

## National Bank of Romania preview: We could see hints of a cautious easing cycle ahead

We expect the National Bank of Romania (NBR) to keep the policy rate unchanged at 7.00% at its 4 April meeting. While forward guidance is not exactly the NBR's strong point, some hints about a first rate cut at the May meeting might emerge. We keep our call for a 25bp May rate cut and for 100bp of rate cuts by year-end, with mild upside risks



The National Bank of Romania in Bucharest

The NBR will most likely hold rates steady in April and leave the beginning of the cutting cycle for the May meeting. Policymakers could still keep a relatively hawkish tone due to a number of factors: inflation surprised mildly to the upside so far in the year, private consumption seems to be picking up nicely, the fiscal slippage is official, and oil prices have been going up. When it comes to growth concerns, the Bank is likely to emphasise the lagged effects of the tightening done so far and potential hiccups in EU funds inflows. The stark and significant drop showed by the construction activity data for January could also find its way among the Bank's perceived weak points, although question marks regarding the soundness of the data might make the Bank temporarily overlook the January print.

Overall, we think that the Bank is preparing the ground for a cautious easing cycle ahead. In the short run, the inflation print for March due on 11 April is now the key factor to watch ahead. We have pencilled in a deceleration of inflation to 6.7%, from 7.2% in February, especially due to lower growth in food prices. Governor Isarescu hinted in his latest Inflation Report presentation that the Bank needs a couple of down-trending inflation prints before policymakers can commit to begin the easing cycle. As such, conditional on a well-behaved inflation outturn for March and a confident-enough estimate for the April inflation (which will be published the day after NBR's May meeting), the first rate cut of the easing cycle in May is likely to come even though the NBR might remain reserved in hinting towards any dovishness in this week's policy decision statement.

The NBR is also likely to keep a cautious tone concerning the path of the policy rate for the rest of the year. The now official fiscal slippage will almost certainly rank high on the policymakers' risks agenda, especially as the path towards a lower budget deficit is currently uncertain in the short run. Further increases in the tax burden, wage growth, higher oil prices and geopolitical developments will also likely be among the causes of upside risks in the longer run. Among the few downside pressures, the government decision to extend the markup caps for selected food items until the end of the year should be chiefly mentioned. Moreover, we think that the behaviour of the regional central banks, particularly the National Bank of Poland (NBP) will also play an important role in calibrating NBR's easing cycle, since it would be difficult to imagine NBR's effective rate (i.e., the deposit facility, 6.00% now) falling below the NBP's key rate (currently at 5.75%).

Overall, in our view, starting with May, the above context sets the stage for a series of small, and possibly non-linear rate cuts ahead, with risks to our 6.00% year-end forecast for the key rate tilted to the upside. Interruptions in the rate cutting cycle are likely to be data dependent, especially as the ingredients for sticky inflation are still there and the Bank will want to fine-tune the level of policy restrictiveness in the coming quarters rather than risk turning growth supportive too early.

## FX and Markets

In Romanian government bonds (ROMGBs), on the supply side, everything is going according to plan so far since the beginning of the year. The Ministry of Finance (MinFin) covered about 32% of the planned issuance in the first quarter according to our calculations, so we do not see frontloading like last year, but at the same time, MinFin is meeting sufficient demand so far. Therefore, we can expect a similar monthly issuance pace in the second quarter or potentially higher if we see higher demand given MinFin's flexible approach. On the other hand, fiscal risks are to the upside, which would lead to higher borrowing needs.

On the demand side, we continue to see the ROMGBs position as neutral in the CEE space. Peer spread valuations in the region look neutral and given the risks mentioned, ROMGBs would be more attractive at higher yield levels in our view, which is what we saw when 10y ROMGBs jumped above 6.70% in the middle of March, triggering market demand and pushing yields back to 6.55%. On the other hand, the positive carry with FX implied yields compressed well below the NBR base rate still speaks in favour of ROMGBs.

FX-wise, the EUR/RON continues to be very stable within a tight range just below 4.98. With

inflation still printing slightly above expectations and demand-side pressures building up in the economy, even a marginal shift higher doesn't look imminent. Moreover, the possible increase in the tax burden next year, at a time of projected growth acceleration, adds to the medium-term inflationary risks and, by extension, FX stability will be needed further down the line. All told, we maintain our 5.04 year-end estimate, but – as usual lately – we underline that the chances for an essentially flat nominal FX rate this year are considerable.

## Author

### Stefan Posea

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).