Box 4. The monetary policy stances of the major central banks and of those in the region

Inflation picked up towards end-2016 and at the beginning of 2017 both in the advanced economies and in the region, after a long period of low, even negative values; the step-up in the annual inflation rate lost momentum thereafter, but resumed more visibly in recent months. The fluctuations owed primarily to changes in the international oil price, while the generally upward trend reflected mainly the almost continuous increase in core inflation in most of these economies, amid the revival of economic activity and hence the gradual narrowing – until the near closing – of the negative output gap. In developed economies, inflationary pressures from fundamentals have remained relatively moderate for the time being, but are anticipated to strengthen in the future. Against this background, major central banks are already undergoing, or else are about to initiate, a process of monetary policy normalisation. Across the region, however, central banks have undertaken somehow different approaches, with an emerging propensity rather for extending the accommodative stance of the monetary policy (Table A).

Table A. Macroeconomic developments and monetary policy stance in advanced economies and in the region

		US	UK	Euro area	CZ	PL	HU	RO
Inflation objective[b,c] (%)		2%	2%	below, but close to 2%	2% ±1pp	2.5% ±1 pp	3% ±1 pp	2.5% ±1 pp
Annual inflation rate (%)	Sep. 2017	1.63[e]	3.00[b]	1.50[a]	2.70[b]	2.19[b]	2.50[b]	1.77[b]
	2017 Q4 – forecast[b,c]	1.6	3.0	1.2	2.7	1.9 (year 2017)	2.4	2.7 (Dec.)
	2018 Q4 – forecast[b,c]	1.9	2.4	1.4	2.2	2.0 (year 2018)	2.5	3.2 (Dec.)
Monetary policy rate[b,c] (%)	Dec. 2016	0.5-0.75	0.25	0	0.05	1.5	0.9	1.75
	Nov. 2017	1-1.25	0.5	0	0.5	1.5 (Oct.)	0.9 (Oct.)	1.75
Output gap[b,c] (% of potential GDP)		slightly positive, widening	negative, closing	negative, closing	slightly positive	negative, closing	negative, close to zero	positive, widening
General government balance* (% of GDP)	2016	-3.2[f]	-3.0[d]	-1.5[c]	0.7[b]	-2.4[d]	-1.8[d]	-3.0[d]
	2017 – forecast	-3.6[f]	-2.9[d]	-1.3[c]	1.4[b]	-2.9[d]	(-1.6; -1.8)[b]	-3.5[d]
	2018 – forecast	-2.8[f]	-2.3[d]	-1.0[c]	1.4[b]	-2.8[d]	(-2.2; -2.4)[b]	-3.7[d]
Current account balance (% of GDP)	2016	-2.5[d]	-4.4[d]	3.5[c]	1.1[b]	-0.3[d]	4.8[d]	-2.1[b]
	2017 – forecast	-2.8[d]	-3.9[d]	2.9[c]	0.9[b]	-0.9[d]	3.5[b]	-2.8[d]
	2018 – forecast	-3.3[d]	-3.2[d]	2.5[c]	1.0[b]	-1.3[d]	2.5[b]	-2.9[d]

*) ESA 2010 methodology, except for US

Source: a) Eurostat, b) NCBs, c) ECB, d) European Commission, e) Federal Reserve Economic Data, f) US Congressional Budget Office

In particular, the European Central Bank announced in October 2017 the reduction, as of January 2018, in the monthly pace of its net asset purchases to EUR 30 billion from EUR 60 billion previously, while keeping unchanged, for an extended period of time, the monetary policy rate and the interest rates on the standing facilities[1]. Moreover, the asset purchase programme was

[1] Thus, the interest rate on the main refinancing operations was kept at 0 percent, while the deposit and lending facility rates were left unchanged at -0.4 percent and 0.25 percent respectively. These levels have been in place since March 2016.

extended until the end of September 2018 or beyond. The decisions were taken in a context in which the euro area annual inflation had witnessed a standstill in September at 1.5 percent and, according to the ECB's latest forecast[2], it was expected to decline in the short run, before re-embarking on an upward path over the longer term, albeit at levels below the central bank's objective, also amid the likely slowdown in economic growth (after peaking in 2017 at a 10-year high of 2.2 percent). In turn, the Fed maintained the target range for the federal funds rate at 1 to 1.25 percent in the 30 October – 1 November meeting, after having increased it by 0.25 percentage points in each of the March and June meetings, sticking to the cycle initiated in December 2015, and having announced in September the launch of a gradual balance sheet normalisation process[3]. At the same time, the Bank of England conducted on 2 November the first monetary policy rate hike since 2007 (by 0.25 percentage points, to 0.50 percent), given that the annual inflation rate had picked up to 3.0 percent in September and, according to the central bank's forecast, it was seen on the rise over the short term, before declining gradually in the vicinity of the 2 percent target.

At a regional level, the Polish central bank maintained in October the monetary policy rate at 1.5 percent, where it had been lowered in March 2015, given that the central bank's projection foresees further moderate annual inflation rates – below the midpoint of the target – over the following quarters, amid a mild increase in external prices, accompanied by the likely gradual heightening of domestic inflationary pressures, due to the improved economic picture. The Hungarian central bank also kept interest rates unchanged in October, after having taken several monetary policy easing measures a month earlier, namely: (i) lowering the overnight deposit rate by 0.1 percentage points, to -0.15 percent; (ii) lowering the upper limit on the stock of three-month deposits, and (iii) increasing the stock and extending the maturities of swap instruments providing forint liquidity. The annual inflation rate decelerated slightly in September, to 2.5 percent, and the central bank's latest medium-term forecast sees it stepping up gradually and reaching the 3 percent target in 2019 Q2, before sticking to this level thereafter.

By contrast, the Czech National Bank resorted in November to a further rise in the monetary policy rate (by 0.25 percentage points, to 0.5 percent[4]) – the second in the cycle launched in August 2017[5]. The decision was warranted by the fact that the annual inflation rate had climbed in September to 2.7 percent from 2.5 percent in the previous month and the central bank's latest medium-term forecast expected it to run for most of 2018 in the upper half of the ±1 percentage point tolerance band of the 2 percent target, before declining and remaining close to the midpoint of the target, also amid the anticipated slowdown in economic growth.

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2 September 2017 *ECB Staff Macroeconomic Projections for the Euro Area*.

3 Via a reduction in the reinvestment of maturing financial assets, at first by up to USD 10 billion per month, a threshold that would be raised to USD 50 billion over a one-year period.

4 Moreover, the deposit facility rate was kept at 0.05 percent, while the Lombard rate was raised to 1.0 percent.

5 In April, the Czech central bank decided to discontinue the use of the exchange rate of the domestic currency as a monetary policy instrument by exiting from the exchange rate commitment of CZK 27 per euro.