

# Monetary Policy Challenges: Experience of the Czech National Bank

*Marek Mora*

*CNB Board member*

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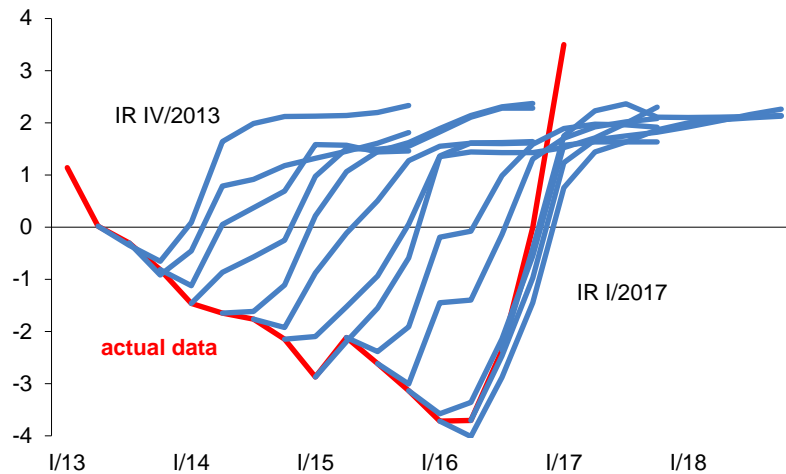
- **The CNB's exchange rate commitment**
  - Origins
  - Possible options in 2013
  - Experience
  - Exit
  - Overview
  - Estimated effects
  - FX reserves
- **Post-exit period**
  - Exchange rate path
  - Inflation forecast
- **Tentative assessment**

- **In 2013, the longest recession in the Czech history (decreasing household consumption, low investment, and inflation falling towards zero)**
- **Interest rates at technical zero for a year (since November 2012)**
- **Risk of deflation-recession spiral**

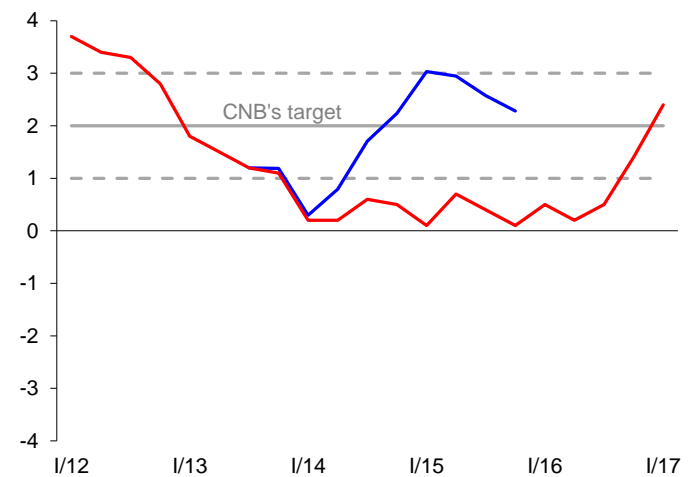
- **Unconventional policies of central banks**
  - Negative interest rates (Denmark)
  - Quantitative easing (USA)
  - Exchange rate commitment (Switzerland)
- **In the second half of 2013, CNB communicated that it was ready to use the exchange rate if a further monetary policy easing became necessary**
- **On 7 November 2013, the CNB Board adopted an one-sided exchange rate commitment (a “floor” set at 27 CZK/EUR, i.e. a depreciation by some 5%)**

- The commitment lasted for 3 years and 5 months
- Repeatedly prolonged as a result of foreign/global anti-inflationary cost-push shocks

**Shift in the outlook for the effective euro area PPI**  
(annual percentage changes; seasonally adjusted)

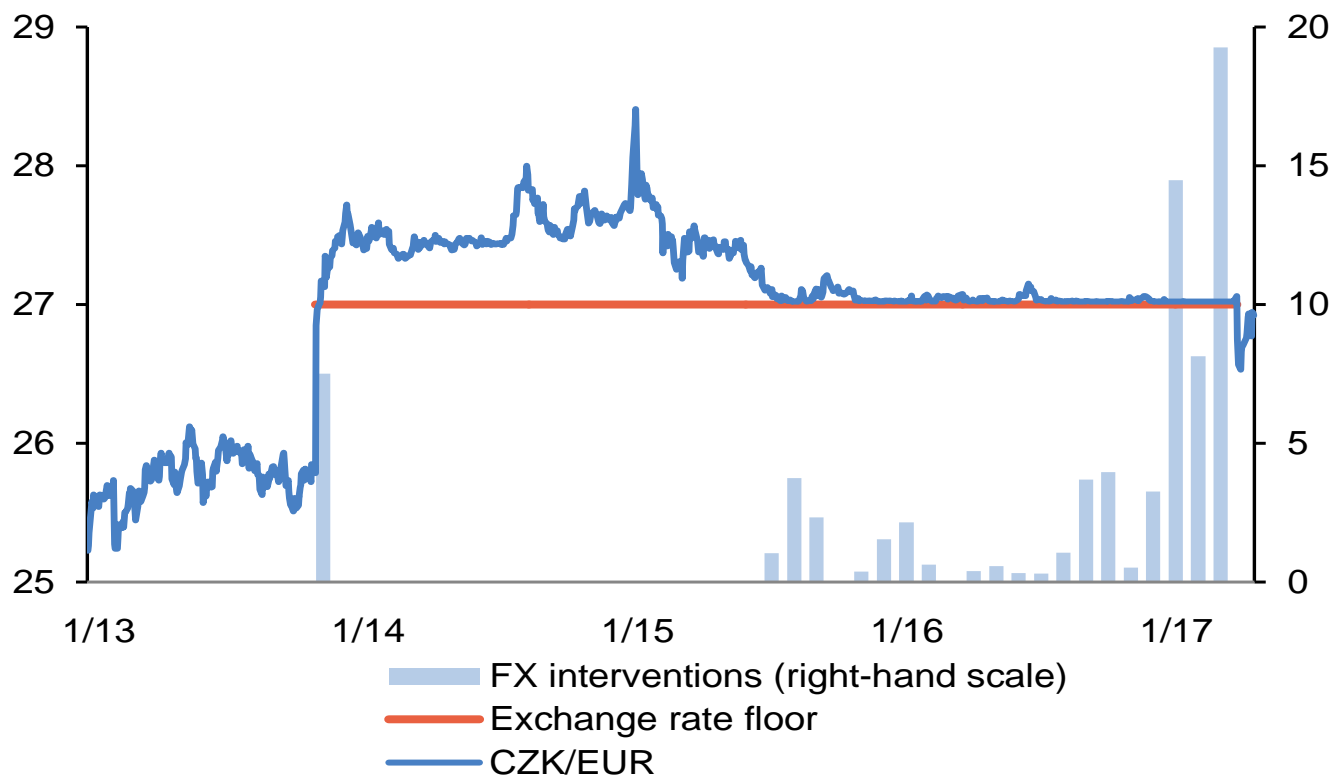


**Inflation**  
(year on year in %; seasonally adjusted)



- **On 6 April 2017 – the end of the exchange rate commitment**
- **Persisting domestic cost pressures + an unwinding of foreign anti-inflationary effects: a return to neutral monetary stance possible**
- **Continuation of the exchange rate commitment was no longer necessary from the perspective of sustainable fulfilment of the CNB's primary objective of price stability (2% inflation target)**

## CZK/EUR exchange rate and CNB's FX interventions (CZK/EUR left; FX interventions in EUR billions until III/17 right)

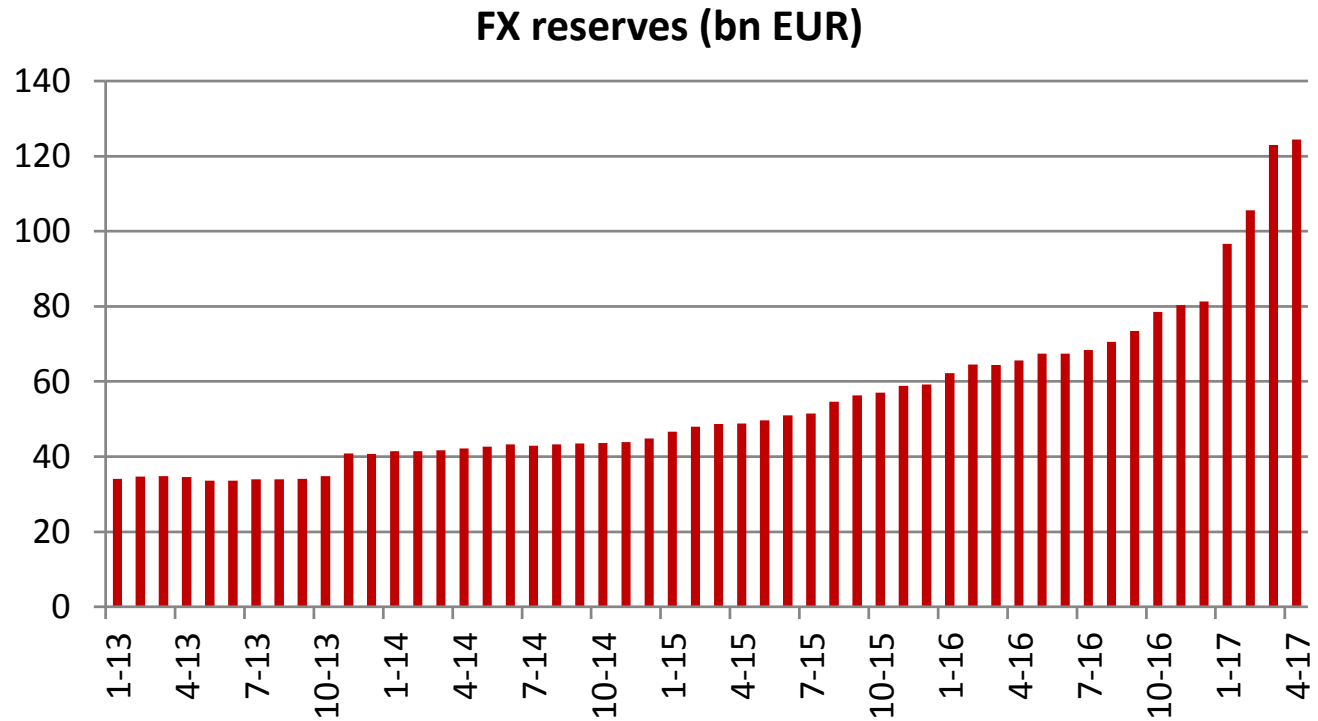


## Impact of the exchange rate commitment in 2015 and observed values

	CNB estimates (p.p.)	Other estimates (p.p.)	Values in 2015 (%)
CPI inflation	0.6 to 1.7	0 to 1.5	0.3
GDP	0.2 to 1.8	0 to 0.5	4.6
Unemployment rate	-0.3 to -0.8	-1.8	5.1

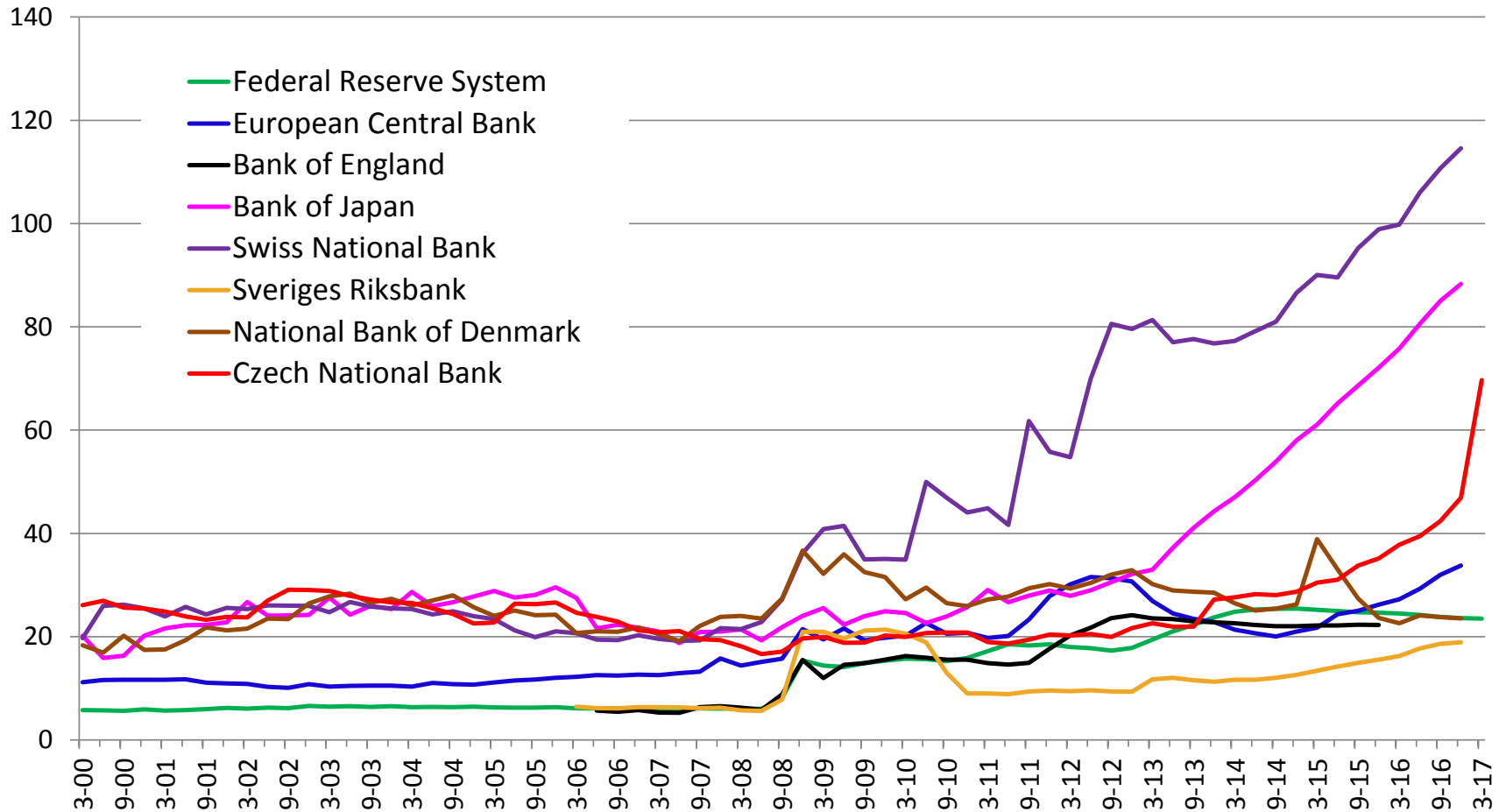
- **Contributed significantly to the economic recovery (together with recovery in external demand and the end of restrictive domestic fiscal policy)**
- **Deflationary risks from the domestic economy were successfully averted (gradually passed through to the domestic price level and other nominal variables)**





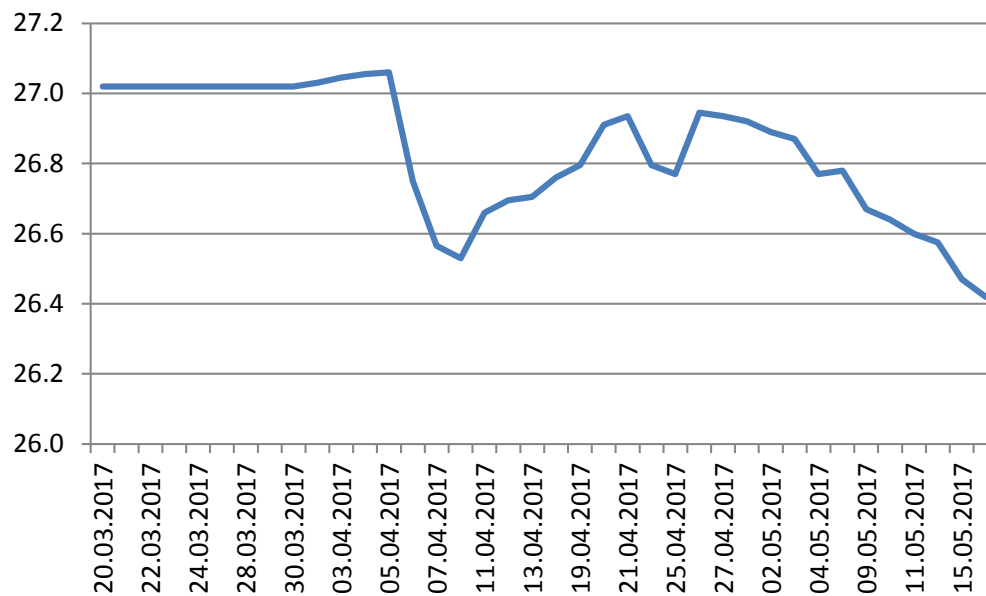
# The CNB's exchange rate commitment – assets in comparison

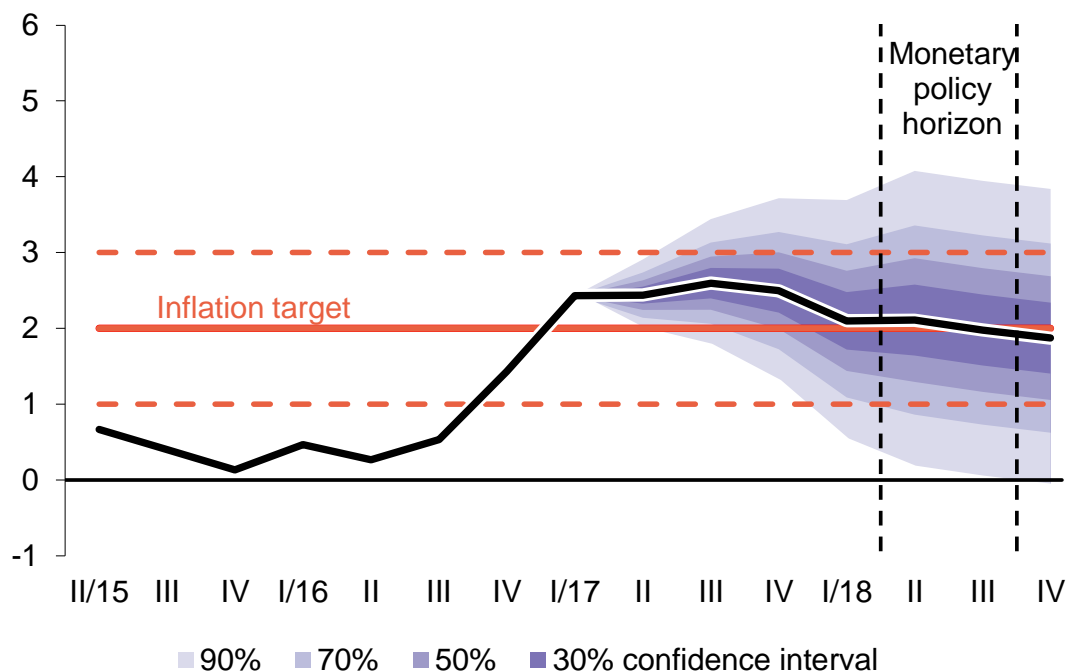
## Central bank total assets to nominal GDP in %



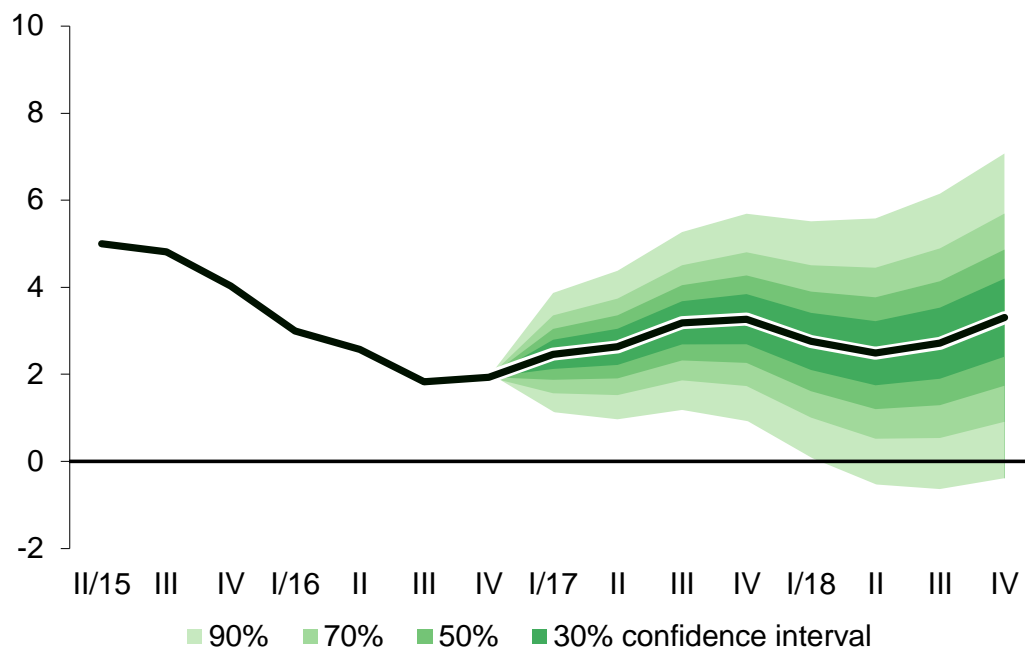
# Post-exit period – CZK/EUR exchange rate path

## CZK/EUR

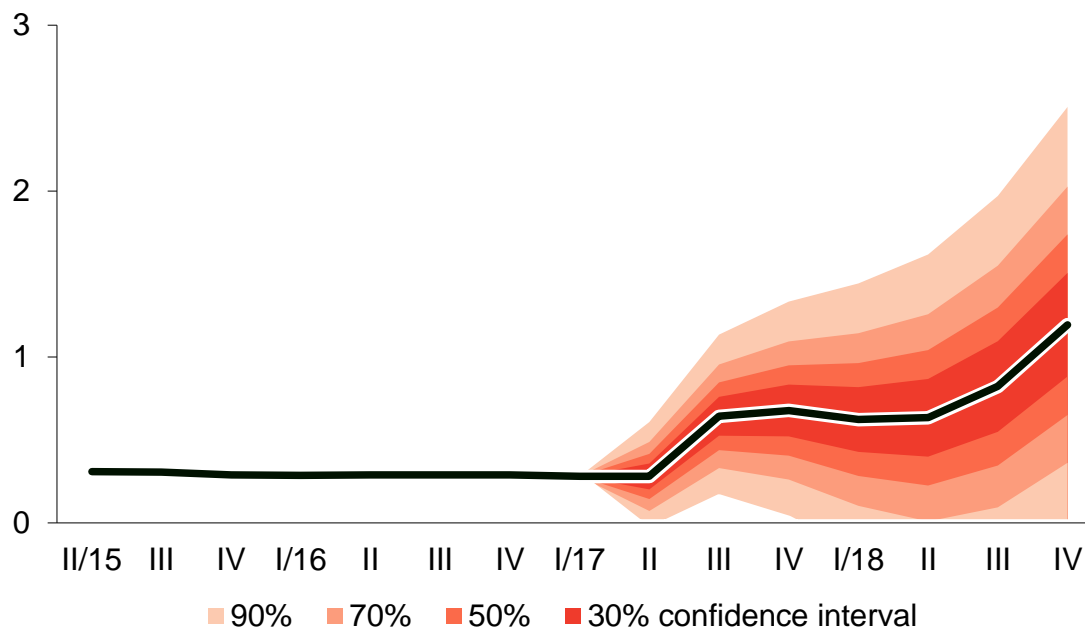




- In 2017, inflation will stay in the upper half of the tolerance band of the the CNB's target and return to the target early next year
- It will remain close to the 2% target at the monetary policy horizon



- **GDP growth will increase to almost 3% in 2017 and remain at this level in 2018**
- **The economy will benefit from a positive fiscal impulse and ongoing foreign demand growth**



- **Consistent with the forecast is an increase in domestic market interest rates in the 2017 Q3 and later also in 2018**
- **However, the rate increase will be strongly dampened until around mid-2018 by the ECB's currently ongoing quantitative easing**

- **The Czech National bank used the exchange rate commitment in an extraordinary macroeconomic situation in 2013**
- **This unconventional monetary policy brought its expected results (though much later than originally expected, mainly due to exogenous factors)**
- **The exit so far very smooth**

***“If you want to drop a currency peg, then the CNB can show you how to do it,” said Kathleen Brooks, head of research at brokerage firm City Index in London.***

- **Not yet „out of the wood“!**



**Thank you for your attention!**

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**Marek Mora**  
[marek.mora@cnb.cz](mailto:marek.mora@cnb.cz)