

6 November 2018
Snap

Romania: Rates on hold, hawkish bias removed

The National Bank of Romania (NBR) kept the key rate on hold at 2.50% in line with market expectations. The subsequent press briefing struck a dovish note

Inflation outlook confirmed

In line with nearly all analysts surveyed by Bloomberg, the NBR has kept rates (including the standing facilities) on hold and maintained the current level of the minimum reserve requirements. Moreover, while not explicitly stated by governor Mugur Isarescu in the press briefing, it seems that the central bank is maintaining its current inflation forecast for the year-end at 3.5% (the next Inflation Report will be presented on Thursday 8 November). We see this as somewhat surprising as we expected the year-end inflation forecast to be revised slightly higher; most of the uncertainty associated with the inflation outlook seems to point to upside risks related to oil prices, regulated prices, food, tobacco, the labour market and the fiscal stance. We tend to read this as an attempt to avoid de-anchoring inflation expectations since the forecast is already at the upper bound of the NBR's 2.5%±1ppt target interval.

A dovish twist

Last month, we had some unexpectedly hawkish comments by NBR deputy governor Liviu Voinea who explicitly mentioned that “we’re in a tightening cycle” and it “isn’t over” though the timing of hikes “either this year or next - depends on evidence.” However, today’s press briefing reflected a reassessment of these views. In evaluating the monetary policy reaction so far, governor Isarescu struck a dovish note by saying that monetary policy this year “had to do more than it should have done”, reiterating the monetary policy “overburden” in the policy mix. Also, speaking about the 3M ROBOR rates, the governor mentioned that “rates are where they should be” and “it’s also where we see them in the upcoming period”.

RON reserve requirements cut in sight

Another interesting topic addressed was the recent short-lived liquidity shortage. Isarescu merely mentioned that “the role of the central bank is to ensure money market liquidity” which can be done at the key rate but also at the Lombard rate. Remarkably though, the governor stated that covering normal liquidity needs at the Lombard rate “would not be a good thing as the Lombard has some different functions”. He also suggested that the time for a cut in minimum reserve requirements for RON liabilities is likely approaching as the current liquidity deficit is “quasi-permanent”.

To sum up, we noticed a slight dovish twist in today’s speech by governor Isarescu and more conviction on the inflation forecast. Reading between the lines, the NBR’s sensitivity to FX movements remains high. With the inflation outlook seen “remaining in the upper half of the band until the end of the forecast horizon” and likely having some more hikes embedded in it, we doubt that this is the end of the idiosyncratic tightening cycle, though the NBR is likely to delay them as long as FX developments are manageable.

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Valentin Tataru

Economist, Romania

+40 31 406 89 91

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 NV 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. The producing legal entity 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 subject to limited regulation by the Financial Conduct Authority (FCA). 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.