

## Romania National Bank Preview: increased caution but no hikes to be signalled yet

The National Bank of Romania (NBR) will resume its regular policy meetings on 12 May. The Bank should maintain the key rate at 1.25% and keep reserve requirement levels unchanged. More closely watched will be any reference to inflation developments.



The National Bank of Romania building in Bucharest

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**The NBR will announce its latest decision on Wednesday 12 May. Inflation talks will predominate but should not stop there**

- Inflation developments and prospects should be the main thing to chew on for the NBR Board at its 12 May meeting. While not materially departing from the latest NBR forecasts, risks that inflation goes above the 3.5% upper limit towards year-end are not negligible. This

is not our base case, but - as pretty much everywhere lately- - risks for inflation do look clearly skewed to the upside. However, we do not expect that inflation levels per se will trigger a policy reaction.

- The NBR is likely to underline that the economic recovery is well underway, but its sustainability is not a given, considering the many uncertainties linked to the pandemic . For this reason, a “carefully calibrated” monetary policy stance to support the economic recovery will likely be cited.
- Any reference to other regional central banks' behavior will be closely watched, given that rate hike scenarios are more and more openly acknowledged, especially in the Czech Republic and Poland. We don't expect communication wonders here as any hints are likely to be kept to the minimum, but nevertheless it will be interesting to see whether the NBR goes with the relatively hawkish winds wafting through the region.
- No less than one month ago, during an IMF conference, a somewhat unexpected twist in language from National Bank of Romania Governor Mugur Isarescu puzzled the markets a bit, as he pointed concomitantly to “no reason for further reduction in interest rates”, “flexibility of the inflation targets” and “more flexibility” with respect to the exchange rate. This might suggest a gradual shift in focus from FX stability to interest rate stability. We believe this will occur very, very slowly – if at all.

## Rate hikes not earlier than mid-2022

We believe that the NBR will try to delay tightening through key rate hikes for as long as it can and rather revert to liquidity measures should the situation (i.e. inflation) require. We continue to believe that the first key rate move will come in the second part of 2022 when we expect a short-lived hiking cycle to start, taking the key rate to 1.75-2.00% area. This will likely be correlated with, by then, vigorous economic growth, with the output gap having been closed in 3Q21 already.

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