

FINANCE & BANKING with regard to the current COVID-19 crisis

Measures adopted by the Czech National Bank

Monetary policy

The Czech National Bank (“CNB”) cut all key interest rates in two steps. It first lowered them by 0.5 percentage points on 16 March 2020 and then by another 0.75 percentage points on 26 March 2020. **The two-week repo rate decreased to 1.00%, the Lombard rate to 2.00% and the discount rate to 0.05%.**

The CNB is ready to cut interest rates further and adopt measures to address any liquidity problems in the Czech financial system if the economic situation requires it.

The CNB also **stands ready to react to any excessive fluctuations of the exchange rate of the koruna** (the Czech crown) using its instruments, in line with the managed float exchange rate regime.

Measures for banks and other financial institutions

The CNB expects the coronavirus epidemic to cause a downturn in economic activity, which will very likely unfavourably affect the quality of banks’ loan portfolios.

The CNB allowed banks to postpone loan instalments where clients have temporarily lost their income due to the coronavirus epidemic or preventive measures.

The CNB lowered the countercyclical capital buffer rate on bank loans located in the Czech Republic from the current 1.75% to 1% with effect from 1 April 2020. This decision means that banks will need less capital for every loan provided to the domestic economy. This will give them more leeway for lending to firms, the self-employed, and individuals hit by the impact of the coronavirus pandemic. If necessary, the CNB will fully release this buffer. This measure is equally applicably also to credit unions.

The CNB asked banks as well as insurance companies and pension management companies to withhold dividend payments or refrain from other steps which might jeopardize their capital resilience.

A gradual release of the countercyclical capital buffer combined with postponed dividend payments should help increase the ability of banks to finance the real economy.

As a preventive measure, the CNB increased the weekly number of monetary policy operations providing liquidity to banks. The liquidity-providing repo operations are now announced three times a week (on Monday, Wednesday and Friday) instead of the original weekly frequency. Banks’ bids in these operations will be fully satisfied at a fixed rate corresponding to the two-week repo rate, i.e., with a zero spread.

The CNB also postponed the deadlines for the submission of certain reports or notifications by various financial institutions, e.g., insurance companies, obliged entities on the capital market, issuers of securities.

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Measures for bank clients

The CNB allowed banks to postpone loan instalments where clients have temporarily lost their income due to the coronavirus epidemic or preventive measures. In the CNB's view, banks already have sufficient flexibility in postponing instalments for clients hit by a drop in demand or unpaid invoices for goods and services deliveries due to the coronavirus. This applies to all types of loans, i.e., loans to small clients and particularly loans to corporate clients, with the aim of preventing the potential transfer of negative impact among sectors.

Banks will work individually with individual clients to determine the reasons behind their payment problems and adjust the repayment schedules for the loans accordingly. This will apply if clients' problems are only temporary and their ability to repay a loan in the future has not been fundamentally jeopardized.

The manner in which banks will enable postponed instalments for clients hit by a drop in demand or unpaid invoices for deliveries of goods and services due to the coronavirus now depends on their individual approach. It is purely their business decision.

Clients of banks may **postpone loan instalments by three or six months** under the Act on Certain Measures in the Area of Loan Repayment in Connection with the COVID-19 Pandemic (the loan moratorium). **The moratorium is binding for all bank and non-bank lenders.** It is possible to postpone instalments of both consumer and business loans, including mortgages agreed and drawn before 26 March 2020. **If customers use the moratorium, the loan repayment period will be extended accordingly.**

With effect from 1 April 2020, **the CNB tempered its previous recommendation for the assessment of new mortgage loans.** The LTV limit (the ratio of the loan amount to the value of the real estate to be pledged) was increased to 90% (from 80%), so the applicant's savings for down payment on housing acquisition can be lower. As of the same date, the limit on the DSTI ratio (the ratio between monthly instalments of total credit agreements and the borrower's net monthly income) was increased to 50% (from 45%). This lowered the amount of income necessary for servicing a specific debt. The duty to assess new mortgages according to the DTI ratio, which reflects the number of the household's annual net incomes needed to repay all its debts, was omitted from the CNB recommendation to banks. From now on, credit institutions will only monitor this indicator.

Measures adopted by the Czech-Moravian Guarantee and Development Bank

Small and medium enterprises (SME), including individual traders, could receive a loan of from CZK 500 thousand to CZK 15 million with a zero interest rate from the Czech-Moravian Guarantee and Development Bank (the "CMGDB") within the **COVID I Programme**. Loans were granted for up to 90% of eligible expenditure, with a maturity of two years, including the possibility of deferred repayment for up to 12 months. **As of March 20, 2020, the receiving of loan applications has been temporarily suspended due to the extreme interest in obtaining loans and the CMGDB's inability to process them. It is questionable whether, and for how long, the COVID I Programme will continue.**

Moreover, the **COVID II Programme**, in the form of the CMGDB's guarantees for loans granted by commercial banks was introduced on March 30, 2020. The **CMGDB granted guarantees for commercial loans to small and medium enterprises (SME), including individual traders outside Prague, from CZK 10,000 to CZK 15 million.** A guarantee covers 80% of the principal amount and the applicant should also be able to draw a financial contribution of up to CZK 1 million to pay accrued interest. The expected duration of the guarantee is 3 years.

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The first round of acceptance of applications within the COVID II Programme ended on 3 April 2020. The next round will be announced according to the decision of the Ministry of Industry and Trade.

Furthermore, the **COVID Prague Programme** in the form of the CMGDB's guarantees for loans granted by commercial banks was introduced in cooperation with the Capital City of Prague on April 8, 2020. The programme was addressed to businesses in Prague and its other conditions are the same as under the COVID II Programme described above. **The acceptance of applications within the COVID Prague Programme ended on 21 April 2020, within a few days of the programme starting, due to the enormous interest from businesses in obtaining guarantees.**

Currently, the **COVID III Programme** is being prepared and should be introduced at the beginning of May 2020. This programme should be once again in the form of guarantees from the CMGDB for loans granted by commercial banks and **should be addressed to freelancers and businesses of up to 500 employees**, regardless of whether they are from Prague or not. More details of this programme should be disclosed in the upcoming days.

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This document reflects the status as of April 29, 2020.

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