Romania: NBR on hold but not on vacation

The National Bank of Romania kept rates on hold at 2.50% and continued to pledge to maintain strict liquidity control. In the press conference, Governor Mugur Isarescu suggested that some other ways of stimulating the economy might be shaping up

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Today's event can be split – as most of the times – in two parts, rather distinct in tone and substance.

The official press release following the rate decision maintained a broadly neutral tone. Among the few highlights was the reference to "significant inflationary pressures from demand and unit labour costs", but also the return of inflation into the variation band "at slightly lower values than in the latest medium-term forecast ". Along with the key rate, the NBR decided today to maintain the current level of minimum reserve requirements and to leave unchanged the 1 percentage point interest rate corridor around the key rate.

Governor's Isarescu press briefing following the rate setting meeting offered more to chew on.

The governor underlined that the NBR and the Ministry of Finance have worked together to overcome the year-end heightened financing needs caused by the overshooting budget deficit. He also mentioned that going forward he would expect gradual adjustments in a manner that would not jeopardize the already slowing economic growth. This is in line with the latest government projections for a measured adjustment of the budget deficit. Maintaining a GDP growth between 3.0% and 4.0% ("but not above") seems to be considered important in order to avoid a widening of the deficits.

More interesting maybe, due also to the novelty of the subject for the local market, was governor's reference to alternative easing measures. Should the structural reforms allow it and "given the current conditions of a low level of financial intermediation, a programme to stimulate credit growth could be envisaged". On the same topic," we see a large potential for the credit growth but only together with structural reforms and adequate legislation". Some suggestions about stimulating the hard currency credit (which "has fallen enough") have been made as well.

In the same vein, a blunt reference to the reserve requirements levels has been made: "the minimum reserve requirements have to drop but we need to find a window of opportunity for it". We have already considered such possibility for today's meeting. Given these last comments, we believe that a decision to cut first the hard currency reserve requirements will be on the table – with material chances to be adopted - at the next meeting as well.

NBR Preview

For those who doubted, we believe that after today's meeting it become clearer that the next policy move of any kind will be towards easing. We continue to see rates flat until after the general elections due late 2020, with the pace of any easing highly dependent on the pace and credibility of the fiscal consolidation.

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