

## Romania: Hinting at hikes

The National Bank of Romania offered no forward guidance. But by highlighting the ongoing removal of policy accommodation, the bank hinted at more hikes ahead



The National Bank of Romania building in Bucharest

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The vote to raise the key rate was unanimous. The NBR minutes noted that 'monetary conditions had become slightly less accommodative' in 4Q17 due to 'the significant pick-up in the relevant money market rates - to the highest levels in the region and the EU'. They also mentioned the relatively slow pass-through. At the press briefing, bank governor Mugur Isarescu said policymakers discussed tighter liquidity management by draining liquidity at the key rate, and a decision on this would 'probably' be taken at the next meeting on 7 February. Still, the minutes didn't mention this discussion. Our reading is that the NBR will continue to remove policy accommodation by increasing the key policy rate, while leaving surplus liquidity unsterilised. Hence, blurring the transmission mechanism.

On the inflation outlook, the minutes note that short-term inflation is anticipated to be 'significantly higher' relative to the November forecast, 'standing considerably above the upper bound of the variation band of the flat target, but also that the upward revision was almost entirely attributable to the action of supply-side factors'. Some members 'referred to the transitory nature of the inflation bout'. At the same time, the minutes said inflation expectations risk

becoming de-anchored 'over the longer time horizon'. The bank said higher costs for companies from fiscal measures along with a tighter labour market pose upside risks to the inflation outlook. Downside risks are seen coming from lower net wages after recent fiscal changes and 'the possibility of further corrective fiscal measures during 2018' to comply with the budget deficit target of 3.0% of GDP.

We expect the NBR to hike the key rate again at the 7 February meeting. This is likely to be accompanied by surplus liquidity conditions. On liquidity sterilisation, partial absorption might be considered.