

Snap | 6 November 2023

ROMANIA

## Romanian National Bank preview: The NBR to remain on hold until the spring

We expect the Romanian National Bank (NBR) to keep the policy rate unchanged at its 8 November meeting and we don't foresee any major changes in the Bank's updated inflation forecasts a few days later. We believe that gradual rate cuts will begin in April 2024, totalling 150bps by the end of the year



Mugur Isarescu, Governor of the Romanian National Bank

The latest inflation prints, supported by strong income growth and a new outlook for oil prices, continue to suggest that the disinflation process in Romania is not a given. Moreover, the inflationary impact of the fiscal package is still not clear. Prices could also find some support in the gradual push of the government's fiscal policy towards the maximum limits of deficit that the European Commission would potentially agree with this year and next. As such, these local drivers currently seem to go hand in hand with a higher-for-longer scenario.

On the other hand, at this stage, we think that a higher tax burden during this visible growth slowdown could be more detrimental to private investment than for the disinflation process. In addition, globally, smaller pressures from core market rates following the hiking cycle pauses of both the Fed and the ECB are so far pushing against the need to tighten local financial conditions further in order to prevent hot money outflows.

### **In principle, the Bank should remain cautious**

This background should, in principle, mean the Bank will remain cautious – leading to the likely scenario of the NBR being the last CEE4 central bank to begin its cutting cycle. A pre-requisite for a first cut might be for inflation to go below the key rate, which is likely to happen by the end of 1Q24. However, excess liquidity in the interbank market is already generating the outcome of a conventional policy easing through its visible impact on market rates. September's 29bn RON surplus, together with the higher budget deficit target announced by the Ministry of Finance, could make a return of liquidity levels to anywhere near the historical average quite unlikely for the foreseeable future. As such, it remains likely that any upward pressure on the EUR/RON will be used as an opportunity to mop up some of the excess liquidity from the local market, leading to a stable FX rate and, by extension, to a situation where the battle against inflation is not hindered by FX depreciation.

In Romanian sovereign bonds (ROMGBs), the Ministry of Finance has secured around 95% of this year's issuance since the beginning of the year and continues to supply at a steady pace; despite the uncertain outcome of the state budget this year, the supply side appears to be under control. ROMGBs frontloading should thus cover the additional deficit or frontload next year. Our first calculations estimate a decline of about 20% in gross and net supply of ROMGBs next year after an all-time high this year. We are unlikely to see as strong demand in 2024 as we did this year when foreign holdings increased by roughly 60%.

The NBR remains the most hawkish central bank in the region, and with the recent derailing of the disinflation path, a rally in bonds looks unlikely. From a valuation perspective, ROMGBs still look attractive, which should keep the market interested.

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