

## Romania's central bank keeps rates unchanged at 1.50%

The central bank's decision to keep rates on hold confirms our view for unchanged rates until the end of 2021. But despite having plenty of room, we believe, the central bank will try to keep its firepower intact



The National Bank of Romania building in Bucharest

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Although Romania's central bank kept the policy rate unchanged today, it delivered a little bit of easing. The cut in the minimum reserve requirements from 6.0% to 5.0% should release around EUR 350m in the market, which is no game-changer but in essence it does mean easing.

The finance ministry tapped the local market last month, so another similar auction does not necessarily look imminent.

The press release was balanced, reviewing several risks that the central bank needs to consider this year. The reference to the need for “preserving confidence in the domestic currency, in the context of widening twin deficits” which “is a key element of monetary policy conduct this year, implying a gradual and sustainable reduction in interest rates on the money market and on leu-denominated loans,” was eye-catching.

This could imply that more key rate cuts are on the horizon once FX developments allow, but it

could also mean just a gradual looser control of the liquidity conditions to allow for lower market rates. For now, we tend to favour the latter interpretation.

Looking forward, we believe that although there is plenty of room to cut the key rate, the central bank will try to keep its firepower intact. More meaningful easing of the policy is only likely if the economic situation deteriorates significantly (e.g. should the economy come under a severe impact of new restrictions).

We consider the current monetary stance to be well-positioned in the face of multiple factors such as below expectations inflation to the slightly above expectations GDP dynamics, the need to maintain an adequate interest rate differential versus peers, exchange rate pressures, bank lending support and maintaining the attractiveness of leu savings.

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