

National Bank of Romania review: Pushing through the policy space

The National Bank of Romania (NBR) has decided on a second consecutive 25bp rate cut to 6.50%, motivated by the recent reduction in inflation and its downwardly revised forecasts which opened up some policy space. In this context, additional rate cuts cannot be excluded in 2024, but absent further downside surprises in inflation, this is not our base case



Mugur Isarescu,
Governor of the
Romanian National
Bank

The NBR's decision to deliver a second consecutive cut came on the back of recent inflation data, which brought some fairly decent policy space with it. Moreover, the Bank looks fairly optimistic regarding the disinflation trajectory further on (more details on that on Friday at the presentation of the August Inflation Report). If that is the case, the policy space arguments should allow for some further small cuts. The latest communique tends to suggest that the Bank places more emphasis on acting on a window of opportunity brought chiefly by the latest inflation prints, despite the lingering medium-term risks. This is not to say that medium-term risks stemming from strengthening internal demand, double-digit wage growth and fiscal policy are not on the Bank's radar. Rather, it seems that the Bank calibrated its policy with less weight on them at this stage than we had initially expected. The international rates context might have also mattered, with the growing probability that the Federal Reserve will deliver a series of rate cuts as of this

autumn, which will make the European Central Bank's life easier in cutting as well.

Looking ahead, we continue to think that the NBR's monetary stance is unlikely to get too loose too soon. As we have mentioned in the past, the reasons for the recent progress on the inflation front are not necessarily due to factors that are under the NBR's control, like some of the food prices which are strongly influenced by international developments and energy prices influenced by local regulation. On that note, there seems to be more work to be done to moderate internal demand pressures, especially when we look at credit activity, retail sales and wage growth. The two recent consecutive cuts are not helping in this direction and might require stricter policy restrictiveness in the medium term.

All told, unless inflation continues to consistently surprise to the downside, policymakers' ability to capitalise on short-term gains from factors which are not necessarily under their control is unlikely to last forever. In the end, the economy's fundamentals and the sources of risks will likely have to dominate the policy optimisation, potentially more than they did at this decision. At the same time, if we were to follow the arguments for today's rate cut, the policy space to cut further might be even bigger at the next meeting, as inflation should be visibly lower by October, increasing real positive rates. For now, we nevertheless expect the key rate to remain at 6.50% until the year-end, as the Bank will likely want to see a consolidation of the disinflationary trend and not only one-off factors pushing the headline rate below expectations.

Author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Valentin Tataru

Chief Economist, Romania

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.