

National Bank of Romania review: Not in a dovish mood yet

As expected, the National Bank of Romania (NBR) kept its policy unchanged at 7.00% for the time being, welcoming the lower-than-expected inflation at the end of 2023 but not coming out with dovish hints just yet



Mugur Isarescu,
Governor of the
National Bank of
Romania

The NBR opted to stand pat again with its policy stance and did not provide much new to chew on in its press release either. The Bank's statement on the inflation rate resuming its downward trajectory after the January 2024 acceleration "on a lower path than that shown in the November 2023 medium-term forecast" is a rather neutral statement since the well-behaved price pressures of year-end 2023 naturally pull down the entire profile ahead. Moreover, the NBR attributed the subsequent fall of inflation (after the tax hikes get incorporated by firms) to supply side factors primarily - namely disinflationary base effects and downward corrections in agri-food commodity prices and crude oil prices.

What stood out was rather the Bank's stronger tone on the fiscal stance needed to keep the pressures stemming from the budget deficit in check. The wording on uncertainties and risks was changed from "notable" to "significant". Moreover, with the 2024 budget out and further clarity on the expenditures ahead, the NBR mentioned the possibility of an even higher tax burden, a

possibility that is also in our scenario.

All told, we expect the first dovish hints at the 13 February meeting, when a new inflation report will also be published. As discussed above, we also expect the Bank to lower its inflation profile. We also think that the dovish hints to come will be, at least partially, counterbalanced by the caution against the strong annual wage increases which are likely to persist this year. We foresee the first rate cut in May, although April is equally likely if firms choose a more cautious pricing strategy in early 2024.

Authors

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.