

How to Build a Stable European Financial System: A Non-EMU Central Banker's View

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- View on any banking union may be different from perspective of various member states, depending in particular on:
 - Membership in eurozone (yes/no)
 - Impact of financial crisis on stability of national banking sector so far, e.g. need to recapitalize banks (large/nearly negligible)
 - Costs spent on stabilizing national banking sectors so far
 - Position of banks and their supervisors in single EU market (important internationally active parent banks and their home supervisors vs. banks oriented toward domestic market and host supervisors of foreign subsidiaries and branches)

Banking Union can be a good or a bad idea depending on the perspective of different member states

- Financial stability
 - Single strong supervision
 - Consistent and effective prevention/solution of bank failures
 - Breaking of link between banks and sovereigns
 - Integrated internal market for banking services
 - Full use of benefits of single market
 - Reversal of current trend of market fragmentation
 - Leveling of playing field
 - Economic growth
 - More integrated financial sector to provide funding
 - Improvement in credit conditions for weaker countries
 - Effective/proper transmission of monetary policy
- BU might benefit states with less stable fiscal situations, problems in their financial sectors and difficulties with financing their economies; none of the alleged benefits are relevant to the Czech Republic.

- Very good results for all financial soundness and stability indicators (capital adequacy, liquidity, loan quality, profitability) – even on European scale.
 - Resilient to shocks; resilience regularly tested in stringent stress tests conducted by CNB and banks themselves.
 - Sector subject to effective banking supervision suitably combining off-site supervision and on-site inspections.
 - Issues and disputes concerning entire multinational groups containing Czech firms have so far been resolved satisfactorily through colleges of supervisors of countries concerned.
- The situation of the Czech economy differs strongly from countries whose banking sectors became destabilized during the crisis; the Czech Republic would be able to resolve any bank problems as identified in even the harshest of the CNB's stress test scenarios.

- BU is designed to resolve financial sector problems in euro area in situation where commercial banks are unable to borrow from their NCBs as lenders of last resort.
 - Efforts to mutualize losses and debt among Member States.
 - Main proponents:
 - EU institutions, lobbying businesses and think-tanks supporting future EU federalist state.
 - Mainly highly indebted countries with weak governments, weak banks unable to take on more government debt, and sometimes fragmented financial services supervisors.
- BU was created for the euro area...

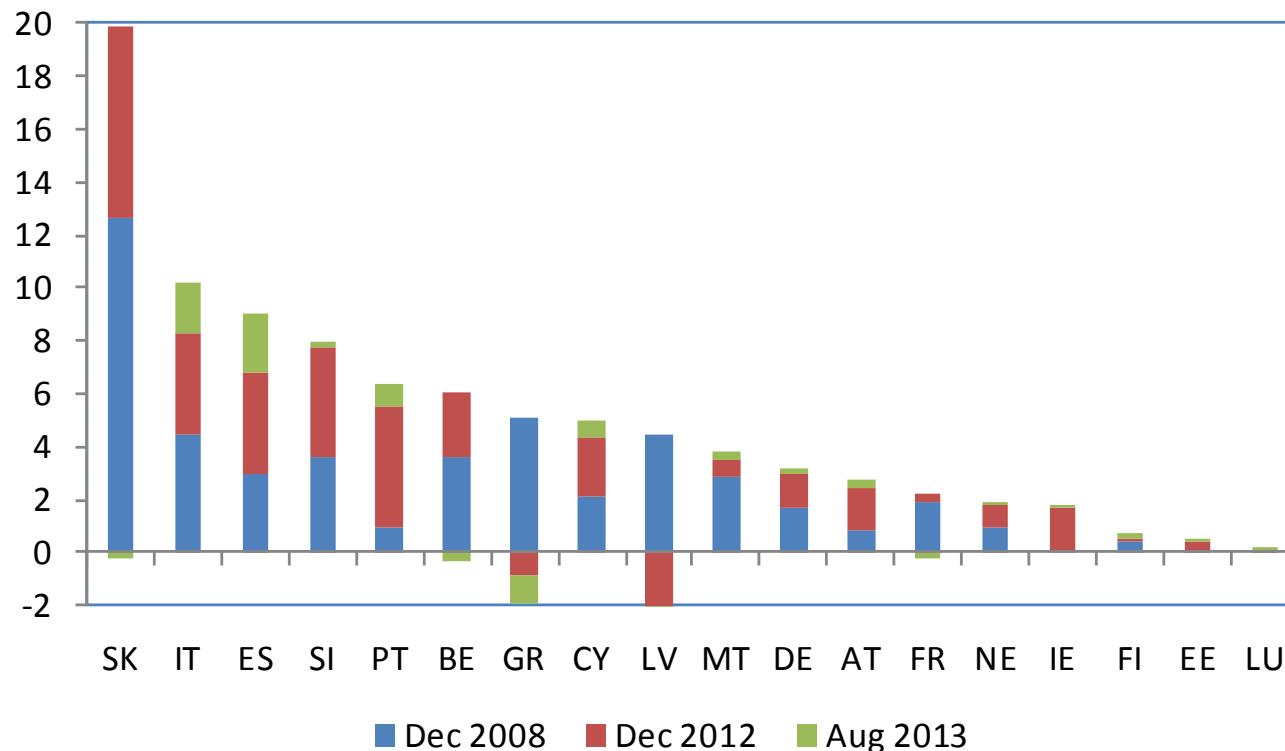
- European Council – conclusions of June 2012 meeting:
 - ... key priority is to complete the Banking Union ... it is imperative to break the vicious circle between banks and sovereigns ...
- Sources:
 - Weak banks with poor quality of loans or suspicion thereof.
 - Expectations of large-scale banking sector bail-outs leading to deterioration of public finances.
 - Weak governments close to fiscal unsustainability or suspicion thereof.
 - Undermined credibility of state in giving support to troubled banks.
 - Exhausted capacity of banks to take more government debt on balance sheet.
 - Uncertainty regarding ability of lenders of last resort to step in.
 - Over-indebtedness and deflation or risk thereof.

- GDP: EUR 9.5 tn
 - Government debt: EUR 9 tn (95% of GDP)
 - Government securities outstanding: EUR 7 tn
 - Total MFI assets: EUR 30 tn (of which interbank assets: EUR 5 tn)
 - MFI exposure to government securities: EUR 1.7 tn
 - MFI loans to private sector: EUR 10.5 tn
 - Size of Single Resolution Fund: ~EUR 0.06 tn (not to be reached until 2024)
 - Assistance available from ESM for direct recapitalization of banks: ~EUR 0.06 tn (ESM can only be used for euro area)
 - Little political will to establish single fiscal backstop; solution must also cover non-euro area states participating in BU.
- **The centralized funds for large bank resolution are totally inadequate; if a country gets into serious financial difficulties it will have to rely on its own resources.**

- Lower exposure to government debt would also reduce potential for vicious circle.
- However, current regulations provide strong incentives for banks to add even more government bonds to their books (not a single one acting in opposite direction).
- Capital charges on sovereign exposures range from low to zero:
 - Debate on appropriateness of such preferential treatment has been put on hold in EU (until after crisis).
 - Higher government bond holdings represent simple way to lower RWAs and capital charges in face of stricter capital regulation.
- New liquidity regulations (LCR, NSFR) make role of government bonds even more central:
 - Government bonds in domestic currency will serve as prime High Quality Liquid Assets.
 - These will also serve as a key source of collateral for operations with central banks.

- Share of government bonds in banks' balance sheets differs a lot, but has generally been growing.

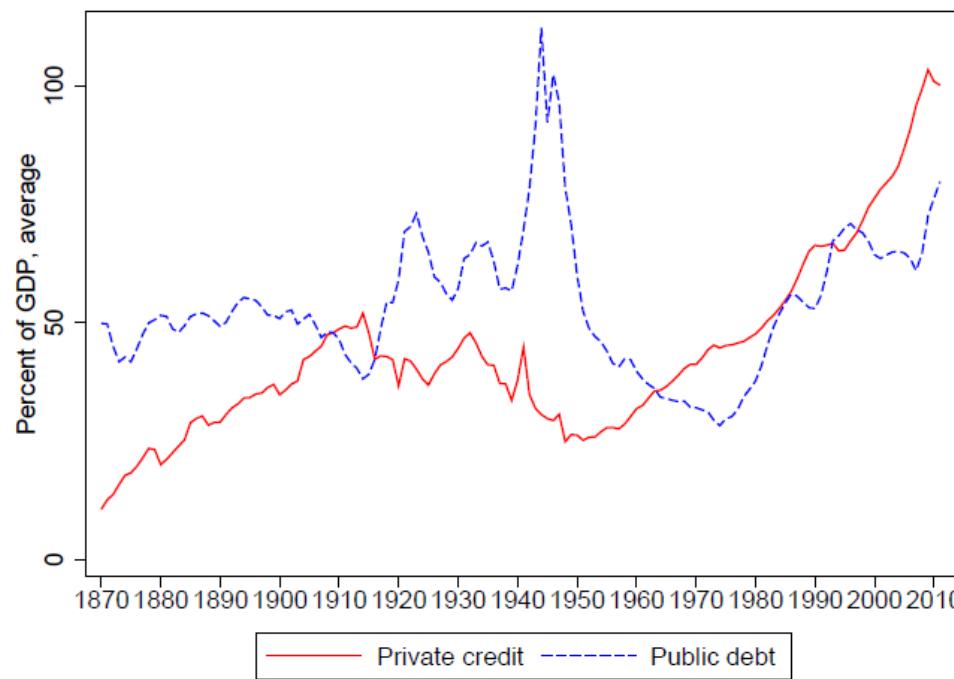
Comparison of MFIs' domestic sovereign exposures (% of total assets)



Source: ECB, CNB calculation

Public debt and private debt

Figure 1: Public debt and bank credit to private non-financial sector, 1870–2011



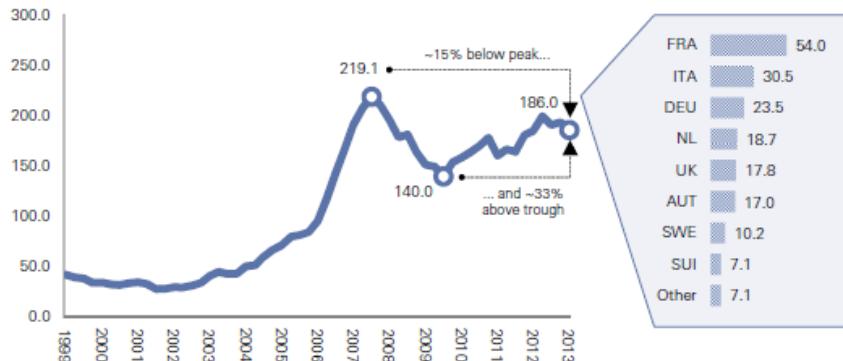
Notes: The sample period is 1870–2011 and the annual averages are shown for 17 advanced countries. Total private credit is proxied by total bank loans to the nonfinancial sector, excluding interbank lending and foreign currency lending based on Schularick and Taylor (2012) and updates thereto. Public debt is the face value of total general government debt outstanding.

Source: Jordà, Schularick, and Taylor (2013)

- Private credit/debt is extremely high in historical terms in advanced economies.
- Euro area is leading in debt, with public debt at 95% of GDP and private debt at 125% of GDP.

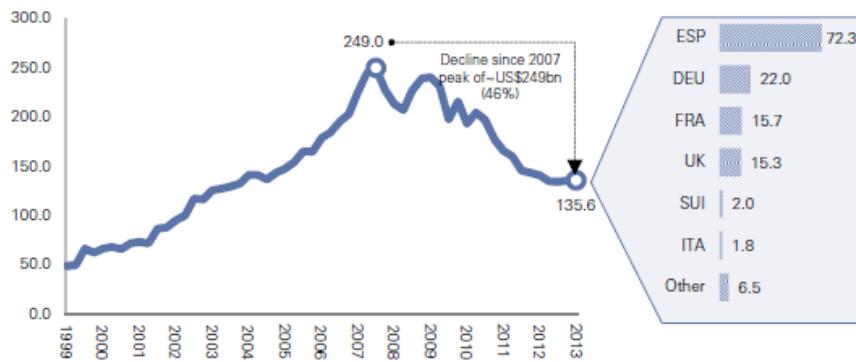
European banks' exposure to Russia and Ukraine

Exhibit 1: European banks' exposure to Russia stands at c.US\$186 bn...
Consolidated foreign exposures of European banks (as per BIS definition) to Russia on an immediate borrower basis; figures in US\$ bn



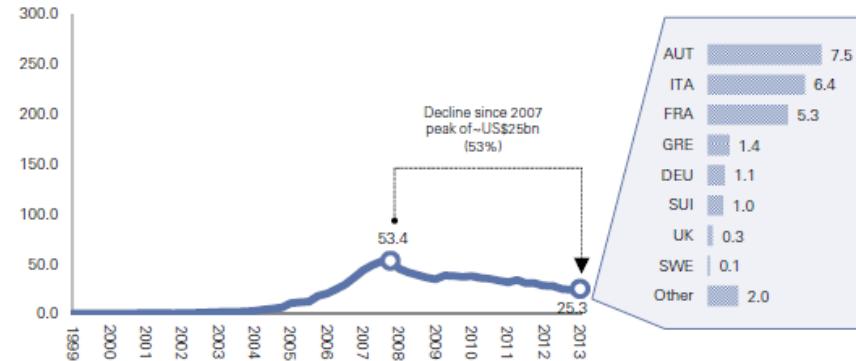
Source: Bank for International Settlements (BIS), Goldman Sachs Global Investment Research.

Exhibit 3: ... this is comparable to, say, Portugal (1.6% of European total)
Consolidated foreign exposures of European banks (as per BIS definition) to Portugal on an immediate borrower basis; figures in US\$ bn



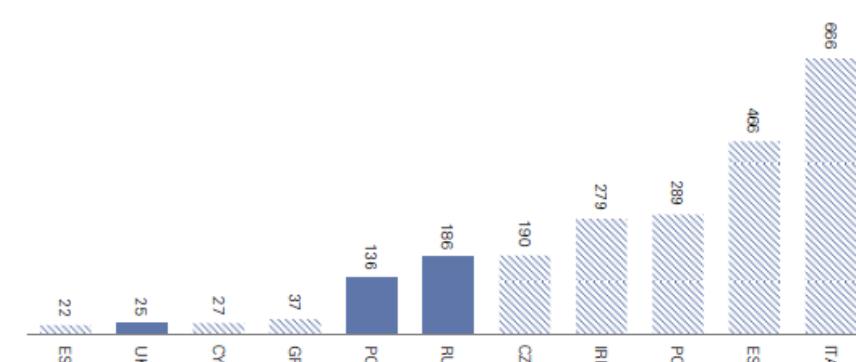
Source: Bank for International Settlements (BIS), Goldman Sachs Global Investment Research.

Exhibit 2: ...to Ukraine at c.US\$25 bn (more than halved since 2007)...
Consolidated foreign exposures of European banks (as per BIS definition) to Ukraine on an immediate borrower basis; figures in US\$ bn



Source: Bank for International Settlements (BIS), Goldman Sachs Global Investment Research.

Exhibit 4: Russian and Ukrainian exposures in context
Consolidated foreign exposures of European banks (as per BIS definition) to selected countries in emerging Europe periphery; figures in US\$ bn



Source: Bank for International Settlements (BIS), Goldman Sachs Global Investment Research.

Bottom-up exposure of selected European banks

Exhibit 7: Exposure of selected European banks to Russia, Ukraine and Portugal

Exposure at default (EAD), customer loans, deposits as per last available disclosure; pre-provision profits (2015E) as per GS estimates

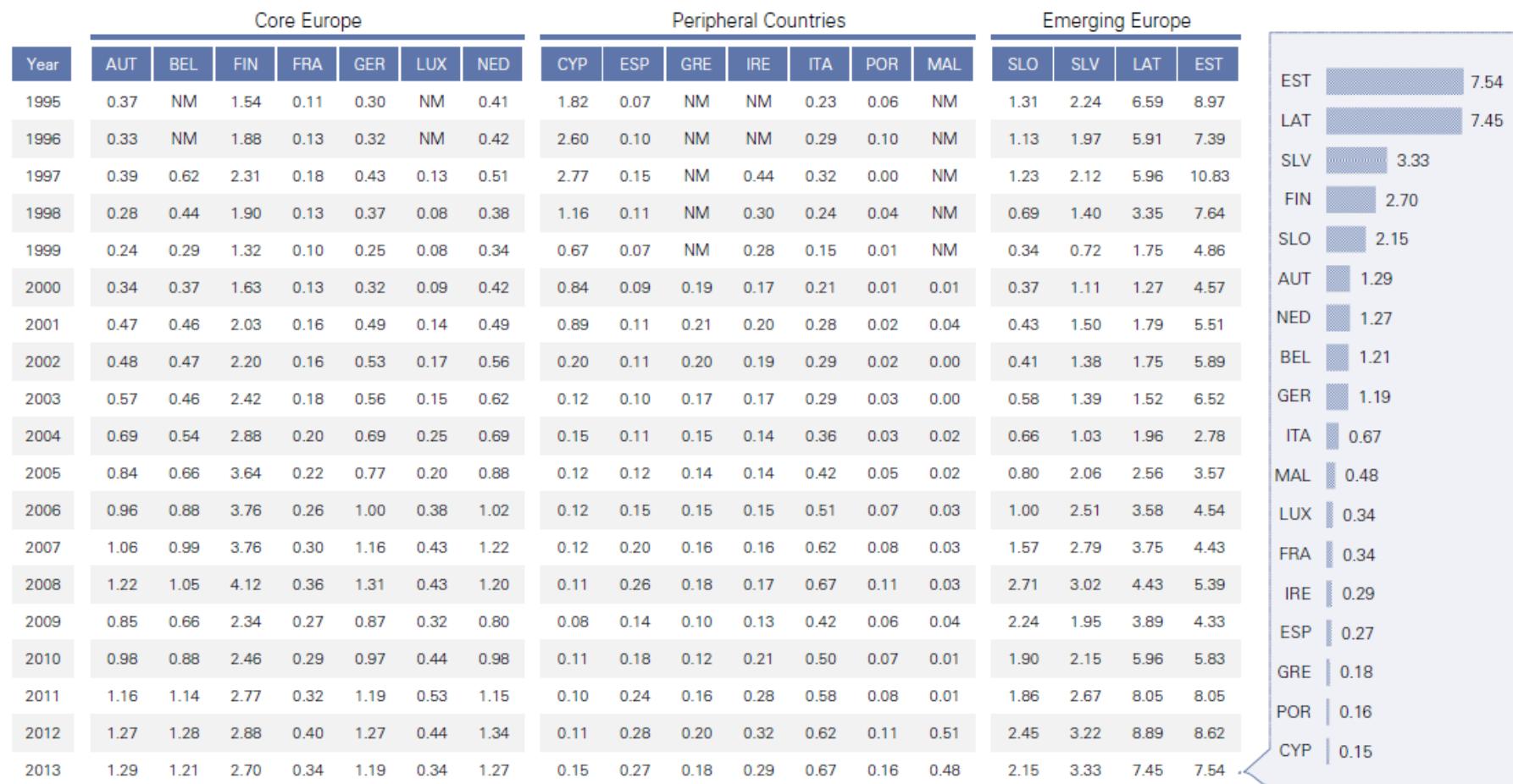
Bank	Russia				Ukraine				Russia + Ukraine				Portugal							
	EAD	Loans	Deposits	PPP (15E)	EAD	Loans	Deposits	PPP (15E)	EAD	Loans	Deposits	PPP (15E)	EAD	Loans	Deposits	PPP (15E)				
Austria and CEE																				
Raiffeisen Bank International	€18.4bn (11.5% of group)	€9.2bn (12.4% of group)	€9.8bn (15.4% of group)	€0.5bn (22% of group)	€4.8bn (3.0% of group)	€2.3bn (3.1% of group)	€1.6bn (2.5% of group)	€0.1bn (5% of group)	€23.2bn (14.5% of group)	€11.5bn (15.5% of group)	€11.4bn (17.9% of group)	€0.7bn (27% of group)	—	—	—	—				
OTP Bank	€2.6bn ⁽³⁾ (7.8% of group)	€2.0bn (10.1% of group)	€1.6bn (7.0% of group)	€0.3bn (23% of group)	€1.7bn ⁽³⁾ (5.3% of group)	€1.3bn (6.8% of group)	€0.6bn (2.9% of group)	€0.1bn (18% of group)	€4.3bn ⁽³⁾ (13.1% of group)	€3.3bn (16.8% of group)	€2.2bn (9.9% of group)	€0.4bn (31% of group)	—	—	—	—				
Erste Bank	Not disclosed / marginal				€0.4bn (0.2% of group)	€0.4bn (0.3% of group)	—	—	€0.4bn (0.2% of group)	€0.4bn (0.3% of group)	—	—	—	—	—	—				
PKO BP	No exposure				—	€0.2bn (0.7% of group)	€0.3bn (0.8% of group)	—	—	€0.2bn (0.7% of group)	€0.3bn (0.8% of group)	—	—	—	—	—	—			
Pekao	No exposure				€0.2bn ⁽⁴⁾ (0.6% of group)	€0.1bn ⁽⁴⁾ (0.2% of group)	—	—	€0.2bn (0.6% of group)	€0.1bn (0.2% of group)	—	—	—	—	—	—	—			
Core Europe, UK and Nordics																				
ING Bank	—	€7.6bn (1.5% of group)	—	—	—	€1.5bn (0.3% of group)	—	—	—	€9.1bn (1.8% of group)	—	—	—	—	—	—	—			
Societe Generale	€19.5bn ⁽¹⁾ (3.0% of group)	€12.5bn ⁽¹⁾ (3.6% of group)	€8.6bn ⁽¹⁾ (2.7% of group)	—	No exposure				€19.5bn ⁽¹⁾ (3.0% of group)	€12.5bn ⁽¹⁾ (3.6% of group)	€8.6bn ⁽¹⁾ (2.7% of group)	—	—	—	—	—	—			
Nordea	€5.4bn ⁽³⁾ (0.8% of group)	€4.4bn (1.3% of group)	€1.4bn (0.7% of group)	€0.1bn (2% of group)	No exposure				€5.4bn ⁽³⁾ (0.8% of group)	€4.4bn (1.3% of group)	€1.4bn (0.7% of group)	€0.1bn (2% of group)	—	—	—	—	—	—		
Swedbank	—	€0.1bn (0.01% of group)	—	—	No exposure				—	€0.1bn (0.01% of group)	—	—	—	—	—	—	—	—		
Barclays	Not disclosed / marginal				No exposure				Not disclosed / marginal				No exposure				No exposure			
HSBC	Not disclosed / marginal				No exposure				Not disclosed / marginal				No exposure				€11.3bn (1.2% of group)	€7.5bn (1.3% of group)	—	-€0.2bn (-2.0% of group)
Periphery (Spain, Italy, Portugal, Greece)																				
Intesa Sanpaolo	€1.7bn ⁽³⁾ (0.3% of group)	€1.1bn (0.3% of group)	€1.0bn (0.5% of group)	—	No exposure				€1.7bn ⁽³⁾ (0.3% of group)	€1.1bn (0.3% of group)	€1.0bn (0.5% of group)	—	No exposure				No exposure			
UniCredit	—	€11.9bn ⁽²⁾ (2.5% of group)	€11.3bn ⁽²⁾ (2.8% of group)	€0.7bn (17% of group)	—	€2.20bn ⁽²⁾ (0.5% of group)	€1.70bn ⁽²⁾ (0.4% of group)	—	—	€14.1bn (2.9% of group)	€13.0bn (3.2% of group)	—	—	—	—	—	—	—		
Bank of Piraeus	No exposure				€0.2bn (0.2% of group)	€0.2bn (0.3% of group)	€0.1bn (0.2% of group)	—	€0.2bn (0.2% of group)	€0.2bn (0.3% of group)	€0.1bn (0.2% of group)	—	—	—	—	—	—	—	—	
Eurobank	No exposure				€0.5bn ⁽⁴⁾ (0.7% of group)	€0.3bn ⁽⁴⁾ (0.6% of group)	€0.2bn ⁽⁴⁾ (0.5% of group)	—	€0.5bn (0.7% of group)	€0.3bn (0.6% of group)	€0.2bn (0.5% of group)	—	—	—	—	—	—	—	—	
Banco Comercial Portugues	No exposure				No exposure				No exposure				No exposure				No exposure			
Banco Espirito Santo	No exposure				No exposure				No exposure				No exposure				No exposure			
Banco BPI	No exposure				No exposure				No exposure				No exposure				No exposure			
BBVA	No exposure				No exposure				No exposure				No exposure				No exposure			
Banco Santander	No exposure				No exposure				No exposure				No exposure				No exposure			

(1) SG assets include those held in International Banking Division (2) Loans and deposits in Ukraine reported as of 3Q13 ahead of classifying exposure as discontinued operations, exposure in Russia based on the disclosure for CEE division; (3) Exposure at Default proxied by the balance of total assets; (4) based on disclosure as of 4Q13.

Source: Companies data, EBA, Goldman Sachs Global Investment Research.

Exports to Russia as proportion of GDP of euro area economies

Exhibit 8: Baltic countries' exports to Russia account for >7% of GDP; Slovakia, Finland & Slovenia's exports account for 2%-3%; rest of Euro area is less exposed
 Exports to Russia as % of GDP for Euro area economies



Source: IMF, Goldman Sachs Global Investment Research.

- As non-euro-area country, CZ will remain responsible for bearing most of bank resolution costs but will be deprived of supervisory and crisis resolution powers.
- When performing supervision ECB will prioritize stability of significant institutions and groups:
 - Risk of liquidity and assets being transferred from sound subsidiaries to support their parent situations in BU countries.
 - Cross-border contagion (in case of early supervisory intervention to detriment of sounder institutions in group).
 - Risk of (unbalanced) sharing of costs of resolving large European multinational financial groups (e.g. in event of need to top up funds in SRF ⇒ additional transfers by banks).

- Risk of need to spend money from national budgets (risk of need to top up SRF funds; need for obligation to contribute Czech public funds for resolution of foreign banks cannot be ruled out).
 - More complicated administrative procedures and possible risks of delayed reaction in emergencies.
 - Decision-making on how to resolve crises in CZ beyond control of Czech authorities (decisions ultimately made by five employees of SRB and Commission; even Council's involvement is very limited).
 - Moral hazard due to expectations that bank failure costs will always be covered by common funds.
 - Limited ability to influence content of guidelines and standards prepared by EBA (voting weight of CNB in EBA will be much smaller).
- **Czech membership of the BU would offer no major benefits over the current situation; on the contrary, it would entail significant risks.**

- Non-membership in BU could have negative consequences for CZ (through higher market funding costs for banks and/or state), if BU were regarded as environment with:
 - higher regulatory standards than CZ;
 - better compliance with and enforcement of those standards;
 - better financial protection against banking sector losses resulting from SRF and Fiscal Mechanism.
- However, this is not the case.
 - The CNB does not consider Czech BU membership to be beneficial for the stability of the Czech financial market and its individual parts; it sees no reason to join the BU; it regards membership as being linked complementarily with euro area entry (single currency, single supervision, single lender of last resort).

- Following financial crisis, additional conceptual pillar for financial stability – macroprudential policy framework – was called for.
 - Macroprudential policy is element of financial stability policy alongside microprudential supervision.
 - Main distinguishing feature of macroprudential policy is that unlike traditional microprudential supervision:
 - It focuses on stability of system as a whole.
 - It primarily monitors endogenous processes in which institutions that may seem individually sound can get into situation of systemic instability through common behavior and mutual interaction.
- **Macroprudential policy endeavors to avoid the risk of the fallacy of composition – the wrong assumption that the state of the whole is the sum of the state of seemingly independent parts.**

- Macroprudential policy can be defined as application of set of instruments that have potential to:
 - Increase preventively resilience of the system, in accumulation phase of systemic risk, against likelihood of emergence of financial instability in future by:
 - creating capital and liquidity buffers
 - limiting procyclicality in behavior of financial system
 - containing risks that individual financial institutions may create for system as a whole
 - Mitigate impacts, in materialization phase of systemic risk, of previously accumulated risks if prevention fails.
- In the Czech Republic we are currently involved in risk prevention, not dealing with the consequences.

Instruments of macroprudential policy: “micro” tools

<i>Source of systemic risk (of vulnerability)</i>	<i>Appropriate tool</i>
<ul style="list-style-type: none"> Undue leverage Excessive credit growth accompanied by lenient lending practices 	<ul style="list-style-type: none"> Countercyclical capital buffer Through-the-cycle provisioning LTV and LTI (PTI) limits Leverage ratio Increased risk weights for specific sectors
<ul style="list-style-type: none"> Shortage of quick liquidity Maturity mismatches regarding asset and liabilities Unstable structure of bank funding 	<ul style="list-style-type: none"> LCR NSFR LTD ratio or core funding ratio
<ul style="list-style-type: none"> Excessive interconnectedness of financial institutions Complexity and opacity of financial sector Reliance on bail-out of large and important institutions 	<ul style="list-style-type: none"> SIFI capital surcharges Systemic risk capital surcharges
Excessive concentration in assets or liabilities of financial institutions	<ul style="list-style-type: none"> Large exposure limits

- Central banks and regulators have at their disposal, or are preparing, appropriate tools for individual risk types.

- CRD IV/CRR strengthens loss-absorbing capacity through newly defined capital buffers (conservation, countercyclical and systemic risk buffers are now fully operational in CZ).
- Capital conservation buffer pertaining to all banks in full amount of 2.5% of CET1 has been required since July 2014.
- CRD IV has also provided CNB with alternative options to set requirements for domestic banks partly on basis of their systemic importance.
- CNB analyses suggest that compliance with this buffer needs to be required of four systemically important banks: Česká spořitelna 3.0%; ČSOB 3.0%; Komerční banka 2.5%; UniCredit Bank 1.0%.
- Both buffers maintain capital which banks already have, and do not limit banks' ability to lend.

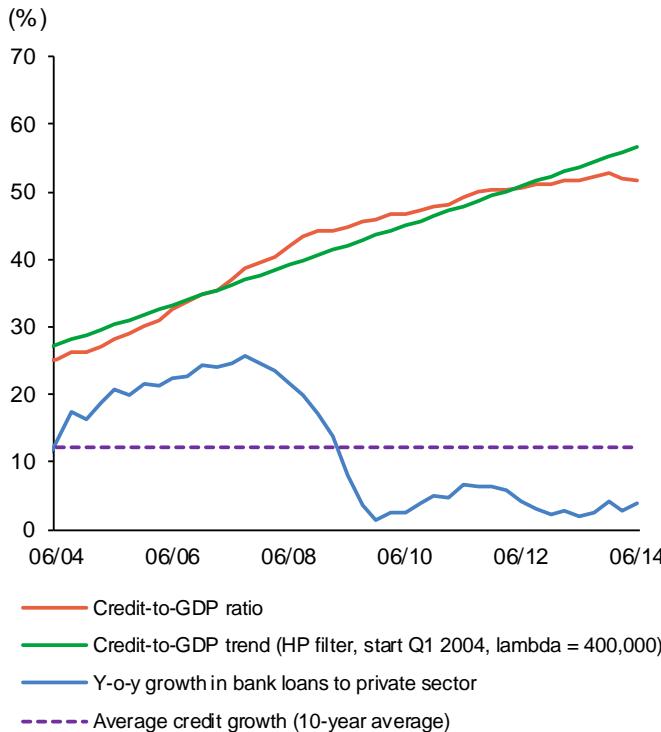
- Requirement to be met as of 1 November 2014.
 - Set in percent of total risk exposure.
 - Must be met using bank's common equity capital (CET1).
 - Set on individual as well as sub-consolidated basis.
- Basis for CNB's decision: bank's degree of "systemic importance" (= costs for Czech financial/economic system if bank becomes distressed).
- Estimate of degree based on parameters of bank in four categories: 1) size; 2) interconnectedness with other financial institutions, 3) substitutability for economy; 4) complexity.
- Buffer periodically reviewed.

- Countercyclical capital buffer (CCB) is genuine macroprudential tool with objectives to:
 - Protect banking sector from excess aggregate credit growth, which has often been associated with build-up of system-wide risk.
 - Help maintain flow of credit in economy when financial system experiences stress after period of excess credit growth.
 - Have potential moderating effect on build-up phase of credit cycle (however, this should be viewed as positive side benefit).
- First decision on CCB was adopted at CNB board meeting on 28 August 2014.
- CCB initially set at 0% (applicable as from 1 October 2015).
- CNB will apply “guided discretion” instead of mechanistic rules.
- Decision on CCB will be revised quarterly; CNB will provide indicative “forward guidance” for next two years.

- Starting point is buffer guide based on CRD IV and Recommendation of European Systemic Risk Board on guidance for setting countercyclical buffer rates.
 - “Standardized credit-to-GDP gap” calculated for 1995–2014 does not work well for CZ owing to statistical effects of 1997–2000 banking crisis (it would imply setting CCB at 2%).
 - Instead, CNB bases its decision on “additional credit-to-GDP gap” for last 10 years only and set of relevant indicators (credit growth, speed of private sector borrowing, residential property prices, lending standards and others).
- None of the indicators is signaling elevated risk levels.

Countercyclical capital buffer in Czech economy

Assesment of the need to set a non-zero CCB

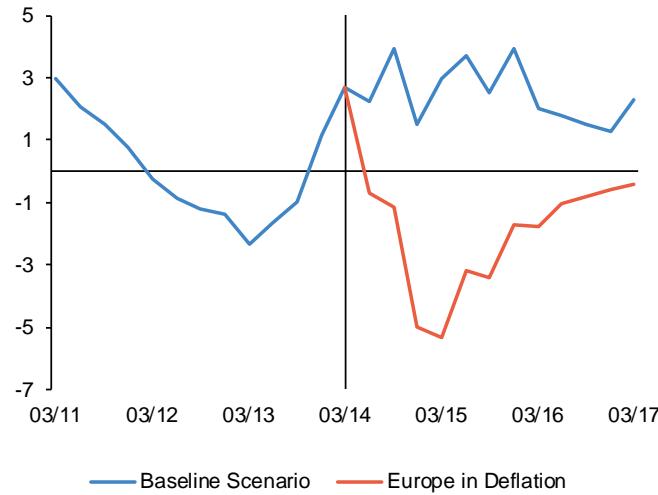


Source: Czech National Bank

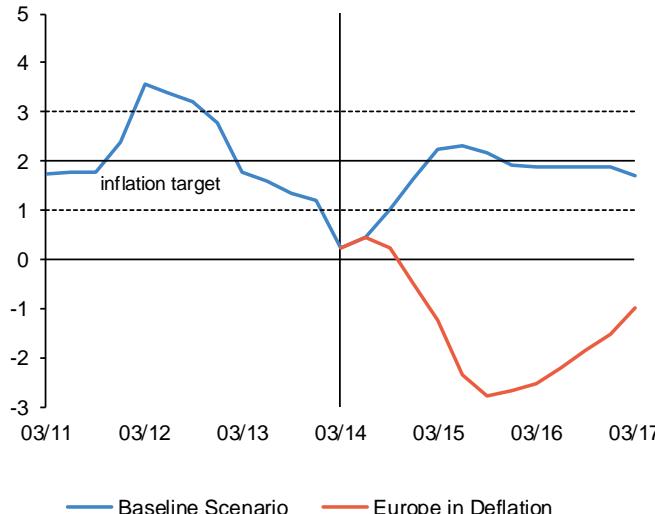
- Financial cycle in Czech economy is in phase of incipient modest recovery.
- Given current predictions of future credit growth and developments on relevant markets – property market in particular – it will probably not be necessary to apply non-zero countercyclical capital buffer rate in next two years.
- Higher credit growth inevitable in converging economies?

Stress-testing Czech banking sector

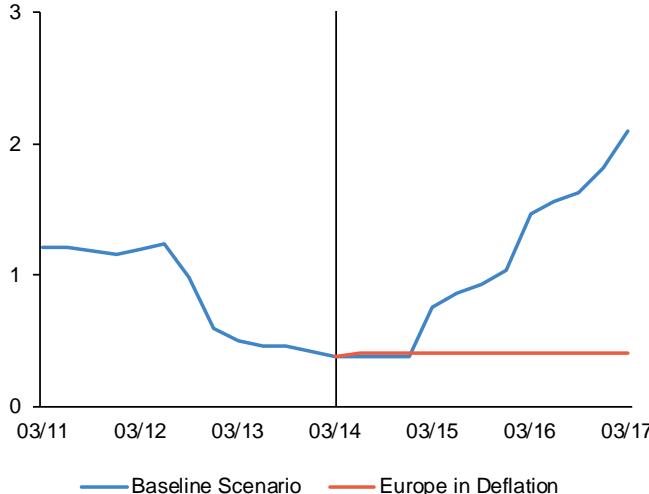
Alternative scenarios: real GDP growth
(year-on-year change in %)



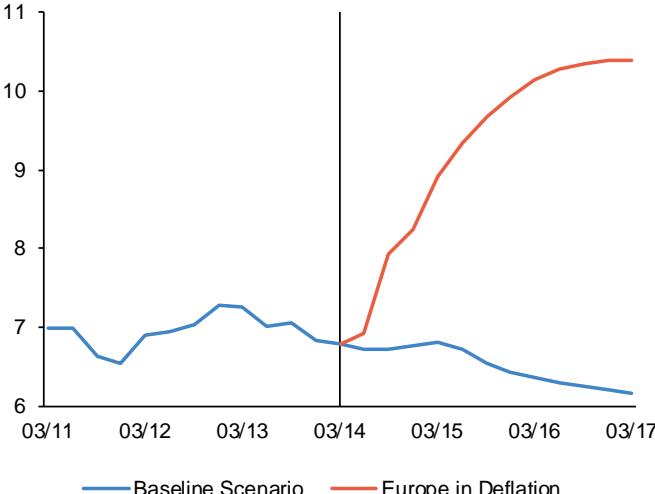
Alternative scenarios: inflation
(%)



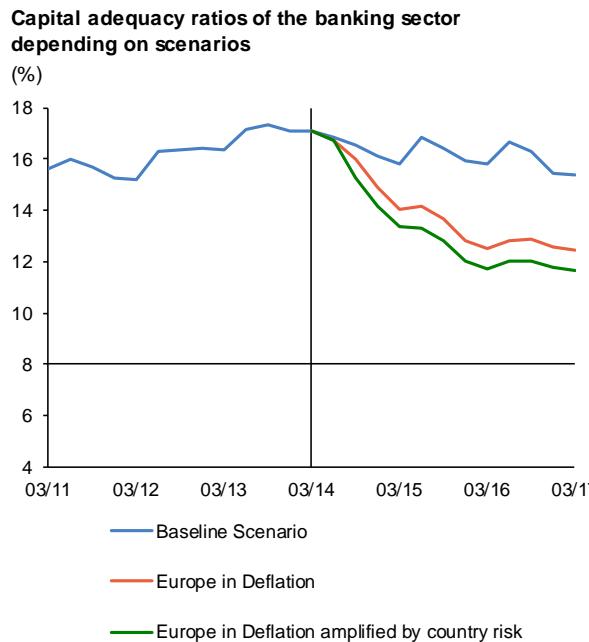
Alternative scenarios: 3M PRIBOR
(%)



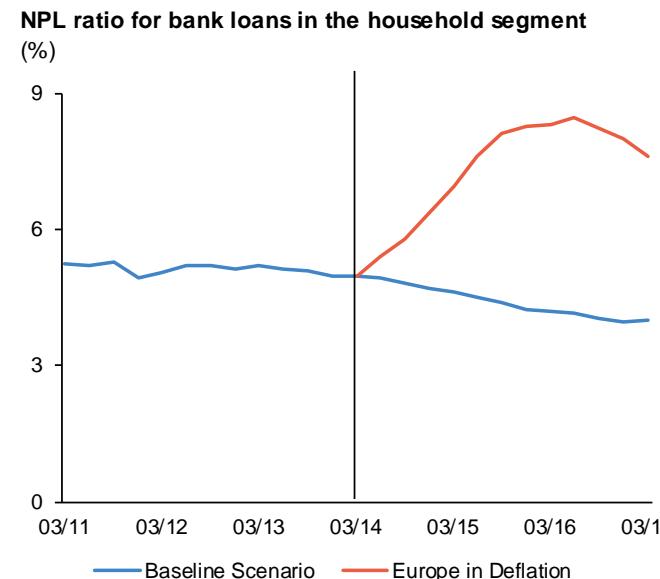
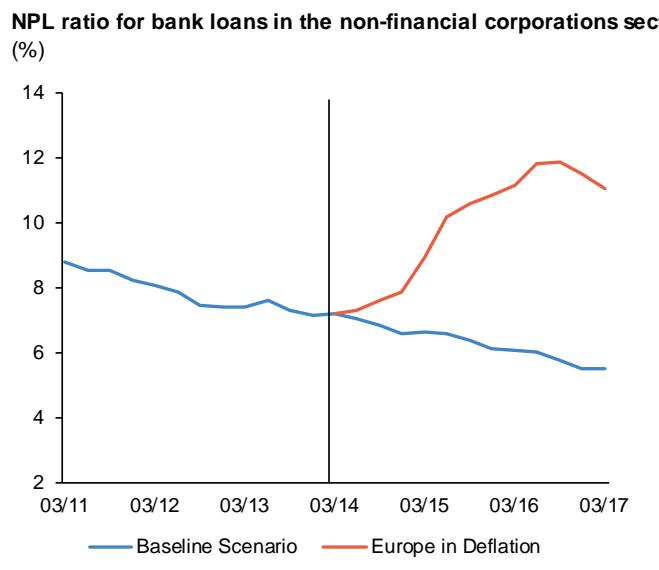
Alternative scenarios: unemployment
(%)



Stress-testing Czech banking sector

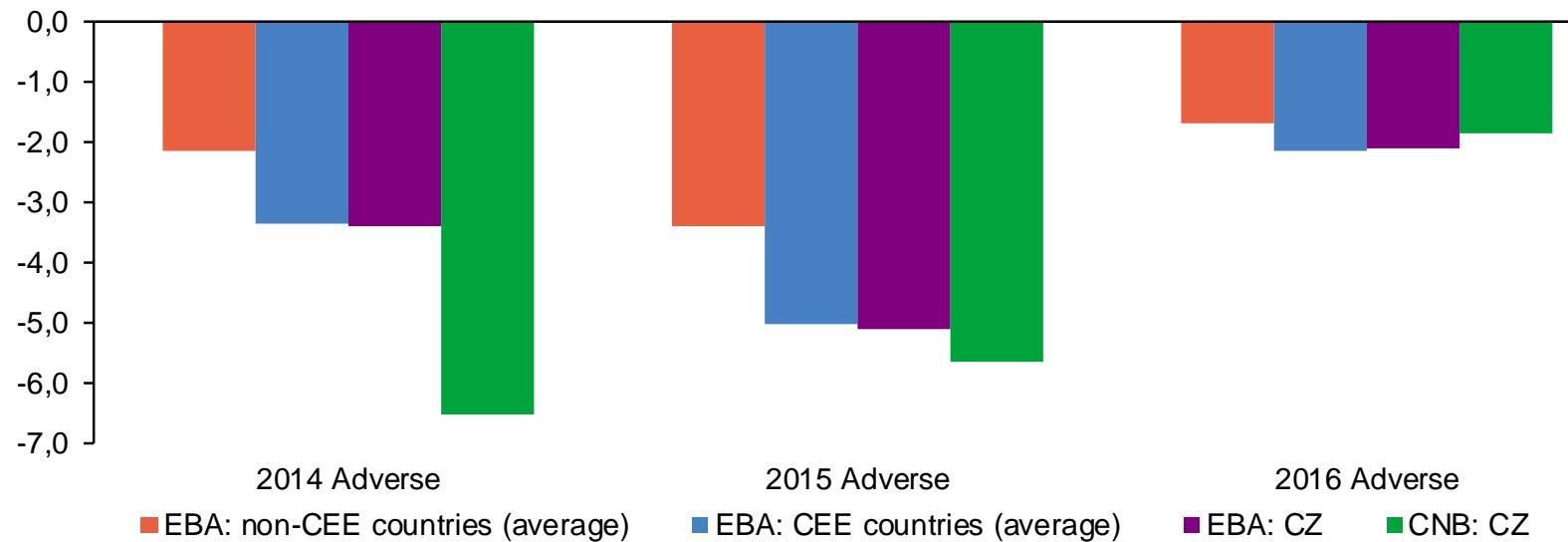


- Despite adverse developments, CAR of banking sector does not drop below 12% in *Europe in Deflation* stress scenario.
- 11 banks – representing about 17% of sector's assets – record fall in capital adequacy below regulatory minimum and have to strengthen their capital. Necessary capital injections total around CZK 12 billion, i.e. around 0.3% of GDP (0.5% in Europe in Deflation amplified by country risk adverse scenario).



Comparison of stress-test scenarios – CEE, non-CEE, CNB

(deviation from baseline in p.p.)



Source: EBA, ČNB

- Average shock to GDP is larger for CEE countries.
- Compared to EBA, CNB's adverse scenario assumes even deeper GDP decline.

- Does public debt level influence economic growth and functioning of fiscal policy?
 - Checherita & Rother (ECB WP, 2010):
 - gov debt $> 90\text{--}100\%$ of GDP has negative impact on growth
 - Cecchetti, Mohanty & Zampolli (BIS WP, 2011):
 - gov debt $> 85\%$ of GDP, non-fin corp debt $> 90\%$ of GDP & household debt $> 85\%$ of GDP has negative impact on growth
 - Ilzetzki, Mendoza & Végh (JME, 2013):
 - gov debt $> 60\text{--}70\%$ of GDP turns long-term fiscal multiplier negative, economic openness (share of international trade in GDP $> 60\%$) significantly lowers fiscal multiplier

- Does public debt level influence economic growth and functioning of fiscal policy?
 - Baum et al. (JIMF, 2013), for EMU:
 - positive effect of fiscal stimuli disappears around threshold of 67% of GDP
 - negative for debt over 95% of GDP
 - countries with debt over 70% of GDP face pressure of growing debt premium
 - Reinhart and Rogoff (AER, 2010)
 - qualitatively same results

	Public debt [% of GDP]	Implicit pension debt (1-2) and implicit public budget debt (3) [% of GDP]			Age dependency ratio
	Estimate 2014	Discount 5%-2%	Discount 3%	Sustainability gap (3)	2013
Eurozone					
Austria	79		360	258	48.9
Belgium	100			644	53.7
Cyprus	122			879	41.3
Estonia	11	163-268		92	51.2
Finland	60		301	473	55.0
France	96		362	449	56.5
Germany	75		330	154	52.0
Greece	175		231	632	52.3
Ireland	124			1268	50.8
Italy	135		323	73	54.3
Luxembourg	24			1184	46.5
Malta	73	194-356	269	408	44.9
Netherlands	75		236	574	51.7
Portugal	127	193-358	298	283	50.5
Slovakia	59	179-304	211	455	38.9
Slovenia	75	255-429		609	46.0
Spain	99		204	672	49.5

- Implicit debt estimates depend crucially on estimation horizon, method, discount factor, etc.

	Public debt [% of GDP]	Implicit pension debt (1-2) and implicit public budget debt (3) [% of GDP]			Age dependency ratio
	Estimate 2014	Discount 5%-2%	Discount 3%	Sustainability gap (3)	2013
Rest of EU					
Bulgaria	22		202	241	49.2
Czech Rep.	49	47*	201	397	46.1
Denmark	46			305	55.0
Hungary	79	171-300	258	166	46.8
Latvia	33		125	59	50.2
Lithuania	39	134-221	180	327	44.6
Poland	50	220-379	361	253	41.6
Romania	40	214-386		303	43.3
Sweden	41		285	247	56.8
UK	92		91	640	54.0
For comparison					
Switzerland	48		39**		48.1
USA	106		55**		50.4

- Not sustainable today
- Will not be sustainable with deflation either

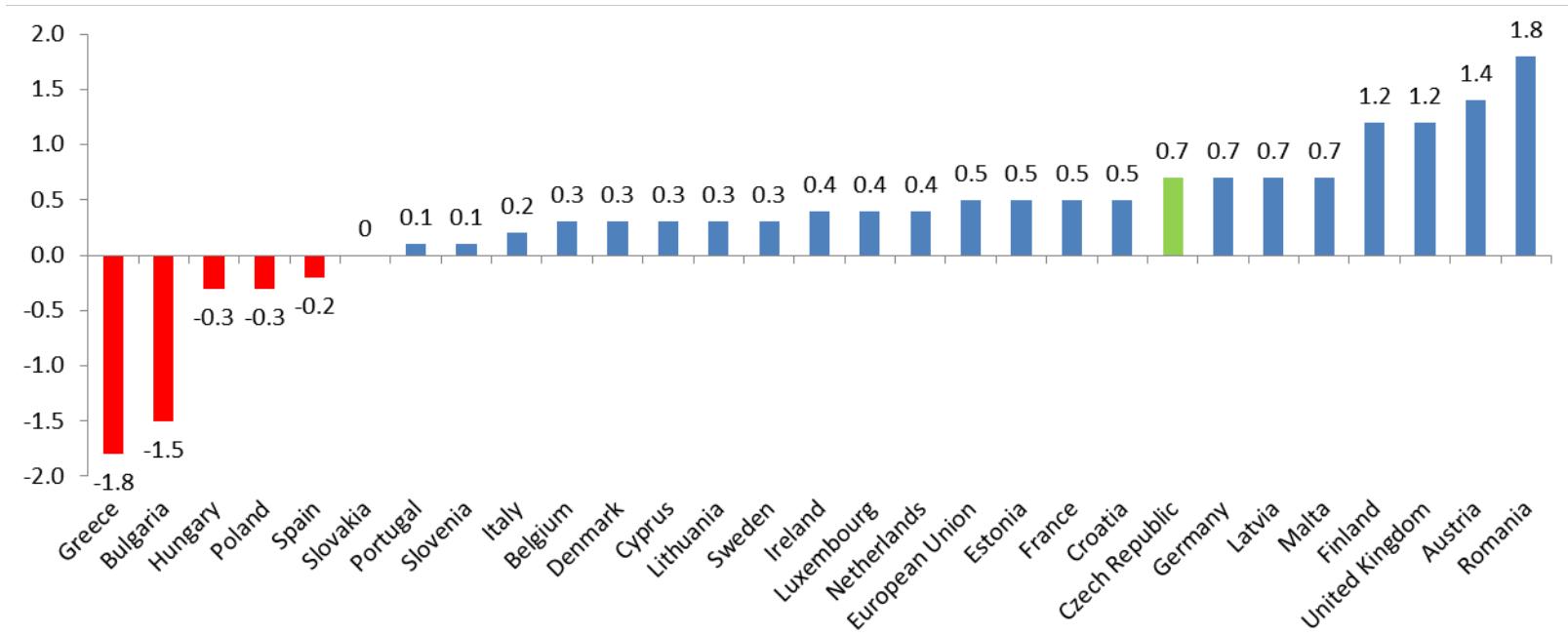
(1) Holzmann, R. et al. (2004). "Implicit Pension Debt: Issues, Measurement and Scope in International Perspective", Social Protection Discussion Paper Series, (0403), World Bank

(2) Müller, C. et al. (2009). Pension obligations of government employer pension schemes and social security pension schemes established in EU countries, Final Report, Research Center for Generational Contracts, Freiburg University

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The real threat: “macro” tools needed!

HICP (annual rate of change; 10/2014)



Note: Data for the UK from 9/2014

Currency depreciation in %; impact on GDP in percentage point deviation from baseline

	Czech Republic	Croatia	Hungary	Poland	Romania	Bulgaria
Foreign currency shock	15%	15%	25%	25%	15%	0%
Implied GDP impact	2014	0.0	-0.6	-0.2	-0.02	-0.7
	2015	0.0	-2.2	-0.8	-0.03	-1.3
	2016	0.0	-3.0	-1.2	-0.04	-1.9

- Small households' FX exposures in Czech Republic, no impact of foreign currency shock scenario.
- FX interventions do not constitute financial stability risk in Czech Republic.
- **Monetary policy:** CNB will continue to use exchange rate as monetary policy instrument at least until 2016.
 - CNB will prevent excessive appreciation of koruna below CZK 27 to euro by intervening in forex market, i.e. by selling koruna and buying foreign currency; on weaker side of CZK 27/EUR level CNB will allow exchange rate to float according to supply and demand on FX market.

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