NBR review: On hold at 2.50%

The National Bank of Romania kept rates on hold at 2.50% in line with consensus and pledged to maintain strict liquidity control. The overall tone remained neutral. The highlight from the press release is that the CPI trajectory has been slightly below the August forecast

Mugur Isarescu, the Governor of the National Bank of Romania

In a pretty short press conference, NBR Governor Mugur Isarescu didn't offer many details or hints regarding where the monetary policy is heading. The main excerpts from an otherwise pretty dull press conference vary around the twin deficits issue:

· The current account topic has been addressed first by underlying a slight improvement in trends (too early to call for that in our view). Corrections are needed "to the extent they are possible" and should come "more from the fiscal side". However, not much is expected in the short term: "we are not dreamers, we are aware of the electoral year".

· A possible RON depreciation to tackle the external imbalances has been again downplayed as "currency depreciation is not a solution to rebalance things". On the other hand, any RON appreciation is not supported either and references to the summer months FX interventions to curb RON gains have been made.

· The other component of the twin deficits – the budget deficit has been addressed as well, mentioning the already known high rigid spending share in total revenues as well as the very low 26% - fiscal revenues in GDP. To sum up this issue "it's not the deficit itself but the quality of the budget that poses a problem".

Reading through the lines, it seems that FX stability is still the main thing on NBR's Board members' minds. Speaking of that, today's meeting was the last one of the current Board. The next meeting comprising the four new members will be held on 6 November. We don't expect any shift in the central bank's policy stance as five out of the current nine members will be part of the new Board as well. We see flat rates until the end of 2020 as inflation will continue to stay close to the upper bound of the inflation target band while the RON is likely to remain under a natural depreciation pressure, which could be exacerbated by the political events.

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