Romanian central bank: speeding up but not catching up

The National Bank of Romania (NBR) delivered a mild hawkish surprise for the market, hiking the key rate by 50 basis points to 2.50%, in line with our call. We see the key rate reaching 4.00% in 2H22. Risks are for the tightening to continue into 2023 given the persistent inflation and other regional central banks' reaction

The National Bank of Romania building in Bucharest

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The press release underlines some interesting facts:

- The economic growth is estimated to have decelerated in 4Q21, "significantly below November 2021 projection". The latest high frequency data does indeed point to a growth slowdown in the last quarter of 2021, "which makes it likely for excess aggregate demand to have shrunk in this period to a much lower-than-forecasted value".
- Inflation projections (due to be published on 11 February together with the newest Inflation Report) show a "considerable worsening" in the near term. Basically, the NBR sees the headline inflation above 10% in 2Q22 when the current compensation schemes for households will expire. The subsequent decrease will be "probably only gradually" and the return within the 1.50%-3.50% variation band is estimated for 4Q23. While strong base

effects will indeed push the inflation considerably lower in the second part of 2023, we do not expect it to enter NBR's variation band but rather to close the year in the 4.0-4.5% range. Uncertainties remain abnormally high, especially in the short term, as a potential revision/extension of the support schemes could change the inflation picture substantially.

- A new addition has been made to the closing statement which now says that NBR's decisions aim – among others – to "foster saving through higher bank rates". The remark is interesting as it comes on the same page with mentioning of the lower-than-expected aggregate demand. It might seem that the Bank would like to avoid a situation where savers need to search for alternatives outside the banking system in order to get some protection against inflation. However, with interest rates below inflation even for loans, it might take a bit of time for the NBR decisions to filter through.

Despite hiking by 50bp today, Romania still has the lowest key rate in the CEE4 group (Czech Republic, Hungary, Poland, Romania) and the most negative real rates. The picture might not be much different by the end of 2022. We continue to stress that closer attention should be paid to the Lombard level and actual market rates in longer tenors as these could trade quite decoupled from the key rate for an extended period. FX-wise, the EUR/RON should trade quasi-flat for most of 2022.

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