

MUGUR ISĂRESCU

Governor of the National Bank of Romania, Former Romanian Prime Minister

Arthur RUTISHAUSER, Editor-in-Chief, *SonntagsZeitung*

Looking at governments, they have their off-balance sheet debts, and it is very comfortable for them to have zero or even lower interest rates. Is there actually too much pressure on the national banks from the politicians just to do nothing and to go on like this? What is the situation in Romania?

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Let me tell you that not all EU countries have negative interest rates; we do not have them in either Romania or Poland. For example, in Romania, we have negative inflation, below -1%, but the policy rate is 1.75%, so in real terms we have positive real interest rates. However, we are not at the core of Europe, but at the border, and we have to look at the capital flows and the exchange rates. What I will say is that there is still room to reduce the policy rate while keeping the real interest rate positive, but we tried not to lower it too much precisely to avoid the problems which Jean-Claude mentioned earlier.

Moreover, in Romania, we are not afraid of deflation as in other countries, because we have seen wages increasing pretty rapidly, along with domestic demand, and economic growth is between 3% and 4%, which is not a sign of deflation. Therefore, it is important to keep in mind the peculiar situation of several European countries. We are looking at what America and the Fed will do, we are looking particularly at what the ECB will do in the future, along with the central banks of the peer countries, such as Poland and Hungary. Regarding capital movement, there is volatility and unpredictability; it is very difficult to predict capital movement. For instance, during the financial turmoil in Turkey at the beginning of the last year, Romania faced pretty large capital outflows and subsequent currency depreciation pressures. When the Ukrainian crisis erupted, we expected the same things to happen, but they did not; on the contrary, we have seen large capital inflows and pressures to appreciate the currency.