Romania: Key rate remains on hold at 2.50%

Despite pledging to continue its strict liquidity control policy, the National Bank of Romania's hawkish rhetoric turned to neutral at best

If it weren't for the "maintaining strict control over money market liquidity" mention, we could say that a clear dovish twist has appeared in NBR's governor Mugur Isarescu speech. Even on this liquidity topic though there is a clear shift in language as the previous press release mentioned a "tightening control over money market liquidity" while the current one suggests only a maintaining of the current stance.

While the press release itself is fairly balanced, the governor's subsequent briefing offered a lot more to chew on. There were unusually blunt references to the exchange rate, with governor Isarescu saying more than once that "we don't want the exchange rate to appreciate". This was done in the context of several references to the trade balance and current account deterioration.

While observing the deterioration trend, governor Isarescu emphasised that Romania is not even close to the pre-crisis levels and that one of the main preoccupations of the central bank will be to "keep inflation around current levels" without deteriorating the external deficits. "Significant" capital inflows were mentioned, "which could mean that the interest rate differential is attractive enough". In fact, even on this key rate topic the governor has been very straightforward, saying that “judging by the exchange rate developments, the key rate is high enough”.

So what do we make of this? We believe that the NBR will look through the current above-target inflation prints and turn dovish once it’s got the chance to do so. Talk of a key rate cut is certainly premature right now, but once we get a few inflation prints below 4.0% we could see a relaxation of the “strict liquidity control”.

On the FX front today we’ve essentially seen a verbal intervention to stop RON appreciation. We stick to our view that a 3-4% weaker RON on average in 2019 looks like a balanced trade-off between CPI and external trade, reflecting mainly the inflation differential between Romania and the Eurozone.

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