

# National Bank of Romania review: on hold until 2Q24

As expected by us and the consensus, the National Bank of Romania (NBR) kept its policy rate unchanged at 7.00% and released a rather prudent statement. However, the huge liquidity surplus in the money market speaks differently about the NBR's actual stance. We maintain our view that the cutting cycle will begin in April 2024



The Romanian National Bank in Bucharest

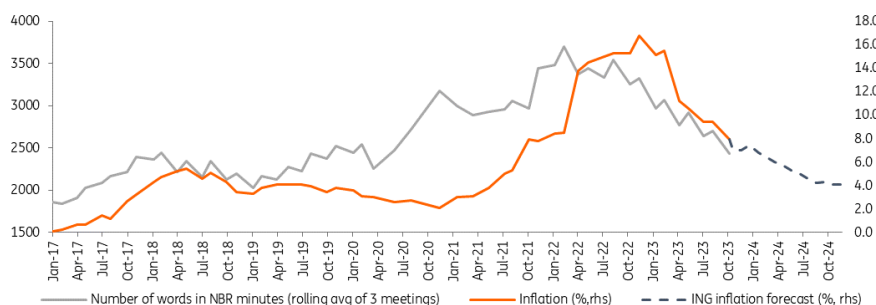
## Key points from the press release

- Inflation continued to decelerate in the third quarter of this year, broadly in line with expectations, as positive developments in food and energy prices more than offset the hikes in fuel and medicine prices. That said, crucially, the Bank has also revised its inflation forecasts for 2024 to the upside and those for 2025 to the downside, emphasising that “the annual inflation rate is expected to go up at the onset of 2024 – under the impact of the increase and introduction of some taxes and charges”. Meanwhile, in 2025, the Bank expects inflation to fall at a steeper pace and even reach the target band. Key contributors will be base effects, lower commodity prices and “the relatively abrupt contraction of excess aggregate demand starting 2023 Q3”, according to the Bank.
- The NBR assessed that notable risks (likely upside for inflation and downside for growth, we

think) stem from the implementation of the recently adopted fiscal package, as well as from possible further fiscal intervention next year.

- GDP growth in 1H23 and the latest high-frequency data so far point to a weaker-than-previously-expected 2023 outturn. The Bank expects activity to have cooled significantly as early as the third quarter of this year and for the output gap to turn negative towards end-2024, earlier than anticipated. The Bank also notes the negative performance of the German economy as a key downside risk for activity.

## Will future inflation leave the NBR speechless?



Source: NBR, ING

### What we make of it

While certainly acknowledging the headwinds to growth ahead, the Bank’s press release and its updated forecasts tilt to the hawkish side. However, the historically high liquidity excess in the money market continues to exert downward pressure on market rates, with the benchmark index for loans granted to consumers coming in way below the deposit facility lately. This is a de-facto easing, which speaks more about the NBR’s actual stance than the mildly hawkish press release.

We maintain our view that the first rate cut will happen in April next year, although we acknowledge the risks for a prolonged higher-for-longer scenario. In our view, at this stage at least, we think that a higher tax burden during this visible growth slowdown could be more detrimental to private investment than for the disinflation process.

### Author

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto: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 [www.ing.com](http://www.ing.com).