

## Romania: Central bank minutes show concerns

While cheering for the 2018 inflation targeting performance, the National Bank of Romania (NBR) Board members accentuated the “substantially higher” risks for the medium-term forecasts



The National Bank of Romania building in Bucharest

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The vote to keep the key rate at 2.50% was unanimous, as were the decisions regarding the standing facilities and minimum reserve requirements. Board members emphasised the main disinflationary factors, chiefly naming the strong base effects, followed by the drop in fuel prices during the last period of 2018 and prices of fruits and vegetables. The drop in core inflation, which touched 2.5%, was also mentioned. Some Board members highlighted the central bank's monetary policy efficiency, which “had not overreacted” to the significant rise in inflation rate during the summer months.

Turning to monetary conditions, it was underlined that the interest rate differential remained substantial, which continued to support financial inflows. The stability of the exchange rate “even amid a widening current account deficit” was also cited. The central bank now seems more preoccupied than before and sees increased risks stemming from a “possible sudden change” in global risk sentiment “or in investor risk perception” of Romania.

Year-end inflation for 2019 is seen at 2.9%, driven by supply-side factors. Some Board members, however, expressed concerns that these factors could actually turn inflationary in the short run “also as a result of the fiscal and budgetary measures in force since the beginning of the current year”, which would remain relevant for medium-term inflation as well.

The fiscal and income policy is seen as a “major source” of risks to the medium-term forecasts, given the “still pending 2019 budget and the contents of the fiscal and budgetary measures effective 1 January 2019”. The impact of these measures needs an assessment “as comprehensible as possible” and some members warned about “significant short- and medium-term effects on economic activity, but also on the economy’s growth potential”. As mentioned by Governor Mugur Isarescu in the last press briefing, the Robor-linked tax on banking assets is seen as diminishing “the effectiveness and flexibility of monetary policy, and implicitly the central bank’s capacity to keep inflation under control”. Moreover, these measures together with other recently approved legislative initiatives would affect not only the efficiency of the monetary policy “but also banks’ stability”. In consequence, some Board members suggested a meeting of the National Committee for Macroprudential Oversight.

While the actual monetary policy decision was of course still attentively followed by the market, it was quite obvious that everyone was actually expecting to see the central bank’s reaction to the latest fiscal measures. Governor Isarescu kept quite an animated press briefing following the last Board meeting. Today’s minutes show that indeed the subject grabbed a hefty dose of attention from the Board members at the 8 January meeting. While possible implications and scenarios from Robor-linked bank tax will continue to be debated in the coming days, it looks like the NBR’s minutes have emphasised the one thing we can be sure of: the uncertainties and risks have risen substantially.

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