

Abstract

Title: The Czech National Bank and Inflation Targeting as an Instrument of Maintaining Price Stability

Author: Ing. Tomáš Pokorný

Supervisor: doc. JUDr. Michael Kohajda Ph.D.

When performing monetary policy, the central bank can follow inflation targeting or other monetary policy rules. Following a rule, the central bank can efficiently stabilize economic development in the long run, because the changes in the monetary policy given by the policy rule are included in the rational expectations of agents. It might seem that the consistency of monetary policy is secured by following the policy rule only. The potential discretion, however, remains in the different preferences of the bank board members, which may completely change monetary policy decisions within the given monetary policy rule. Current legislation does not prevent this discretion by any means as the decision of bank board members' appointment is awarded to the Czech president exclusively, who can completely disrupt the monetary policy consistency with the previous bank board. The changes in the bank board preferences are analyzed using the GMM method on two subsamples in the period of 1996 Q3 - 2021 Q2. The empirical analysis shows that the Czech National Bank followed its constitutional duty and reacted with its policy rates to the development of the inflation gap only and that the preferences of the bank board significantly changed between the two subsamples. Following this empirical analysis and detailed analysis of the bank board monetary policy decisions I point out that the president's bank board members' appointment authority is too dangerous for stable economic growth to be decided monocratically and without sufficient requirements on the bank board member candidates.

Keywords: the central bank, inflation, monetary policy, inflation targeting

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