

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.

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 <http://www.ing.com>.