National Bank of Romania review: On hold for longer

The National Bank of Romania kept its policy rate unchanged at 7%, a move expected by us and the market. The NBR still expects inflation to decelerate according to its previous expectations by the end of the year but emphasised that short-term upside risks lie ahead in 2024, stemming from the implementation of the fiscal package

Mugur Isarescu, Governor of the National Bank of Romania

At a glance: the NBR's main points

- Inflation continued its deceleration in the first two months of 3Q23 broadly according to forecasts, as positive developments on the food and energy price front more than offset the upside impact of fuel and medicine price pressures
- 2Q23 GDP growth came in weaker than expected, and high-frequency data points to even more subdued growth in 3Q23
- Both the trade and the current account deficit improved, but the latter continued to be a laggard and narrowed at a much weaker pace due to outflows on the primary income side in the form of reinvested earnings and distributed dividends.
- On the inflation front, the Bank highlights that there are major uncertainties and risks to the 2024 inflation outlook stemming from the configuration of the fiscal package. Compared to

the last meeting, the NBR outlined how it expects inflationary pressures in the short run and, at the same time, stronger disinflationary forces in the long run.
- On the economic activity front – and implicitly on demand-driven price pressures – the NBR added the recent below-expectation real activity readings in Europe to its downside risks list, along with the now usual references to commodities, EU funds, the war in Ukraine and its associated sanctions. So far, weak European data also goes hand in hand with our view that Eurozone growth will continue to remain more subdued than most expect.

What we make out of it

The Bank was expected to hold fire at this meeting and we now think it will continue to do so until its April 2024 meeting. We extended our first cut projection by one meeting due to multiple factors:

1. a slight derailing of the disinflation path in August this year
2. higher oil prices in the second half of 2023
3. the potential upside pressures stemming from a higher fiscal burden in 2024
4. the global story, with markets apparently starting to accept the higher-for-longer story from the US Fed and the European Central Bank.

That said, we also think that pressures on growth will remain visible going forward, as Romania's key trading patterns will continue to perform below expectations, and the lagged effects of high interest rates will put a stronger brake on activity.

As such, we still foresee a total of 150bps cuts by the end of 2024.

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