

## Romanian National Bank preview: a hike which could go unnoticed

The Romanian National Bank (NBR) will announce its latest policy rate decision on 10 January. We narrowly favour a last 25 basis points hike to 7.00%, against a no-change decision. Either way, markets might be rather indifferent to the decision as the ample liquidity backdrop significantly blurs the relevance of the policy rate



The Romanian National Bank will announce its latest policy rate decision this week

The end-2022 inflation is likely to close above NBR's 16.3% estimate, though it might not be that far off, with our forecast standing at 16.6%. Looking at the recent downside surprises in inflation in [Germany](#) and [Italy](#), as well as in [Poland](#) – on the back of a somewhat generalised fall in commodity prices, but also at the [apparent commitment of the National Bank of Poland](#) to not hike rates this year – it all looks like a good moment to put rate hikes on hold in Romania as well.

# +25bp

ING's call

change in NBR key rate

However, while it is in decline, inflation is still well into double-digits (and could stay there through mid-2023), while on the external front [the ECB is moving into an uber-hawkish zone](#). In all fairness, there are sensible arguments for both a 25bp hike and a no-hike. Hence, we attach a reasonably high probability (say 30%) of a no-hike decision on Tuesday.

A 25bp hike would hardly be a hawkish signal for the market, given the considerable liquidity surplus in the money market. We've been wondering for some time (see our [November preview](#)) how the NBR will tackle the year-end spending frenzy by the Treasury. Somewhat surprisingly given its official stance and rhetoric, the NBR seems to have a rather tolerant stance. Carry rates have tanked even through the deposit facility for a while now, while the longer tenors are trading closer to the policy rates – be it the key rate or credit facility. While a large chunk of this surplus liquidity could go back to Treasury together with the end-January corporate tax payments, returning to the previous liquidity shortage situation looks improbable. Hints on how the NBR will approach this liquidity situation and/or whether it will change its “firm” stance might be – at least in short term – even more important than the rate decision itself.

On the macro front, recent official statements point to an above 5.0% GDP advance in 2022, which would mean that Romania had quite a strong fourth quarter.

We reaffirm that there are sensible arguments for both a no-hike or a 25bp hike at the 10 January meeting. On the former we mention that 1) inflation has peaked and we will start to move lower and lower in the upcoming months; 2) the other CEE3 central banks are clearly on hold; 3) the economy is decelerating. Favouring our 25bp hike scenario are 1) inflation is descending but it is still very high and might not dip below 10% before autumn; 2) the ECB seems determined to continue hiking; 3) stopping after a 50bp hike in November would seem rather sudden and a final 25bp hike better fits Governor Constantin Murguș's repeated mention of the importance of a sequential approach to policy moves.

## What to expect for FX and rates

The Romanian leu, like the entire CEE region, has benefited from favourable global conditions in recent weeks and, with the exception of the last few days of last year, has remained below NBR intervention levels. Although Romania is the least energy-dependent country in the region, the positive impact of the drop in gas prices and the more favourable EUR/USD level has not avoided the Romanian market. These conditions are expected to persist in the coming weeks. Although the carry level is among the lower ones within the region, it is at least stable. Moreover, the central bank maintains strong market confidence not to allow a depreciation above intervention levels. Thus, any EUR/RON upward moves may be tempting for RON buyers.

On the bond side, we see that the news of an increase in financing needs for this year has not unsettled the market too much, and Romanian government bonds (ROMGBs) enjoyed strong demand in the first auction of the year, which helped to frontload the needs and together with a sufficient cash buffer, we believe The Ministry of Finance of Romania is in a comfortable position. In addition, the maturity calendar is rather light in the first quarter. Thus, ROMGBs should not come under market pressure anytime soon. From a valuation perspective, the picture is rather mixed. On the one hand, yields at the short end of the curve are near the lows of last May and the long end is

near the lows of early December. On the other hand, in relative terms to CEE peers, ROMGBs look cheap. However, especially in the case of the spread against Polish government bonds, the disinflationary story and the dovish NBP are more to blame. But overall, we remain positive on ROMGBs

## Authors

### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

### Frantisek Taborsky

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

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