National Bank of Romania set to keep rates on hold in May

We think that the National Bank of Romania (NBR) will keep its policy unchanged at the 16 May meeting, in line with market expectations. The Bank will likely continue to factor in the all-around uncertainties, possibly placing a stronger emphasis on domestic risks this time. Policy prudence will continue to dominate in the short run

The Romanian National Bank will announce its latest policy rate decision this week

With the outlook for the Romanian economy remaining foggy at this stage, a continuation of the wait-and-see approach is yet again the most likely approach for policymakers at their 16 May meeting. We expect a press release that will continue to highlight both internal and external risks, with a likely greater emphasis on domestic challenges compared to the previous statement.

It remains to be seen how significantly the Bank will incorporate the recent FX depreciation into the new inflation forecasts presented in the May Inflation Report, which could bring further insights into its tolerance for more depreciation. In our view, inflation is still set to persist above the target levels throughout the two-year forecast horizon. See our latest note on this here.

Fiscal policy continues to remain the key concern. While the April budget deficit result is yet to be confirmed, it reportedly improved compared to the same period of 2024 on the back of stronger revenues. That said, much stronger uncertainty, namely the potential delays to fiscal reform, will likely cloud the outlook in the near term. The possibility of lengthy negotiations for a new government represents a risk, especially as time is of the essence given the EU Commission's assessment in early June of Romania's progress on the budget deficit. New layers of risk regarding EU funds inflows and the sovereign rating stem from here, weighing on both growth and financial stability if they materialise.

On top of this, both upside and downside risks to inflation stem from the anticipated fiscal package and the final form of the measures.

Given these factors, a highly cautious policy stance remains the only viable approach at this stage. Key to watch are also the policy decisions of core markets' central banks (Federal Reserve, European Central Bank), as well as the National Bank of Poland (NBP). Admittedly, the current policy easing of the ECB and NBP, and potentially from the Fed later on in the year, brings more room for manoeuvre for the NBR as well. However, until the heatmap of domestic risks becomes clearer, the NBR is unlikely to use its policy space for easing. In fact, the latest developments on the local FX and money market have tightened the policy stance, as relevant lending rates have jumped by over 100bp in a few days. While some trend reversal is still possible in the coming days, getting back to the comfortable surplus liquidity on the interbank market seems a more distant prospect.

> All told, our base case remains for some mild policy easing later on this year, but at this stage, we don't envision rate cuts until the October meeting at the earliest, with a risk of delay until 2026. Should these rate cuts be delivered by the NBR, they would represent more gradual fine-tuning over the medium term rather than a fully-fledged easing cycle.

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