Romania: Latest NBR meeting was not eventless

Apparently, an agreement was reached for “further adjustment of the monetary policy stance, potentially by resorting to other levers in addition to the monetary policy rate”. Subsequently, the NBR sterilised the surplus liquidity via an open market operation today

The National Bank of Romania building in Bucharest

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The vote to keep the key rate unchanged was, as with most of the National Bank of Romania (NBR) Board decisions, unanimous, noting the importance of “the dosage and pace of policy rate adjustment and the evolution of money market rates”. Apparently, after the meeting the conclusion was reached that the next step to bring money market interest rates closer to the key rate by sterilising the surplus liquidity at the key rate level was more appropriate. The “substantial liquidity surplus” was cited as a reason for the slower pass-through of the rate hikes in interest rates for new bank deposits. The NBR sterilised via a one week deposit auction with a full allotment RON18.7bn from the money market at the key rate level. Hence, a better transmission of the monetary policy which might lead to a lower terminal rate for the tightening cycle relative to the loose liquidity management scenario.

The minutes note that the latest headline inflation figures were below forecast, but core inflation came in above the previous projections. The GDP slowdown in 4Q17 was in line with NBR expectations which anticipates a “further slowdown in economic expansion in the first half of 2018”. In this context, “monetary conditions had continued to be less accommodative”. New risks to the inflation outlook versus previous meetings are seen coming from “recent adverse weather conditions”, the “the recent steepening posted by the upward trend in the annual growth rate of industrial producer prices of non-durables on the domestic market” and “possible escalation of trade protectionism”.

All in all, the minutes are less dovish compared to the post-meeting press briefing. Provided that the NBR tight liquidity management proves consistent this should enhance NBR inflation targeting credentials and better anchor inflation expectations. Hence, this should be positive for back-end ROMGBs as it is likely to end up with lower terminal rate for the tightening cycle. Front-end ROMGBs are likely to suffer from firm liquidity management by the central bank and lead to a flattening of the ROMGBs yield curve. We expect the NBR to hike by 25bp to 2.50% at the next meeting on 7 May, as the response in warranted by a likely upward revision of the inflation forecast and continue with pursuing a firm liquidity management. Another hike by the end of the year remains data dependent.

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