

GOVERNOR'S FOREWORD

The Czech National Bank (CNB) introduced the inflation targeting regime in 1998. This represented a major step forward both in the history of Czech monetary policy and international inflation targeting history, since the CNB commenced implementation of the strategy as the first central bank among the transition economies. Inflation targeting was in addition to that introduced after preceding exchange rate turbulence, in the period of comparatively high inflation that was recording two digit levels, and was therefore focused on decreasing inflation during its initial stages. Given the need to decrease inflation, first inflation targets of the CNB were set as downward ones.

Ten years have now passed since the initial stage. In the current stage of inflation targeting, the CNB implements standard inflation targeting with a horizontal target, in full correspondence with the strategy applied across the advanced market economies. During the ten years, the CNB joined the most transparent central banks of the world and became a renowned provider of international assistance to the central banks of the developing economies that intend to move to the inflation targeting strategy.

The ten year anniversary since introduction of inflation targeting has become an opportunity for the CNB to take a look back and evaluate its experiences and fulfilment of inflation targets. I believe it is important to emphasise that the average inflation rate was low during the assessed period 1998-2007, that the inflation expectations were successfully anchored and the CNB contributed to a stable macroeconomic environment of the Czech economy.

Since I perceive the inflation strategy as highly successful, the ten year anniversary has become an impulse to me to think about possible improvements. In view of the fact that deviations in inflation from the inflation targets were occurring during 1998-2007 – mostly in a downward direction – the CNB Bank Board invited selected experts in autumn of 2007 to give their assessment of the fulfillment of inflation targets and of the factors that were the source of inflation deviations from the targets in separate stages of inflation targeting. The factors considered by the Bank Board during its discussions included particularly exogenous shocks damping inflation, specific features of the CNB's forecasting apparatus, asymmetry of the decision making process and decreasing inflation expectations.

Based on the terms of reference defined by the Bank Board, first an internal document of the CNB was prepared, and, upon its discussion, the Bank Board subsequently decided to publish the collection of papers as the proceedings. I believe these proceedings will provide an interesting look into the CNB's "kitchen" for the professional public and will also contribute to further improved transparency of Czech monetary policy.

