Romania: Key takeaways from the latest central bank minutes

The vote to keep the key rate at 2.50% was unanimous. Latest fiscal changes have been cited as being inflationary, a source of uncertainty and potentially growth adverse

The National Bank of Romania building in Bucharest

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1 Inflation is seen marginally higher

The National Bank of Romania (NBR) has marginally revised up year-end inflation to 3.0% in 2019 and 3.1% in 2020 while. The outlook for the exogenous CPI components is seen as “highly uncertain” with some Board members citing a possible short-term inflationary impact of the latest fiscal measures on the prices of some services and utilities – including electricity and natural gas.

CORE inflation is forecasted marginally higher as well, at 3.3% in December 2019 and 3.4% in December 2020. The output gap is seen widening at a slower pace “given that the adverse effects of the recently implemented fiscal measures were expected to feed through to potential GDP as well.”

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The non-food items better reflect the inflationary pressures generated by excess demand

3 Economic growth to decelerate towards potential

Economic growth assessment sees “a marked moderation” of the quarterly GDP dynamics in 4Q18 and 1Q19, amid “high uncertainties” generated by the set of fiscal measures. Full-year growth is seen still above potential in 2019 and in line with potential in 2020, slightly below initial estimates.

4 Current account deficit causing headaches

The widening of the current account deficit is again mentioned as a source of “increased concerns” which “calls for closer attention”.

5 EUR/RON could still re-adjust higher

Import prices dynamics is anticipated to be “relatively faster in 2019”, on the background of “the likely developments in the leu’s exchange rate”.

6 "The independence of monetary policy instruments is crucial"

The Board members again expressed concerns on the linkage between the bank tax and Robor levels, which essentially means “linking it to the monetary policy stance”. Furthermore, the adverse effects of the bank tax “might be compounded” by other ongoing legislative initiatives “whose provisions were likely to affect lending and monetary transmission, but also banks’ stability, as well as the economy’s external financing costs.”

7 Current outlook assumes “a slower reduction in the degree of accommodation of monetary conditions”

As already mentioned, monetary policy faces quite a tough backdrop of lower growth, higher core inflation and currency depreciation pressures. Hope for policy coordination is slim given the limited room for fiscal consolidation, particularly in an electoral context. As if it wasn’t complicated enough, a new NBR Board will be voted by October 2019. We believe that the leu will likely be propped-up via a mix of FX interventions and tighter liquidity management when needed. We forecast the year-end exchange rate at 4.80 and the key rate flat at 2.50%.

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