

## Romanian National Bank set to increase its key rate to 3.00%

The Romanian National Bank (NBR) is set to announce its latest policy rate decision on Tuesday. We forecast a 50 basis points hike to 3.00% which will still be the lowest key rate in the CEE4 region. As economic growth slows down, the case for higher rates fades but we still expect it to reach 4.50% this year



The National Bank of Romania stands out in terms of the firmness of its FX stance

- Inflation has been somewhat softer since the beginning of this year, at least compared to expectations, as energy market developments continued to be a source of volatility in headline inflation. Due to government measures to extend the price caps on gas and electricity until April 2023, we have been rather reluctant to revise our 8.8% average inflation for this year. However, given the latest developments in energy and commodities markets (particularly in primary agricultural commodities), we are revising the average inflation forecast to 9.3%, with the year ending at 8.9%.
- The high-frequency data available so far points to a rather robust economic activity in the first quarter of 2022, with industrial production and construction starting the year on a strong footing. The March data might look on the weaker side, but this is unlikely to materially change the picture for the quarter. As it stands, we anticipate a +0.2% quarterly expansion in 1Q22, which means that Romania should avoid a technical recession. For the

year, however, we are expecting a rather unsatisfactory 2.3% GDP growth

- We attach a relatively small but not negligible probability (say 15%) of the NBR extending the symmetrical corridor around the key rate from 100 to 125 basis points at one of the next two meetings. This would essentially deliver another 25 basis points of tightening and potentially justify lower rate hikes.
- Overall, monetary policy is likely to remain FX focused and we expect the 4.95 level for the EUR/RON to hold through this year. The NBR is likely to remain a net creditor to the banking system for most of 2022. One-off decisions such as buying government securities could be used as a signalling tool for the market but are very unlikely to become a habit.

The NBR is faced with a rather disagreeable context of higher supply-side driven inflation and lower growth. A 'do the least and hope it holds' strategy seems to have been the tool of choice so far, and we have little reason to expect any change in the policy stance. We now expect the key rate to reach 4.50% this year and stay there through 2023..

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