

Czech Republic: Countercyclical capital buffer unchanged

The Czech National Bank was supposed to announce the setting of the countercyclical capital buffer (CCyB) today. However, the announcement was rescheduled to 19 June, so the rate remains at 1% despite being lowered to zero in many other European countries



Source: Shutterstock

The CNB probably decided to cancel today's initial decision due to the fact that the CCyB rate was lowered in March, when it was cut to 1% from 1.75%. Also, the new Financial Stability Report was delayed due to the Covid-19 outbreak and as such, the new date for the CCyB rate decision is planned for June 19. This means that the current level of the CCyB rate in the Czech Republic is acceptable to the CNB for now, despite the fact that many other European regulators have lowered the rate to zero due to the Covid-19 outbreak.

The logic of the CCyB reserve is that it should be increased in good times to enhance the banking sector's capital position and reduced in bad times in order to relax banks' capital requirements and allow smooth lending to the real economy. As such, the purpose of the reserve is that capital regulation does not prevent banks from lending in times of crisis and is not pro-cyclical, as was seen during the global financial crisis.

As the table below shows, a number of countries using the CCyB in recent years have reduced it or reversed planned increases over the last two months as a result of the Covid-19 pandemic. However, a number of countries have reduced the rate directly to zero.

The CCyB rates in the European countries (%)

Country	Announced	Current rate	CCyB before decrease	Applicable
Belgium	27/03/2020	0	0.0 (0.5 since 1/7/2020)	01/04/2020
Bulgaria	19/03/2020	0.5	1.0 (1.5 since 1/1/2021)	01/04/2020
Czech Republic	26/03/2020	1	1.75 (2.0 since 1/7/2020)	01/04/2020
Denmark	12/03/2020	0	1.0 (1.5 a 2 during 2020)	12/03/2020
France	02/04/2020	0	0.5	02/04/2020
Germany	31/03/2020	0	0.0 (0.25 since 1/7/2020)	01/04/2020
Ireland	01/04/2020	0	1.0	01/04/2020
Island	18/03/2020	0	2.0	18/03/2020
Lithuania	31/03/2020	0	1.0	01/04/2020
Norway	13/03/2020	1	2.5	13/03/2020
Slovakia	30/04/2020	1.5	1.5 (2.0 since 1/8/2020)	01/05/2020
Sweden	16/03/2020	0	2.5	16/03/2020
United Kingdom	11/03/2020	0	1.0 (2.0 since 16/12/2020)	11/03/2020

Source: ESRB, ING

Further CCyB reduction is likely in the Czech economy

As such, it is likely that the CNB will further reduce the CCyB in the coming period, also due to the fact that interest rates are close to the zero-lower bound and further support for the economy under standard monetary or macroprudential policy instruments will be in the form of a lower CCyB rate. Non-standard monetary instruments such as negative rates, quantitative easing or the renewal of the FX-floor are not in the pipeline, as has been repeated by a number of CNB officials in recent days. They were probably trying to reduce market fears related to a possible exchange rate commitment after Board member Tomas Holub mentioned this as a theoretical possibility last Monday. However, as we stated earlier, the CNB will likely try to weather the current situation without the use of controversial monetary policy tools. We think these would only be used in the event of strong deflationary pressures and much more negative economic developments than expected in the current CNB baseline, which assumes the Czech economy will contract by 8% this year.

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