

## Romania: 25 basis point cut, zero guidance

In an unscheduled meeting, the National Bank of Romania cut the key rate from 1.75% to 1.50% citing “extremely high uncertainties”. The press release offers little to chew on and leaves all options on the table



The National Bank of Romania building in Bucharest

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Confirming market expectations for another cut – and against our call for flat rates for the rest of 2020 – the NBR Board decided to move ahead with its rate cut cycle. Besides mentioning a “slightly downward revision” of the inflation projection and “extremely high uncertainties”, the press release is remarkably neutral. Tomorrow’s quarterly Inflation Report will reveal the new NBR inflation forecasts, but we don’t expect major surprises from here and neither from the meeting minutes due to be published on 14 August.

We believe that the recent consolidation of the FX reserves (boosted mainly by Ministry of Finance Eurobond auctions) has probably given the NBR the confidence that it can continue easing its policy while maintaining exchange rate stability via FX interventions. This probably holds true for now, but given that the Eurobond issuance cannot maintain the same pace indefinitely and the precarious financing of the current account deficit, Romania will need to do wonders in terms of EU funds absorption starting next year in order for the above logic to remain valid.

In terms of bond buying, the NBR mentions that as of end-July the outstanding stands at almost RON4.8bn, meaning that the central bank stepped up its purchases in July to about RON800m from June's RON533m. In this regard, we maintain our call for an overall limited amount of bond purchases this year (below RON10bn). The NBR's goal still seems to be to prevent market dysfunctionalities and to smooth the sell-offs.

The uncertainties are truly extraordinary, but with stable inflation prospects and the economy already in the recovery phase, we don't see much scope for further rate cuts this year. In terms of market rates, we maintain our view for a year-end 3-month Robor at 2.00% as we don't believe that a parallel shift in interest rates will follow this rate cut.

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