

Tools of monetary policy of the Czech national bank - summary

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The purpose of my thesis is to analyze main factors affecting economic development of Czech Republic and describe in detail the instruments of monetary policy including reasons and consequences of their use. Author chose chronological interpretation with emphasis on inclusion in historical context.

Introductory chapter defines the concept of monetary policy and outlines its types and goals. Along with the second and the third chapter, it creates necessary theoretical basis for the practical part. It explains why monetary policy is given to the hands of central banks as independent institutions, and why is price stability in most countries the only main objective of monetary policy. We also get a basic idea of what monetary expansions and monetary restrictions are and what are their consequences.

Second chapter deals with process of monetary policy. It describes strengths and weaknesses of different strategies and shows the chain of economic links, through which the instruments used affect final goals. In addition, it presents some problems of monetary policy and discusses the role of time lags.

Third chapter looks at the tools of monetary policy in general. Beside basic characteristics, it describes, how they influence monetary base, short-term interest rate and price level.

Fourth chapter is the core of the work. Using historical, descriptive and analytical scientific methods, it considers activities of Czech National Bank from its inception until 2010 focusing on detailed description of the instruments of monetary policy. Here we find not only ex post analysis, but also contemporary arguments that led Czech National Bank to its decisions.

Czech National Bank monetary policy can be divided into two stages. Transition period is characterized by two-pillar system based on both exchange rate targeting and money supply targeting. As a result, some disproportions in development of macroeconomic variables occurred. Czech National Bank has applied sterilization, which had some unintended consequences. Discount tools and reserve requirements were

gradually replaced by open market operations and foreign exchange intervention. As a result of macroeconomic imbalances, the currency crisis broke out in 1997. However it can be evaluated quite positively. Czech National Bank handled it quickly, without assistance and with only small losses.

Inflation targeting monetary policy process is greatly simplified. Central bank controls short-term interest rates which affect inflation. The main and almost exclusively used tool became open market operations, other instruments are now only supplementary.