

## Romanian central bank review: Extend and pretend

The National Bank of Romania delivered another mild dovish surprise, hiking the key rate by 25bp to 2.00%, versus the 50bp we had expected. An extension of the standing facilities corridor to  $\pm 1.00$ pp was also agreed. We believe that failing to credibly anchor expectations now could lead to inflation staying persistently above the target range until 2024



The National Bank of Romania building in Bucharest

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- As we [previously opined](#), the NBR is certainly not keen to join the regional hawkish camp. While we did have this argument in mind before today's meeting, we expected that Romania would -at a minimum- bring its key rate in line with Poland's key rate (2.25%). By not doing so, Romania has now officially the lowest key rate in the CEE4 group (Poland, Czech Republic, Hungary, Romania). This is unsustainable in our view, given Romania's substantial twin deficits and the prospects for them to remain sizeable for at least another couple of years.
- The main risk of this very gradual policy normalisation approach, in our view, is that higher inflation will remain entrenched. We see a material risk that inflation will stay above the

NBR's upper target range of 3.50% until 2024.

- The credit facility rate (Lombard) is now at 3.00%. We don't expect the NBR to further widen the standing facilities corridor around the key rate, meaning that future increases of the Lombard rate will go in parallel with the key rate. At least for the first half of 2022, the liquidity picture could resemble what we have seen through most of 2020, with the NBR again becoming a net creditor to the banking system. This will make the Lombard rate more relevant again, though the average carry rate over a reserve maintenance period might still stay below the credit facility.
- Our main takeaway from today's press release that followed the rate decision is that the NBR is worried about the economic slowdown and the Omicron wave. The NBR estimates that the economy was stagnant in the last quarter of 2021 while the Omicron variant poses a "major source of uncertainty and risk to the forecast".
- The press release clearly gives guidance for more rate hikes, as today's decision is "circumscribed to the process of gradual normalisation of the monetary policy conduct that the NBR is carrying out, amid high uncertainties".
- The next board meeting will take place on 9 February 2022, when a new Inflation Report will be analysed. Traditionally, in periods of increasing inflation, the Bank would move higher its short and medium-term estimates, while maintaining or decreasing the longer-term ones. We expect much of the same for the February 2022 Inflation Report.

We continue to expect that the key rate will reach 3.50% this year, though the timing might be pushed from mid-2022 towards the end of the third quarter. The relatively attractive carry rates will add to the depreciation pressure on the Romanian leu that fundamental factors are already causing. Nevertheless, we do not expect the EUR/RON to depart from the current levels before inflation is safely on a downward trend, which seems to be a matter for the last quarter of 2022.

## Author

### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

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