

# Central Bank Monitoring ---

## II/2020



Czech National Bank — Central Bank Monitoring — II/2020

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## In this issue

In the past three months, economies of almost all continents suffered an unprecedented negative economic shock caused primarily by the impacts of the global pandemic of the new type of coronavirus and the government measures taken against its spread. This shock will lead to significant drops in GDP, rapid unemployment growth, income and wealth losses and an overall global decline in economic performance this year. In response to this, central banks with room for lowering interest rates have cut them sharply to zero levels. Most central banks have also introduced a number of extraordinary measures to mitigate the negative impacts of the shock, maintain liquidity and support credit flows in economies. Unprecedented uncertainty about the assumptions and economic mechanisms behind forecasts is currently complicating the prediction process in many central banks to a great extent and some banks have thus stopped publishing forecasts in numerical form. In *Spotlight*, we offer a comprehensive overview of the extraordinary measures adopted to support economies across the central banks we monitor. In our *Selected Speech*, Bank of Canada outgoing Governor Stephen S. Poloz describes the teachable moments from the coronavirus crisis.

This publication aims to provide economists and other specialists with information on the latest monetary policy developments, strategies and communications at selected central banks.

Current and past issues can be downloaded free from the Monetary Policy section of the CNB website: <https://www.cnb.cz/en/monetary-policy/monitoring/>, where you can also download a file containing a list of all the thematic articles and speeches.

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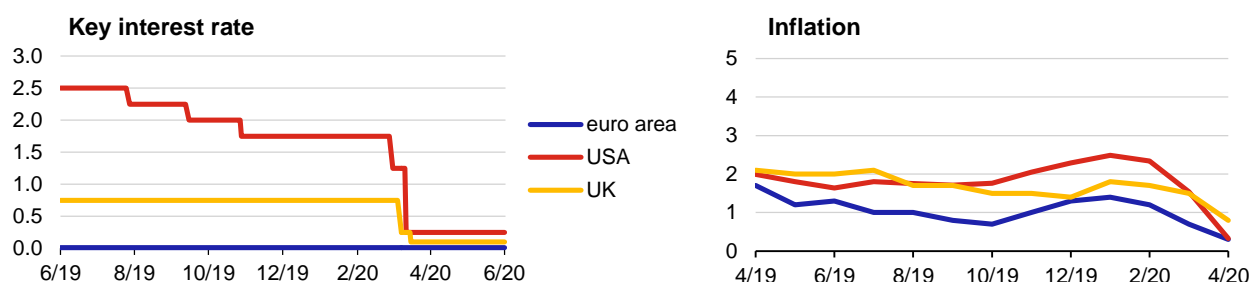
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## I. LATEST MONETARY POLICY DEVELOPMENTS AT SELECTED CENTRAL BANKS

### I.1 KEY CENTRAL BANKS OF THE EURO-ATLANTIC AREA

	<u>Euro area (ECB)</u>	<u>USA (Fed)</u>	<u>United Kingdom (BoE)</u>
<b>Inflation target</b>	<2% <sup>1</sup>	2% <sup>2</sup>	2%
<b>MP meetings (rate changes)</b>	30 Apr (0.0);(0.0) <sup>3</sup> 4 Jun (0.0);(0.0) <sup>3</sup>	15 Mar (-1.00) M <sup>8</sup> 28–29 Apr (0.00)	19 Mar (-0.15) M <sup>8</sup> 26 Mar (0.00) 7 May (0.00)
<b>Current basic rate</b>	0.00%; -0.50% <sup>3</sup>	0–0.25% <sup>4</sup>	0.1%
<b>Latest inflation</b>	0.1% (May 2020) <sup>5</sup>	0.3% (Apr 2020)	0.8% (Apr 2020)
<b>Expected MP meetings</b>	16 Jul 10 Sep	9–10 Jun <sup>6</sup> 28–29 Jul 15–16 Sept	18 Jun 6 Aug 17 Sep:
<b>Other expected events</b>	10 Sep: publication of forecast	mid-July 2020: publication of Monetary Policy Report	6 Aug: publication of Monetary Policy Report
<b>Expected rate movements<sup>7</sup></b>	→	→	→

Note: <sup>1</sup> ECB definition of price stability “below but close to 2%”; <sup>2</sup> January 2012 definition of inflation target; <sup>3</sup> deposit rate; <sup>4</sup> chart shows upper boundary of band; <sup>5</sup> flash estimate; <sup>6</sup> meeting associated with summary of FOMC economic forecasts; <sup>7</sup> direction of expected change in rates in next three months taken from Consensus Forecast; <sup>8</sup> extraordinary meetings.



The **ECB** left rates flat and will keep them at their present (or lower) levels until the inflation outlook is sufficiently close to, but below, 2%. It also adopted a set of measures to add monetary policy stimulus in response to the economic impacts of the pandemic. The ECB is conducting longer-term refinancing operations (LTROs) and introduced new pandemic emergency longer-term refinancing operations (PELTROs) at a -0.25% rate to provide liquidity support to the euro area financial system. It eased the terms for the TLTROs-III (50 bp below the deposit rate, i.e. -1%) and launched an emergency asset purchase programme (PEPP) at an amount of EUR 750 billion, which it raised to EUR 1,350 billion in June; net purchases will be extended to at least end-June 2021. Net asset purchases (APP) will also continue at the current pace, Real GDP fell by 3.8% in Q1. The ECB expects a GDP drop of 8.7% this year and a rise of 5.2% and 3.3% in 2021 and 2022 respectively. It predicts inflation of 0.3% in 2020, 0.8% in 2021 and 1.3% in 2022.

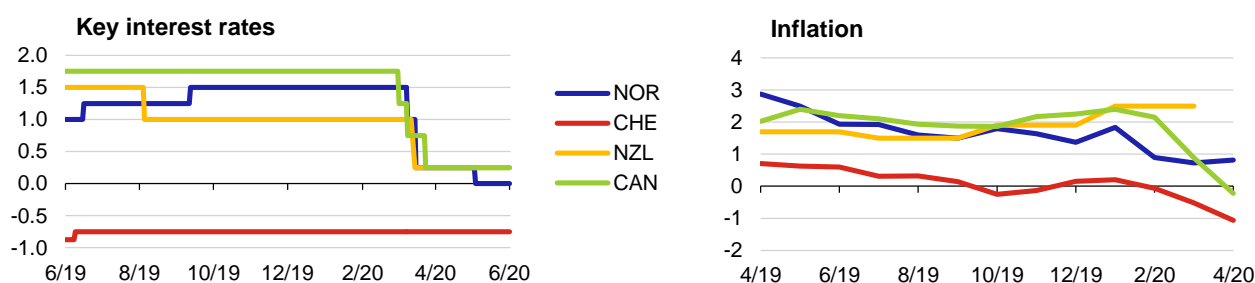
At an extraordinary meeting on 15 March, the **Fed** lowered the target range for its benchmark federal funds rate by 1 pp to 0–0.25% and raised bond purchases by USD 700 billion above the initial amount; it later cancelled the limit. At the same time, it renewed the programme of short-term commercial paper purchases and presented a set of facilities to support the financial market and lending to SMEs and municipalities. All programmes aim to ease financial conditions, provide liquidity to specific segments and help to fund the economy. The Fed confirmed its commitment to use a full range of tools to fight the economic impacts of the coronavirus. The FOMC expects to maintain the target range at its current level until it is confident that the economy is on track to achieve its maximum employment and price stability goals. The minutes of the April meeting indicated a very pessimistic FOMC outlook over the medium term. Several members mentioned the idea of capping government bond yields.

The **BoE** cut its key rate by 0.15 pp to 0.1% at a special meeting on 19 March. It introduced a term funding scheme for small and medium-sized enterprises (TFSME), under which SMEs may borrow for up to four years from commercial banks at interest rates close to the key rate over the next year. It also decided to increase purchases of government and corporate bonds under the APF programme by GBP 200 billion to GBP 645 billion and launched a new three-month liquidity-providing repo facility (Contingent Term Repo Facility). GDP fell by 2% quarter on quarter in 2020 Q1. In Q2, the BoE expects a sizeable decline in GDP of around 25%. At the same time, it expects the unemployment rate to rise from 4.6% in Q1 to 9% in Q2.

## I.2 SELECTED INFLATION-TARGETING NON-EU COUNTRIES

	<b>Norway (NB)</b>	<b>Switzerland (SNB)</b>	<b>New Zealand (RBNZ)</b>	<b>Canada (BoC)</b>
<b>Inflation target</b>	2%	0–2%	2%	2%
<b>MP meetings (rate changes)</b>	12 Mar (-0.50) M <sup>2</sup> 19 Mar (-0.75) 7 May (-0.25)	19 Mar (0.00)	16 Mar (-0.75) M <sup>2</sup> 13 May (0.00)	13 Mar (-0.50) M <sup>2</sup> 27 Mar (-0.50) M <sup>2</sup> 15 Apr (0.00) 3 Jun (0.00)
<b>Current basic rate</b>	0%	-0.75%	0.25%	0.25%
<b>Latest inflation</b>	0.8% (Apr 2020)	-1.1% (Apr 2020)	2.5% (2020 Q1)	-0.2% (Apr 2020)
<b>Expected MP meetings</b>	18 Jun	18 Jun	24 Jun 12 Aug	15 Jul 9 Sep:
<b>Other expected events</b>	18 Jun: publication of Monetary Policy Report	18 Jun: publication of Quarterly Bulletin	12 Aug: publication of Monetary Policy Statement	15 Jul: publication of Monetary Policy Report
<b>Expected rate movements<sup>2</sup></b>	→	→	→	→

Note: <sup>1</sup> direction of expected change in rates in next three months taken from Consensus Forecast survey or, in the case of New Zealand, from RBNZ survey; <sup>2</sup> extraordinary meetings.



The **NB** reduced its policy rate sharply to zero and expects to keep it at this level for some time ahead; it does not envisage further cuts to make the rate negative. The NB offers NOK and USD F-loans with a maturity from one week to one year at unlimited amounts to banks to provide them with additional liquidity; it will offer NOK loans until the end of August 2020. The NB also cut the countercyclical capital buffer rate from 2.5% to 1% in March to maintain creditworthiness of the financial sector.

The **SNB** kept its base rate at -0.75%. It raised the negative interest exemption threshold and set up the new SNB COVID-19 refinancing facility to provide the banking system with sufficient liquidity; it extended the collateral for this facility in May. In March, the SNB decided to reduce the countercyclical capital buffer to 0% with immediate effect. GDP grew by 0.9% in 2019. The March SNB forecast expects inflation of 0.3% for 2021 and 0.7% for 2022. The SNB's GDP outlook for this year is negative. A new full forecast is to be published on 18 June. Quarter-on-quarter GDP fell by 2.6% in Q1, which is the largest contraction since 1980.

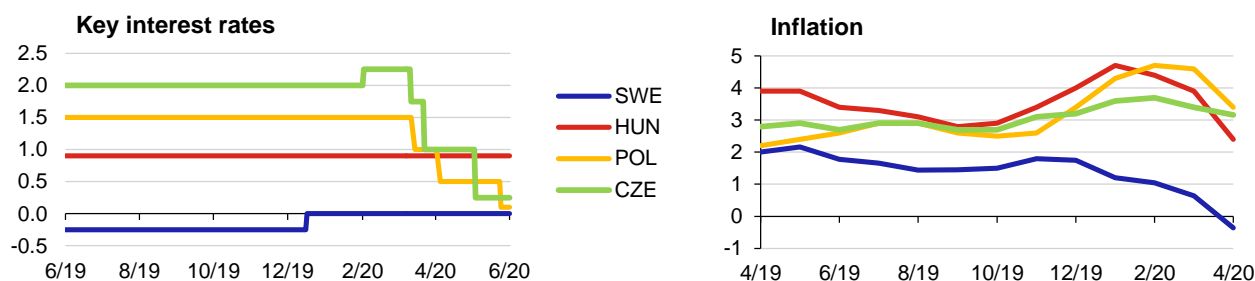
In March, the **RBNZ** cut its key rate by 0.75 pp to 0.25% and announced that it would keep the rate at this level for at least a year. It also introduced further extraordinary measures. In March, the RBNZ reintroduced the TAF facility offering secured loans for a term of up to one year to banks. It also established a new long-term TLF facility offering loans for a term of up to three years to support the government's scheme to fund small businesses. The RBNZ launched new secured weekly operations to provide liquidity to the corporate sector. In May, it further extended the programme of government and local government bond purchases. The RBNZ's forecast works with three scenarios according to the duration of a freeze of the economy and the speed of its recovery ([available here](#)).

The **BoC** lowered its key rate twice by 0.5 pp to 0.25%. Like the other central banks, it introduced further support measures, extended the government bond purchase programme and launched purchases of short-term securities as well as corporate bonds. It also extended term repo operations and broadened the range of eligible collateral. In addition, it is providing long-term and additional liquidity (under the CTRF and SLTF programmes). As short-term funding conditions improved, the BoC reduced the frequency of its term repo operations. The Canadian GDP fell by 0.9% year on year and 2.1% quarter on quarter in Q1. The BoC expects the economy to decline by 10–20% quarter on quarter in Q2 (down from 15–30% expected in March).

## I.3 SELECTED CENTRAL BANKS OF INFLATION-TARGETING EU COUNTRIES

	<b>Sweden (Riksbank)</b>	<b>Hungary (MNB)</b>	<b>Poland (NBP)</b>	<b>CNB</b>
<b>Inflation target</b>	2% <sup>1</sup>	3%	2.5%	2%
<b>MP meetings (rate changes)</b>	18 Mar (0,00) M <sup>5</sup> 27 Apr (0.00)	24 Mar (0.00) 28 Apr (0.00) 26 May (0.00)	17 Mar (-0,50) M <sup>5</sup> 8 Apr (-0.5) 6 May (0.00) 28 May (-0,40) M <sup>5</sup>	16 Mar (-0,50) M <sup>5</sup> 26 Mar (-0.75) 7 May (-0.75)
<b>Current basic rate</b>	0%; -0,1% <sup>2</sup>	0.9%; -0,05% <sup>2</sup>	0.10%	0.25%
<b>Latest inflation</b>	-0.4% (Apr 2020)	2.4% (Apr 2020)	3.4% (Apr 2020)	3.2% (Apr 2020)
<b>Expected MP meetings</b>	30 Jun	23 Jun 21 Jul 25 Aug	16 Jun 8 Jul 18 Aug	24 Jun 6 Aug <sup>3</sup>
<b>Other expected events</b>	1 Jul: publication of Monetary Policy Report	25 Jun: publication of Inflation Report	mid-Jun: publication of Inflation Report	7 Aug: publication of Inflation Report
<b>Expected rate movements<sup>4</sup></b>	→	→	→	→

Note: <sup>1</sup> CPIF – consumer price index including fixed interest rate; <sup>2</sup> deposit rate; <sup>3</sup> publication of new forecast; <sup>4</sup> direction of expected change in rates in next three months taken from Consensus Forecast survey; <sup>5</sup> extraordinary meetings.



The **Riksbank** left the key rate unchanged at 0% and maintained the deposit rate at a slightly negative level of -0.1%, and also introduced several programmes to support the economy. It is buying government, covered and corporate bonds and municipality bonds. In addition, the Riksbank provides banks with easier access to liquidity and firms with easier access to loans through banks: it offered unlimited 3M liquidity-providing repo operations at a 0.2% rate to banks. Banks may borrow the unlimited funds at the 0.2% rate against collateral. At the same time, it cut the O/N lending rate to 0.2%. The April forecast works with two scenarios, which differ in the course of the pandemic and the duration of quarantine measures. The CPIF inflation outlook for this year is 0.6% for both scenarios and that for next year is 1.5% and 1.3% respectively. The GDP growth outlook for 2020 is -6.9% and -9.7% and that for 2021 is 4.6% and 1.7% respectively.

The **MNB** kept its base rate at 0.9% and its deposit rate at -0.05%. It introduced a wide range of unconventional measures to ease financial conditions and support economic agents' liquidity. Under the Funding for Growth scheme, it established the FGS Go! programme for further credit support to SMEs, introduced long-term collateralised lending facilities at fixed interest rates, abolished the minimum reserve requirement for banks, enabled open-ended investment funds to use the central bank's credit facility and is buying government and mortgage bonds. The Hungarian economy maintained year-on-year growth of 2.2% in Q1. The MNB expects inflation to be anchored close to the 3% target.

The **NBP** cut its key rate three times to 0.1%. At its March meeting, the NBP decided to start buying government securities and government-guaranteed debt securities, introduce liquidity-providing repo operations and launch a programme to refinance loans granted to firms. The NBP held an extraordinary meeting in May. The planned June meeting, at which a new forecast will be available, will be held two weeks later, i.e. after the closing date of this issue. The Polish GDP grew by 2% year on year in Q1. Nevertheless, the NBP cut rates at the extraordinary meeting due to a markedly worse outlook and a sharp decline in economic performance signalled by leading indicators.

The **CNB** cut its key rate three times, by 2 pp in total, to 0.25%. It preventively increased the frequency of liquidity-providing repo operations (to three times a week), broadened the range of accepted collateral to include mortgage bonds and added non-bank financial institutions to counterparties. It also lowered the countercyclical capital buffer rate from 1.75% to 1%, eased the recommended LTV limit from 80% to 90%, relaxed the DSTI from 45% to 50% and cancelled the DTI limit. Real GDP dropped by 2% year on year in 2020 Q1. For 2020 as a whole, the CNB expects GDP to fall by 8%. It predicts inflation to decline rapidly into the tolerance band this year and return close to the target in 2021.

## II. NEWS OVER THE LAST THREE MONTHS

*Given the number of measures that central banks have put in place in recent months to defend against the effects of the coronavirus pandemic, in this issue we provide a detailed list of them in Spotlight and not in this section.*

### **ECB extends review of its monetary policy strategy**

The ECB decided to [postpone](#) events under its monetary policy review by six months due to the coronavirus pandemic. The conclusion of the strategy review will therefore be postponed from the end of 2020 to mid-2021.

### **Germany's Federal Constitutional Court rules against ECB's asset-purchase programme**

Germany's Federal Constitutional Court issued a [ruling](#) in which it declared the ECB's Public Sector Purchase Programme (PSPP) to be a violation of the proportionality principle and a possible overstepping of the ECB's mandate. The court believes that the ECB has approached or already crossed the line of extending prohibited monetary financing to member state governments and therefore does not agree with the ruling of the European Court of Justice of December 2018 that found the PSPP to be in compliance with the ECB's mandate. As a consequence of the ruling, the ECB has three months to demonstrate that the PSPP is "necessary" to achieve the inflation target. The Bundesbank may not participate in the PSPP during this period. The ECB reacted by issuing a [press release](#) indicating that the Governing Council had taken note of the judgement and remained fully committed to doing everything necessary within its mandate to meet the ECB's statutory objective of maintaining price stability.

### **Riksbank warns that some proposed changes to law undermine its independence**

The [General Council](#) and [Executive Board](#) of the Riksbank commented on the changes in the new Sveriges Riksbank Act that were proposed by the Riksbank Committee of the Riksdag (the Swedish Parliament) at the end of 2019 (see the [December CBM](#)). They agree with most of the proposed changes but are concerned that they will undermine the Riksbank's independence and hinder its response to crises. The ECB also [commented](#) critically on some items of the proposal.

### **Riksbank postpones publishing new reference rate**

As a result of the coronavirus pandemic, the Riksbank [postponed](#) the test period and final publication of the reference rate it announced in September 2019 (see the [December CBM](#)).

### **Tiff Macklem appointed Governor of the Bank of Canada**

Former Senior Deputy Governor at the Bank of Canada, Tiff Macklem, was [appointed](#) to the helm of the BoC for a seven-year term, effective 3 June. He will succeed Stephen Poloz, whose mandate as governor ends on 2 June 2020.

### **Amendment to Act on CNB expands central bank's options for trading on financial market**

The Chamber of Deputies of the Czech Parliament in April [passed](#) a "small" amendment to the Act on the Czech National Bank that enables the CNB to trade on the financial market without limitations in terms of possible instruments (including eligible collateral), their maturities and counterparties. The broadening of the CNB's instruments and counterparties was approved only until the end of 2021. The amendment is aimed at enabling the CNB to enter the financial markets where necessary and thus maintain the stability of the domestic financial sector even if some financial institutions were to experience liquidity shortages due to the economic impacts of the coronavirus crisis.

### III. SPOTLIGHT: CENTRAL BANKS' MONETARY POLICY IN RESPONSE TO THE CORONAVIRUS EPIDEMIC

*The global economy currently faces an unprecedented negative economic shock caused by the coronavirus epidemic. The result of this shock is a drop in economic productivity, increased unemployment and a drop in inflation in individual countries. The economic plunge will be deep, but economies are gradually restarting after the initial freeze, and it is necessary for as many long-term viable firms as possible to survive until then. Through their measures central banks strive to mitigate the pandemic's effect on the economy and contribute to its fastest possible recovery following easing of quarantine restrictions. The current Spotlight brings an overview of measures in the area of monetary policy and their classification according to their essential function.*

From the beginning of this year, the global economy has been dealing with a sudden and unusual negative economic shock. In response to the globally spreading and highly contagious SARS-CoV-2 virus, individual countries implemented drastic measures to deal with the pandemic, which included closing borders, partially or completely restricting the movement of populations and, in connection with this, suspending the activities of many companies and economic sectors. Without these drastic government interventions, the pandemic could cause collapse of the individual states' healthcare systems if the number of severe cases of COVID-19 were to exceed the capacity of health facilities.

However, the strict government measures have dealt a heavy blow to individual economies. They virtually froze economic activity in many service sectors, such as tourism, air transport, hotels and restaurants, and interrupted or severely disrupted supply chains in many industries, leaving many companies on the brink of bankruptcy. Unemployment rose sharply.

The governments and central banks of individual countries reacted very promptly to this strong economic shock. Given the nature of the current crisis, which mainly affects businesses and households (unlike the 2008 crisis, which hit the financial sector primarily), the primary task was to provide these groups with sufficient liquidity to bridge this period of decreased (or entirely lacking) earnings and thus enable survival for the maximum number of long-term viable businesses until the economic environment normalised. On financial markets, which are a prerequisite for smooth monetary policy transmission, risk aversion grew and volatility increased.

The fiscal measures of the governments of the individual countries were quick and relatively extensive, including, for example, the introduction of Kurzarbeit, i.e. help with financing wage costs in a situation of decreased productivity to prevent redundancies, and further, providing tax relief and increasing public spending on health care. In many cases, especially with respect to measures to support financing of SMEs and taking over loan guarantees, governments and central banks acted in coordination, with governments, for example, taking over part of the guarantees for loans to companies for which central banks provided commercial banks with funds at advantageous interest rates.

From the beginning, the steps taken by central banks focused namely on easing monetary policy, securing normal functioning of the financial markets and, as mentioned above, preserving business and household access to financing. Besides these monetary-fiscal measures, central banks at the same time also undertook measures in areas of macroprudential policy (i.e. lowering capital reserves) and regulation and supervision (i.e. measures in asset quality and NPLs, banks' capital and liquidity requirements, etc.). This article, meanwhile, deals exclusively with monetary policy measures.

The actual announcement itself of crisis programmes by central banks fundamentally contributed to calming the financial markets. The announcement of measures gave market entities the assurance that if necessary, the central bank will enter the market as a major player. This is why markets often stabilised even before actually taking advantage of rescue measures. The US Fed can provide an example, as of its more than ten programmes enacted in March and April, less than 4% had been used by mid-May, while investors were calmed regardless. It can be said that even verbal intervention is a rescue measure which – in the case of the central bank's sufficient credibility – works.

#### **Monetary policy measures**

Monetary policy measures introduced or adjusted by central banks to address the crisis varied in their specificities and sizes from country to country, depending on the financial system and structure of the given country's economy. However, they can in principle be divided into several groups, namely standard monetary policy measures, measures to reduce financial market volatility and ensure their smooth functioning as a source of liquidity, and measures to ensure the availability of liquidity for companies and households.



Additionally, to address the acute crisis, some central banks even intervened in foreign exchange markets (such as the Norwegian NB) or introduced other measures for the given country (for example, the UK BoE has temporarily expanded the government's "Ways and Means" account to allow direct funding of the British government in the event of its acute inability to satisfy its needs in the financial market).

Other possible measures were discussed at monetary policy meetings of banks or in professional circles, such as the use of some elements of price level targeting or the possibility of a direct "helicopter drop of money", but have not, as yet, been applied.

## **An overview of monetary policy measures of central banks introduced in response to the coronavirus epidemic**

### **1. Standard measures easing monetary policy**

#### **a) Lowering of monetary policy interest rates**

Rates have been reduced by most of the central banks we monitor, with the exception of the ECB, the Swiss SNB and the Hungarian MNB, whose deposit rates have been in negative territory for a long time.

Even **negative interest rates** were discussed in reaction to the coronavirus crisis, but were not introduced (for now). After lowering rates to zero, Norwegian **NB** announced it does not expect their further lowering and its governor [took a stand against](#) the use of negative interest rates; Swedish **Riksbank**, after its experience with negative rates from 2015 to 2019, announced that the rates will remain at zero for an extended period and its governor [declared](#), that lowering of rates is not the best response to the coronavirus crisis. At the beginning of May, the governors of the US **Fed** and **BoE** both rejected the use of negative interest rates. Nevertheless, in late May, the Bank of England [conceded](#) that it is considering their use.

#### **b) Monetary policy signalling (forward guidance)**

Forward guidance (sometimes called monetary policy signalling) is standardly used by central banks in the inflation targeting regime, and its use continues. Nevertheless, discussion is arising regarding possibly giving it greater emphasis, for example at the US **Fed**: according to the minutes from the April meeting of the FOMC, [the possibility](#) of a more explicit specification was discussed, in which the future development of rates would be conditioned by the specific development of economic variables (inflation or unemployment); thus a greater anchoring of market expectations could be ensured.

### **2. Foreign exchange market intervention**

Interventions in the foreign exchange markets have been undertaken by some central banks to prevent excessive volatility in the exchange rate of the domestic currency. An example is the Norwegian **NB**, which announced in mid-March that it was considering intervention due to a record weakening of the NOK, and then bought Norwegian krone in the amount of NOK 3.5 billion during March. The Swiss SNB has announced a strengthening of the interventions needed to ease the pressure to strengthen the Swiss franc. Other banks, such as the Croatian central bank, **CNB**, also intervened.

### **3. Measures to calm the situation on the financial markets and ensure their smooth functioning, necessary for the smooth provision of financing to economic entities and for the effective transmission of monetary policy**

#### **a) Money market measures**

To defend against the freezing of the short-term asset markets, central banks have expressed their willingness to buy financial assets in those markets, which will prevent asset prices from falling and, as a result, ensure free movement of liquidity and sufficient supply for entities operating in these markets. Money markets in some countries are an important source of short-term financing for companies or, for example, municipalities.

Examples are facilities set up by the US **Fed**, such as the Primary Dealer Facility (PDCF), the Commercial Securities Market Facility (CPFF), the Money Market Fund Facility (MMLF) and the Municipal Short-Term Voucher Facility (MLF). Canada's **BoC** has also set up short-term funding facilities to support short-term financing – a new Bankers' Acceptance Purchase Facility (BAPF) to support the corporate acceptance market, key to corporate finance, and has launched the Provincial Money Market Purchase Program (PMMP) to purchase provincial short-term securities and the Commercial Paper Purchase Program (CPPP) to purchase commercial paper.

#### b) Providing sufficient and available liquidity for banks

In the event of increased uncertainty in the financial markets, central banks have set up or expanded existing facilities, providing banks with permanent access to short-term liquidity on favourable terms. Such programmes include the offer of short-term or long-term loans or an expanded offer of repo operations, as well as easing of [collateral requirements](#) for these operations. An example of such programmes are the LTRO and later also the PELTRO from the **ECB**, expansion of discount loans from the US **Fed** (the discount window), the Contingent Term Repo Facility (CTRF) of the **BoE**, an expansion of term repo operations and their collateral and the Standing Term Liquidity Facility (STLF) from the Canadian **BoC**, F-loans from **NB**, the SNB COVID-19 refinancing facility (CRF) from the Swiss **SNB**, restarting of the long-term TAF credit facility (Term Auction Facility) from New Zealand's **RBNZ**, an offer of new long-term secured loans from **MNB** or an offer of liquidity-providing repo operations from the **CNB**.

Many central banks have started offering foreign currency loans to banks to provide available foreign currency liquidity, for example, Norwegian **NB** regularly issues F-loans auctions not only in NOK but also in USD. Most central banks have also strengthened or set up currency swap lines with the US Fed to ensure sufficient dollar liquidity (of the central banks we monitor, these are the ECB, BoE, BoC, SNB, RBNZ, NB and Riksbank). At the end of March, the US Fed set up the FIMA repo facility, which gave foreign central banks further access to dollar liquidity. The ECB also reactivated or set up euro swap lines for the Danish, Croatian and Bulgarian central banks.

#### c) Purchases of government and corporate bonds

To calm the situation on the capital markets and provide sufficient liquidity to banks, most banks entered the bond markets and announced the start of the purchase of government and mostly corporate bonds, or bonds of other entities. At the same time, bond purchases reduced the risk premium and reduced rates along the entire yield curve, which made it easier to finance governments and companies.

The US **Fed**, for example, was one of the banks that expanded or launched a government and corporate bond purchase programme, which increased the government bond and MBS purchase programme by USD 700 billion (and then abolished the quantitative restrictions altogether) and set up corporate bond purchase facilities (PMCCF and SMCCF). The **ECB** increased net asset purchases (APP) by EUR 120 billion and for the purchase of government and corporate bonds launched the PEPP programme (Pandemic Emergency Purchase Programme) in the amount of EUR 750 billion, which it then increased by another EUR 600 billion. The UK BoE has increased its government and corporate bond purchase programme, the Asset Purchase Facility (APF), by GBP 200 billion and set up a corporate bond purchase facility, the Covid Corporate Financing Facility (CCFF), and the Canadian **BoC** has set up programmes for purchases of government (GBPP), mortgage (CMBP), provincial (PBPP) and corporate (CBPP) bonds. New Zealand's **RBNZ** has set up the LSAP and LGFA programmes (for regional governments) to buy government bonds, and Sweden's **Riksbank** has expanded government bond purchases and set up programmes to buy corporate, covered and municipal bonds. The Hungarian **MNB** and Polish **NBP** have also announced the commencement of purchases of government bonds.

By purchasing government bonds, the Australian **RBA** targeted their yield curve control (YCC), specifically targeting the yield on three-year government bonds; the three-year horizon was chosen because the rates for these terms affect most rates in the economy. According to the April minutes, [the possibility of YCC was also discussed](#) by the US **Fed**, where members of FOMC perceived the possibility of future use of purchasing of government bonds to sustain their low yields.

### 4. Measures for the support of financing corporations and households (Funding for lending)

In view of the nature of the current crisis, the provision of sufficient liquidity for companies and households has become one of the core tasks of governments and central banks, which often worked in tandem, and their programmes complemented each other. An example of such cooperation was government financial support provided through commercial banks in programmes that were enabled by the central bank, or partial government guarantees for loans provided through central bank measures. Targeting of support to lending to companies and households was carried out through loan programmes to banks with the condition of further lending, or other incentives, such as low rates, relaxation of the collateral standards or higher interest rates on participating banks' reserves.

Programmes to support lending tailored to the coronavirus crisis include, for example, the **ECB's** enhanced TLTRO III programme, in which the bank cut rates and relaxed collateral, and encouraged banks to lend more

by offering further rate cuts (even by offering loans up to negative rate -1%). The US **Fed** set up a Main Street Lending program of up to USD 600 billion to support SME lending, and further, a PPPLF facility to provide banks with loans secured by new SME loans under the government's Small Business Administration's Paycheck Protection Program (PPP), and set up a TALF facility (Term Asset-Backed Securities Loan Facility), which provides banks with asset-backed securities (ABS) loans in the form of newly-granted small loans. The UK **BoE** has announced a TFSME (Term Funding Scheme) to support lending, which will provide banks with loans at a rate close to the key interest rate with incentives to lend to SMEs to finance the government's loan programme (BBLs). The Swedish **Riksbank** provides loans to banks at a reference rate (i.e. 0%) under the condition of lending to companies operating in Sweden totalling up to SEK 500 billion. The Polish **NBP** set up a Bill Discount Credit programme, through which it will repurchase (discount) bills of exchange that banks will obtain as collateral for loans provided to non-financial corporations, and thus de facto refinance these loans to banks. Under the current Funding for Growth (FGS) scheme, the Hungarian **MNB** decided to launch a new FGS Go! programme, increasing the total amount of funds available to support SMEs by HUF 1 trillion, to a total of HUF 1.5 trillion. New Zealand's **RBNZ** has launched a new long-term TLF (Term Lending Facility) facility, offering loans to support the government's small business lending programme (BFGS).

The table at the end of this article provides an overview of the expanded and newly introduced measures in the central banks we monitor, divided according to the groups indicated above.

### Conclusion

Central banks are aware that their actions will not prevent the economic and price downturn caused by the unprecedented shock, but their efforts aim to mitigate the impact of the pandemic on the economy and to help it recover as soon as quarantine restrictions are lifted. According to them, the measures taken by central banks will only be temporary and will be phased out as soon as the economy returns to normal functioning.

**Table: Overview of monetary policy measures of monitored central banks in response to the coronavirus epidemic**

	rate changes [current level]	Money market measures	Provision of liquidity to banks	Bond purchases	credit support programmes:	Other measures	Central bank information
<b>ECB</b>	→ (12.3.) → (30.4.) [0% repo -0.5% depo]		LTRO* PELTRO Increasing frequency of 7D USD repo	APP* PEPP	TLTRO III*		<a href="#">website:</a>
<b>Fed</b>	↓ 0.5 pp (3.3.) ↓ 1 pp (15.3.) → (28./29.4.) [0-0.25%]	CPFF PDCF MMLF MLF	discount window*	Government and MBS* PMCCF and SMCCF	TALF Main Street Lending PPPLF	USD swap links* FIMA repo	<a href="#">website:</a>
<b>Bank of England</b>	↓ 0.5 pp (10.3.) ↓ 0.15 pp (19.3.) → (26.3.) → (7.5.) [0.1%*]		CTRF	APF* CCFF	TFSME	Ways and Means account*	<a href="#">website:</a>
<b>Norges Bank</b>	↓ 0.5 pp (12.3.) ↓ 0.75 pp (19.3.) ↓ 0.25 pp (7.5.) [0%*]		F-loans (NOK and USD)			FX interventions	<a href="#">website:</a>
<b>SNB</b>	→ (19.3.) [-0.75%]		CRF			Increased banks' balances, to which negative rates are not applied	<a href="#">website:</a>

<b>RBNZ</b>	↓ 0.75 pp (16.3.) → (13.5.) [0.25%]		TAF*	LSAP LGFA	TLF		<a href="#">website</a>
<b>Bank of Canada</b>	↓ 0.5 pp (4.3.) ↓ 0.5 pp (13.3.) ↓ 0.5 pp (27.3.) → (15.4.) [0.25%]	BAPF PMMP CPPP	term repo* STLF	GBPP CMBP PBPP CBPP			<a href="#">website</a>
<b>Riksbank</b>	→ (18.3.), → (27.4.) [0%, -0.1% depo]		3M repo USD loans	government company covered municipalities	Corporate loan program		<a href="#">website:</a>
<b>MNB</b>	→ (24.3.) → (7.4.), → (28.4.) → (26.5.) [0.9% -0.05% depo]		long-term secured loans	government mortgage BFGS*	FGS* FGS Go!		<a href="#">website</a>
<b>NBP</b>	↓ 0.5 pp (17.3.) ↓ 0.5 pp (8.4.) ↓ 0.4 pp (28.5.) [0.1%]		repo	government	Bill Discount Credit		<a href="#">website</a>
<b>CNB</b>	↓ 0.5 pp (16.3.) ↓ 0.75 pp (26.3.) ↓ 0.75 pp (7.5.) [0.25%]		liquidity- providing repo*				<a href="#">website</a>

Note: \*Already existing programs, whose terms were modified during the coronavirus crisis.

Source: Central bank websites.

## IV. SELECTED SPEECH: Stephen S. Poloz: Teachable moments from the pandemic

*The events surrounding the current coronavirus crisis were described from the point of view of the Bank of Canada (BoC) by its outgoing governor Stephen S. Poloz in a [speech](#) at the Ivey Business School in Ontario at the end of April. He also added lessons he takes from the crisis as a central banker and a manager.*

According to Poloz, Canada entered the COVID-19 episode with a healthy economy. Just as a fit individual is more likely to shake off COVID-19, so is the Canadian economy. However, it is important to understand that when there are global shocks Canada always gets hits twice – once by the shock itself, and a second time by the associated decline in commodity prices. This was evident at the beginning of this year, when the fall in oil prices necessitated some easing of monetary policy at a time when the virus was mostly elsewhere. Only then came a few busy weeks, during which the BoC, in response to the incoming shocks, cut monetary policy rates further to 0.25% (which it considers to be the effective lower bound) and enhanced its liquidity facilities in multiple ways. The aim of these measures was to ensure well-functioning financial markets, which are a necessary condition for successful monetary policy. The rate cuts will not stimulate economic growth immediately, but will lay the foundation for the subsequent recovery.

Due to the circumstances, the BoC made a controversial decision not to offer precise numerical forecasts in its April Monetary Policy Report, as it felt this would amount to false precision. The BoC's bankers did not want to play the game of who would forecast the biggest decline in economic activity. According to Poloz, it is unhelpful to compare the current decline with past recessions, as these are events with very different impacts. A recession and depression are dynamic phenomena: demand declines, firms lay off workers, and confidence drops. In other words, it is a negative dynamic that takes time to reverse. However, Poloz sees no reason to assume that such a dynamic will emerge now. At the core of the policy response to the current shocks is a historic expansion of fiscal support, which should put a floor under the economy as well as confidence. These measures are designed to be elastic – to expand or contract depending on the scale of the shock (which makes it even harder to make a point forecast for economic activity) – and they help maintain the connection between employees and their employers. That will make for a rapid rebound in activity once containment measures are removed. This is in direct contrast to the Great Depression, when policy-makers failed to respond and even worsened the situation by enacting protectionist policies. The current situation thus resembles a natural disaster rather than an economic recession. Economic recoveries from natural disasters are usually quite rapid and robust.

Instead of offering new forecasts, the BoC's staff worked through multiple scenarios illustrating the interrelationships and then developed two contrasting scenarios. Subsequent developments showed that containment measures had worked, people were returning to work and the best-case scenario was within reach. However, the recovery phase requires a significant contribution from monetary policy. For it to be effective, the functioning of the financial market had to be improved. Another issue was that the fiscal policies so essential now would put significant demands on government bond markets, posing a risk of strained market conditions. The BoC therefore accompanied the cut of monetary policy rates to the lower bound with a programme of large-scale asset purchases. Some liken these operations to “printing money”, causing inflation down the road. According to Poloz, the economy is not functioning normally now, so these actions are stabilising, not inflationary. Moreover, in contrast to printing money, this process is not expanding the bank's balance sheet permanently. The BoC is well aware that the balance of deflationary and inflationary forces must not be misjudged during the recovery, as the economy could pick up too much steam and inflation could rise. But at present, the BoC sees the risk of disinflation as more immediate. In the context of the unknowable scope of downside risk for the economy and inflation, Poloz coined the phrase, “no one has ever criticised a firefighter for using too much water”. Throughout, inflation targeting, which anchors expectations and states that the central bank is working to stabilise the economy, remains the anchor to the BoC's activities. At the same time, the BoC's bankers have not forgotten about financial vulnerabilities, but they will put more weight on them once they are confident that the bank's primary objective will be met.

In conclusion, Poloz summarised the lessons for central banking he takes from this teachable moment:

1. Use scenarios, but focus on the narrative they represent. Avoid numbers when uncertainty is extreme, as they can generate a cloud of possibilities that many will struggle to understand.
2. Make sure everyone understands your goals. Everything you do needs to have an explicit purpose and be part of a coherent framework.
3. Crisis conditions argue for vigorous, even outsized, responses because maintaining confidence is critical to the recovery; gradualism is unlikely to succeed.
4. Coordinated policy actions are more powerful than stand-alone ones. Coordination may be domestic, or international.

On the management front, Poloz mentioned in particular the importance of diversity of past experience, work-team resilience, investing in technology and staying in touch with staff, as even the ordinary things must still happen.

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