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Monetary policy of the Czech National Bank in response to the Covid-19 pandemic

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OMFIF Virtual panel “Monetary Policy of Central and Eastern Europe: Covid-19 pandemic response”

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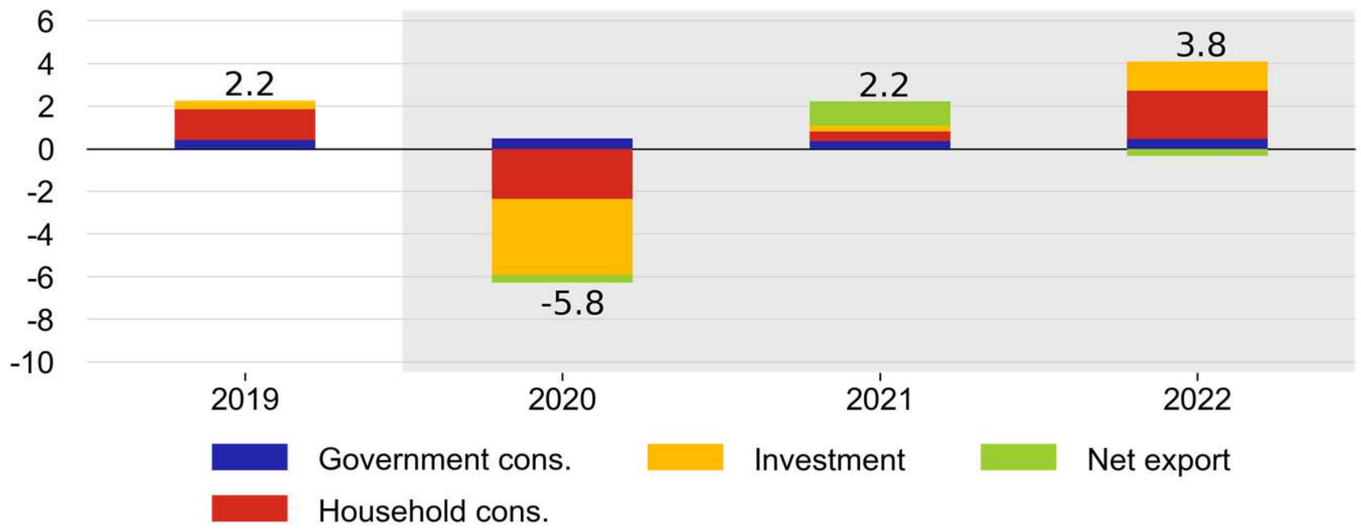
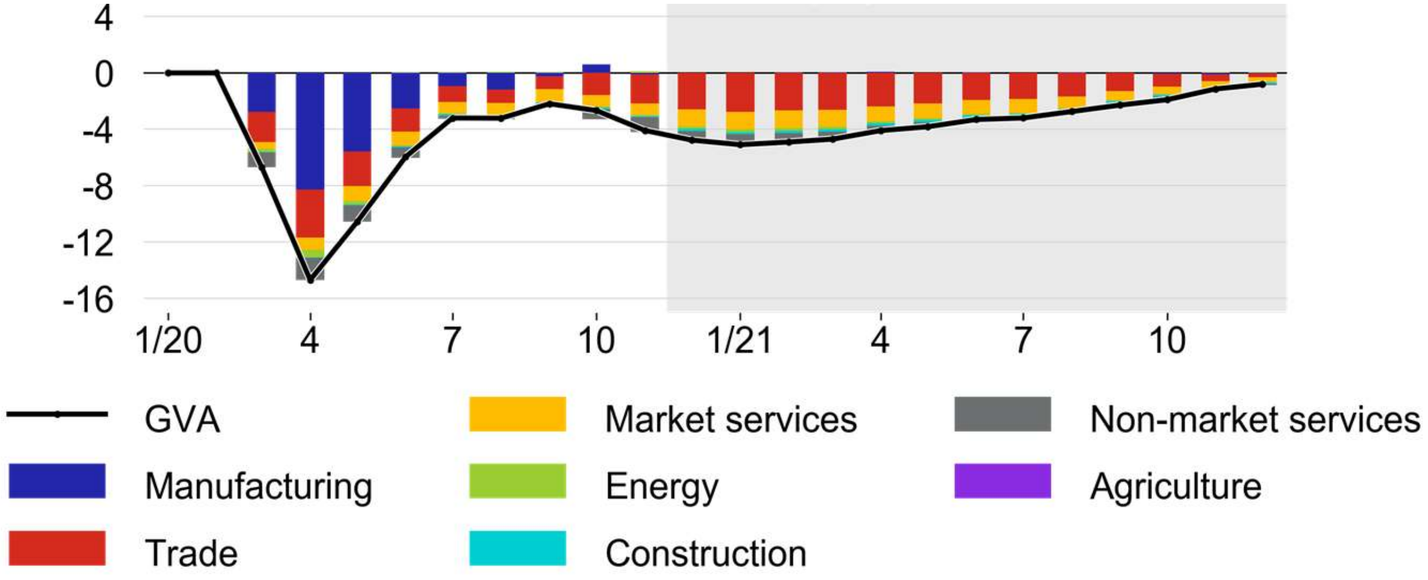
GDP growth
(y/y in %, contributions in percentage points)



- The Czech economy was hit hard by the Covid-19 pandemic and related containment measures
- The economy will grow by more than 2% overall this year and pick up further next year
- GDP growth will be driven in the near future by net exports. Household consumption will become the main driver in 2022

Impact of pandemic on gross value added
(changes in level in %; impacts in pp; Feb. 2020=100)



- Anti-epidemic measures will have negative impacts on gross value added until the end of this year (mainly through trade and services; domestic industry remains resilient)

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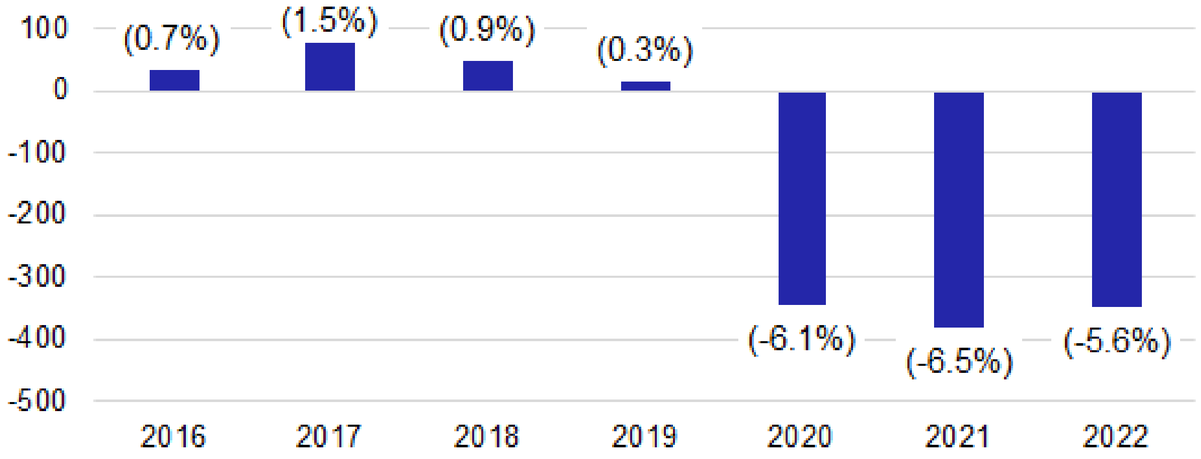
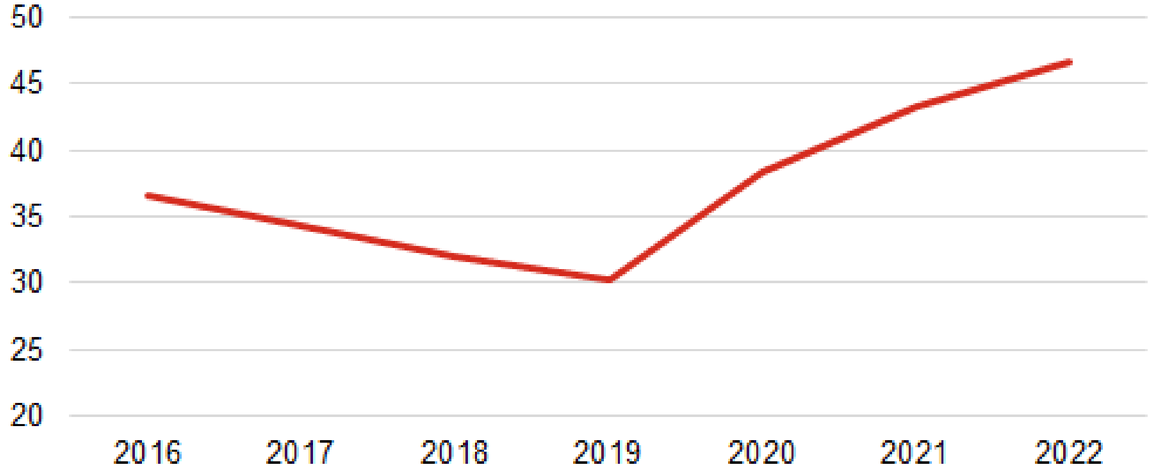
Government budget balance (CZK bn; % of GDP in par.)

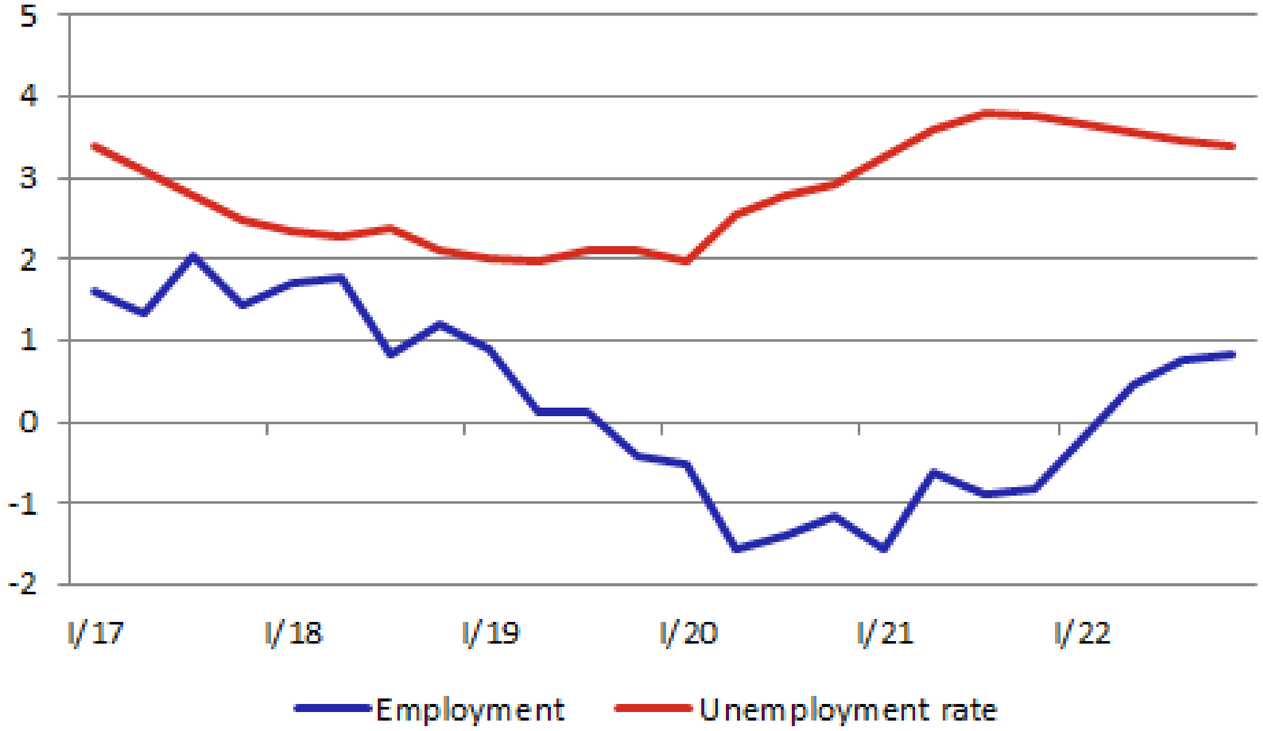


Government debt (% of GDP)



- The government sector will remain in a large deficit this year and the next due to the pandemic and fiscal stabilisation measures
- Public debt will rise substantially from 30% of nominal GDP in 2019 to 47% in 2022

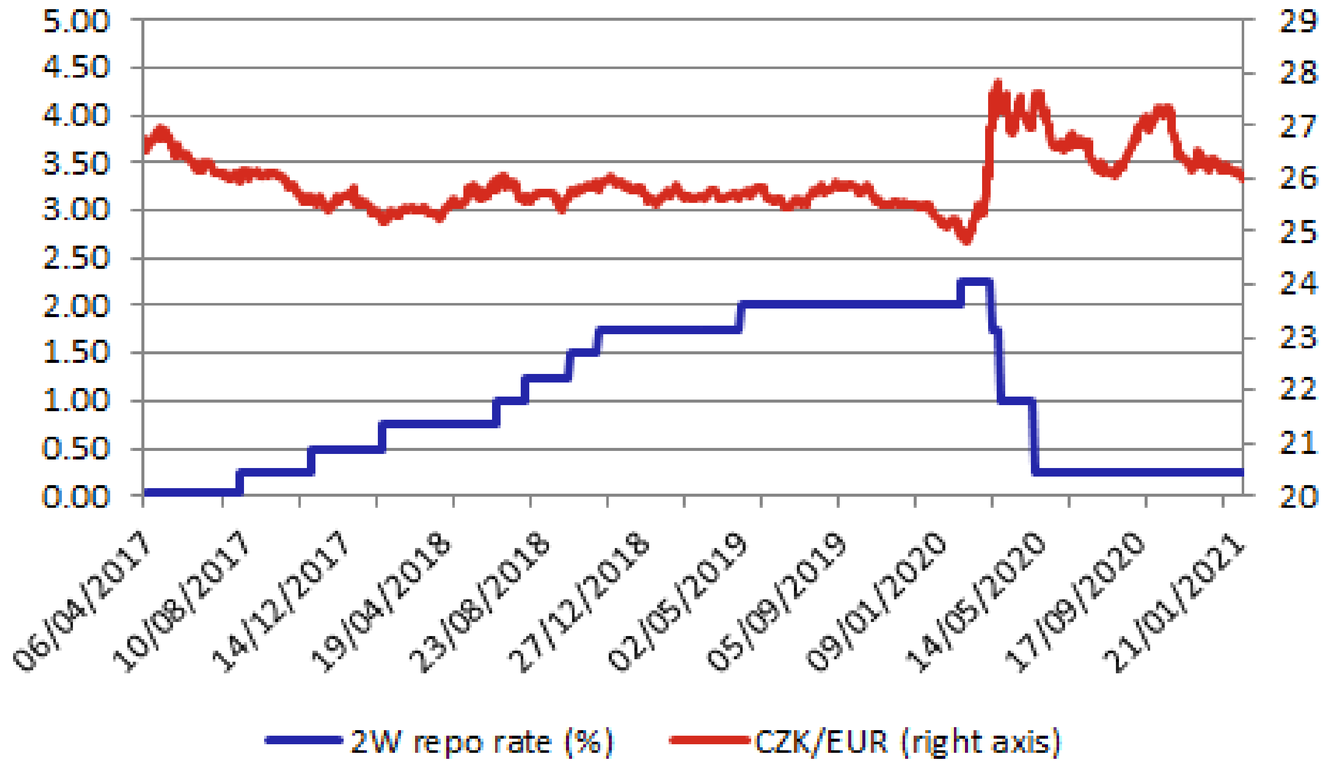
Labour market forecast
(annual percentage changes in employment; general unemployment rate in percentages; seasonally adjusted)



- Although employment has so far been protected by government support programmes, it will decline further in 2021
- The unemployment rate will further increase to almost 4% in the second half of 2021

Monetary policy reaction to the Covid-19 pandemic

Monetary policy interest rate and the exchange rate



- The CNB lowered interest rates by 50 bp in March and a further 75 bp in May 2020 to a current 2W repo rate level of 0.25%
- Monetary conditions were also eased by depreciation of the Czech koruna

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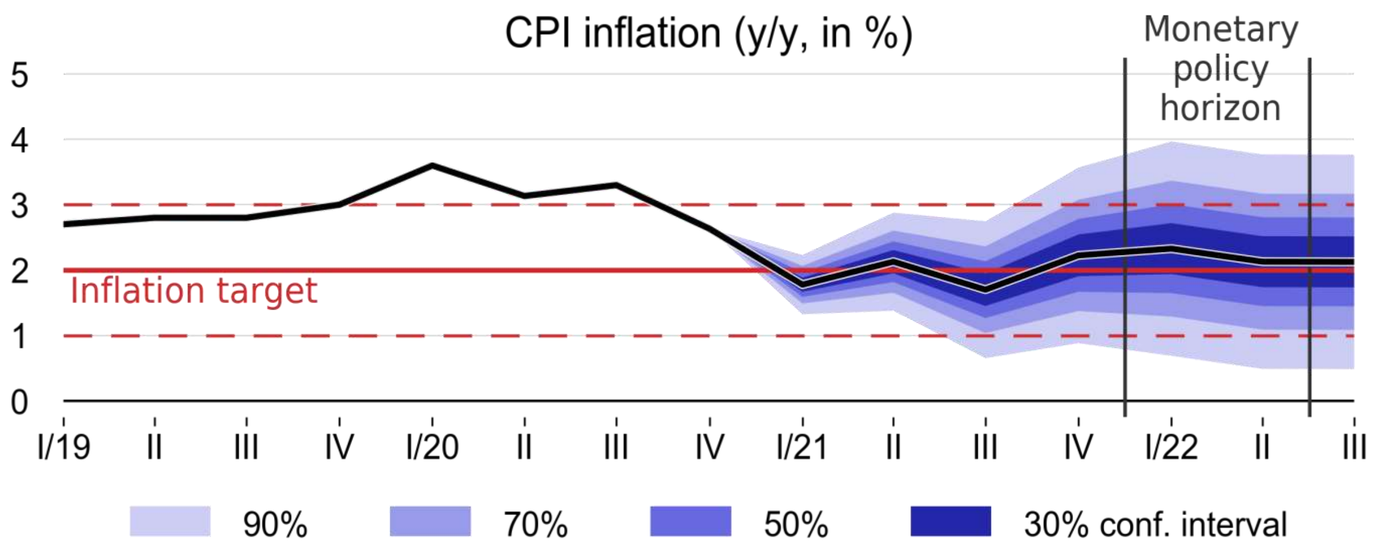
Other CNB measures in response to the Covid-19 pandemic

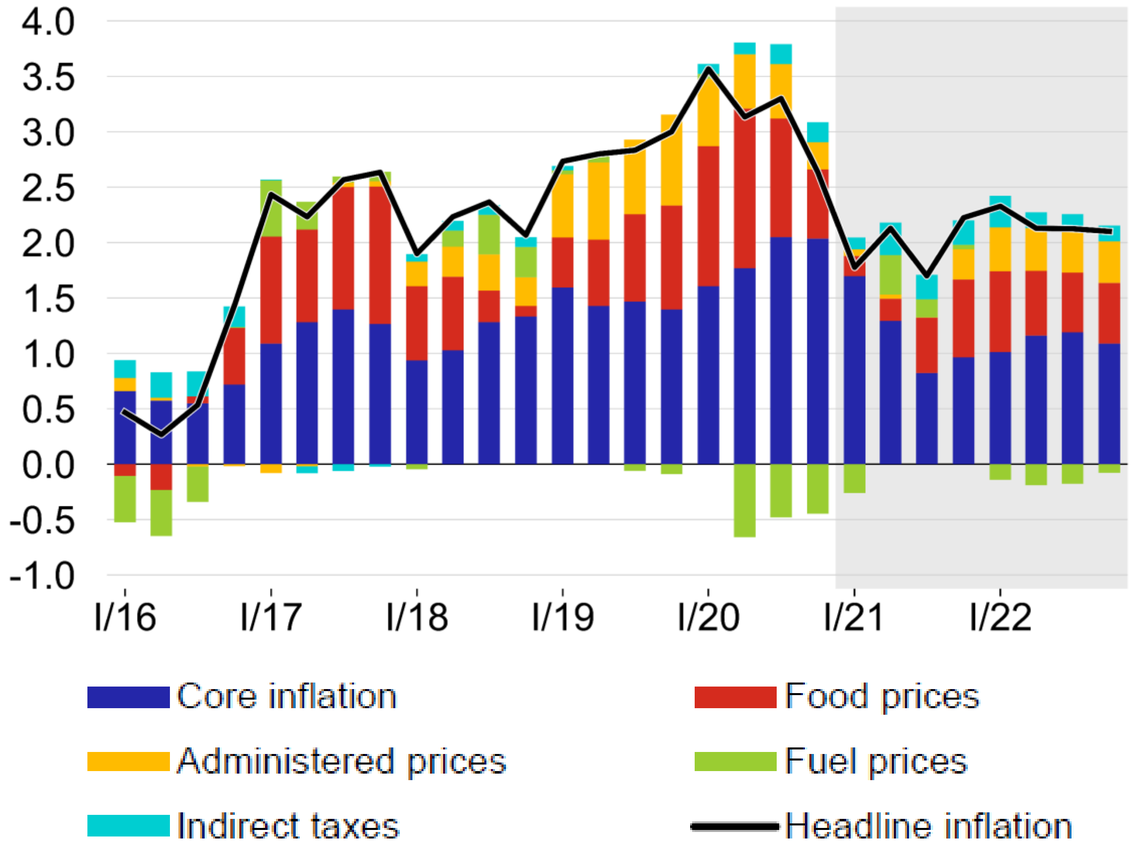
- The rules for providing liquidity were broadened
- The CNB gradually lowered the countercyclical capital buffer to 0.5% with effect from 1 July 2020
- The mortgage lending rules were relaxed (LTV increased to 90% on 1 April 2020; DTI abolished on 1 April and DSTI on 8 July 2020)
- The CNB called on banks, insurance companies and pension management companies to refrain from making dividend payouts
- The CNB in cooperation with the Ministry of Finance initiated a loan moratorium law (May–October 2020)

Headline inflation forecast



- Inflation has been surprisingly persistent since the economy was hit by the Covid-19 pandemic
- It will fall further close to the 2% target in the first quarter of this year and fluctuate around the target for the rest of this year

Structure of inflation and the inflation forecast
(annual percentage changes; contributions in pp)



- Core inflation will be the main component of headline inflation
- The dip in the contribution of food price inflation will be temporary

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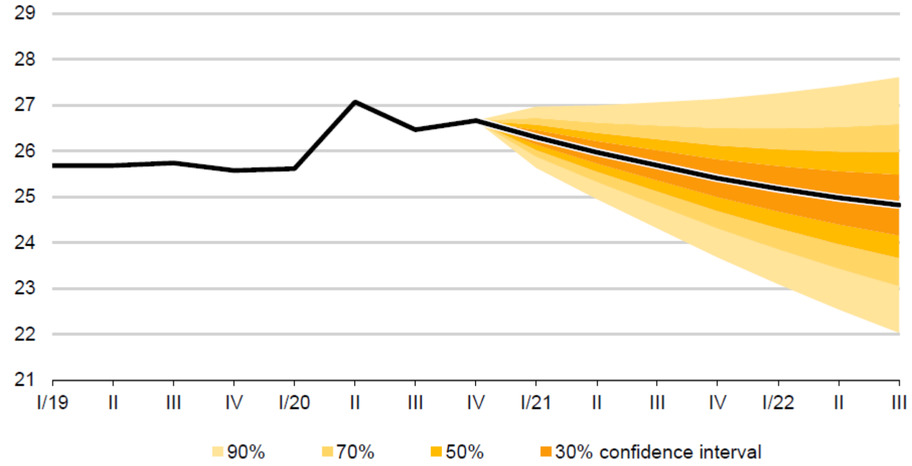
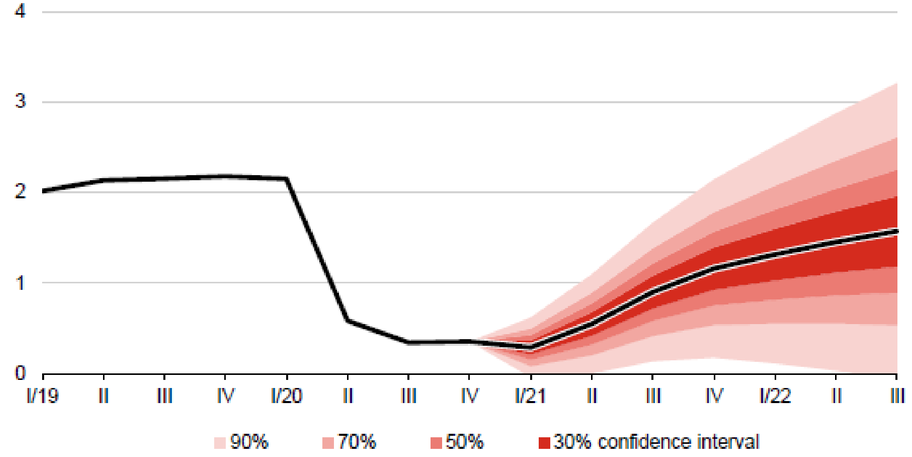
Exchange rate forecast (CZK/EUR)



Interest rate forecast (3M PRIBOR in %)



- The koruna will gradually appreciate, strengthening beyond CZK 25 to the euro by the end of next year
- Consistent with the forecast is stability of market interest rates initially, followed by a gradual rise in rates from roughly the middle of this year onwards

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Risks and uncertainties of the forecast

- At the monetary policy meeting on 4 February 2021, the Bank Board assessed the uncertainties and risks of the forecast as being substantial and tilted to a longer-lasting pandemic than assumed by the forecast
- Longer lockdowns at home and abroad and an ensuing deterioration in the financial situation and sentiment of businesses and households are the main risk to the forecast. This could lead to a lengthier cyclical downturn of the Czech economy and hence to a need to keep monetary conditions accommodative for longer than in the forecast

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Thank you for your attention

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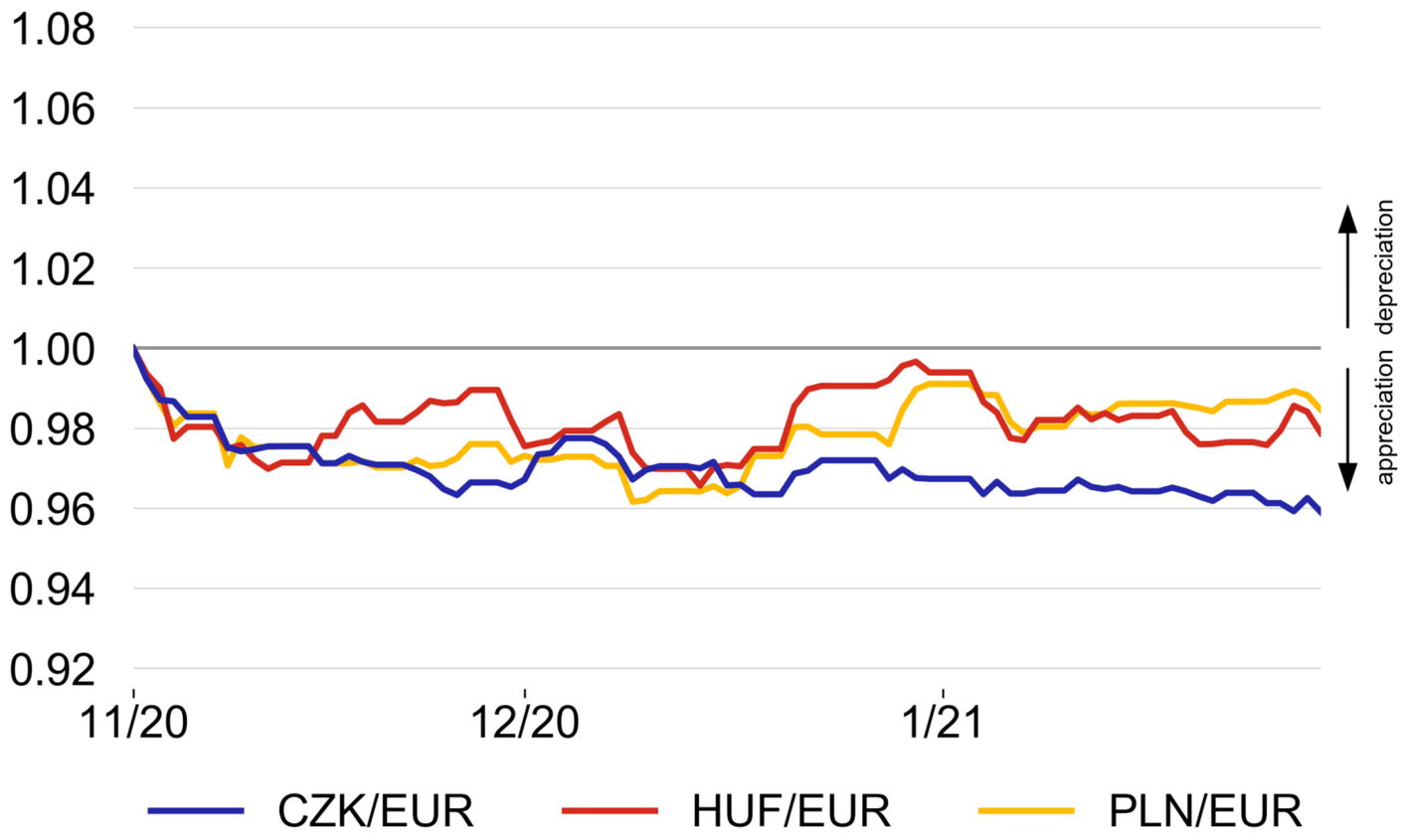
Additional slides

Exchange rates in CEE countries
(1 November 2020 = 1.00)



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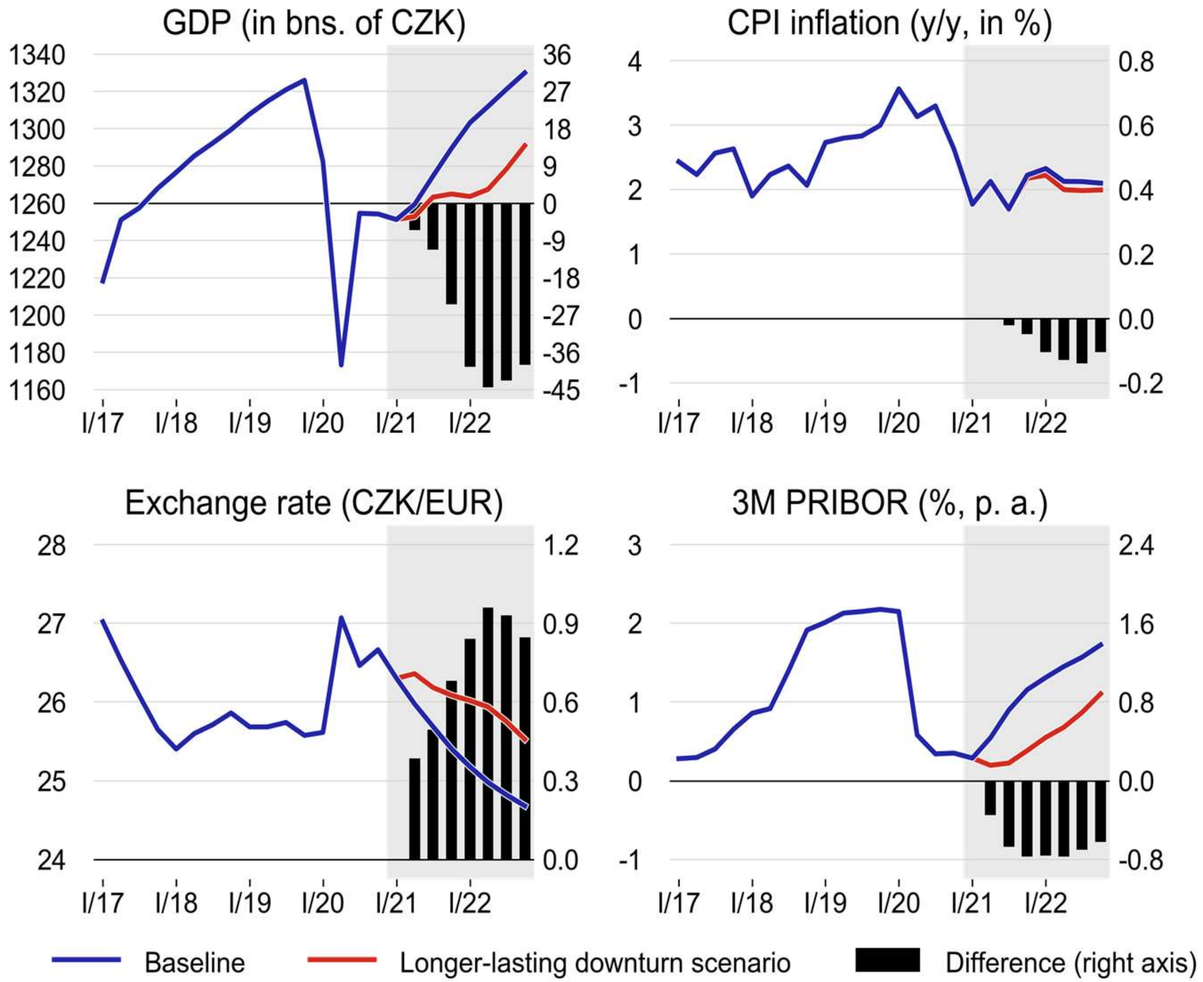
Longer-lasting downturn scenario: Impact on Czech economy



- The slower growth derives from weaker demand
- The lower demand and slower wage growth will foster lower overall inflation pressures. Conversely, core import prices will have an inflationary effect due to a weaker koruna
- The scenario generates a need for lower interest rates relative to the baseline scenario