

## **Interview of the CNB Vice-Governor Oldrich Dedek for the Bridge News agency** **By Marek Petrus, Bridge News**

-- [B] Repeats: Czech CNB's Dedek says must wait before judging koruna moves --

--Czech CNB's Dedek: Koruna recently neared overly strong levels

--Czech Dedek says future will show if koruna firming one-off

--Czech Deputy Gov. Dedek says FX action tool in CNB's armory

By BridgeNews

Prague--Nov. 1--The Czech koruna has recently neared levels that the central bank could consider "too strong," but it was necessary to wait for a further currency development before considering any policy reactions, Czech National Bank Deputy Gov. Oldrich Dedek said Wednesday. He declined to say whether the currency's strength warranted intervention, but reiterated the central bank's mantra that intervention in the currency market was a tool in its armory.

"There was a one-off koruna strengthening recently due to one transaction, which pushed the exchange rate to levels that may already be provoking certain considerations as to whether the koruna isn't too strong," Dedek told BridgeNews in an interview.

"Nevertheless, a further development will show if this was a one-off swing or if it is necessary to consider the question as to whether this was an excessive appreciation or a trend supported by rising labor productivity."

In his comment, Dedek was referring to the sudden strengthening of the koruna by more than 2% against the euro within a couple of minutes on Oct. 19, which was caused by a major koruna purchase--rumored to be worth an equivalent of some U.S. \$550 million--by a local bank. The unit has since handed back some of its gains, but remained strong at levels below 35.0 per euro, its benchmark currency.

Dedek's remarks were in line with the recent comments by outgoing CNB Governor Josef Tosovsky. Tosovsky said on Oct. 26 that the situation then did not necessitate immediate policy action, but added that the central bank would consider using intervention to push the koruna down if the unit uses its current levels as a springboard for further gains.

Dedek said the central bank was continuously monitoring economic developments and has noted the koruna had a tendency to strengthen over the long-term on the back of bulky inflows of foreign direct investment (FDI).

The country is expected to attract more than U.S. \$6 billion koruna in FDI this year as foreign investors buy Czech assets and make green-field investments.

Asked whether the current circumstances warranted intervention to ease the koruna's strength, Dedek said: "I would not like to disclose the policy of our interventions. I would only say intervention is an instrument of monetary policy under the exchange rate regime of managed floating."

Dedek is regarded as one of the candidates most likely to succeed Tosovsky, who announced Tuesday he would step down Nov. 30 to join the Basel-based Bank for International Settlements (BIS).

-- [B] Repeats: Czech Dedek says CNB ready to raise rates if needed --

By Marek Petrus, BridgeNews

Prague--Nov. 1--The Czech National Bank is keeping an eye out for potential inflationary pressures after keeping interest rates on hold for almost a year now as the country's economic recovery takes firm roots, Deputy Governor Oldrich Dedek said on Wednesday. In an interview with BridgeNews, Dedek made it clear the central bank was ready to jack up interest rates if its projections show that inflation would deviate from its target ranges.

He said the central bank's monetary policy had helped to kick-start economic growth after the recession of 1997-1999, by maintaining interest-rate stability, but added the bank would not hesitate to raise rates if needed.

"The CNB's board in no case wants to create any illusions that this (stable) policy is a sacred cow and that the (interest-rate) stability is a value in itself. The stability was given solely by the fact inflation has been low," Dedek told BridgeNews in an interview.

"The bank board would certainly (act) if comes to the conclusion that a turning point is being reached and that inflationary expectations are beginning to nudge up, which may be normal when the economy is recovering," he added.

The central bank has made inflation targeting a cornerstone of its monetary policy, with the annual net inflation target of 2.0-4.0% set for the end-2001.

Net inflation, which factors out government-regulated prices, is forecast at between 2.2-4.0% in December 2001, well within the target range.

Low inflation amid a slowly reviving economy has allowed the CNB to keep the key two-week repo rate steady at 5.25% since November 1999, but growing industry output and rising employment has signaled the recovery is gaining strength.

Asked how long the central bank could afford to maintain interest-rate stability, Dedek said: "I would not like to speculate. It could be an interesting question. There has been constant speculation whether the first (rate) hike will come in the first, second or third quarter. It would not be responsible of me to release such information."

Dedek reiterated the recent central bank warnings that the government's expansive fiscal policy was a major inflation risk, adding that the CNB is paying increasingly close attention to this factor. He said the fiscal trends were a cause for concern.

The International Monetary Fund on Monday urged the Czech Republic to take steps to slash its widening fiscal gap or risk significantly higher interest rates in the future.

Dedek also said the central bank was bound to prevent the recent external cost shock caused by an expensive dollar and recent rises in energy prices worldwide from spilling over into domestic consumer prices.

He is regarded as one of the top candidates to succeed CNB Governor Josef Tosovsky, who announced Tuesday he would step down Nov. 30 to join the Basel-based Bank for International Settlements (BIS).

-- [B] BRIDGE INTERVIEW: New Czech central bank law worries Deputy Gov. --  
By Marek Petrus, BridgeNews

Prague--Nov. 2--Czech National Bank Deputy Governor Oldrich Dedek, the front-runner for governor, has reiterated the central bank's worry that the amended rules governing its operations may be used to curb its authority in formulating monetary policy. In an interview with BridgeNews late Wednesday, Dedek said he was concerned the new CNB act, set to come into force on Jan. 1, had clauses that could "influence the independent status of the central bank."

He said his major objection was the ambiguity in a number of provisions in the bill that create room for conflict between the central bank and the parliament or Cabinet.

"What I see as the biggest problem is that a huge potential for conflict is being created," said Dedek, who is in charge of legislation and international affairs at the CNB.

"If there were a (political) interest in spurring the central bank to take some action or behave in a certain way, the new elements of the law would open quite a broad field of action," he added.

Serving as CNB deputy governor since February 1999, the 46-year-old Dedek is widely regarded one of the leading candidates to succeed Governor Josef Tosovsky, who will step down on Nov. 30.

Dedek was the deputy head of the central bank's economic institute from 1992 to 1996, when he started working as an advisor to Tosovsky.

He would not comment on whether he would like to succeed his boss when the top post becomes available on Dec. 1.

The CNB bill was originally intended to harmonize the law with European Union legislation, but the lower house of parliament approved a number of controversial changes to the act that central bankers and other experts say threaten the bank's independence.

President Vaclav Havel vetoed the amendment Monday, pointing out that some parts of the bill contravened the constitution, but the lower house seems determined to override his veto and ensure it becomes law on Jan. 1 as planned.

The following are Dedek's comments on what he identified as the most controversial provisions in the bill, which he said could produce conflicts between the central bank and the executive and legislative branches and be used to pressure the CNB:

\* All central bank operations that are not related to maintaining price stability will be subject to the accounting supervision of the Supreme Auditor's Office.

"How do you define activities that are related or not related to fulfilling the central bank's primary aim, [price stability]? I believe it is not possible in practice," said Dedek.

\* The central bank's budget will be divided into "operating" and "monetary policy" sections, and parliament will gain control over the operating section.

"I do not think it's a technical problem to split the budget into monetary policy and operating parts. However, there are a number of important items in the operating budget and if they are carelessly cut in parliament, the CNB's status could be significantly threatened," said Dedek.

\* The central bank will have to take wage levels in the public administration "into consideration" when setting wages for one part of its own employees.

Under the provision, the CNB's governor and board members would be put on the same wage scale as the country's prime minister and cabinet ministers.

"This is a very unfortunate provision...If somebody had an interest in nailing the central bank to the wall, it would be easy to use these vague formulations in the law to accuse the CNB of not abiding by the law," Dedek said.

\* The central bank will have to set its inflation targets and exchange rate regime "after an agreement with the government."

Dedek said he did not object to the provision forcing the CNB to come to an agreement with the government on the exchange rate regime and added it was in the CNB's own interest to agree on its inflation targets with the government.

The CNB has agreed with the Cabinet on its 2001 annual net inflation target of 2.0-4.0% and the government has vowed to honor the long-term target of 1.0-3.0% for 2005.

But Dedek said the wording of this provision suggested there was a risk the CNB would not be able to set an inflation target on its own, if it cannot come to an agreement with the government on the issue.

"The question is, how would the central bank conduct monetary policy in the regime of inflation targeting if there is no target, if no agreement was reached," he said.

"This is another problem that could complicate conducting monetary policy and could lead to a stalemate (between the central bank and the government) ...There should be a possibility left open for the central bank to declare an inflation target even without a prior agreement with the government," he said.

The central bank will announce its 2002 target at the end of April next year, which should allow the Finance Ministry to take it into account when drawing up the state budget for 2002.

The CNB bill would also set "price stability" as the primary aim of the CNB.

Another clause would take the power of nominating members to the policy board out of the president's hands, and require president to appoint board members from among candidates nominated by the government.

In his veto on Monday, Havel said these two clauses contravene the current wording of constitution, which states that the CNB's goal is to maintain "currency stability" and gives the president exclusive power to nominate and appoint board members.

The lower house of parliament is expected to vote on the bill again at the end of November or early December.

The country's two main political parties, which have both strongly supported the bill, have enough votes to easily override the president's veto.

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