

## Romania: NBR minutes: still no forward guidance

Given that 'the pass-through to the market of the effects arising from the previous months' monetary policy measures was still ongoing', we see rates on hold on 4 July



The National Bank of Romania building in Bucharest

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In the short term, the NBR sees a sequential GDP acceleration in 1Q18, followed by a slowdown in 2Q18. In the medium term, the central bank expects a slowdown with GDP growth 'remaining above potential in 2018 and falling only slightly below potential next year'. Core inflation is seen near the upper bound of the target interval at the end of the policy horizon in 1Q20 which, under the policy assumption for 'monetary conditions would become markedly less accommodative during this year and turn marginally restrictive towards end-2019' which implies more rate hikes in the pipeline, but likely with a lower frequency, in our view.

The minutes mentioned that 'monetary conditions had continued to become less accommodative in April' due to NBR sterilisation operations with full allotment and suggest that this policy will continue to consolidate 'the effects caused by the NBR's tighter control over money market liquidity' in order to reverse the widening trends of the interest rate gap between loans and deposits.

'Some Board members underlined that the likely steeper and relatively persistent climb of the annual inflation rate significantly above the upper bound' risks 'de-anchoring inflation expectations over the medium' leading to higher costs for bringing back inflation under control, highlighting the role of central bank credibility.

To sum-up, it seems that the next meeting on 4 July would be a rather non-event, with the central bank likely to cite the ongoing adjustment after recent policy actions. The full allotment open market operations are likely to continue despite RON firming pressure in order to encourage domestic savings. There are another four NBR Board meetings for the rest of this year and we have pencil in another hike, most likely in 4Q, but depending on the updated inflation forecast we could see it frontloaded at 6 August meeting.