

CNB Press Conference

The CNB's new inflation target and changes in monetary policy communication

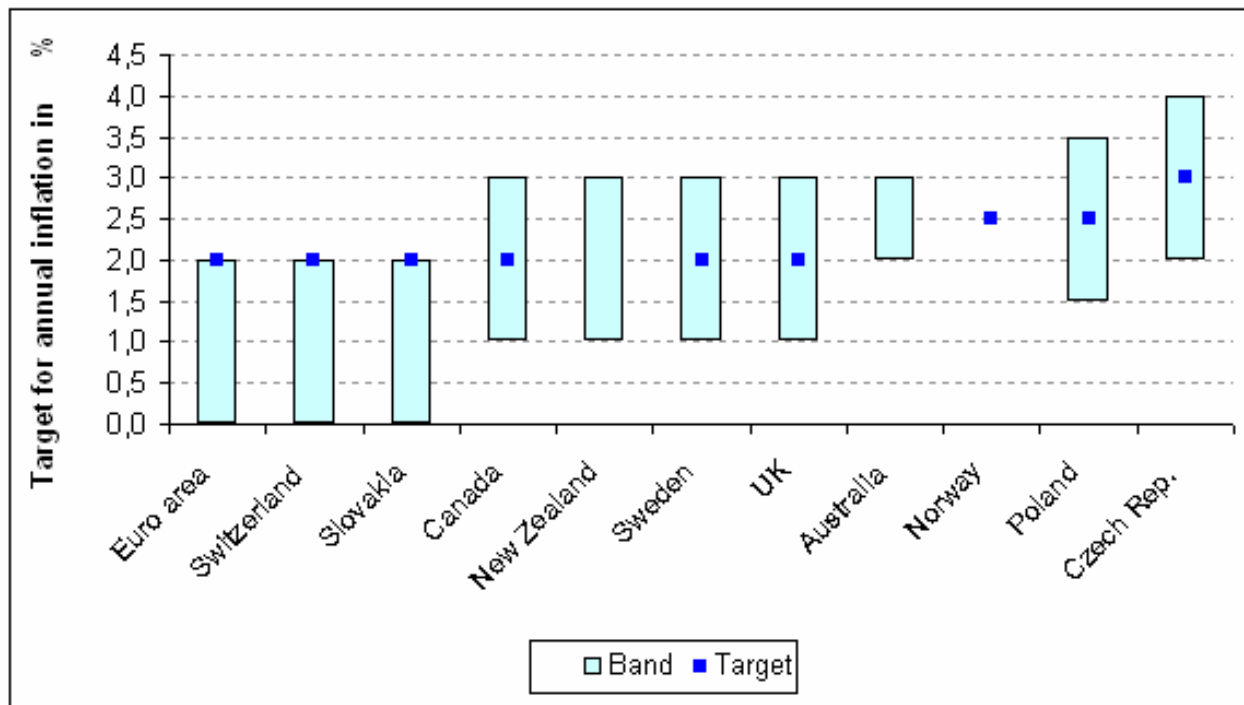
8 March 2007

Decisions taken

- New inflation target of 2% (\pm 1%) from January 2010
- Publication of interest rate path as fan chart from 2008
- Publication of votes cast by name from 2008
- Reduction in number of meetings to 8 from 2008

New inflation target (i)

- Current target set at 3% ($\pm 1\%$)
- Extension of inflation targeting perspective beyond 2010
- Advanced countries mostly have target of 2% or 2.5%



Source: National Central Banks; Wyplosz (2006)

New inflation target (ii)

- Gradual easing of equilibrium real appreciation
- Completion of transformation of economy (regulated prices, taxes, etc.)
- Current combination of high growth and low inflation
- Decreasing statistical over-estimation of inflation
- Low inflation expectations of financial markets

New inflation target (iii)

- New inflation target set at 2% effective from January 2010
- Continued use of tolerance band around target ($\pm 1\%$)
- Announcement of target well in advance reduces costs
- New target does not change near-term rate outlook

Publication of rate path (i)

- CNB currently describes interest rate path only verbally
- Number of central banks publishing in numerical form is rising

	Publication of rates		Publication of rates
Australia	no (CR)	Peru	no (CR,+ER internally)
Czech Rep.	no (verbally yes, ER)	Poland	no (CR)
Chile	no (ER)	Slovakia	no (ER)
Canada	no (ER)	Sweden	yes (ER)
Columbia	no (formerly yes, ER)	Switzerland	no (CR)
Hungary	no (CR)	UK	no (ME)
Norway	yes (ER)	Euro area	no (ME)
New Zealand	yes (ER)	USA	no (ER)

Source: National Central Banks

CR = forecast assumes constant rates (\Rightarrow nothing to publish)

ME = forecast assumes rates according to market expectations (\Rightarrow not with endogenous rates)

ER = forecast with endogenous rates

Publication of rate path (ii)

- CNB to start publishing path as fan chart in 2008
- Path is part of forecast drawn up by expert team
- Should not be understood as CNB commitment
- Bank Board may take different view on path
- New incoming information may change rate outlook
- Uncertainty surrounding rate outlook symbolised by fan

Voting by name (i)

- CNB publishing voting ratios since 2000
- Full minutes of BB discussion published after 6 years
- Some central banks also publish voting by name

	Publication of names		Publication of names
Australia	no	Peru	no
Czech Rep.	no	Poland	yes, from 2001
Chile	no	Slovakia	no
Canada	no	Sweden	yes, from 1999
Columbia	no	Switzerland	no
Hungary	yes, from 11/2005	UK	yes, from 1997
Norway	no	Euro area	no
New Zealand	n/a (governor only)	USA	yes, from 1996

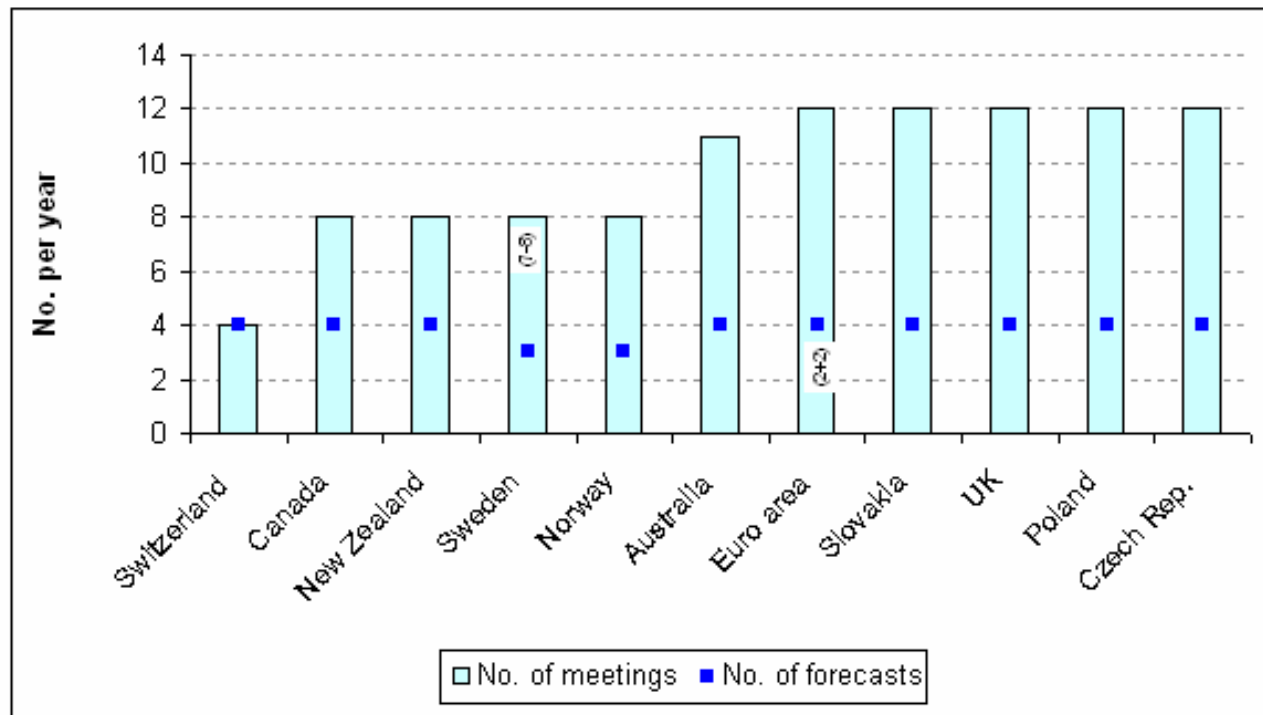
Source: National Central Banks

Voting by name (ii)

- CNB to start publishing voting by name in 2008
- Part of minutes of board meeting
- Increases monetary policy transparency
- Highlights individual opinions of board members
- Diversity of opinion belongs in decision-making system

Fewer meetings (i)

- CNB has MP meetings once every month
- Some central banks meet less often



Source: National Central Banks; Heenan, Peter and Roger (2006)

Fewer meetings (ii)

- CNB to change to 8 meetings a year in 2008
- Reflects stability of Czech economy
- Reduces number of meetings with no new forecast
- Forecast to remain quarterly
- Calendar of meetings to reflect timing of new data
- Calendar for 2008 to be published this autumn



Thank you for listening.