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

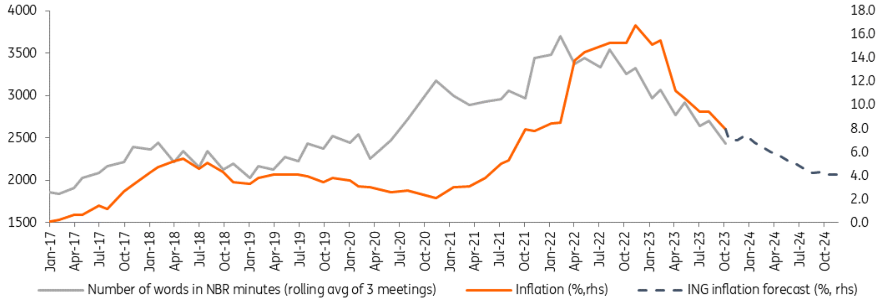
Key points from the press release

- 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.

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