

Romania central bank keeps rates on hold

The central bank kept rates on hold at 2.50% in line with our call and market expectations. We don't expect any change to the key rates in 2019, though the new central bank board to be voted by the parliament could come with a different approach



The National Bank of Romania building in Bucharest

Source: Shutterstock

FX move justified by fundamentals

In a rather unusual bold statement, the central bank governor Mugur Isarescu said: "FX fluctuations of up to 5% are not subject to particular attention from the central bank. Considering that the recent move was rather 'small'."

Talking about the EUR/RON movements from January 2019, governor Isarescu said this should have been expected given the twin deficit backdrop and the inflation differential. The governor said that FX intervention was 'too obvious to deny' and the subsequent stabilisation.

On the bank tax and fiscal package

The press release underlines the heightened uncertainties from the new set of fiscal and

budgetary measures but also the 'pending budget draft'. The governor mentioned a few suggestions that the central bank has already made to the government's ministry of finance regarding possible changes to the bank tax legislation.

The main issue seems to be the link between the tax level and the interbank offered rate, known as Robor, which are seen to be affecting the central bank's flexibility and efficiency and represent a disadvantage to the government. Other suggestions include exempting the minimum reserve requirements from the tax base, the mortgage loans under the 'first house' government guaranteed mortgage program and government bonds.

The next meeting between the central bank and the government will take place on 18 February when some conclusions will be presented to the public. But nothing is decided yet, and the governor admitted 'there is no easy way out'. The governor said that the NBR's second assessment on the impact of the tax levy point to a major issue, larger than the initial estimates.

Praise for the interbank market

A hefty part of the press briefing was dedicated to how the Robor index works and why the interbank market is 'one of the most efficient markets'. Not a lot of interesting news here, but the issue remains rather sensitive on the public agenda and is likely to be debated on 12 February at a hearing of the central bank board in a parliamentary commission.

More details on inflation outlook on Monday

The next meeting is on 2 April 2019 but on 11 February, the governor will present the first 'Inflation Report' for this year. As suggested in [today's press release](#) the central bank is expected to slightly lower its inflation forecast which is seen remaining within the target band for the entire 2019, but the uncertainties to the forecast are higher.

We believe that the revised estimate doesn't incorporate the effects of the recent fiscal measures nor the impact of the weaker leu on importers and consumers' expectations.

Author

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.