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.

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