

Romania: NBR holds at 2.50%, door for easing stays closed for now

Despite the external environment becoming the main factor in the policy-making process, elevated core inflation keeps the easing option off the table. Still, the NBR is in a “ready to act” rather than a “wait and see” mode. If yield driven capital inflows persist, the NBR might ease liquidity controls by the end of the year



Mugur Isarescu, the
Governor of the
National Bank of
Romania

The National Bank of Romania maintained the key rate at 2.50% in line with our call and the market consensus. In a relatively short press conference, the NBR's Governor Mugur Isarescu delivered a balanced speech, maybe just a bit less dovish than we had envisaged. In essence though, nothing has changed after this rate setting meeting.

Main messages:

- Reference to “strict control over money market liquidity” was maintained and the NBR still explores options on how to better manage the liquidity in the system, if needed. A few days with carry below the key rate is not a problem though in the central bank's view.
- Inflation is forecasted to stay above the target band this year and in the upper half of the

interval for the rest of the forecast horizon.

- Lending activity is not adding to the excess demand which is currently pushing CORE inflation higher. Moreover, lending is slowing down, mainly due to the macro-prudential measures aimed at capping the debt service and less by the interest rate component.
- It's hoped the fiscal deficit will close the year "slightly below last year" (-2.9% of GDP). The current developments are "preoccupying us but we don't see everything that darkly".
- The month-on-month inflation could be negative in July 2019, but mind the base effects and regulated prices such as tobacco.
- The high CORE inflation was mentioned more than once, suggesting that the NBR is focusing a bit more than before on this metric, linking it to the strict liquidity controls.
- The global context is the dominant factor these days. Capital inflows were mentioned again by the governor who hinted at possible heavy FX interventions: "FX reserves grew by EUR3 billion (in July)...2 billion from external borrowings but 1 billion from other sources".

The fiscal outlook, despite being somewhat played down by governor Isarescu, apparently remains the main idiosyncratic source of concern which prevents the NBR from joining the dovish "tide". The fear that that tide might retreat exposing the ones who - as in Warren Buffet's aphorism - are "swimming naked" persists in the NBR decision-making process. Still, if our expectations for the September ECB meeting materialise, we see NBR gradually loosening liquidity controls while keeping the key rate unchanged, just to have the flexibility to grab back the swimsuit if the tide turns quickly.

Author

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.