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ROMANIA

Why a May rate cut in Romania still makes sense after the latest inflation report

Today's press conference accompanying the National Bank of Romania's (BNR) February 2026 Inflation Report was, on balance, a disciplined and credibility aware communication exercise, but it also contained enough macro substance that, in our view, keeps a May start to the easing cycle on the table



Romanian Central Bank Governor, Mugur Isărescu at today's press conference

Governor Mugur Isărescu's core message was fully consistent with a modern inflation-targeting framework: monetary policy can influence inflation mainly through aggregate demand, while it has limited ability to offset supply-side or administratively driven shocks. This perspective underpins the current policy stance, with recent and near-term inflation developments largely portrayed as the result of identifiable non-monetary factors.

Yesterday, the NBR held the policy rate at 6.50%, keeping the corridor unchanged (deposit facility 5.50%, Lombard 7.50%), and the official narrative continues to emphasise elevated uncertainty and the need to preserve price stability and credibility. Headline inflation has eased only marginally - 9.6% YoY in January (from 9.7% in December), while the underlying

picture remains complicated by the persistence of cost and expectations-driven pressures.

The NBR's updated inflation profile remains uneven. According to the baseline scenario outlined during the press conference, headline inflation is expected to continue its gradual decline in 1Q26, followed by a temporary increase in 2Q, driven by base effects, movements in certain commodity prices, and the removal of the cap on commercial mark-ups for basic food products. These influences overlap with the lingering annual effects of earlier policy changes, notably the expiry of electricity price capping and previous indirect tax increases. These effects will fade abruptly in 3Q26, producing a marked disinflation, with inflation projected to re-enter the target band in 2Q27.

Inflation projections

	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
ING	9.7	9.4	9.2	4.7	4.5	4.1	4.0	3.8	3.7
NBR Inflation Report Feb-26	9.7	9.2	9.8	4.4	3.9	3.5	2.9	3.0	2.9
NBR Inflation Report Nov-25	9.7	9.1	9.2	4.0	3.7	3.3	3.0	2.9	

Source: NBR, ING

Consistent with this narrative, the Governor placed notable emphasis on monthly inflation dynamics, rather than headline year-on-year rates, arguing that the latter remain heavily distorted by one-off shocks. Monitoring short-term price momentum is presented as essential for assessing whether underlying inflationary pressures are easing in line with the forecast or whether second-round effects risk becoming entrenched.

In the real economy, Governor Isarescu acknowledged a clear weakening in activity. The presentation highlighted the emergence of a significant aggregate demand shortfall, expected to persist as fiscal consolidation measures continue to take effect. While the Governor stressed that NBR's mandate is price stability rather than growth management, the interaction between slowing activity and future inflation dynamics featured prominently in the assessment of risks around the baseline scenario.

Financial stability considerations were also addressed. NBR noted the relative stability of the exchange rate and emphasised that Romania currently benefits from record-high foreign exchange reserves, which provide an important buffer against external shocks and help deter speculative pressure on the leu. The Governor downplayed the usefulness of normative debates about the "appropriate" level of the exchange rate, stressing instead the importance of orderly market functioning and confidence. He also said that NBR's interventions in the FX market have been "extremely limited".

Overall, the February Inflation Report conveyed a deliberately cautious policy stance. Governor Isărescu even explicitly addressed the possibility of cutting rates ahead of the expected inflation drop in July–August, stating that "if you ask me now, I don't think we can" cut rates. NBR thus sought to reassure markets that inflation remains its primary focus, while also

signalling awareness of weakening demand and the largely mechanical nature of several near-term inflation drivers.

While the February communication justifies holding rates for now, our assessment is that a first policy rate cut in May is still possible and remains our base case, with a total of 100bp of rate cuts this year. The key considerations are the very weak growth backdrop and the widening aggregate demand shortfall, both of which the NBR acknowledged during the presentation. With much of the near-term inflation volatility driven by identifiable, largely mechanical factors, there is a growing risk that maintaining a strictly cautious stance for too long could become pro-cyclical, amplifying the downturn without materially improving the medium-term inflation outlook. A carefully framed, incremental cut in May would be consistent with NBR's own emphasis on underlying momentum and risk management, allowing policy to remain restrictive overall while reducing the probability that monetary conditions lag the rapidly weakening cycle.

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