

Romanian National Bank Preview: Let the hikes begin

The National Bank of Romania (NBR) will announce its latest decision on Tuesday, 5 October. Given the latest regional developments (rate hikes in Czech Republic and Hungary), a likely above 6.0% inflation into the year-end and the obvious exchange-rate pressures, we believe that chances are tilting towards a 25bp rate hike at Tuesday's meeting



The National Bank of Romania building in Bucharest

Source: Shutterstock

- We have recently underlined that there are upside risks to our year-end inflation estimate, but we are still waiting for the September data before updating our forecast. However, it becomes pretty clear that on the back of the energy prices, the question is not whether inflation will touch 6.0% this year, but rather if it will get closer to 7.0%. Even if the underlying reasons have not changed and inflation is still driven predominantly by factors outside NBR's control, we believe that the central bank will not stay on the sidelines and let inflation cool down by itself.
- The latest high frequency data point towards a flattening of the economic activity in the third quarter. Nevertheless, we believe that the economic recovery is robust enough to withstand higher – but still deeply real negative – interest rates without major trouble.
- The timing of the decision is less than ideal, as the MPC meeting takes place in the same

day with the no-confidence vote filed by the PSD against the Citu cabinet. A simple arithmetic shows that the chances for the government to survive are minimal. While arguments can go either way, we believe that a rate hike at Tuesday's meeting could calm the markets better than a hawkish statement without a hike.

- Certainly not least – quite the contrary in fact, the exchange rate pressures remain key to the NBR's reaction function. The tight trading range and increased turnover apparent around 4.95 are usually indicative of official offers. FX-wise, we believe that September was quite a busy month for the central bank and higher carry rates (already visible in the money market) would give a helping hand to stabilise the EUR/RON.

We have previously envisaged a rather modest hiking cycle of 75bp, taking the key rate to 2.00% by the end of 1Q22. In light of the above, this seems a rather mild scenario and we now think that a terminal rate of 2.50% is more realistic. Assuming that we won't have any extreme events (e.g. early elections or a rating downgrade – both very unlikely in our view but not completely ignorable) we maintain our year-end FX forecast unchanged at 4.95 for both 2021 and 2022.

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