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.

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