Press Release
Mr. Miroslav Singer, Governor of the Czech National Bank (CNB), delivered the 2014 Joint Vienna Institute Annual Lecture on "The Use of the Exchange Rate as a Monetary Policy Instrument: The CNB Experience".

"The Annual Lecture is one of the highlights of the JVI's annual program to stimulate policy discussions at the highest level," noted Norbert Funke, Director of the JVI, in his introductory remarks. He thanked Governor Singer for the longstanding mutually beneficial cooperation between the CNB and the JVI, and also for the CNB's continued financial support as one of the JVI's donors. Mr. Funke added that the Czech Republic provides a prime example for successfully moving from a recipient of technical assistance and training in the beginning of the transition process to becoming an important provider of capacity development services for other countries.

"Following the adoption of inflation targeting in 1998, the CNB successfully reduced inflation, in line with its decreasing inflation targets. But the global financial crisis brought new challenges to the forefront, testing the limits of traditional monetary policy frameworks," Governor Singer highlighted. From 2012, the Czech Republic experienced strong disinflation and the risk of deflation was increasing. With the policy rate at the zero lower bound, the CNB Board decided in late 2013 to use the exchange rate as an additional monetary policy instrument. While acknowledging downside risks, Governor Singer noted that the unconventional policies are bearing fruit. The economy is experiencing a recovery and inflation may have bottomed out.

"The Czech experience points to the importance of a good central bank communication strategy," Governor Singer stressed. "Following initial negative public reactions, the CNB has put more emphasis on its communication, including by launching a blog," he added. "Going forward, a key challenge is to get the timing of the exit right. Exit, the return to the standard inflation targeting framework with interest rates as the main policy instrument combined with free floating, would only come once the need for policy tightening is sufficiently strong," the Governor pointed out.

The lively discussion following the lecture provided a first-hand opportunity to review the CNB experience thus far and discuss current economic developments, risks to the outlook, and the benefits and costs of non-traditional monetary policies.