

Romania Holds EU's Highest Rates as Economy Trumps Inflation (1)

Central bank keeps benchmark at 1.25%, as analysts predicted

Commerzbank says policy makers are now in 'wait-and-see mode' By Andra Timu and Irina Vilcu

(Bloomberg) -- Romania left the European Union's highest interest rate unchanged as it focuses on guiding the economy out of the pandemic rather than taming a recent spike in inflation.

In its first officially scheduled monetary-policy meeting since Covid-19 struck, the central bank kept benchmark borrowing costs at a record-low 1.25% on Wednesday, matching the expectations of all analysts surveyed by Bloomberg.

"The current scenario shows the forecasted annual inflation rate following a relatively higher path over the next two years," the central bank said in a statement.

Like much of eastern European, rate-setters in Bucharest decided to look past surging consumer prices. Inflation is expected to exceed the upper-end of its target band of between 1.5% to 3.5% in the second half of 2021 and then retreat next year, the central bank said. An updated forecast will be released on May 14.

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The central bank is switching to a "wait-and-see mode," Commerzbank analyst Alexandra Bechtel said. "The rate-cut cycle is complete."

The jump in inflation has brought to an end a run of four reductions in the benchmark during the pandemic.

That easing helped fuel an economic revival: Economic growth outshone the rest of the EU in the last quarter of 2020. The expansion has added to upward price pressures that are mainly being driven by higher global energy costs and the liberalization of the domestic electricity market.

With borrowing costs stable, central bank Governor Mugur Isarescu has said he may make the national currency's exchange rate more flexible to keep inflation in check without choking the nascent economic recovery. (Updates with central bank's comments from the fourth paragraph.)--With assistance from Harumi Ichikura and Barbara Sladkowska.

To contact the reporters on this story:

Andra Timu in Bucharest at atimu@bloomberg.net;

Irina Vilcu in Bucharest at isavu@bloomberg.net

To contact the editors responsible for this story:

Andrea Dudik at adudik@bloomberg.net

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