Miroslav Singer: Czech central bank head sees lowered risk of deflation – interview in *The Wall Street Journal*

Interview with Mr Miroslav Singer, Governor of the Czech National Bank, in *The Wall Street Journal*, conducted by Paul Hannon on 11 October 2014.

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The threat of a slide into deflation or a long period of very low inflation in the Czech Republic has diminished, the head of the country's central bank said Saturday, although he intends to maintain the weak-koruna policy at least into the start of 2016.

In an interview with The Wall Street Journal during the annual meetings of the International Monetary Fund in Washington, Miroslav Singer said he had been encouraged by the stimulus measures announced by the European Central Bank since June, since he had expected it to take longer to react to very low inflation rates.

Mr. Singer also said that he was confident the central bank could bring its weak-koruna policy to an end without risking a "snapback," or a sharp strengthening of the currency.

The Czech Republic is a member of the European Union, but has chosen not to use the euro. It does have close economic ties to the currency area and particularly Germany. As a result, low growth and low inflation in the eurozone have been a big problem for the central bank.

Mr. Singer said that while the central bank remains worried about the possibility of another "hiccup" in the eurozone, he is less concerned than he was before the ECB first indicated in May that it was preparing to take action.

"The outcome was more positive than I would have expected five months ago, and things look less gloomy than they appeared before they (ECB policy makers) found some consensus," he said.

The eurozone's persistent economic weakness has been the main concern for policy makers gathered here over recent days. Those concerns were heightened by a run of very weak data from Germany that indicated the economy may have contracted for a second straight quarter in the three months to September.

Mr. Singer believes those figures from August that recorded large falls in industrial production, manufacturing orders and exports are not reflective of the underlying state of the German economy, but instead the fact that there was a larger number of holidays than usual taken during that month. He said the Czech economy, which has a similar focus on industry rather than services, had experienced similar volatility in output over the summer months.

"I would be unpleasantly surprised if the weakness in Germany continues," he said.

With its benchmark interest rate already at 0.05%, the Czech central bank last November pledged to maintain the koruna's exchange rate at above 27 to the euro, effectively setting the firmest acceptable level for the currency.

Mr. Singer said that the weak-koruna policy has persuaded Czechs that the central bank won't allow consumer prices to fall, and removed the risk of a slide into a prolonged period of deflation.

Central bankers aren't worried so much about falling prices as about the threat that consumers and businesses will come to expect prices to continue to fall and will postpones their purchases, weakening economic growth and pushing prices down further.

"We were afraid of this problem of postponed consumption and investment," Mr. Singer said. "But people have realized the central bank is not going to allow a deflationary slide."

Mr. Singer said that retail sales are picking up, driven by higher auto sales, an indication that consumers aren't postponing purchases in the expectation goods will be cheaper in the future. He cited a decline in the savings rate as another indication that the risk of deflation has been lessened.

The central-bank chief said that while food prices may rise at a slower pace in response to a good harvest, he was not worried about that development because people can't postpone food purchases.

Measured according to an EU standard, the annual rate of inflation in the Czech Republic picked up to 0.7% in August from 0.6% in July, and Mr. Singer said he is confident it will rise to the 2.0% midpoint of the central bank's target range next year, assuming the eurozone follows a "baseline scenario" of a return to modest growth.

The ECB has indicated it will keep its benchmark interest rate low through 2017, while the Bank of England and the U.S. Federal Reserve are expected to raise their benchmark interest rates next year. Some policymakers worry there is a risk of "snapback" when the process of returning to more normal monetary policy begins.

Mr. Singer said the central bank has the power to ensure that doesn't happen, and could intervene to counter an overly rapid appreciation of the koruna.

"We will not tolerate snapback," Mr. Singer said. "Our promises are credible to the markets, and obviously we are willing to prevent snapback."

The central-bank head said that for the time being, the balance of power in the foreign-exchange markets had shifted towards central banks, since tougher capital standards mean banks have fewer resources with which to move a currency against policy makers' wishes.

"Temporarily, the power of central banks vis-à-vis market players has increased," he said.