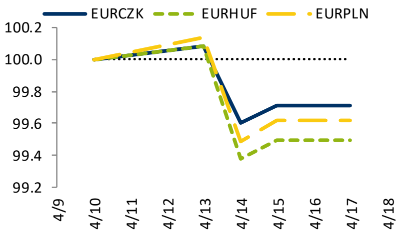
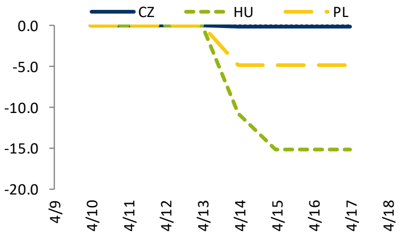
Friday, 17 April 2020

Forex markets (index)



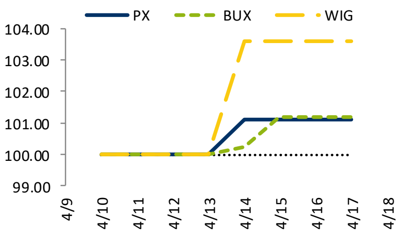
	LAST	PREVIOUS	CHANGE (%)
EURCZK	26.88	26.88	0.00
EURHUF	351.7	351.7	0.00
EURPLN	4.538	4.538	0.00

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.324	1.324	0.0
HUGB 10Y	2.49	2.49	0.0
PLGB 10Y	1.40	1.40	0.0

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	849.4	849.4	0.00
BUX	34165	34165	0.00
WIG	46092	46092	0.00

Regional insights

CNB and NBP have both still room to ease further

Although the figures concerning the coronavirus spreading in the Central and Eastern European region are not as dramatic as in Western Europe, in many cases the responses of the economic policy decision-makers to the pandemic shock were very similar to what we can see in developed countries. Taking into account the known budgetary policy delays, it was the regional central banks that found themselves at the frontline of rescue operations, using virtually their full arsenal of monetary and capital regulatory measures to mitigate as much as possible the impact of the pandemic-induced crisis.

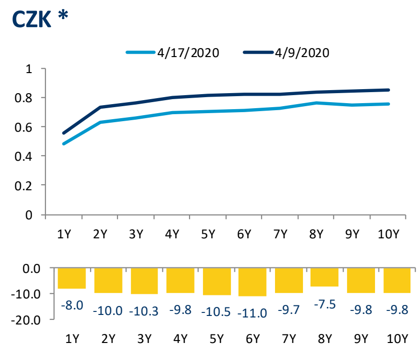
In this respect it is interesting to compare the two regional economies – the Czech Republic and Poland, which have both their own currency with a floating rate and their official interest rates had been visibly positive before the pandemics started. Hence, the first step logically taken was reductions in official interest rates. Here, the best starting position was held by the CNB, which somewhat incomprehensibly increased its interest rates to 2.25% even in February. Therefore, the CNB has decreased its main interest rate by 125 basis points so far. The central bank of Poland (NBP) was in a slightly less advantageous position, but it was still able to decrease their interest rates from 1.50% to 0.50%.

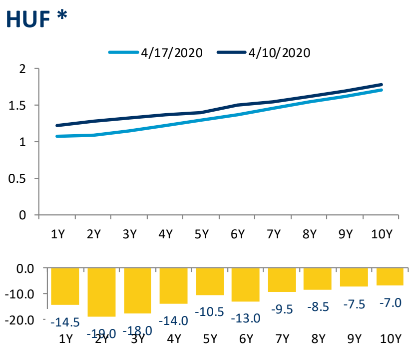
Nevertheless both central banks supplemented their rate cuts by other conventional expansionary measures. The NBP has cut minimum reserve requirements and apart from that it has launched aggressive purchases of Polish government bonds with a clear goal to ensure low financing costs of a huge budget deficit. The latter expansive measure of the NBP, however, triggered even a deeper depreciation of the exchange rate, which has been the unwelcome side-effect.

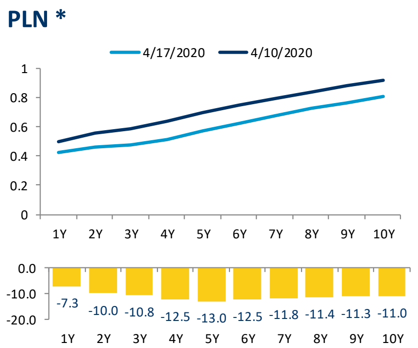
However, the pandemic crisis brought even more non-conventional stimuli. The CNB also makes efforts to help the economy by easing the regulatory-capital requirements for the domestic banking sector. These include not only cuts in counter-cyclical capital buffers, but also bringing some tolerance in assessing of the capital adequacy requirements for commercial banks. In this context, it must be mentioned the Czech central bank will temporarily tolerate that instalments will be postponed for several months (because of the virus), while commercial banks will not need to increase provisions for such loans.

It is apparent from the above presented overview that the Czech and Polish monetary authorities used quite a wide arsenal of easing tools with the aim of keeping domestic economies alive during the pandemic. Whether these stimuli will be further expanded will be naturally decided by the development of the pandemic, which seems to be quite hopeful in particular in Central Europe. Nevertheless, the concerned economies are yet to be fully hit by the hard impact of the recession and so both central banks – the CNB and the NBP still might use the remaining ammunition for further monetary easing. In our opinion, both central banks have room to cut the official interest rates closer towards the zero lower bound, and in case of radical increases in budgetary deficits, massive purchases of domestic government bonds can be launched in a similar manner as we can be seen in the cases of the ECB, Fed or Bank of Japan. The only limiting factor for using aggressive quantitative easing regimes in case of the CNB and NBP could be implied weakening of the koruna or zloty respectively. This could create undesirable side effects in the form of losses for the (FX) over-hedged exporters or domestic entities with loans in foreign currencies.

Interest-rate Swap Curves







* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

Calendar

Country	Date	Time	Indicator		Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y

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