Romania: chop, chop and there's only 1.25% left

The National Bank of Romania (NBR) cut the key rate today to 1.25% from 1.50%. The decision was unexpected by most market players but it does follow the recent developments in the money market. The timing of the decision (Friday, at the end of the trading session) suggests the NBR is vigilant and preoccupied by the market reaction to additional easing

The National Bank of Romania building in Bucharest

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An unexpected decision to cut rates came today just as the local market was closing. While this was not our base case scenario, we recently underlined that in light of the benign inflation and – more importantly – other Central and Eastern European central banks contemplating additional easing measures, the chances for further key rate cuts were material. In addition to this, worries about a slower-than-estimated recovery and prolonged pandemic effects were likely central to making this decision.

The press release doesn't say more than stating the new key rate (1.25%), the new Lombard rate (1.75%) and – probably more importantly – the new deposit facility of 0.75%. Hence, there is pretty much zero guidance, but that's not unusual from the NBR. In fact, given that the Board is still working in crisis-mode, with no meetings agenda and – like it was the case today – rather parcimonious press releases, the policy visibility and predictibility is not the strongest in the CEE region.

> We previously argued our case for no further rate cuts by mentioning the need (and likely the desire) of the NBR to preserve the policy space it still has left. We believe that even when the economy will be on a healthy recovery pace, the appetite for rate hikes will be limited. Hence, hitting the floor in this crisis leaves little to no policy space for the next one. True, we are not there yet (to the floor) but...there is only 1.25% left.

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