments warrant a further significant reduction of interest rates this year, which will also support the recovery of the economy from the current shock.

CNB's potential future measures

If necessary, the Bank Board is ready to:

- lower interest rates further,
- adopt measures addressing any potential liquidity problems in the Czech financial sector,
- react to any excessive exchange rate fluctuations using its instruments, in line with the managed float exchange rate regime.
- The CNB will continue to act within the boundaries of its legal mandate. However, the Bank Board is convinced that broadening the CNB's range of financial instruments and eligible counterparties would significantly help to maintain financial stability.

Any potential monetary policy measures may be adopted at any time as needed, even at an extraordinary monetary policy meeting of the Bank Board.

The banking and financial sector

- The capital position of the domestic banking sector is currently robust thanks to capital buffers and voluntary capital surpluses.
- Owing to the coronavirus contagion, economic activity will deteriorate significantly. This is highly likely to have an adverse effect on the quality of banks' loan portfolios.
- A gradual release of the countercyclical capital buffer combined with a postponement of dividend payouts can support banks' ability to finance the real economy.
- Therefore, the countercyclical capital buffer rate will be lowered to 1.00% with effect from 1 April 2020.
- The CNB expects that not only banks, but also insurance companies and pension management companies will refrain from making any dividend payouts or taking any other steps that might jeopardise their resilience.

Thank you for your attention

Minutes of the today's meeting will be released on 3 April 2020
at

<https://www.cnb.cz/en/monetary-policy/bank-board-decisions/>

