National Bank of Romania Review: treading through uncertain waters

The National Bank of Romania (NBR) kept the policy rate at 6.50%, in line with expectations. The Bank highlighted again the growing presence of both internal and external risks. At this stage, we don't expect further rate cuts earlier than the second quarter of 2025, with backloading risks at play


NBR Governor Mugur Isărescu

The NBR's decision to hold fire once again came on the back of growing uncertainties regarding the inflation outlook, where upside pressures in the near-to-medium term persist. Domestically, they stem from the labour market, the fiscal impulse, and the negative impact of this year's drought.

On top of that, geopolitical risks have magnified since the last decision. In the US, the Republican clean sweep complicates the policy outlook, amplifying the upward risks for inflation through trade protectionism. On the other hand, there are downward risks for growth due to its impact on European industrial output, hence quite a foggy macro picture for the NBR to navigate through.

What's more, our views for next year revolve now around a stronger dollar, surging US yields, and a smaller need for Fed cuts given the activity boost of potentially lower taxes. We also have a still-weak outlook for the European economy, which is exposed to either tariffs and/or various bilateral concessions. We think that risks associated with this scenario also rank high on the NBR's radar.

All of these aspects reinforce our long-held view that the Bank will have to fine-tune a very cautious easing cycle in 2025 through a highly challenging macro environment. Policymakers have revised their inflation path higher, and we will get more insights on that with the release of the November inflation report on 11 November.

> At this stage, we are not changing our call of a total of 100bp of rate cuts next year. However, we are incorporating a backloading element, as we now don't expect any rate cut until the second quarter of 2025. What's more, the Bank might be preparing the ground to use liquidity management again in steering market rates. Interbank liquidity surplus dropped from RON39bn in September to RON27bn in October. A large bond redemption at the end of November should help boost the liquidity temporarily, but the trend towards lower liquidity surpluses is likely to continue. Hence, the scenario where liquidity conditions become less generous is back on the table.

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