

BRIDGE INTERVIEW: Czech Tuma sees no need for rate action this year

By Anna Willard, BridgeNews

- Czech Tuma: Zeman had no strong reason to seek 50bps rate cut
- Czech Tuma sees upper limit of '02 inflation target 3.5-4.0%
- Czech CNB's Tuma says Dec CPI was as expected
- Czech Tuma: BOP, current account biggest near-term econ risks
- Czech Tuma: Public finances risk to economy over medium term

Washington--Jan. 10--There is no reason yet to think there will be any interest rate moves by the Czech National Bank this year, CNB Governor Zdenek Tuma said Tuesday. However, he said this could change depending on how the global economy behaves. But he said Prime Minister Milos Zeman had no strong arguments to back a recent statement that said there was room for a further 50-basis-point cut to the repo rate.

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"Generally there are no urgent risks that would require any immediate dramatic interest rate action. I wouldn't exclude it altogether this year but I wouldn't expect any changes this year, but this depends how the global economy would behave," Tuma told BridgeNews in an exclusive interview here. "It is difficult to say when we will touch interest rates and in what direction."

Tuma was in Washington on a two-day visit to meet with officials from the International Monetary Fund. He was due to meet Stanley Fischer, first deputy managing director, Michael Deppler, head of the European 1 department of which the Czech Republic is one of the countries as well as Willy Kiekens, executive director responsible for the Czech Republic. An IMF mission is next due to visit the Czech Republic in April for the regular article IV assessment of the country's economy.

Asked about Zeman's statement to lower the 5.25% repo rate, Tuma said: "We had a discussion on this and I'm not sure how strong his arguments were. He expressed his opinion but we (the CNB) are responsible for monetary policy."

Tuma said one concern for the CNB is the performance of neighboring European Union countries on which the Czech Republic depends heavily for its exports. He said that although last week's decision by the Federal Reserve to cut interest rates was important for the global economy, "it is far from clear that the European Central Bank will follow the Fed move." This means the impact of the Fed move on Czech monetary policy could be limited, he said.

But he noted that if the U.S. economy slows dramatically this could affect countries such as Germany, which would have a negative impact on the Czech economy.

Nevertheless, Tuma said the Czech economy is coming out of a recession, which means domestic consumption will be more important for economic growth than exports.

As for December's inflation, Tuma said the numbers, which were released Tuesday and showed a rise of 0.2% on the month and 3.0% on the year, were in line with expectations.

He declined to give a forecast for year-end inflation. The most recent forecast from the CNB is 2.0-3.7%. Tuma said the CNB would discuss at its next meeting "whether these indications should be more modest."

Tuma said the upper limit of the 2002 inflation target would not be higher than 4%. Asked whether the upper limit could be as low as 3% he said: "My very preliminary opinion...but taking into account that the economy is going up I don't think it's likely that we go to an upper limit of 3%. It might be between 3.5% and 4%. But 3%, it seems to me at this moment to be too ambitious. I don't see any reason why we should move so fast."

Tuma said he believed that the main near-term risks to the economy remain the balance of payments and the current account deficit. Over the medium term he is also concerned about an escalation in public finances.

"It seems to us that public finances need reform or they can endanger fiscal stability in the medium term, but I think the government would be responsible there would be no escalation of expenses," he said.

Tuma said there is an agreement with the government about the use of a foreign exchange account that is used for revenues from foreign direct investment to prevent wild fluctuations in the exchange rate. He said the government and the CNB have agreed on the use of the funds in the account. "They consult with us and we recommend the best solution."

He declined to give an appropriate level for the Czech koruna, saying only that "it is generally expected that it will remain stable." He welcomed the return to strength of the euro "because it is good for the European economy."

On the troubled banking sector, Tuma was optimistic, saying: "I strongly believe that the Czech banking sector is in better shape than it has been for 10 years." End