

## 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 prerequisite 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.

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