

## National Bank of Romania preview: On hold for now

We expect policymakers to keep the key rate at 6.50% at the 15 January meeting, given persistent inflationary risks. While economic growth concerns are not to be taken lightly, we think the Bank will need to see its risk heatmap turning less red before proceeding again with its cautious easing cycle



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

### Prudence needed in the short run

With heightened risks on the horizon for both inflation and economic activity, policymakers are likely to adopt a wait-and-see approach before more certainty on the macro front emerges. We anticipate a relatively neutral press release, underlining the uncertainties surrounding the adoption of the 2025 budget law, the unclear outlook for energy prices and the volatile external context.

There are multiple factors at play, most with upside inflationary impact or risks, which we think the Bank is also paying great attention to: last year's drought continuing to leave its mark on food inflation, a less stimulative but still uncertain fiscal policy, higher fuel excise duty starting 1 January, rising oil prices, and robust consumer demand. Further down the line, there are important uncertainties regarding the energy price caps and/or the removal of the basic food items

commercial mark-up. There will also be uncertainties regarding this year's increased tax burden, particularly to the extent companies can pass it through into prices.

Tackling the inflationary impact stemming from all these demand and supply factors will likely require an extended episode of caution from policymakers, especially when they happen simultaneously or at close intervals.

That said, there are risks for growth as well, which normally should soften many of the inflationary pressures. Last year's projected weak GDP outturn (0.7% our estimate), well below Romania's potential, cannot be taken lightly. While a weak internal demand was clearly not among the causes – but rather the poor performance of the supply side in preventing the benefits of strong activity from dissipating externally – the potential for further lacklustre growth performances is likely also requiring policymakers' attention.

Overall, it is likely that inflation concerns will dominate growth concerns for the time being. Ultimately, internal demand has been in good shape and is unlikely to drastically fade too soon. Supply-side issues, which are not quite under the NBR's umbrella, will likely continue to be a drag on growth unless major structural improvements in the economy occur. However, there is not much the Bank can do about the latter.

Overall, we now expect only 50bp of rate cuts in 2025, scheduled for the second half of the year, taking the key rate to 6.0%. We believe the Bank will wait for more clarity on the inflation and fiscal outlook before continuing its cautious easing cycle.

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