
3rd 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 **0.25%**. At the same time, it lowered the Lombard rate to 1.00%. The discount rate remains unchanged at 0.05%.

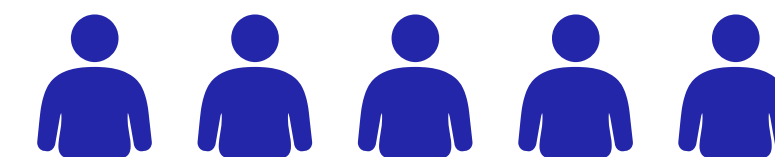
0.25%
2W repo
rate

0.05%
discount
rate

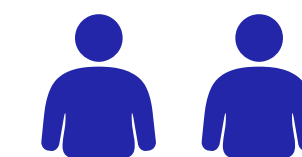
1.00%
Lombard
rate

Five members voted in favour of this decision, and two members voted for lowering rates by 50 basis points.

FOR CUT OF 75 BP



FOR CUT OF 50 BP

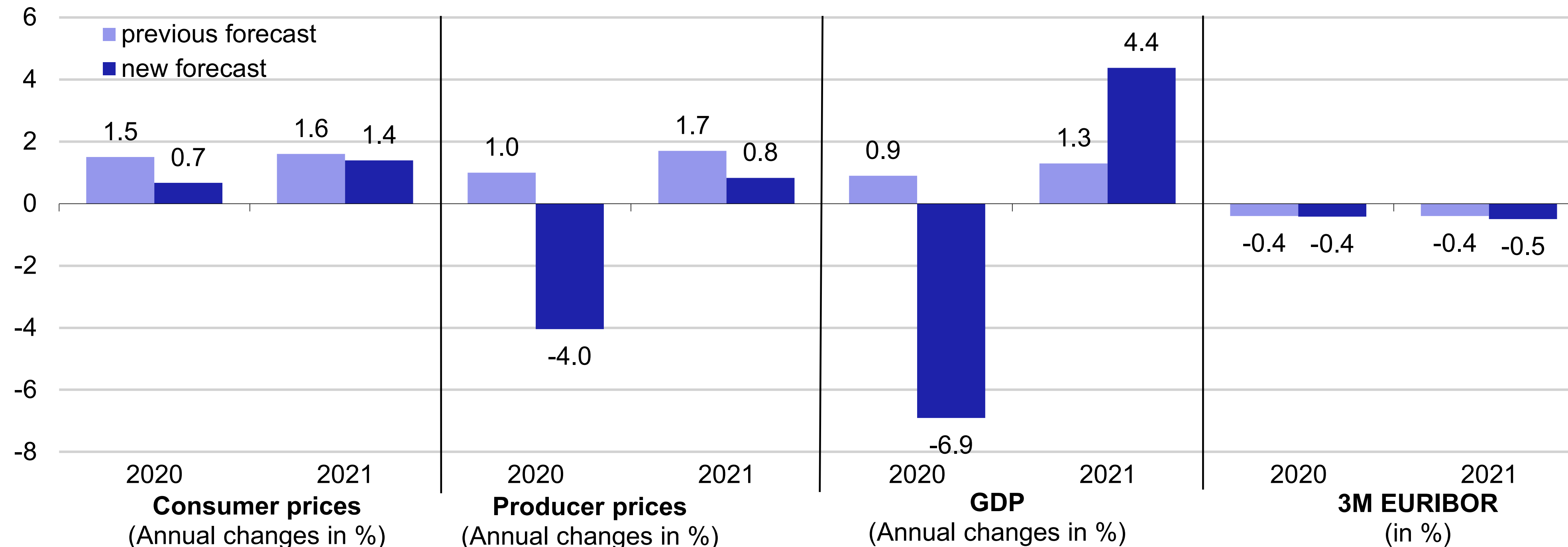


The decision adopted by the Bank Board is underpinned by **the CNB's new macroeconomic forecast.**

The **uncertainty** regarding the external and domestic assumptions of the forecast and the way they are captured by the model system **is extremely high.**

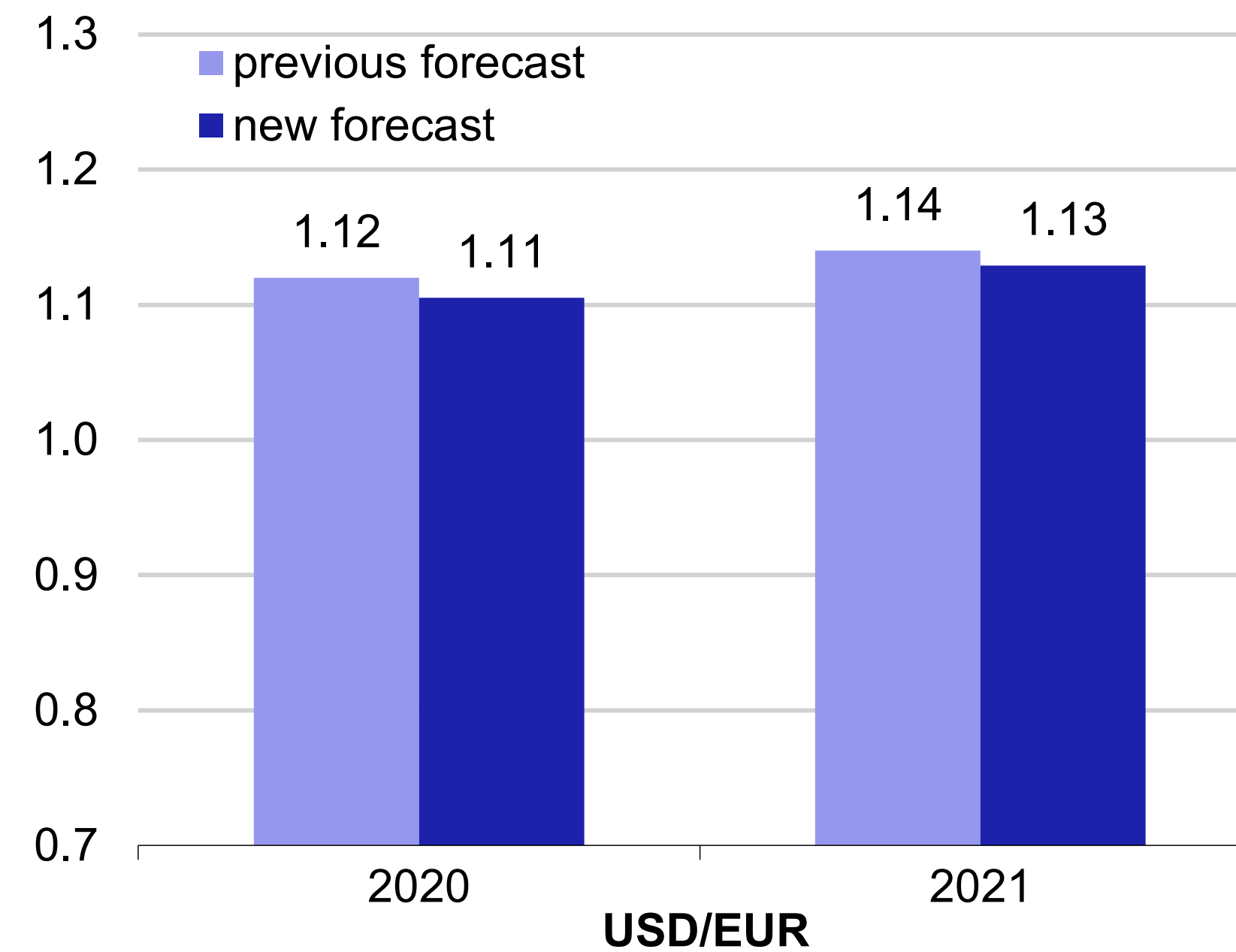
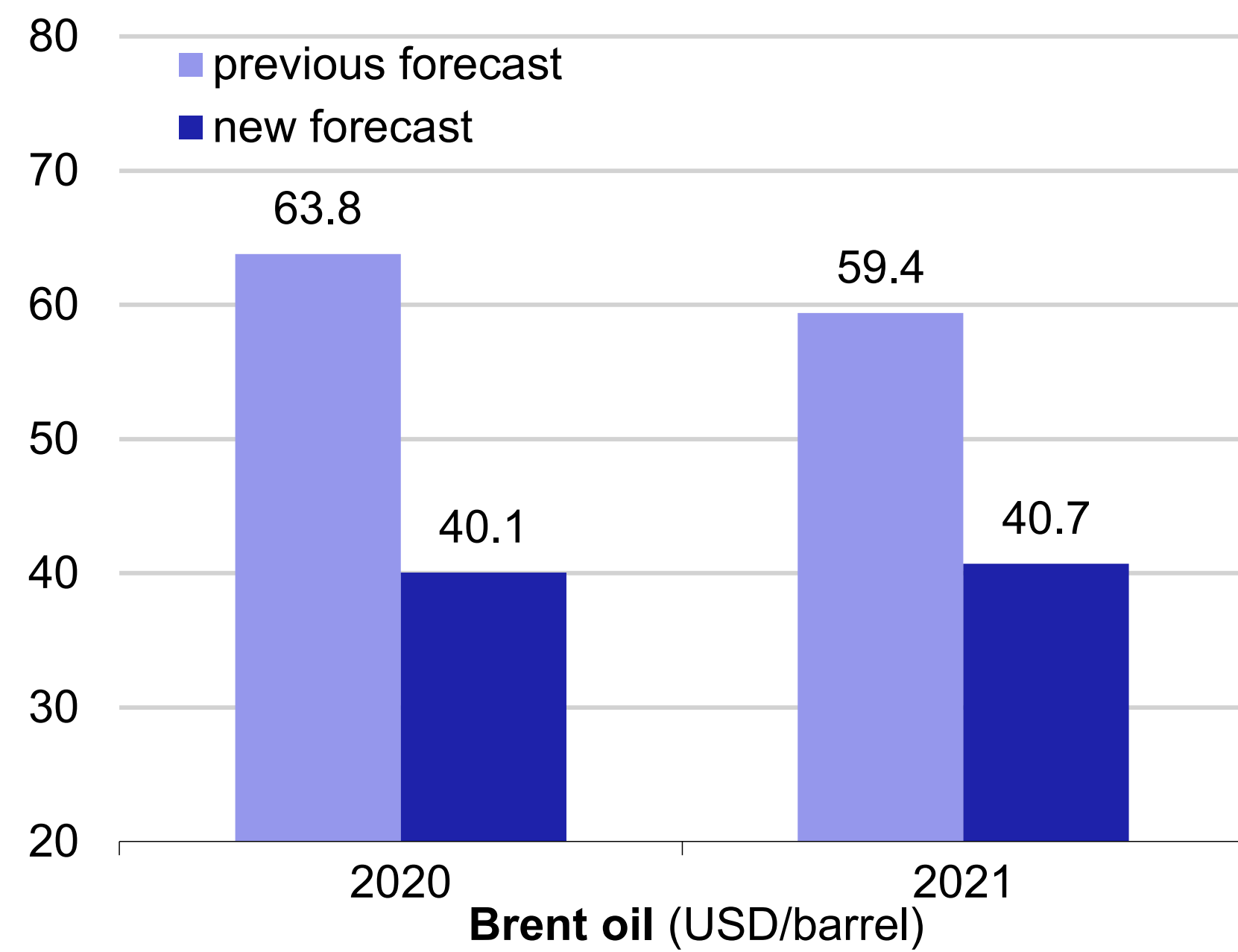
External environment (i)

Comparison between the assumptions of the new and previous forecasts for the effective euro area

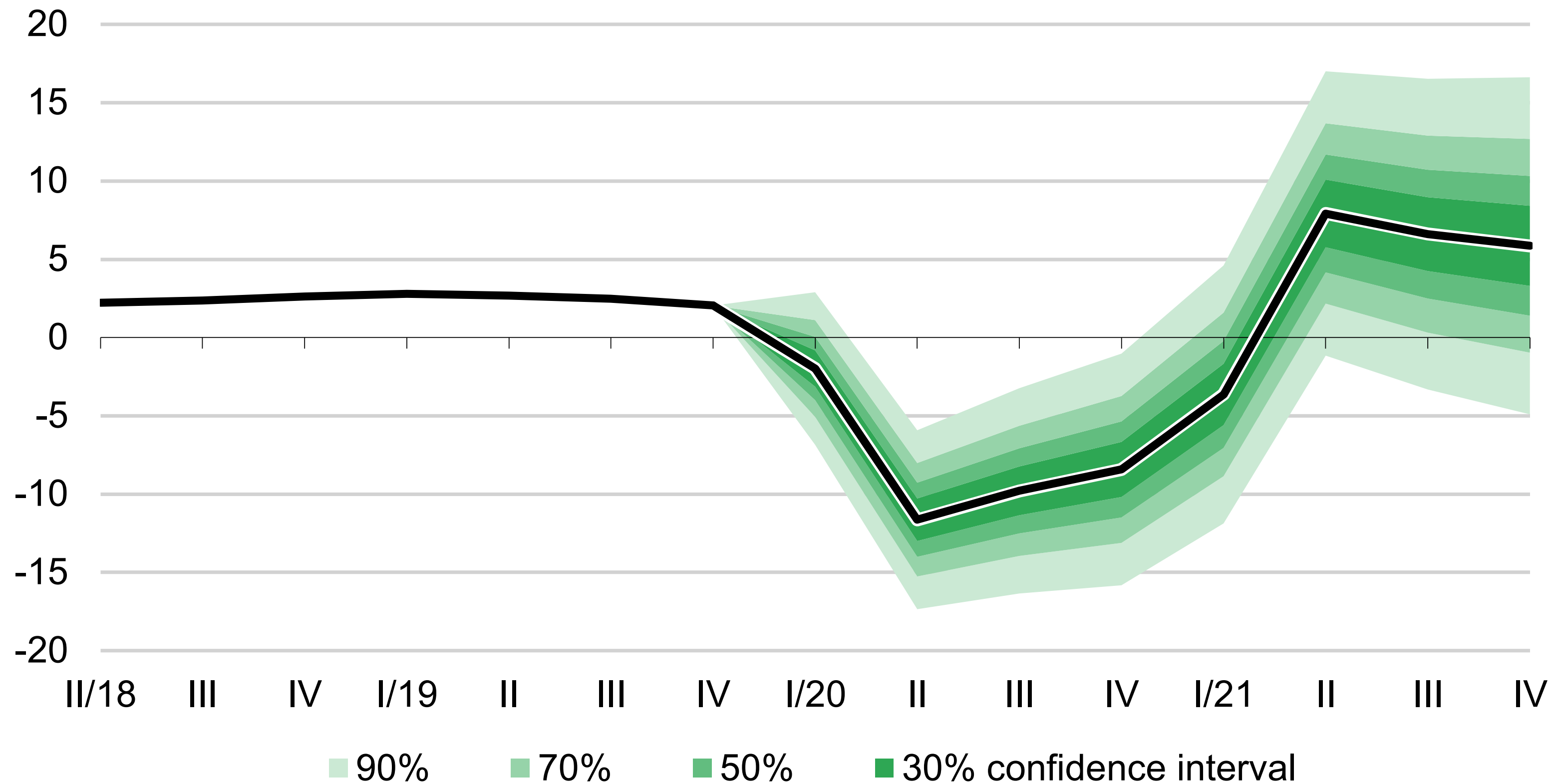


External environment (ii)

Comparison between the assumptions of the new and previous forecasts



Forecast for GDP

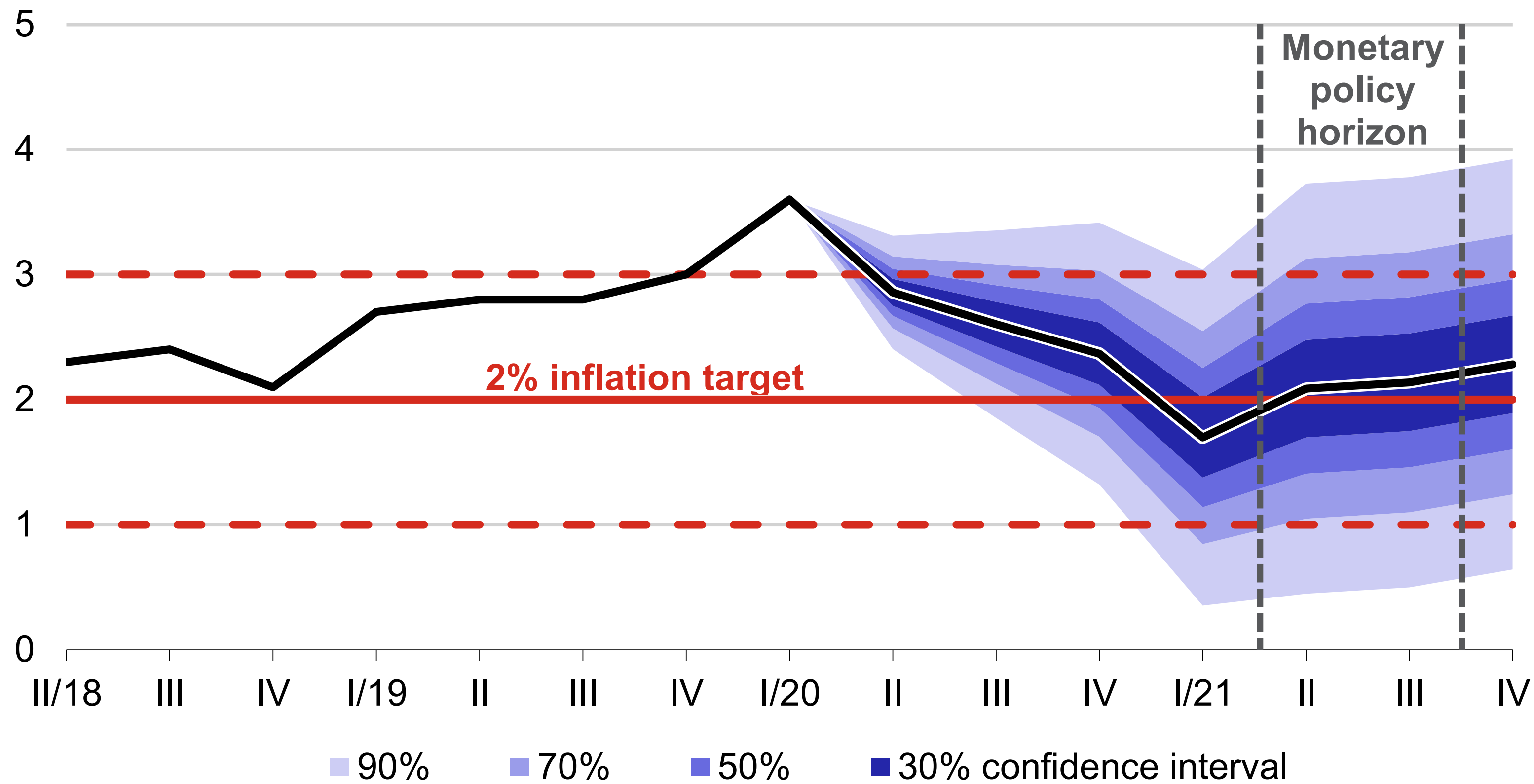


The Czech Republic has been hit significantly by the coronavirus pandemic measures.

The decline of the domestic economy will be exceptionally deep this year.

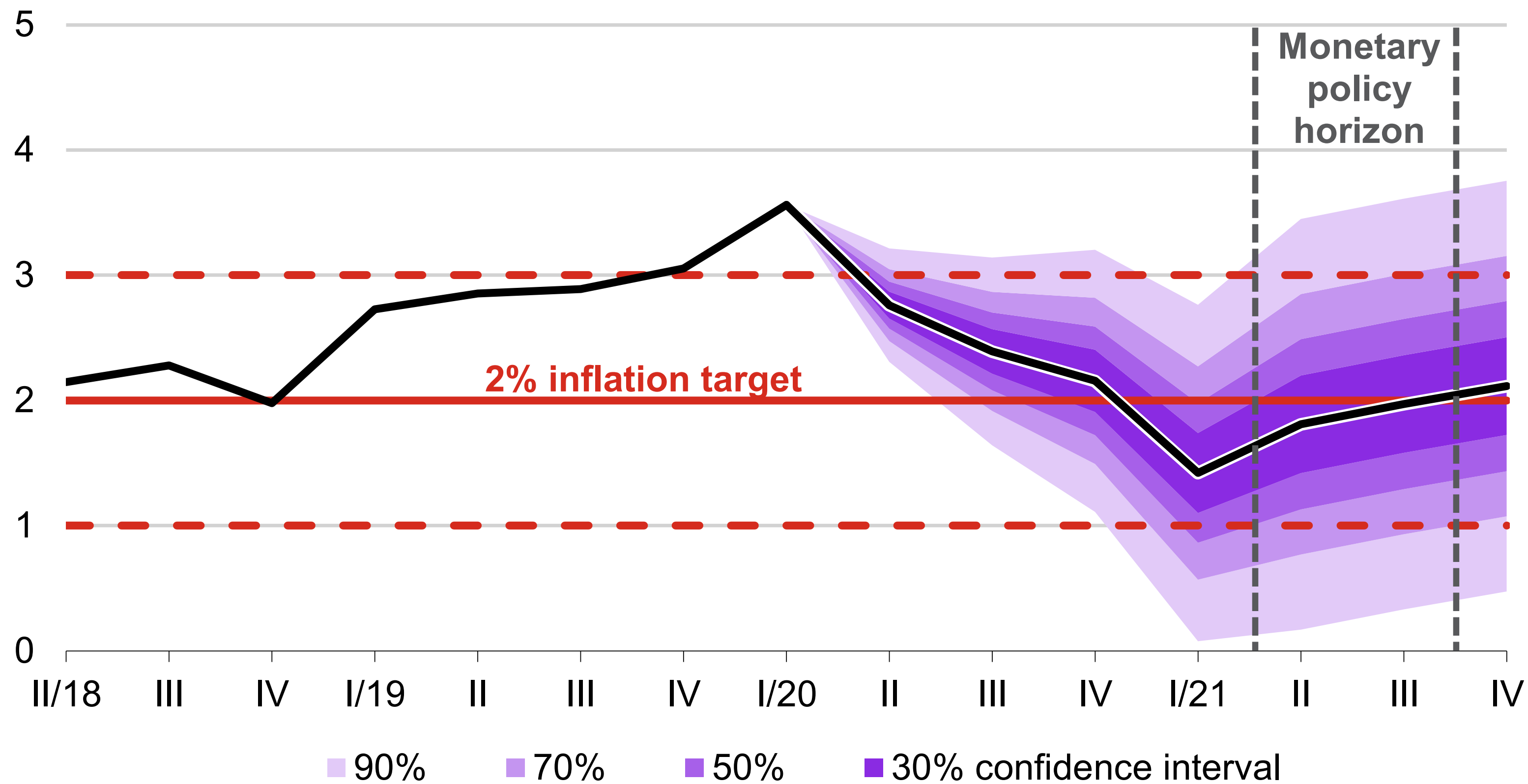
Despite a gradual return to growth, economic activity will not return to the pre-pandemic level before the end of next year.

Forecast for headline inflation



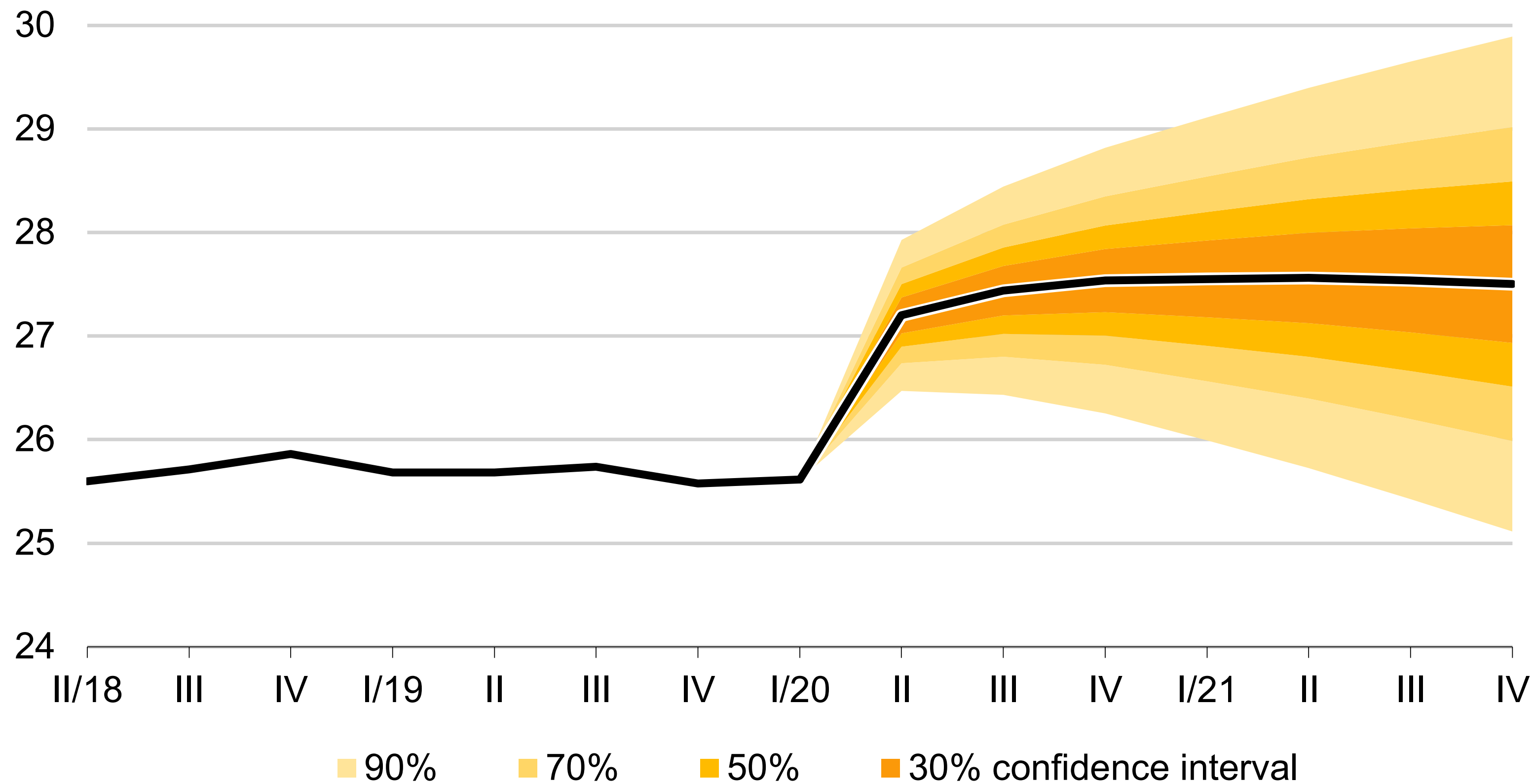
Headline inflation will fall rapidly into the tolerance band and will be close to the CNB's 2% target over the monetary policy horizon.

Forecast for monetary policy-relevant inflation



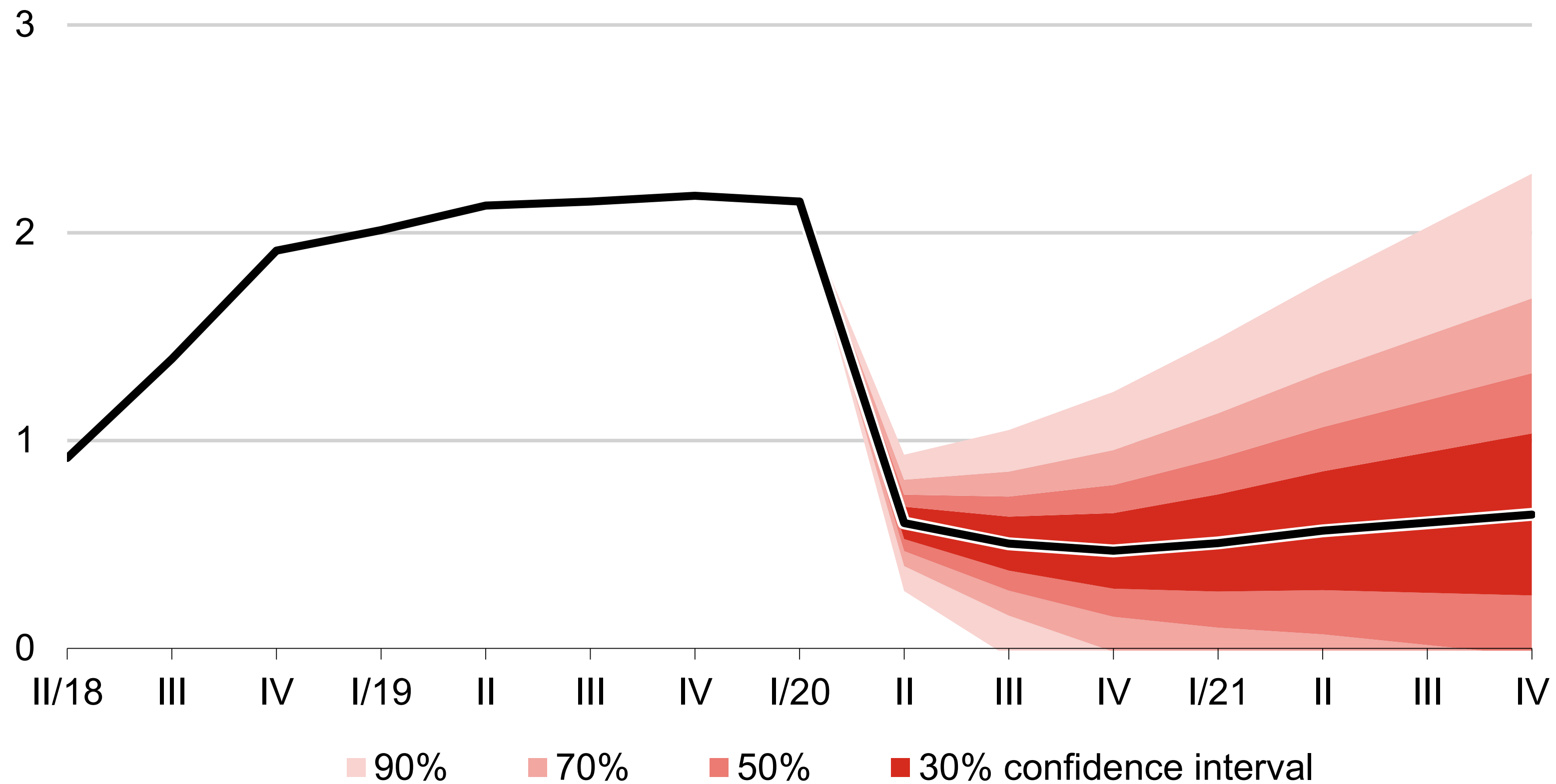
Monetary policy-relevant inflation will be slightly lower than headline inflation.

Forecast for the exchange rate (CZK/EUR)



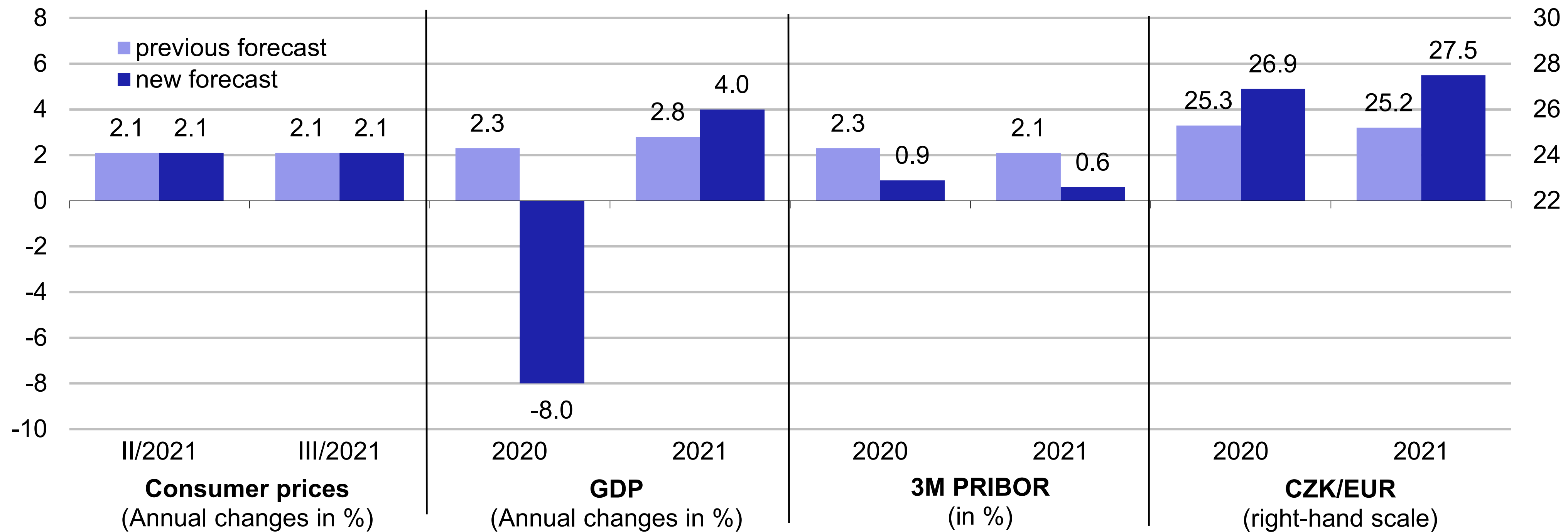
The exchange rate of the koruna will remain close to its current weakened level due mainly to unfavourable economic developments.

Forecast for interest rates (3M PRIBOR)



Consistent with the forecast is a further decline in domestic market interest rates in 2020 Q2 followed by broad stability.

Comparison with the previous forecast



Risks and uncertainties of the forecast

The Bank Board assessed the risks to the forecast in the current extraordinary situation as being unprecedentedly high and requiring an even greater easing of the monetary conditions compared with the baseline scenario of the forecast.

Risks and uncertainties:

- Course of the pandemic, and the duration and size of the impacts of the quarantine measures on the global and domestic economy

Preparation of a liquidity-providing instrument for financial institutions

At the moment, the CNB does not see a need to intervene immediately in financial markets by providing liquidity to financial institutions.

Nonetheless, following an amendment of the Act on the CNB, it is for preventive reasons **preparing a liquidity-providing instrument for some non-bank entities.**

Non-bank entities licensed by the CNB will newly be able to obtain liquid funds in the form of short-term loans from the CNB.

Such **short-term loans** will be **secured** on the part of these financial institutions **by the same securities that are used as standard collateral by credit institutions in liquidity-providing CNB repo operations**, i.e. above all Czech government bonds.

Broadening the range of eligible collateral used in existing liquidity-providing operations for credit institutions

In addition, for **credit institutions** (banks, foreign bank branches and credit unions), the CNB is working on **broadening the range of eligible collateral used in existing liquidity-providing operations to include mortgage bonds.**

Liquidity-providing operations with three-month maturity will also be introduced for credit institutions.

The **specific parameters of these operations will be published** on the CNB website **in the coming days.**

The Bank Board expects these operations to be **announced regularly from 18 May 2020.**

The CNB views these new instruments as additions to the range of monetary policy and macroprudential measures that will enable Czech financial institutions and, in turn, the entire Czech economy to better deal with the current situation.

Thank you for your attention

More information about the forecast can be found at <https://www.cnb.cz/en/monetary-policy/forecast/> and in Inflation Report II/2020. The summary of the Report (together with boxes and the table of key macroeconomic indicators) will be published on 11 May 2020. The whole Report will be published on 15 May 2020.

