

National Bank of Romania review: Caution over regrets

In line with our recent call and the mounting evidence against a rate cut, the Bank opted to keep its policy rate unchanged at 7.00%. As usual, there is not much forward guidance to chew on. We expect the first rate cut in August, when inflation will have likely decelerated below the deposit rate



Mugur Isarescu,
Governor of the
National Bank of
Romania

The NBR decided to yet again hold fire against increasing evidence that the moment for policy easing has not arrived yet. We perceive the press release that followed the decision as marginally hawkish. Strictly on the recent evolutions of prices, at 6.6% in March, headline inflation was in the end not far from the 6.5% forecast the Bank envisioned in its previous inflation report. However, the recent developments on both the external and domestic fronts have proved a strong enough reason to postpone the beginning of the easing cycle. The Fed and regional central banks became more hawkish while the first quarter domestic consumption was very strong overall, showing that consumers have had no hesitations to spend their recent wage gains. Also on the domestic front, the significant fiscal slippage from January-April – the deficit has reportedly reached 3.3% of GDP – also poses key upside risks ahead.

While a new inflation report is due to be published on 15 May, according to the policy statement,

the Bank now projects inflation to decelerate more slowly compared to their previous projections, and reach the target slightly later, in early 2026. This is in line with our view that price pressures will prove in the end stickier than expected when reaching the upper vicinity of the target. We see headline inflation stabilising at around 4.0% at the end of the two-year forecasting horizon.

We expect the Bank to start cutting in August, together with its quarterly inflation report and deliver no more than 50bp of rate cuts by year-end, in a data dependent manner. By August, inflation should have decelerated visibly below the 6.00% deposit facility (relevant in the excess liquidity environment), which will likely give policymakers more comfort to begin the cutting cycle. We keep our view that strong consumption, high wage growth, fiscal slippage and the external context will prevent the Bank from delivering more than a cautious easing cycle, at least in the near term.

Risks continue to be tilted to the upside for both rates and inflation as long the combination of high wage growth, strong private consumption and large fiscal slippages persists. All of them have limited space for improvement this year, in our view. Moreover, next year's very likely increase in the tax burden will likely catch the economy in an acceleration phase, which is likely to add to the inflation stimulus more than it will be a drag on growth. In this context, the Bank's policy choices are quite limited – policymakers will likely choose to fine-tune a gradual easing cycle with a stronger emphasis on inflation than on growth. Corroborating this with a relatively stable FX rate is most likely to be considered the optimum policy mix.

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