

# National Bank of Romania to stay on hold amid persistent inflation and fiscal uncertainty

We expect National Bank of Romania policymakers to keep the key rate at 6.50% at the upcoming meeting on 14 February, as is widely anticipated by the market. The NBR's decision will likely take persistent inflationary pressures and ongoing fiscal policy uncertainties into consideration



The Romanian National Bank will announce its latest policy rate decision this week

## Inflationary pressures remain elevated

Romania's overall inflationary trend has been slowing down throughout 2024, but the disinflationary pace has been clearly diminishing and could even come to a halt in 2025. The annual rate closed 2024 at 5.1%, showing a mild but still visible upward trend in the last quarter of the year. This trend was primarily driven by higher fuel prices, influenced by – among others – the significant appreciation of the US dollar, and rising food prices on the back of a severe drought in the summer of 2024.

Core inflation closed at 5.6%, reflecting the complex interplay of some disinflationary base effects

and rising costs in certain sectors. We see inflation averaging 5.0% in 2025, with the year-end rate at 4.8% and core inflation to stay above the headline for the entire two-year forecast horizon.

## Still uncertain fiscal path

The fiscal policy landscape remains uncertain and adds complexity to the NBR's decision-making process. The recently approved state budget aims for a 7.0% of GDP budget deficit, which in our view is achievable with some further policy adjustments on the way. The package of fiscal measures aimed at supporting the budget consolidation process is still in its early stages of implementation and we'll have to wait a few months or quarters before assessing its efficacy. Overall, while our base case is that Romania will deliver a 7.0% budget deficit this year, the path to achieving the target is still uncertain. Possible further measures cannot be excluded and likely pose an important degree of uncertainty to the NBR.

## Economic activity and external factors

The economy showed signs of stalling in the third quarter of last year and has probably witnessed a mild expansion in the fourth quarter. We estimate full-year GDP growth at 0.7% for 2024 (official data to be released on 14 February, the same day as the NBR meeting). We've reduced our estimate for 2025 growth to 1.6% and 2026 to 2.5%. The broad picture for last year was of robust but declining household consumption, while investments underperformed expectations. This year we see some scope for a better balance of these two drivers, as consumption growth will likely slow to low single digits while investments should pick up slightly.

Given the persistent inflationary pressures, the uncertain fiscal policy path and mixed signals from economic activity, we expect that the NBR will opt to keep the policy rate unchanged at 6.50% at its upcoming meeting but also throughout the first half of 2025. We still envisage two 25bp rate cuts in the second part of 2025, though there are quite a few conditions that need to be met to get there.

The Romanian government bond market (ROMGBs) somehow stabilised in February after a sell-off and rally in January. Still, political uncertainty remains in the market given the presidential election in May and complicated government negotiations. In our view, the market is struggling to regain confidence in the fiscal consolidation plan, so we will likely need to see some further action from the government – which seems unlikely before the election – or an improvement in monthly budget numbers, which will take several months. The overall story has stabilised but we are missing more positive news to see another leg of the rally from current levels.

On the supply side, the Ministry of Finance sought to reduce its supply in January in the face of market volatility and record high yields, and instead tap cash from prefunding from previous years. As a result, it only issued RON3.6bn in January, while it had already issued RON5.8bn in the first half of February. By our calculations, MinFin has covered about 9% of our forecast issuance and we see an increase in monthly supply in the coming weeks and months.

Valuation-wise, we think ROMGBs still look cheap relative to CEE peers and there is some potential for further rally. On the other hand, however, a lack of positive news and overly high expectations

created by the government on fiscal policy may keep ROMGBs elevated for longer, in our view.

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