

Romanian National Bank preview: Keep the course, change the tone

The Romanian National Bank (NBR) will announce its latest policy rate decision on 4 April. We expect the key rate to be maintained at 7.00%, but with the 3-month Robor below the policy rate and apparent upside pressures for the EUR/RON, we could hear a mildly hawkish tone



The National Bank of Romania

Focus points

Inflation: Headline inflation for the first two months of 2023 may have printed a tad above expectations, especially in February when it touched 15.5%. Nevertheless, we believe that beginning with March inflation (which we expect at 14.2%) and particularly April (currently seen by us around 11.5%) a clearer disinflationary trend will take shape.

We've had a long-standing 2023 year-end forecast of 7.4% which we maintain. While market consensus has meanwhile adjusted closer to our estimate, we believe that markets could still be surprised by the lower inflation prints in April and even in August-September when the headline should finally dip into single-digits. For the NBR, however, this is already the main scenario according to the latest Inflation Report, hence we don't expect a change in the monetary policy stance.

Growth: On the macro front, the economy seems to be in reasonably good shape given the context. The economy advanced by a robust 4.8% in 2022, with a welcome rebalancing in growth drivers from consumption (still the main driver) towards more investments being noticeable.

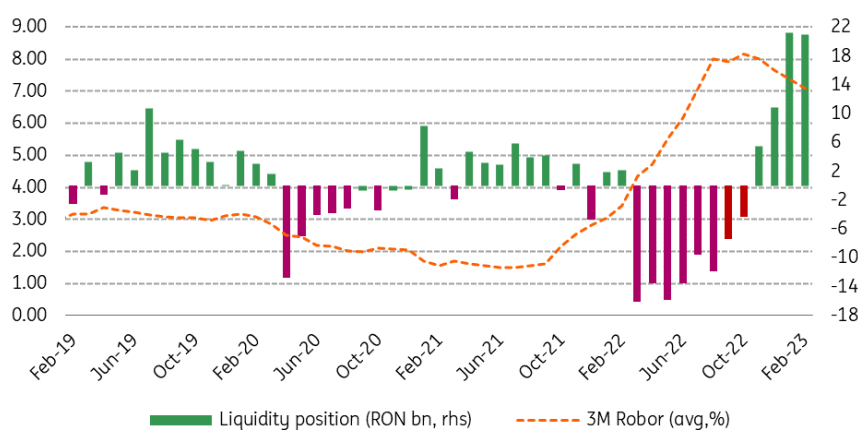
The availability of the high-frequency data for 2023 is still quite limited. Industrial production apparently remains rather deep in negative territory in early 2023, while retail sales and construction data have been much better. This is consistent with the latest confidence numbers showing an improvement in the overall economic sentiment index largely on the back of the retail and construction sectors, though the industry is also doing fairly well in confidence surveys.

We maintain our 2.5% GDP growth estimate for 2023, with a small but positive quarterly growth of 0.2% in the first quarter.

What to expect for FX and rates

The continuous drop in market rates over the last 3-4 months continues to point to a generous liquidity surplus in the interbank market. We estimate this surplus to have stayed around RON21bn in February, very close to the January number, which likely marked a historical high. We believe that this very rich liquidity backdrop is not particularly welcomed by the NBR as it keeps carry rates relatively low and might intensify the depreciation pressures on the FX rate. The recent upside move in the EUR/RON might offer the opportunity to mop-up some of the excess RON liquidity. We expect the liquidity surplus to return to somewhat more normal levels (say RON5bn-10bn) within the next 1-2 months, though lower levels cannot be excluded if FX pressures intensify. The tightening of monetary conditions on the market should thus lead to pressure on forward points go higher and an increase in FX implied yield at least to the levels seen in December, in our opinion. Looking forward, the reasonably mild inflationary pressures could be an argument for the central bank to contemplate an adjustment higher in the EUR/RON rate later this year.

Liquidity surplus at historical highs



Source: NBR, ING

On the bond side, [Romanian government bonds](#) (ROMGBs) remain our favourite story within the CEE region. According to our estimates, the Ministry of Finance has covered almost 50% of all planned issues since the beginning of the year, which makes Romania number one in local currency issuance within the region. In addition, the risk balance looks better compared to Poland and Hungary, which makes ROMGBs an attractive pick. The fiscal situation looks under control,

EUR/RON remains stable, macro picture seems to be resilient, and Fitch recently upgraded the rating outlook from negative to stable. Additionally, the current rebound in core rates has led to yield growth of roughly 20bp at the long end of the curve this week, which we believe will once again attract buyers in coming days.

What we make of it

With the above in mind, we believe that NBR will stay on course and keep the key rate unchanged both on 4 April and for the rest of 2023. The very rich liquidity surplus is likely an issue that NBR will address either through permanent means (i.e. FX interventions) or, if needed through open market operations (such as deposit auctions). Given the recent developments on the FX market, we believe that the preference is for the first option. This could lead to a mild reversal in the current downside trend in market rates and a repositioning of the curve up to 1-year closer to the policy rate.

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