

Welcome Address

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Today's special anniversary conference is a unique opportunity for us to combine the celebration of 75 years of central banking in the Czech Republic with a discussion on contemporary monetary policy issues encountered by the central banks in our region. As you well know, the EU accession process is an ongoing challenge. It is probably no surprise to you that during the past 75 years central bankers have not had an easy road to follow either. In fact, there have been a number of potholes and detours along the way.

When looking back into history, we are reminded of the founding of the Czechoslovakian central bank which was linked to successful monetary separation and the introduction of new banking standards following World War I. During the inter-war period, the newly established central bank managed to successfully head off hyperinflation. The more recent history calls to mind the initial stages of transition, in which the whole banking system was awaiting reconstruction after 40 years of neglect and decay. Stabilising the economy after extensive liberalisation and devaluation was also an essential part of the process. The separation of the Czechoslovak currency was carried out without complications in 1993. Moreover, we have gained a fair amount of experience in introducing currency convertibility, overcoming monetary turbulence and inflation targeting.

Today's discussion on nominal and real convergence will be primarily focused on the future and will undoubtedly provoke a diverse range of ideas and topics. We will be able to compare the experiences of central bankers who have already gone through the process of nominal convergence and have joined the European System of Central Banks with the views of representatives from the central banks of Central Europe who have the completion of nominal convergence and EMU accession ahead of them. Of course, the circumstances of these banks differ in some aspects – thanks mainly to a more liberal global economic environment. What then should the monetary policy framework look like if it is to lead us safely to our goal without crises or without having to repeatedly absorb the costs of stabilisation?

Logically, many opinions have been expressed relating to the specific conditions of each country. As for the Czech Republic, inflation targeting that has been our monetary framework since 1998 appears to be consistent with the convergence process. This framework allows inflation to be explicitly targeted. This is a priority concern for the central bank in the nominal convergence process, supporting, in turn, institutional convergence with the ESCB. The CNB has conformed to the practices of the ECB owing to its ultimate goal, its method of analyses, decisions on instrument settings and the content of documents available to general public.

In addition to the Maastricht criteria, EMU accession also requires compliance with the criteria of exchange rate stability. However, the horizontal exchange rate band – although wide – need not be fully compatible with the Maastricht criterion on inflation, and under specific conditions, the central bank would need to respond to two variables with one instrument. If this situation were to occur, preference should, in all likelihood, be given to the

criterion of low inflation. However, the notion of low inflation carries with it a certain amount of uncertainty. A natural criterion of convergence would be the average level of inflation in EMU countries, because this rate most suitably expresses the common objective of the ESCB members' monetary policy.

One topic sure to draw attention during the discussion is the convergence game that financial markets are likely to play after the EMU accession terms for central European countries have been more specifically defined. This game could accentuate the difference between nominal and real convergence. Regardless of actual EMU accession, real convergence would take place gradually, as a result of the varying economic levels of transitional economies in relation to EU countries. Nominal convergence, on the other hand, can be accelerated by a number of factors directly relating to EMU accession, for example, a decline in risk premia.

These are only three examples of the many topics that will undoubtedly be explored during the conference.