

National Bank of Romania review: On hold for a little longer

As expected, the National Bank of Romania (NBR) kept its policy unchanged at 7.00%, underlining the lower-than-expected inflation which is bound to touch the 3.5% upper bound of the variation band of the target at end-2025. We are not exactly on the same page, but not far either



Mugur Isarescu,
Governor of the
National Bank of
Romania

In [our preview](#) we anticipated that some mild dovish hints will be put forward today. While they don't necessarily stand out, we notice the NBR's emphasis on the fact that annual inflation decreased faster than expected in the last quarter of 2023. This holds true for both headline and core inflation. The outlook for inflation is also looking marginally better, especially with January inflation (due to be published tomorrow 14 February) looking set to print "visibly lower than previously projected". In the Bank's latest forecast, headline inflation should reach the 3.5% upper bound of the variation band of the target at end-2025, hence the new medium-term forecasts are broadly in line with the previous ones.

Our own estimates seem rather similar for this year, as the January inflation hump looks less scary than initially expected (we estimate it at 7.1%), while we maintain year-end inflation at 4.7%. Nevertheless, for 2025 our inflation profile looks rather flatish, as both core and headline inflation

seem more likely to stabilise around 4.0% rather than dip into NBR's 1.5%-3.5% target range.

When it comes to risks and uncertainties the wording hasn't changed much, as the Bank continues to see "significant" risks stemming from the future budgetary stance, especially when it comes to public wage growth, pension hikes but also possible new fiscal measures that might be needed to keep the budget on track. As mentioned in our preview as well, another fiscal package, if adopted sometime this year, is likely to have a greater inflationary impact compared to the one adopted last autumn.

The new quarterly inflation report will be presented on 15 February, and this is traditionally a better moment to gauge the policy momentum within the NBR Board. We narrowly hold on to our view that rate cuts will start in May and that the key rate will reach 5.50% by the year-end, though we give a material probability for the rate-cutting cycle to start earlier (in April) and/or stop at a higher point (6.00%), given that the ultra-loose liquidity conditions are not likely to change throughout 2024, thus diminishing the need for conventional easing.

In the Romanian government bond (ROMGB) space, the Ministry of Finance has stepped into this year on the right footing with a decent issuance of ROMGBs covering roughly 13% of this year's plan, according to our calculations. That's roughly average in the CEE region, with some frontloading. On the other hand, if we look at the bid-to-cover of the January auctions, ROMGBs have the lowest result in the region, also thanks to the Ministry of Finance's open approach in the primary auctions. So the supply side is, in our view, under control for now but at the same time not dazzling like in Hungary, for example. On the demand side, we see rather neutral valuations for ROMGBs these days. The curve could probably see some steepening. However, we think that ROMGBs are at a disadvantage compared to CEE peers as inflation is still high (and even projected to pick up in January) while other central banks in the region are on the path to cut rates. Therefore, we are rather neutral on ROMGBs at the moment, pending better valuations.

Authors

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@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>.