Romania: NBR hikes the key rate by 25bp to 2.50%

This was in line with our call and market consensus. The subsequent press release maintained a neutral tone, but the governor was mildly hawkish

The National Bank of Romania building in Bucharest

Source: Shutterstock

Market expectations were quite split with 11 out of 17 analysts sharing our view. The National Bank of Romania (NBR) Board unanimously decided to hike the key rate by 25bp to 2.50% and to raise the deposit and credit facility to 1.50% and 3.50% respectively. The NBR governor did not expresse a commitment to continue with the liquidity sterilisation operations, but mentioned that are likely to be carried on in the near future. The governor said that the central bank did not raise the key rate at the last meeting, as the previous hikes have yet to fully pass-through.

On the inflation topic, the NBR Board approved the May 2018 Inflation Report, which will be presented on 9 May. The new inflation projections are “expected to stick to coordinates almost similar to those in the preceding projection” with the year-end inflation still expected to fall into the “vicinity” of the upper bound of the variation band. The governor spent considerable time explaining the significance of the exogenous factors in the current inflation and reiterated that the central bank follows closely the evolution of the adjusted CORE2 inflation, which printed 3% in

March. The NBR sees that “monetary conditions continued to be less accommodative in April”.

Mentioning that this represents his personal conviction, the governor expressed the view that “normalisation” of the monetary policy should mean real positive interest rates and hinted that the interest rates and the inflation rate should meet at some point in the ballpark of 3-3.5%. Nevertheless, Romania’s situation cannot be decoupled from what is happening in the Eurozone, hence we could still have a gap between the nominal interest rates and inflation for some time. The governor suggested that the open market operations depend on market conditions. We read this as a function of EUR/RON. In the same vein he hinted that rate hikes are also dependent on market assessment. Hence, depreciation pressure could trigger higher rates. In its reply to PSD president, the NBR Board highlighted several times the need to avoid an inflation-depreciation-inflation spiral.

We read today’s statements in a moderate hawkish key as the governor reiterated the NBR independence and expressed commitments to inflation goals to defend its credibility. The central bank is likely to give more consideration to additional factors besides inflation before deciding on the next hike. The 1Q18 GDP growth could come out on the weaker side as the economic sentiment deteriorated markedly recently, retail sales contracted in 1Q18, industrial production also shifted into a lower gear and lending data is struggling to maintain the pace. We see one more key rate hike for the rest of the year triggered by persistent above-target inflation with risks skewed to the upside.

Author

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

Disclaimer