

## Romania: NBR waiting for a miracle

Several central bank board members see core inflation coming from Phillips curve relation, while only some see this pressures persisting. There was a debate on monetary conditions, but despite current account shortfalls, some members see its orderly correction via “budget adjustment, alongside structural reforms” over time



The National Bank of Romania building in Bucharest

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Not too much flavour on the interest rate outlook emerging from the minutes of the Romanian central bank 15 May meeting. FX controls remain the primary focus as the high pass-through is mentioned several times as a risk to the inflation outlook. “The assumption on gradually less accommodative monetary conditions, incorporated in the updated projection” was also discussed in the context on the outlook for the ECB and regional central banks.

There is no consistent view emerging out of the minutes on the policy transmission and the outlook after the recent legal changes to the indexes acting as a benchmark for the floating rate loans to retail clients. There is no detail on possible talks about innovating policy toolkit to achieve a “stricter” control of the interbank liquidity backdrop.

The mindset seems to be dominated by a time buying approach, likely also influenced by a tense political backdrop which can lead to possible undesirable pressures on the central bank, but also

having in mind that the term of the current NBR Board ends in October.

FX firepower seems to be considered comfortable by the policymakers to keep the ship steady in stormy seas. Both headline and core inflation forecast at 4.2%/3.3% and 3.8%/3.5% by the end of 2019 and 2020 respectively are likely to trigger worries at some point about the NBR falling behind the curve.

Hence, RON weakening pressures and higher market interest rates due to FX interventions.