
Dow Jones Newswires

Czech Ctrl Bker Zamrazilova:Rate Cut Likely To Be Considered

By Sean **Carney**
Of DOW JONES NEWSWIRES
527 words
28 July 2008
15:56
Dow Jones International News
English
(c) 2008 Dow Jones & Company, Inc.

PRAGUE (Dow Jones)--A proposal to loosen monetary policy will likely be voiced at the Aug 7 Czech central bank monetary policy meeting to stem the koruna's steep firming, a central bank monetary policy board member said Monday.

Inflation, employment levels and economic growth are all largely in line with the central bank's expectations, but the koruna's foreign exchange rate has firmed well beyond the bank's forecast.

"This is a factor I will necessarily have to take into account when deciding (on the policy vote)," Eva Zamrazilova said in an interview with Dow Jones Newswires. The Czech central bank's benchmark interest rate is 3.75%.

The koruna has appreciated 16% annually to the euro and 27% to the dollar, making it one of the world's fastest appreciating currencies.

Risks to inflation favor cutting interest rates or leaving them unchanged, rather than creating a need to further tighten monetary policy, she said.

The currency's firming is beyond a sound rate of appreciation and is likely to negatively impact the economy, she said, reiterating that she "can't exclude lowering interest rates" to potentially cool the currency's firming.

Investors may be overestimating the Czech economy's resilience to withstand continued koruna firming, she said.

"The intense and rapid appreciation of the koruna can't end without damage to the economy, from a macro-economic point of view," she said.

If there is a correction to the koruna, she envisions it as only a mild koruna weakening, saying a sharp weakening of the currency is unlikely as Czech economic fundamentals remain robust.

Zamrazilova reiterated statements she made earlier that inflation will fall by early next year to the central bank's target level of between 2% and 4%, adding that if the koruna remains strong, inflation early next year will be closer to the lower end of the inflation target band.

Annual inflation peaked at 7.5% in January and February and was 6.7% in June.

The central bank has lifted interest rates five times since early 2007, and the effect of the most recent increase, in February, still has yet to be felt, she said.

"The full effect of the last interest rate increase, in February, will take place in the second quarter of next year," she said.

The delayed impact of recent monetary policy moves, together with inflation's high base-effect on the year, further support expectations that inflation will decelerate later this year and early next year, she said.

Barring very strong and unexpected data that would indicate large upside risks to inflation, Zamrazilova said it is unlikely she would entertain proposals to further tighten monetary policy.

These comments echo other dovish statements made by Zamrazilova's monetary policy board colleagues in recent days and support some expectations on the market that the central bank's monetary policy tightening cycle has peaked.

Central bank Web site: <http://www.cnb.cz>

-By Sean **Carney**, Dow Jones Newswires; +420 222 191 375, sean.carney@dowjones.com [28-07-08 1401GMT]

Document DJI0000020080728e47s000qw