

## Romanian Central Bank review: It's not over till it's over

The National Bank of Romania (NBR) delivered as expected by us and the market, hiking by 25 basis points to 7.00%. More important, the reference to firm liquidity management has been dropped from the press release. We believe that the current hiking cycle has ended, but we don't take for granted the current liquidity situation



The National Bank of Romania

**7.00%** NBR key rate  
+25bp

As expected

Main points from the press release and our takeaways:

- Economic activity is “significantly exceeding the forecasts” and contradicts expectations for a narrowing of the output gap. Somewhat mitigating the above is the fact that in the third

quarter of 2022 growth was supported mainly by fixed investments and only to a much lesser extent by consumption.

We have marginally revised upwards our call for 2022 GDP growth, from 4.8% to 5.1% on the back of a better-than-expected fourth quarter growth. This creates a stronger carry-over into 2023, which we have also revised upwards from 1.8% to 2.5%.

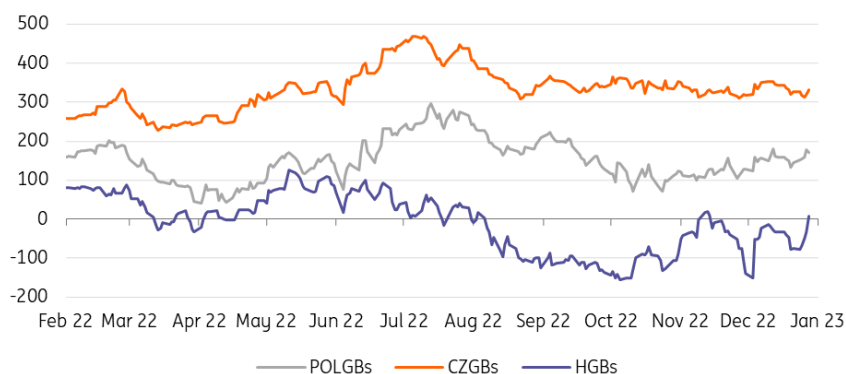
- Inflation rate will decline gradually in the first quarter of this year and “at a significant faster pace” from April. In line with our estimates as well, the NBR sees inflation dipping below 10.0% in the third quarter. We currently estimate the 2023 year-end inflation at 7.3%, but we do not foresee a return into the NBR’s 1.5%-3.5% target band over the next two-year forecast horizon.
- Probably the most interesting part is the drop of the “firm liquidity control” commitment. While dovish in essence, we read this more like a post-factum acknowledgement rather than a forward guidance intention. By our estimation, the year-end liquidity surplus stood at almost RON11bn. This is quite significant by local standards, but it doesn’t mean it is permanent.

While we do not envisage a return to deficit, we believe that a sizeable chunk of this surplus could go back to Treasury together with the end-January corporate tax payments.

Corroborated with the usual prudent budget execution in the first part of the year and also the NBR preference for flexibility when it comes to rapidly twisting liquidity conditions, it should mean that the liquidity surplus could be much smaller from February onwards.

With today’s decision, we see little scope for more hikes this year. If needed, the NBR will probably make good use of its already deep know-how in managing the interbank liquidity, in order to achieve its objectives.

## 10y ROMGBs spreads versus region peers



Source: Refinitiv, ING

## What to expect for FX and rates

The Romanian leu, like the entire CEE region, has benefited from favourable global conditions in recent weeks and, with the exception of the last few days of last year, has remained below NBR intervention levels. Although Romania is the least energy-dependent country in the region, the positive impact of the drop in gas prices and the more favourable EUR/USD level has not avoided

the Romanian market. These conditions are expected to persist in the coming weeks. Although the carry level is among the lower ones within the region, it is at least stable. Moreover, the central bank maintains strong market confidence not to allow a depreciation above intervention levels. Thus, any EUR/RON upward moves may be tempting for RON buyers.

On the bond side, we see that the news of an increase in financing needs for this year has not unsettled the market too much, and Romanian government bonds (ROMGBs) enjoyed strong demand in the first auction of the year, which helped to frontload the needs and together with a sufficient cash buffer, we believe The Ministry of Finance of Romania is in a comfortable position. In addition, the maturity calendar is rather light in the first quarter. Thus, ROMGBs should not come under market pressure anytime soon. From a valuation perspective, the picture is rather mixed. Yields at the short end of the curve are near the lows of last May and the long end is near the lows of early December. On the other hand, in relative terms to CEE peers, ROMGBs look cheap. The spread against Polish government bonds has reached almost 200bp and we believe this is the peak, as the disinflationary story and the dovish National Bank of Poland are more to blame last few days, but we should see spreads tightening again. Overall, we remain positive on ROMGBs.

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