Romania central bank keeps rates on hold

The central bank kept rates on hold at 2.50% in line with our call and market expectations. We don't expect any change to the key rates in 2019, though the new central bank board to be voted by the parliament could come with a different approach

The National Bank of Romania building in Bucharest

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FX move justified by fundamentals

In a rather unusual bold statement, the central bank governor Mugur Isarescu said: "FX fluctuations of up to 5% are not subject to particular attention from the central bank. Considering that the recent move was rather 'small'."

Talking about the EUR/RON movements from January 2019, governor Isarescu said this should have been expected given the twin deficit backdrop and the inflation differential. The governor said that FX intervention was 'too obvious to deny' and the subsequent stabilisation.

On the bank tax and fiscal package

The press release underlines the heightened uncertainties from the new set of fiscal and budgetary measures but also the 'pending budget draft'. The governor mentioned a few suggestions that the central bank has already made to the government's ministry of finance regarding possible changes to the bank tax legislation.

The main issue seems to be the link between the tax level and the interbank offered rate, known as Robor, which are seen to be affecting the central bank's flexibility and efficiency and represent a disadvantage to the government. Other suggestions include exempting the minimum reserve requirements from the tax base, the mortgage loans under the 'first house' government guaranteed mortgage program and government bonds.

The next meeting between the central bank and the government will take place on 18 February when some conclusions will be presented to the public. But nothing is decided yet, and the governor admitted 'there is no easy way out'. The governor said that the NBR's second assessment on the impact of the tax levy point to a major issue, larger than the initial estimates.

Praise for the interbank market

A hefty part of the press briefing was dedicated to how the Robor index works and why the interbank market is 'one of the most efficient markets'. Not a lot of interesting news here, but the issue remains rather sensitive on the public agenda and is likely to be debated on 12 February at a hearing of the central bank board in a parliamentary commission.

More details on inflation outlook on Monday

The next meeting is on 2 April 2019 but on 11 February, the governor will present the first 'Inflation Report' for this year. As suggested in today's press release the central bank is expected to slightly lower its inflation forecast which is seen remaining within the target band for the entire 2019, but the uncertainties to the forecast are higher.

We believe that the revised estimate doesn't incorporate the effects of the recent fiscal measures nor the impact of the weaker leu on importers and consumers' expectations.

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