

National Bank of Romania to keep rates on hold in July

We think the National Bank of Romania will keep its policy rate unchanged at the 8 July meeting. We also expect mildly hawkish communication given the visible short-term inflationary pressures ahead. Rate cuts are now a story for 2026



Mugur Isarescu, the Governor of the National Bank of Romania

With the recently announced fiscal package, the fiscal policy direction has now become more transparent. However, uncertainty remains regarding its ultimate impact on inflation. In the short term, inflationary pressures are expected to rise due to higher energy bills starting in July, compounded by increases in VAT and excise duties from August.

Overall, we anticipate that these combined factors will push inflation into the 7.5-8.0% range in the coming months, which will likely settle closer to 7.5% by year-end. A strong disinflationary base effect is expected to take hold in the second half of 2026, which should bring annual inflation down toward the 4.0-4.5% range.

Ultimately, these tax hikes are not catching private consumption at its best, and multiple factors at play make it likely that consumers won't have to carry all the burden on their shoulders. Firstly, consumer momentum looks like it has passed its peak. At the same time, consumer confidence

has been deteriorating visibly since the beginning of the year, with unemployment expectations worsening too, while the already-announced removal of the indexation of public wages and pensions for next year only adds to the precautionary saving tendencies that should follow in the coming quarters. Further reforms to be announced in July, targeting public sector optimisations more broadly, add another layer of downside risks to demand pressures as well.

These dynamics could push this year's GDP growth even closer to stagnation. If the economy were to flatline in sequential quarterly terms for the remainder of the year, annual growth could slip to just 0.3% in 2025 – an outcome that now appears more plausible than our already below-consensus forecast of 0.8%.

Given the current trajectory, the risk of the economy tipping into a mild recession or even registering a full-year contraction cannot be entirely ruled out. These developments are likely to elevate growth concerns on the policymakers' radar, and it wouldn't be unexpected to see some slightly dovish tones in the upcoming press release. That said, for now, we expect inflationary pressures to remain the dominant concern.

All in all, unless the growth outlook deteriorates significantly in the near term, we believe the current cautious policy stance is likely to remain in place at least through the first quarter of 2026. This implies keeping the key rate steady at 6.50% and maintaining a prudent approach to liquidity management.

Beyond that point, depending on how the output gap evolves, the NBR might even consider moving preemptively to support growth – potentially before the current inflationary pressures fully subside due to base effects.

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