

Romanian National Bank preview: on hold for longer

The Romanian National Bank (NBR) will announce its latest policy rate decision on 5 October. We expect the key rate to be maintained at 7.00%. Given the core market dynamics and a possible stickier inflation profile locally, hopes for any dovish hints are a matter for next year



The National Bank of Romania

The latest inflation prints along with a new outlook for oil prices continue to suggest that the disinflation process is not a given. On top of that, there is still little visibility on the impact of the latest fiscal package aimed at containing the budget deficit, as well as on the cyclical position of the economy. On the latter, a slowdown is more clearly visible. A second GDP reading confirmed the weaker-than-expected second-quarter growth, which led to an average growth rate of 1.7% over the first half of 2023, down from 5.7% in the same period of 2022. We have reduced our growth forecasts to 1.5% for 2023 and 2.8% for 2024.

On the broader budget deficit issue, things look slightly off track but containable. Based on the most recent data, we still estimate that in 2023 the budget deficit will be around 5.5% of GDP; it should decline toward the 4.0% area in 2024 and possibly closer to 3.0% of GDP in 2025. However, this is highly contingent on still relatively strong GDP growth numbers; even our below-consensus

2.8% growth estimate for 2024 implies robust growth of 0.8%-0.9% each quarter. To the extent that the new deficit targets will be agreed with the European Commission (and we believe they will be), it shouldn't shake the market's confidence much and/or [the flow of EU funds](#).

The main problem these days, however, is the global story, as the prospect of further Fed tightening and US Treasuries trading above 5.00% could trigger a global repricing which cannot bypass Romania. Or, in the words of ING's Global Head of Markets, [there is no point in catching a falling knife in the bond market](#).

Given this rather complicated background, we expect the NBR to remain cautious. Following the National Bank of Poland's latest moves, a rate cut is unlikely to be contemplated anytime soon. The NBR will likely be the last bank in CEE4 to start cutting rates. A pre-requisite for a first cut might be for inflation to fall below the key rate. This is likely to happen by the end of 1Q24. However, more pieces will need to fall into place by then (e.g. budget deficit, other peer central banks continuing/starting to cut rates, global story turning more favourable etc.), hence we tend to think that a first rate cut looks more likely to happen in 2Q24. Meanwhile, we believe that the NBR will look for opportunities to mop up some of the liquidity surplus from the money market in order to retain better control of market rates before (or alongside) any easing move. The preferred tool in this respect is likely to be FX intervention, hence the outlook for EUR/RON looks again quite stable in the short term.

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@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.