National Bank of Romania: rate cuts still on table despite higher inflation forecast

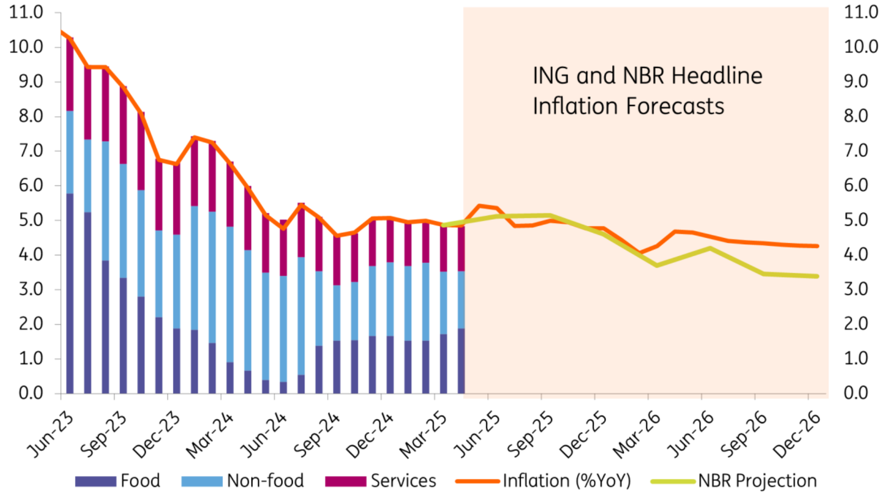
The National Bank of Romania (NBR) remains cautious on both interest rates and the exchange rate, as highlighted by Governor Mugur Isărescu during today's presentation of the May 2025 Inflation Report. Despite a higher inflation outlook, the door to modest rate cuts later this year remains open

Mugur Isarescu, Governor of the Romanian National Bank

Inflation forecast revised upward

The NBR revised its end-2025 inflation forecast from 3.8% to 4.6%, aligning more closely with our own estimate of 5.0%. This adjustment reflects persistent short-term inflationary pressures. It is worth noting that the new forecast is based on data available up to 1 May, hence it doesn't account for the recent leu depreciation.

Inflation Projections



Source: NSI, NBR, ING

FX stability remains a priority

Speaking of FX, a large chunk of today's presentation and discussion was focused on both the current and historic FX valuation. Governor Isarescu highlighted the stabilising effect of capital inflows on the exchange rate, noting their role in mitigating the currency pressures stemming from the trade deficit. He also acknowledged recent FX interventions, suggesting that the media-reported EUR6bn of FX interventions to defend the leu is not far from reality but still a bit "underestimated".

Overall, the Bank's communication continues to point towards a low tolerance for large FX moves ahead. Our updated year-end projection sits at 5.10 for 2025 and 5.18 for 2026. We think that at this stage, the uncertain inflation outlook will prevent the Bank from allowing a larger depreciation, barring a large external trigger like a rating downgrade, which is not our base case.

Fiscal reform: the big missing piece

A crucial element in the equation is the swift and credible adoption of fiscal reform, as its influence on growth and inflation will likely determine whether the NBR proceeds with or postpones rate cuts later this year. Even with looser monetary policy from global or regional central banks this year, the NBR is unlikely to act without domestic policy alignment.

Our call: mild easing is still possible but not guaranteed

Our base case still points to some moderate policy easing later this year, but not before October, with a real risk of the cycle being pushed into 2026. One thing is clear—several key conditions must align before rate cuts can be considered: a stable government, credible fiscal reform, continued access to EU funds, preserving the investment-grade rating, money market rates falling back below the policy rate, and of course, inflation staying under control. We're not saying it's impossible, but it looks as though the path to easing is still narrow and vulnerable to setbacks.

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