

## Romanian National Bank preview: one last big hike

The Romanian National Bank (NBR) will announce its latest policy rate decision on 5 August. We forecast a 100 basis point hike to 5.75% which will still be the lowest key rate in the CEE4 region. Nevertheless, with market rates already much higher, it might be the last significant hike in this cycle



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### What to expect

- At the 5 August meeting, the NBR will approve its latest Inflation Report. Overall, we expect another upwardly revised inflation forecast. However, the amplitude of revisions should be much reduced compared to the previous revisions. We see some chance that it might not be all to the upside, but rather marginally higher in the short term and quasi-unchanged (or even marginally lower) towards the end of the forecast horizon. Our current estimate for 2022 year-end inflation stands at 13.0% versus the NBR's 12.5%, and at 7.0% for 2023 versus the NBR's 6.7%.
- The latest numbers on the macro front point to a growth deceleration in the second quarter, which should nevertheless remain positive. The [latest numbers on retail sales](#) are

certainly casting a shadow over the second half of the year and - together with the decreasing inflation profile - should give the NBR another reason to reduce the hiking pace and even terminate it in November.

- While the key rate itself is and will likely remain the lowest in the CEE4, market rates are now trading very much decoupled from the key rate and even from the credit facility. The 3-month Robor printed above 8.0% recently (compared to just over 7.0% for Poland's 3-month Wibor rate), materially departing from the 5.75% credit facility rate. This shows on one side that more hikes are to be expected but it also reflects the persistent liquidity shortage in the money market. On the fixed income side, the spread versus Poland in, say 10-year bonds, has widened well over 200 basis points despite a recent rally in yields. We believe that the policy rates vs. market rates imbalance could persist and it is not imperative for the key rate to catch up with money market rates.
- FX-wise, the recent mild appreciation of the leu should be welcomed by the NBR as it gives a small helping hand with inflation. Nevertheless, a more significant appreciation of the leu would be both unsupported by fundamentals and likely not favoured by the NBR. We maintain our estimate for the EUR/RON to close the year almost flat at 4.95.

Given the expected downward sloping inflation profile, we expect the pace of future hikes to be much reduced. Aside from August, the NBR has two other policy meetings: in October and November. We currently pencil in another 50bp hike in October and 25bp in November, taking the key rate to 6.50% by year-end.

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