

National Bank of Romania preview: Holding through the uncertainties

We expect policymakers to maintain the key rate at 6.50% at the 8 November meeting and retain the Bank's policy flexibility ahead, a decision also magnified by the latest fiscal and geopolitical events. For next year's rates, renewed higher-for-longer and backloading risks are now back in play



The Romanian National Bank in Bucharest

More reasons for prudence lately

As has been the case at the October meeting, there are again a few ways in which the National Bank of Romania (NBR) could justify a new rate cut at its last meeting of the year. One of them is the available policy space – September's inflation rate came in at 4.6%, while the deposit facility (the de facto policy rate in an excess liquidity environment) sits at 5.50% - putting real rates in positive territory. This could be considered restrictive for the economy at a time when economic growth is weaker than expected. Except for the pockets of the economy which directly benefit from the current investment cycle, the recent evolution in activity has been lacklustre, and the growth outlook for the euro area is not too bright either. Hence, an argument for less policy restrictiveness could be made here. But this is just one side of the coin. At the current juncture, we think that the counterarguments are set to matter more for policymakers, at least in the near

term:

- Both services inflation and wage growth are still at eye-catching levels. What's more, with the release of the November Inflation Report, the Bank is also likely to adjust its inflation forecast onto a higher path versus the August report.
- Both the current fiscal situation and the fiscal outlook have deteriorated since the last meeting. While this could be positive for internal demand at the margin, it also magnifies the current macro imbalances – we expect this year's fiscal deficit at 8.0% and the current account deficit slightly below but not far from that.
- At least in the short term, the latest geopolitical developments are likely to require more policy prudence. For more on the topic, see [our latest view](#) concerning the implications of the US election result.
- The Romanian economy walks on a tightrope with its twin deficit situation, needing to prevent capital outflows and keep the budget financing sound. On balance, this means that rates could remain higher than the growth dynamics would imply, potentially translating into a backloading of next year's projected policy easing.

Liquidity surplus is likely to persist

One notable feature of the NBR's operations has been its tolerance of an unsterilised liquidity surplus in the interbank market, making the 5.50% deposit facility the de-facto policy rate. While this does not prevent organising open market operations at the 6.50% policy rate if needed, it would essentially mean a severe policy tightening, something that NBR is likely keen to avoid. As Governor Mugur Isarescu has mentioned in the past, excess liquidity has lent a helping hand towards credit activity and a smoother financing of the fiscal deficit, which in the current context is an important financial stability consideration.

As such, there is a mixed picture on almost all fronts and the Bank will have to fine-tune its policy through a large pool of uncertainties. Since government financing needs are likely to remain high next year and EU funds will continue to flow in, our view is that the interbank liquidity surplus will continue to be preferred by the NBR in the near term. Upward FX pressures - which seem to have intensified recently - will matter a lot in this context, as they can heavily influence the liquidity position of the system should the NBR decide to accommodate the flows. However, absent a major global negative event, we think that the excess liquidity environment will continue to prevail. This should continue to keep market rates anchored to the deposit facility, currently at 5.50%.

On hold, possibly for longer

All told, we expect no changes in policy at the November meeting, in line with our long-held view that the key rate will finish the year at 6.50%. Moreover, while at this stage we hold on to our rate cut forecast of 100bp in 2025, we acknowledge the presence of risks towards a more prudent approach from policymakers. We could well see rate cuts postponed until the Bank's heatmap of domestic and external risks brings more clarity, translating into a backloading risk towards the second half of next year and further on into 2026.

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