

## Romanian National Bank preview: still on hold with no dovish signals yet

We expect the National Bank of Romania (NBR) to keep the policy rate unchanged at 7.00% at its 12 January meeting. While we think that the Bank will welcome the latest inflation reading, which was lower-than-expected, we don't expect any major dovish hints yet



The Romanian National Bank in Bucharest

As we described in more detail [here](#), the disinflation story took a positive turn in November, surprising the market to the downside. But most likely this will be just a temporary blip before another pick-up in the first quarter of 2024 and we think that the NBR will be rather cautious to celebrate. What's more, November's lower-than-expected inflation reading came in after a series of higher-than-expected prints anyway. Indeed, inflation is now below the key rate, arguably a pre-requisite for the Bank to start cutting rates. But with the true financial conditions actually looser (due to excessive liquidity), sharp wage growth fuelling consumption ahead and higher-than-desired budget deficits in the years to come, we don't think that policymakers will see the latest print as enough and we don't expect them to meaningfully tone down the emphasis on upside pressures and upside risks ahead.

This year, after the impact of the higher tax burden sets in, in our view, wage pressures are then set to be the key driver that goes against disinflationary pressures, barring any other major

external event. The latest wage print showed a strong year-on-year growth rate of 17.1% in October in the private sector. While the private sector might not be able to maintain that pace this year, we still believe that double-digit wage growth is here to stay in 2024 amid stronger advances in the public sector. Overall, such wage advances are, in principle, not yet consistent with the NBR target range of 1.5%-3.5%. This adds weight to the idea that any major dovish hints are likely to be left out at this meeting.

All told, we continue to see the May meeting as the most likely for a rate cut, with a total of 150bp by year-end. Our long-held view is that a higher tax burden is a greater threat to private investment and growth than price pressures. The key risk to our view is whether consumers will start acting on their real wage gains sooner than expected, adding support to firms' pricing power throughout the first quarter of this year.

Romanian government bonds have started this year on the right foot with decent demand in the first auctions. MinFin recently published the issuance plan for this year, which unsurprisingly shows slightly lower supply compared to last year (8% YoY in net issuance). However, the question for this year will be more on the demand side after a record strong year in 2023 with foreign bondholders up more than 50% (as of the end of November). On the macro side, within the region, the inflation profile looks most elevated in Romania with the central bank starting its cutting cycle only in the second quarter, the last among its CEE peers. Also, valuations of ROMGBs among CEE peers do not look extra appealing currently so we remain rather neutral here at the moment.

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