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

The National Bank of Romania building in Bucharest

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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.

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