

Interview of the Jan Frait, member of the CNB Bank Board for the Bridge News agency

By Marek Petrus, BridgeNews

[B] BRIDGE INTERVIEW: Czech CNB member sees no big policy moves soon --

- Czech CNB board member sees no major money policy moves soon
- Czech CNB's Frait sees no big problem to meet end-2001 CPI aim
- Czech CNB's Frait says economy can live with current FX levels
- Czech CNB's Frait warns against too sharp FX strengthening
- Czech CNB's Frait expects 2002 CPI target a bit below 2-4%

By Marek Petrus, BridgeNews

Prague--Dec. 18--Newly appointed Czech National Bank board member Jan Frait said Monday he would expect no sharp moves in the central bank's monetary policy as the targeted net inflation remains largely in line with the end-2001 goal of 2.0-4.0%, essentially repeating the bank's stance on the issue. He said, however, he would like the CNB's interest rate policy to become more flexible in order to help fine-tune the rebounding economy.

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Frait, a 35-year old monetary economics professor, said the central bank would not like to see any sharp strengthening of the domestic currency but would probably tolerate a mild appreciation trend if it is based on foreign direct investment inflows.

"The economy in essence can live with the (current) exchange rate," he told BridgeNews. Buoyed by the FDI inflow, the koruna hit an all-time high of 34.24 per euro in late November, but the unit has since retreated and was trading at levels around 34.70 in the early afternoon Monday.

Frait, who has repeatedly criticized the central bank's practices in his recent research work, became chief executive irector at the CNB and member of the seven-seat policy-making bank board on Dec. 1 for a six-year term.

He said he thought the target for net inflation at the end of 2002 should not differ much from the 2001 goal, though he said it should be slightly lower in order to be in line with the long-term monetary strategy of bringing inflation to 1.0-3.0% in 2005.

In the interview, Frait declined to discuss specific issues ahead of Thursday's board meeting, which will be devoted to monetary policy.

He also said he needed a few months to familiarize himself with the inner workings of the central bank before offering sharper views on the policy outlook.

MORE FLEXIBLE INTEREST RATE POLICY ADVOCATED

Frait said he believed the central bank should not hesitate to move interest rates up or down whenever its projections show that such a move is necessary to protect the inflation target.

He said he had criticized the CNB in the past for keeping interest rates too high for too long before they were lowered to current levels in a long series of rate cuts which ended in November last year.

The key two-week repo rate has been left at 5.25% since Nov. 26, 1999, but most analysts expect the CNB to start tightening around the middle of next year to pre-empt inflation rise in a recovering economy.

"The CNB should perhaps work with interest rates more flexibly. This means that it should not be afraid of changing them more regularly, both downward and upward, and just try to fine-tune the economy a bit by means of interest rates," Frait said.

He said the CNB's policy should "react more sensitively" to economic developments in the future.

He added that he personally wanted to contribute to improving the central bank's inflation forecasting to help it produce more accurate results than before and help shape monetary policy toward meeting its targets.

The central bank undershot its inflation target in 1999 and looks likely to do so again this year.

NO MAJOR OBSTACLES TO MEETING 2001 POLICY AIMS SEEN

Frait said he did not see the central bank having any major difficulties in keeping inflation under control next year, when the CNB expects the recent external cost shocks stemming from high global energy prices and an expensive U.S. dollar to recede.

"I believe the CNB's role for 2001 is not that complicated. The targeted net inflation is at a very low level...To a certain extent, we have found ourselves right where we want to be in 2001 and it should not be such a big problem to maintain this level," Frait said.

"There is a consensus between the CNB's experts and the experts of other institutions that the (inflation) prognosis for the end of next year more or less corresponds to the target, so sharp changes in monetary policy measures cannot be expected in the near term," he added.

Net inflation, which factors out government-regulated prices and is the central bank's primary gauge for setting short-term interest rates, rose 3.4% on the year in November, making it likely the CNB will undershoot its 3.5-5.5% target set for the end of this year.

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