

Romania: Rates on hold, cloudy outlook

The National Bank of Romania (NBR) kept the key rate on hold at 2.50% in line with market expectations. The recently adopted ROBOR-linked bank tax is seen curbing monetary policy flexibility and efficiency



The National Bank of Romania building in Bucharest

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Benign inflation outlook

In line with analysts' expectations, the NBR kept rates on hold today, including the level of standing facilities and minimum reserve requirements. Governor Mugur Isarescu emphasised in the press briefing that the central bank expects year-end inflation to stay within its 2.5 ± 1 ppt target band and underlined that the short-term forecasts, at least, point to inflation printing within target. Besides the statistical base effects and fuel price drop, the "careful calibration of the monetary policy" has been repeatedly stated as a source of cooling inflation.

Economy not looking that bad

The governor went on to assess the current state of the Romanian economy as being more in line with its potential, stressing that some dangerous overheating threats were avoided last year. Moreover, this was achieved without compromising the exchange rate stability while still maintaining interest rates within reasonable levels. A request to elaborate on the exchange rate

outlook was nevertheless declined.

ROBOR-linked bank tax causes discomfort

The main topic of the day, however, was the long-awaited position of the governor towards the recently adopted ROBOR-linked tax on banking financial assets. Governor Isarescu stated that he found out about it from the media. He reiterated several times during the press briefing that the emergency decree is unclear in some aspects (particularly related to the quarterly or annual application of the tax) and that he wishes to discuss all these matters at a meeting of the National Committee for Macro-prudential Surveillance (which he chairs). Another interesting remark referred to the application of the bank tax to government bond holdings as well which is seen as “interesting”.

Policy outlook: one more hike but ECB dependant

While adopting an overall more energetic tone, it seemed rather obvious that the inflation outlook is not a major concern for the central bank in the near term at least. Hence, we believe that another 25 basis point hike could come in the second part of the year only in sync with the ECB, which seems to be [an increasingly distant possibility](#). We still expect the National Bank of Romania to shift its comfort range for the EUR/RON higher this year but the timing remains a tough call.

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