

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..

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.