

## National Bank of Romania set to stay on hold at the April meeting

We expect that National Bank of Romania (NBR) to hold the key rate at 6.50% at its 7 April meeting, in line with market expectations. Policymakers will likely continue to factor in the all-around uncertainties stemming from the fiscal front and global trade, along with potential upside to the medium-term inflation picture



The National Bank of Romania in Bucharest

Both short- and medium-term risks are quite large at this stage, with the forecasting outlook remaining foggy at best. As such, we expect the NBR policymakers to continue to adopt a wait-and-see approach. We anticipate a press release that will highlight heightened risks on all fronts – downside for growth and rather to the upside for inflation.

Externally, with the US tariffs story officially in full swing, global stagflationary pressures are the key concern. The impact on Romania's exports and growth (mostly indirect) remains a key short-term risk, as the impact of the German fiscal U-turn and broader European spending initiatives are unlikely to leave their mark on growth immediately.

Internally, fiscal policy continues to remain the key concern. In January-February, the budget deficit saw no significant improvements compared to the same period of last year. We think that

more visible improvements are due in the second half of the year. Meanwhile, the disinflationary cycle is experiencing hiccups, which we project to continue over the next few months. At the same time, we continue to see a moderating trend in private consumption, in line with local wage growth that will start to gradually consolidate into single digits.

The other key factors to watch remain the possibility of a higher tax burden later on this year and the removal of the electricity price cap through the summer. On the other hand, recent weather patterns are currently in favour of a less problematic year for agriculture. Should this continue, food inflation is set to benefit further down the line.

Overall, all these elements point to the need for extended prudence on the policymaking front. At the current juncture, inflation concerns and external risks are likely to continue to dominate growth concerns over the next few months at least. Ultimately, internal demand has been in good shape and is unlikely to drastically fade too soon.

All told, we don't expect policymakers to move rates or loosen their FX grip until both the internal and external situation gets clearer. We continue to pencil in 50bp of rate cuts in the second half of this year, assuming the uncertainty of the inflation path decreases and policy easing from other key central banks (Fed, European Central Bank, National Bank of Poland) carries on as projected.

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