Romania: NBR review: commitment to firm liquidity management

The National Bank of Romania (NBR) kept rates on hold at 2.50%, in line with broad consensus. The NBR pledged to “maintaining strict control over money market liquidity”, with the Board basically assuming the current policy stance. Overall, the rhetoric was quite hawkish

The National Bank of Romania building in Bucharest

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The NBR was surprised by the recent inflation spike, above its latest forecast and was broad-based, including core inflation reflecting “rising demand-pull and wage cost-push inflationary pressures, as well as the influences of the leu exchange rate and the indirect effects of the recent advance in fuel prices”. The new assessment indicates inflation above the upper bound of the NBR target band “over the short time horizon”. The central bank remains concerned about the current account deficit widening trend and sees inflationary risks coming from “the fiscal and income policy stance and labour market conditions” as domestic factors.

2.50%

NBR key rate

on hold

As expected

NBR Governor Mugur Isarescu reiterated in the press briefing the commitment to the firm liquidity management, suggesting that short-term rates could stay around the credit facility level of 3.50%. He hopes that the banks will raise rates for customer deposits, which would lead to a narrowing of the margin between the interest rate on loans and deposits. He highlighted that the “era of surplus liquidity” has ended. The governor said that liquidity management allows the central bank to be more flexible, to assess if the rise in CPI is transitory or permanent and if permanent, the central bank will act at the coming policy meetings. He acknowledged that tighter liquidity control is also aimed at “deterring amplifying FX pressures”. The NBR Board position on firm/adequate liquidity management was dropped from the NBR press releases in January 2018.

Overall, the governor was quite hawkish by re-opening the door for rate hikes if inflationary pressures are persistent. Still, this doesn’t change our call on flat rates this year as weaker growth will eventually limit the upside in core inflation towards the year-end, in our view. The NBR is likely to use liquidity management to keep the monetary conditions tighter than reflected by the key rate and cost of carry at elevated levels to deter RON weakening pressures.

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