# Romanian National Bank preview: Still in a hiking mood

The Romanian National Bank (NBR) will announce its latest policy rate decision on 8 November. We expect a reduction of the tightening pace to 50 basis points, taking the key rate to 6.75%. An open-end press release leaving the door open for another hike in January is to be expected

The Romanian National Bank in Bucharest

## End of the tightening cycle is close

With inflation stubbornly inching higher into this year-end, we believe that a rate hike at the 8 November meeting is a done deal. We currently favour a 50bp hike to 6.75% and an "open-end" press release, with little to no forward guidance. While we narrowly opt for the scenario of no more hikes into 2023, another 25bp increase to 7.00% in January cannot be ruled out. This decision will be data-dependent and – if taken – should mark the end of the hiking cycle.

# +50bp

ING's call

Change in the NBR key rate

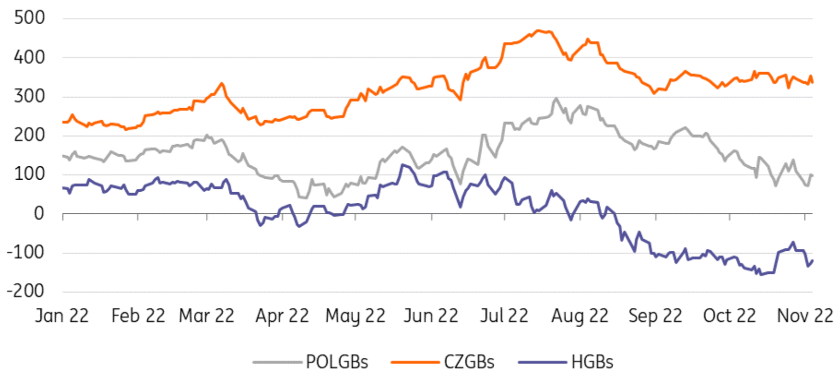
At the 8 November meeting, the NBR will also approve its latest inflation report and we should see another upwardly revised inflation forecast. The year-end estimate could flirt with the 17.0% area, though our own estimate currently sits closer to the 16.0% handle. Nevertheless, upside surprises in inflation prints versus estimates are still persistent, and forecasts should be taken – as usual lately – with a lot more than a pinch of salt.

Perhaps more important than the rate hike itself will be any hint of an alteration in the tight liquidity management stance. We see little to no chance of this being changed for now, though we still have questions about how the NBR will offset the traditional year-end spending spree of the government.

## Our view

Given the expected inflation profile and the very likely economic slowdown or even contraction from 4Q22/1Q23, we believe that the end of the tightening cycle is close. Whether it will be in November at 6.75% (our view) or in January 2023 at 7.00% is probably less relevant for local rates which – as usual lately – tend to corroborate more with the liquidity conditions rather than the key rate. As mentioned before, we believe that the policy rates versus market rates imbalance could persist, and it is not imperative for the key rate to catch up with money market rates.

## 10y ROMGBs premiums versus CEE peers




Source: Refinitiv, ING

## What to expect for rates and FX markets

To some extent, the current leu appreciation might be related to the abovementioned issue of accelerated year-end spending. Though rather small by most standards, the move of the EUR/RON has been rather eye-catching lately. Unlike in August when the pair marked a pronounced V-shaped pattern, the appreciation of the leu seems to be more sustainable this time. Resistance levels that are forming at lower levels could be indicative of official offers. This likely suits the NBR's circumstantial objectives regarding inflation and firm liquidity management. A year-end FX rate closer to 4.90 rather than 4.95 looks plausible.

On the bond side, we saw yields peak in the second half of October and have since seen relatively decent demand for Romanian government bonds (ROMGBs), outperforming Central and Eastern Europe peers. This confirms our earlier assumption that Romania is well-positioned regionally against the current geopolitical risks and fiscal challenges. Premium versus Polish government bonds (POLGBs) have shrunk below 100bp since the July peak of around 300bp and we see similar developments versus other peers, pushing ROMGBs to near their most expensive levels this year. On a global level, we expect the sell-off to continue in the coming weeks, which in this mix we think will push ROMGBs more sideways at the moment.

## Authors

**Valentin Tataru**
Chief Economist, Romania
valentin.tataru@ing.com

**Frantisek Taborsky**
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

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