National Bank of Romania preview: Fine-tuning through the asymmetries

We expect policymakers to refrain from cutting rates at the October meeting. Although recent disinflation trends provide more policy flexibility, we believe the National Bank of Romania will increasingly focus on robust credit activity and the fiscal outlook. We hold on to our view of no more rate cuts this year, with risks tilted to the downside

The Romanian National Bank in Bucharest

At face value, there are a few ways the National Bank of Romania (NBR) could justify another 25bp rate cut at its October meeting. One of them is the available policy space. August's inflation decelerated to 5.1%, while the deposit facility (the de facto policy rate in an excess liquidity environment), sits at 5.5%. What's more, based on our most recent assessments, this positive real rate is very likely to increase once the September inflation print is released, which would intensify the policy restrictiveness.

The other reason is the weaker-than-expected economic growth over the first half of the year – which sets the stage for total GDP growth of 1.3% in 2024 (in our view), visibly below Romania's growth potential.

That said, we see stronger reasons for policymakers to remain cautious at this meeting. Firstly, consumer loans have continued to grow markedly, increasing in double digits and still on an upward trend. The key driver here is wage growth, which also remains in double digits.

Secondly, the outlook for fiscal policy remains visibly on the stimulative side. While the government is yet to reach an agreement with the European Commission, there is a strong likelihood that the deficit adjustments over the next two years will be small, as the investment cycle carries on.

Thirdly, the inflation basket continues to feature highly asymmetric developments – services inflation remains stubbornly high, in contrast to non-food and food inflation. On the latter, this year's significant drought poses an upside risk here as well.

The disinflation process now faces additional risks due to the potential for a broader regional conflict in the Middle East. Recently, global demand fears have led to lower oil prices, positively impacting global inflation trends and outlooks, including Romania's.

Previously, this would have been a clear reason to consider rate cuts. However, as the conflict appears increasingly uncontained, the risks are now skewed upwards – not only for oil prices but also for shipping costs, necessitating caution. Additionally, flight-to-safety risks pose a potential threat, particularly given Romania's fiscal deficit situation.

All in all, compared to the previous two decisions, we think that policymakers will start putting more and more weight on the credit and fiscal arguments in their decision-making, as well as on the global risks heatmap.

We acknowledge that it is a close call, though, especially as the recent assessments point to a visible deceleration of inflation in September. We also acknowledge that there are downside risks to our call of no further cuts this year. If they were to materialise, we do think that policymakers would rather opt for another cut at the November meeting, when a new Inflation Report with fresh forecasts will be published, taking into account the latest GDP growth numbers and potential revisions.

Authors

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

Disclaimer