National Bank of Romania Preview: No changes just yet

We expect the National Bank of Romania (NBR) to keep the policy rate unchanged at 7.00% at its 13 February meeting. The Bank's updated forecasts are likely to edge lower in the short and medium term. We maintain our call for the key rate to reach 5.50% by year-end, though risks are to the upside

The National Bank of Romania in Bucharest

The NBR will most likely stay on hold again and defer the first rate cut to the second quarter of 2024. Better-than-expected inflation developments at the end of 2023, which naturally pull down the entire profile ahead, are helpful for the Bank and allow slightly more room for officials to emphasise that the monetary policy is sufficiently restrictive at the moment.

The Bank's new Inflation Report and updated forecasts are likely to show lower price pressures in the short-to-medium term compared to the November projections. This is due to the lower-than-expected inflation prints and the extension of the essential food items mark-up cap by another two months. That said, these improvements in price pressures will likely not come without some important upside risks.

On this note, we think that the Bank's main focus will be on the wage growth dynamic as a key domestic upside risk. Moreover, the Bank's stronger tone on the need for additional corrective measures on the fiscal front is likely to persist. Another fiscal package, if adopted sometime this year, will most likely catch the economy (and especially private consumption) in an acceleration phase, hence the inflationary impact of higher taxes is likely to be stronger versus the recent fiscal package, which was implemented when growth was rather low in historical terms.

On the international front, supply chains and commodity price risks will likely still dominate the NBR's agenda, as the tensions in the Red Sea and the Middle East continue to make the headlines.

That said, with a growing and record-breaking liquidity surplus in the interbank market (RON 60.7bn in January) and with the 3M Robor falling even closer towards the deposit rate during the same month, the true stance of monetary policy continues to be much looser than the 6.00%-8.00% interest rate corridor suggests. The record excess liquidity is also the key risk to our call of 150bp in cuts by the end of the year, since the easing pressures resulting from it could diminish the need for rate cuts.

> All told, we think that the NBR might choose this meeting to put forward some mildly dovish hints. In the new Inflation Report, we expect a lower inflation profile and an emphasis on risks stemming from the robust wage growth foreseen ahead. Our call remains for a first rate cut in May with the key rate at 5.50% by December 2024, but we highlight an increased chance for the rate-cutting cycle to start earlier and stop at a higher point as liquidity conditions will likely continue to remain very accommodative.

In the Romanian government bond (ROMGB) space, the Ministry of Finance has stepped into this year on the right footing with a decent issuance of ROMGBs covering roughly 13% of this year's plan, according to our calculations. That's roughly average in the CEE region, with some frontloading. On the other hand, if we look at the bid-to-cover of the January auctions, ROMGBs have the lowest result in the region, also thanks to MinFin's open approach in the primary auctions. So the supply side is, in our view, under control for now but at the same time not dazzling like in Hungary, for example. On the demand side, we see rather neutral valuations for ROMGBs these days. The curve could probably see some steepening. However, we think that ROMGBs are at a disadvantage compared to CEE peers as inflation is still high (and even projected to pick up in January) while other central banks in the region are on the path to cut rates. Therefore, we are rather neutral on ROMGBs at the moment, pending better valuations.

Author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

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