

## Romania: Mildly hawkish central bank minutes

The National Bank of Romania (NBR) Board members unanimously voted to keep rates unchanged, balancing the “slightly faster-than-expected” inflation increase with a “likely narrowing of excess aggregate demand”



The National Bank of Romania building in Bucharest

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### Inflation outlook remains worrying

The continued stubbornness of inflation and “slightly higher than forecasted” future readings seems to have triggered the attention of some Board members who “voiced again their concern that such inflation developments might de-anchor inflation expectations over the medium term”.

### CORE CPI is better behaved

On the positive side, the downside evolution of core inflation is noted, on the back of some international agri-food products and “the relative strengthening of the leu against the euro”.

## The output gap is narrowing

Regarding the economic activity, it is underlined that “economic expansion had witnessed a stronger-than-anticipated loss of momentum” which implies a “likely narrowing of excess aggregate demand contrary to expectations of a slight increase”. It seems that the latest weak economic data has surprised the NBR a bit, as “the new assessments reconfirmed the prospects for a further deceleration in economic growth during 2Q and 3Q, at a slightly faster pace than projected”.

## Monetary conditions getting tighter

The Board members remarked the “visibly less accommodative” monetary conditions in 2Q. With regard to the spread between deposits and loans, a narrowing is noticed which is “anticipated to continue in the near run”. Hence the central bank expects the banks to continue to pay higher rates for their liabilities.

## Looking ahead...

Against its previous forecast for an increase in the excess aggregate demand in the first part of the year, the new NBR outlook implies “lower values of the positive output gap during the first three quarters of 2018”, which some members considered to be “a natural development, towards ensuring the sustainability of economic growth.” Also, the minutes highlight the “heightened uncertainties associated with the inflation outlook” mainly due to consumer confidence and real wage developments.

We read today’s minutes as mildly hawkish. We still believe that the NBR will hike once again this year, probably on 3 October, in an attempt to contain inflation expectations and twice more next year in order to bring the interest rates closer to the long-term inflation rate. After the minutes we see a somewhat higher probability of a rate hike that we have penciled in for this year being frontloaded. Governor Mugur Isaescu reiterated at the last press briefing that over the medium term he sees positive real interest rates as the “normal” stance of monetary policy.

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