

Inflation Targeting as a Monetary Indicator of Central Banks

Abstract

The diploma thesis on the subject „Inflation Targeting as a Monetary Indicator of Central Banks“ aims to compare the successfulness of the inflation targeting executed by the Czech National Bank and the European Central Bank. Inflation targeting as a monetary-political regime was used for the first time almost 30 years ago and its merit is to influence the inflation rate based on the adjustments of short-term interest rates and the stabilization of inflation expectations. It is based on the accountability of central banks to fulfill the set target, their transparency and communication with the public, for example via publishing the macroeconomic prognoses.

The first chapter of the diploma thesis aims to define the term central bank and inflation targeting. It deals with the purpose of central banks, their instruments to pursue monetary policy, independence and accountability of central banks, and determines the rule of central banks' monetary policy. Additionally, it explains medium- and long-term vertical Phillips curve and Taylor's rule.

The second chapter addresses the topic of the Czech national bank and aims to describe its function and inflation targeting. It specifies its main purpose, instruments of the monetary policy and briefly describes its history. It explains the mechanisms of the inflation targeting as carried out by the Czech National Bank, furthermore it explains consumer price index and consumer basket. It describes the process of creation of a macroeconomic prognosis and addresses the Inflation report II/2018 in more detail.

The third chapter deals with the topic of the European Central Bank and its target is to describe its character and activity and the concept of price stability as perceived by the European Central Bank. It sums up the organizational composition of the European Central Bank, addresses the harmonized index of consumer prices and reasons for different inflation levels in the euro area countries.

The last chapter of the diploma thesis compares the successfulness of reaching the inflation targets as set by the Czech National Bank and the European Central Bank. It compares for one thing the inflation target and the average annual inflation rate, and for another the deviation of the inflation rate from the mean value of the inflation target, and

tries to come up with potential reasons causing the non-accomplishment of the inflation targets.

Key words: inflation targeting, Czech National Bank, European Central Bank