

## Romanian National Bank Preview: 50 or more?

The Romanian National Bank will announce its latest policy rate decision on Tuesday 9 November. A new Inflation Report will be approved at the same meeting which will likely contain sharply higher inflation projections. We believe that a 50 basis points hike is most likely on Tuesday, but we wouldn't be surprised to see more



The National Bank of Romania building in Bucharest

Source: Shutterstock

- Inflationary pressures continue to build. We see year-end inflation at 8.0% and a rather painfully slow deceleration to levels that are even close to the central bank's 1.5%-3.5% target range. Realistically, a headline inflation rate that is sustainably within the target range remains a story for mid-2023 onwards.
- Economic growth seems to have decelerated in the third quarter, though a better than expected performance from agriculture could offset the contraction in industrial production, and the flattening in the consumer sector. We maintain our 7.5% GDP growth forecast for 2021, followed by a moderation to 4.5% GDP growth in 2022. Risks for next year's growth are slightly skewed to the downside.
- Aside from a classic key rate hike, we don't rule out less transparent tightening measures, such as an asymmetrical widening of the standing facilities corridor. In such a scenario, the

deposit facility could remain 0.5ppt below the key rate while the credit facility could be set at 0.75ppt or even 1ppt above the key rate. Given the apparent scarce liquidity background in the money market (at least judging by the Robor rates which are above the Lombard rates in all tenors) this measure could be almost as effective as a rate hike.

- We now expect the terminal key rate at 3.0% by mid-2022, with risks still to the upside. A lot depends on the other CE3 central banks as well, as the interest rate differential needs to stay predominantly positive for Romania.

We maintain our view that the National Bank of Romania will try to limit the hiking cycle as much as possible but in view of the abnormally high inflation and actions by other regional central banks, it may have no choice but to join the hawkish camp. Troubled political waters - which by extension dampen the fiscal consolidation story - and quasi-permanent upside pressure on the EUR/RON pair only adds to the case for the NBR to frontload rate hikes.

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