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THE FOREIGN EXCHANGE INTERVENTIONS OF THE CNB AS AN UNCONVENTIONAL INSTRUMENT OF MONETARY POLICY

Abstract:

During the last crisis monetary authorities hit zero interest rates and as a result they began to use less standard instruments. However, they failed to meet the declared inflation target for a long time. The Czech National Bank (CNB) decided to use the unconventional instrument in November 2013 when the exchange rate commitment was introduced. The aim of the paper is to evaluate the decision to use the exchange rate commitment with regard to its potential side effects. The most significant side effect is the enormous amount of foreign exchange reserves, which, due to the appreciation of the domestic currency, can get the CNB into more cumulative negative values than it already is.

Keywords:

CNB, monetary policy, unconventional monetary instruments, foreign exchange interventions, foreign exchange reserves.

JEL Classification: E31, E52, E58