

Romanian National Bank preview: on autopilot for a while

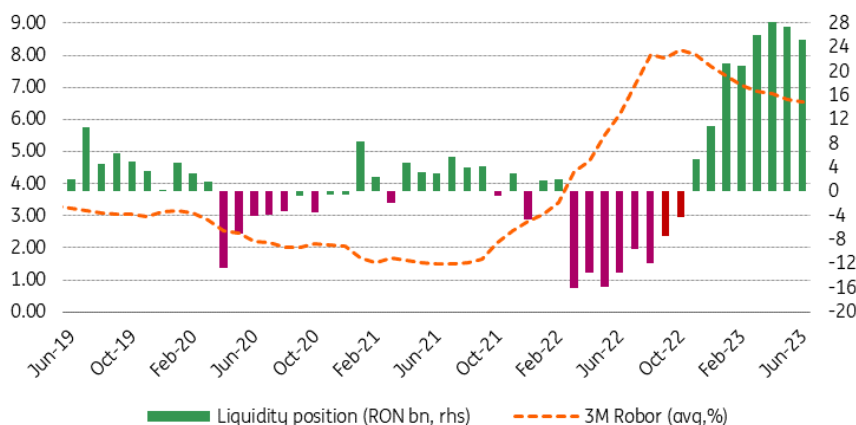
The Romanian National Bank (NBR) will announce its latest policy rate decision on 7 August. We expect the key rate to be maintained at 7.00% with no forward guidance. A new Inflation Report will be approved and presented a few days later which should largely confirm the central bank's previous inflation forecasts



Mugur Isarescu,
Governor of the
National Bank of
Romania

With the inflation dynamic largely matching the NBR's expectations, the central bank's focus might shift a tad from inflation to growth, with the latter starting to give more and more credible signs of slowing down rather abruptly. Having said that, there is actually not much that the NBR can do here on top of what has been done already, which was to allow a hefty liquidity surplus in the money market and make the deposit facility the de-facto policy rate. Given that there are still no depreciation pressures for the Romanian leu, it is likely the current policy stance will be extended well into the year-end.

Persistent liquidity surplus

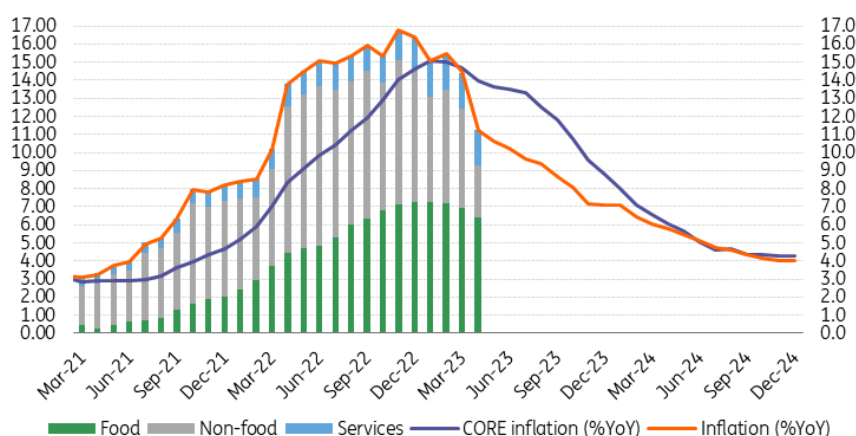


Source: NBR, ING

A new Inflation Report should reconfirm the previous forecasts

Maybe more interesting than the monetary policy decision itself will be the presentation of the May Inflation Report which should take place a few days later and incorporate the NBR's latest inflation projections. It is most likely to be the second report in a row which doesn't differ much from the previous forecasts. The NBR currently sees CPI inflation at 7.1% in December 2023 and 4.2% in December 2024, not far from our estimates of 6.9% and 4.1% respectively. We might see the official forecasts getting into the 1.5-3.5% target range at the end of the two-year forecast horizon, while in our scenario it looks most likely to hover around 4.0%. Moreover, core inflation could prove stickier and remain above the headline figure for most of this timeframe.

Stickier core inflation



Source: NSI, ING

We believe that the NBR will stay on course on 7 August and for the rest of the year, despite the more frequent dovish statements coming from other central banks in the region. We maintain our view of a first rate cut in the first quarter of 2024 with a key rate of 5.5% by the end of 2024. The easing cycle will be justified by the lower inflation but likely tempered by core and regional yields, as the interest rate differential cannot narrow excessively.

On the domestic front, the new fiscal measures announced in order to contain the budget gap are unlikely to meaningfully change the situation on the issuance front, where the Ministry of Finance is in a comfortable position ([more on this here](#)).

What to expect in FX and markets

The liquidity surplus fell only marginally in June, remaining at a near-record RON25.2bn, indicating scant central bank activity. EUR/RON briefly broke through 4.920 last week, again likely due to high demand for Romanian government bonds (ROMGBs) and has been higher since but still well below any line in the sand set by the central bank. FX implied yields have also risen a bit in the last two months but still remain firmly anchored. We expect the NBR to take the opportunity to withdraw some liquidity from the market if EUR/RON moves higher. In the long term, we expect the NBR to move the bar up for EUR/RON at least once more and we should see the 5.02 level by the end of the year.

ROMGBs eased the pressure a bit in July and we see current valuations as more justified. The spread against Polish government bonds has returned above 100bps in the 10y tenor and even against other CEE peers, the levels seem more fair. The funding story remains unchanged. According to our calculations, the MinFin has secured about 82.5% of this year's planned issuance, the highest figure in the CEE region. We also saw strong activity in retail issuance in July, making the overall funding situation the best in the region. On the other hand, we see potential incoming problems on the fiscal side. The government is discussing further measures to improve the state budget and we should hear more in the coming days. Despite the fiscal issues, we should see a reduction in the supply of ROMGBs. However, we expect MinFin to want to stay on the safe side given the uncertainty and if market demand continues the MinFin will be open to issue more than indicated.

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