

## Romanian National Bank preview: sequentially is key

The Romanian National Bank (NBR) will announce its latest policy rate decision on 5 October. We expect a reduction of the tightening pace to 50 basis points, taking the key rate to 6.00%. One last 25bp hike in November should terminate the hiking cycle. As usual lately, there are upside risks



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

### Focus points

- **Inflation:** While the latest inflation developments have been rather on the upside of our central scenario, we maintain the view that we witnessed the peak headline in August at 15.3%. That said, chances for the September print to come slightly higher are not ignorable, with our current 15.2% estimate being heavily exposed to the usual forecast errors we've been seeing for a while now. Starting October however, stronger base effects will kick-in and the headline inflation should come lower by at least 1pp. All considered, our year-end forecast of 13.6% in 2022 is looking marginally optimistic given the persistently high energy prices, though we are not changing it at the moment. For end-2023 we maintain our 7.0% forecast, but the perspective of inflation hitting the NBR's target band (1.5-3.5%) by the end of the two-year forecast horizon looks more distant now.

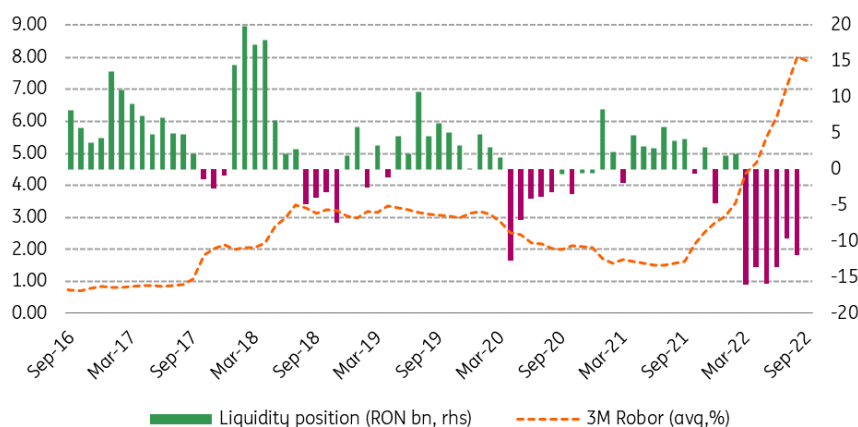
- **Growth:** On the macro front, as the eurozone economy is slowing down rapidly (probably already experiencing a recession) and most forecasts for 2023 already point to various degrees of GDP contraction (-0.8% ING's house view) we believe that Romania's capacity to fend-off the contractionary impact of these external developments is limited. The available high frequency data is so far limited to early 3Q22 and points to a contraction in industrial production and construction, while retail sales maintained a positive momentum. All considered, our already below-market GDP estimate for 2023 of 3.0% started to look overly optimistic and we are revising it to 1.8%. At the same time, we marginally revise the 2022 GDP growth estimate from 7.0% to 6.6% as a mild contraction in the third and/or fourth quarter cannot be excluded anymore. This assumes that no significant statistical data revisions will occur which, given the abnormally high growth from the first half of 2022, is not such a light assumption to make. Overall, growth concerns – and by extension the rapidly closing output gap – will likely resurface in the NBR's policymakers discussions and it should point towards the dovish side of the NBR's approach.

## What to expect in rates and FX markets

On the bond market, during September, the Romania government bond (ROMGBs) curve moved up about 70bp, resulting in a bear-steepening. The global sell-off has led the curve to its steepest shape since the second half of August, supported by issuance particularly at the belly and long end of the curve. The 10y yield has reached the 8.50% mark for the first time since July. However, we believe the global sell-off is still not over and the yield still has room to move closer to the 9.00% level. This view is also supported by CEE peers' comparisons, which make ROMGBs look expensive at the moment. During September, the premium over Polish government bonds has fallen 60bp from local highs. On the other hand, we believe Romania is well positioned in relative terms within CEE for the coming winter and the slowdown in the global economy. Moreover, against its direct competitor Hungary, Romania has the advantage of the absence of EU money issues and benefit from stable FX. In the event of an end to the global sell-off and favourable European economic numbers, we believe ROMGBs are well positioned against peers.

On the FX side, the Romanian leu has moved back to 4.95 EUR/RON after a brief excursion to stronger levels and the NBR seems to have the situation fully under control, for now. We do not expect any changes in the short term, however, the global selling pressure on the CEE region is also affecting the RON market. Looking at the Hungarian forint and Polish zloty, we can assume that the NBR's FX defence costs have increased significantly over the last two weeks, indicating that stability cannot last forever. For now, we expect a shift higher in our forecast for the intervention level early next year. However, the winter months could bring increased pressure on FX and push the NBR to ease the plunger a little earlier.

## Liquidity position and the 3-month rate



Source: NBR, ING calculations

### What we make of it?

With the above in mind, we re-affirm our expectations for a sequential approach by the NBR. This implies that the pace of policy tightening will slow down from 75bp in August to 50bp in October and 25bp in November, taking the key rate to 6.25%. As usual for local rates, the level of the policy rate itself is not always the most relevant, as it corroborates with the strained liquidity conditions in the money market – which will likely be maintained. As mentioned before, 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.

In the bigger scheme of things, while it might send a cautious dovish signal, we believe that the NBR will not pre-commit to any policy course and that it will leave all policy options on the table. Under current circumstances, this will most likely mean that more aggressive tightening (going into 2023 as well) cannot be excluded.

### Authors

#### Frantisek Taborsky

EMEA FX & FI Strategist

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

#### Valentin Tataru

Chief Economist, Romania

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

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.