

## 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.

## Author

### **Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

### **Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).