

## NBR review: Better treat uncertainties seriously

The National Bank of Romania (NBR) kept the policy rate on hold at 6.50%, in line with our expectations. Policymakers highlighted the need for caution due to both internal and external risks. We retain our view that rates will remain in place through year-end, with downside risks at play



Mugur Isarescu,  
Governor of the  
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Bank

The NBR's decision to hold fire came on the back of multiple factors at play. Firstly, on the internal front, inflation in the services sector remains especially problematic. What's more, this year's significant drought brings heightened risks of a revival in food inflation moving forward. Elsewhere, upside risks and stimulus stemming from ever-growing budget deficit targets, vigorous credit activity, and double-digit wage growth were also significant.

Secondly, in external markets, the Middle East conflict has become less and less contained, acting as a significant upside risk for both oil and shipping costs (see our detailed analysis on this [here](#)). Even if the worst-case scenario of a large-scale conflict is avoided, some of the recent gains in the inflation outlook due to lower oil prices driven by global demand fears will be lost.

All of these elements likely led the NBR to adjust its inflation path higher and likely reconsider the

upside risks in what could be interpreted as the rather hawkish part of its communication. The next inflation report in November will shed more light on that. Meanwhile, policymakers also acknowledged that the weaker-than-expected growth over the first half of the year could potentially induce a visible cooling effect over excess aggregate demand, contrary to their expectations.

The supply side of the economy is also in a weakening state. In the services sector, pockets of strength can be spotted only in civil engineering activities, which are boosted by large-scale public investments. Other than that, activity is rather lacklustre, including in the all-important IT sector, which flashed red recently. Manufacturing-wise, a prolonged state of weakness in exports is our base case.

All in all, we expect the Bank to remain cautious for the rest of this year and keep rates in place until January 2025 at the earliest. While the NBR has so far used some of the available policy space provided by the relatively well-behaved disinflation trend, we think that from now on policymakers will start to add more and more weight to the medium-term risks for inflation in their decision-making.

We don't exclude a 25bp rate cut in November – but in the absence of a higher-than-expected decline in September's inflation and a cooling of the upside risks stemming from the Middle East conflict until then, this is not our base case. For 2025, we foresee a total of 100bp of rate cuts, taking the key rate to 5.50%.

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