

3 October 2018  
Snap

## Romania: Central bank on hold at 2.50%, no change in tone

The National Bank of Romania (NBR) kept rates on hold in line with market expectations. We maintain our call for no rate change this year and three 25 basis point hikes in 2019

### Neutral tone

In line with nearly all analysts forecasts, the NBR kept rates (including the standing facilities) on hold and maintained current levels of the minimum reserve requirements. Recent inflation data was in line with previous NBR projections and confirmed the central bank's forecast of 3.5% by year-end. The tone of the communique following the decision was neutral, citing the usual uncertainties to the CPI outlook including food, energy prices, labour market conditions and the fiscal stance. Trade wars, the Eurozone's inflation outlook, the ECB and the stance of regional central banks were cited as external risk factors.

### Lower reserve requirements for RON...unlikely for now

Governor Mugur Isarescu's unusually short press briefing didn't bring much news either though it's worth mentioning the reference to a possible cut in minimum reserve requirements (MRR) for local currency. It seems that this measure was discussed by the Board, but the risk of creating a structural liquidity surplus is not yet appealing for the NBR, especially given the prospects of liquidity injections from autonomous factors and given the less benign inflation backdrop. Given the governor's concerns about potential depreciation pressure on the Romanian leu that such decision could ignite and the subsequent pass-through into inflation as well as the fact that it could be viewed by markets as a divergent easing measure, we see a potential cut in RON MRR as rather distant.

### No change in our outlook

There's been very little for the market to chew on after the NBR meeting. The overall tone was pretty neutral with, if anything, a mild dovish twist. Hence, nothing has changed in our outlook for the key rate: no rate change at the 6 November meeting (the only one left for this year) and three 25 basis point hikes in 2019. FX is likely to remain the main driver of NBR rate decisions provided that inflation comes in line with expectations. In the event of currency weakness, the NBR is likely to deploy tighter liquidity management ahead of rate hikes, in our view.

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