

Snap | 7 January 2022

ROMANIA

# Romanian National Bank Preview: Speeding up rate hikes

The Romanian National Bank (NBR) will announce its latest policy rate decision on Monday 10 January. We believe that a 50-basis point hike to 2.25% is most likely, though a larger hike should not be completely excluded. The key rate could reach 3.50% by mid-year, but we believe more attention should be paid to the Lombard rate



The National Bank of Romania building in Bucharest

Source: Shutterstock

- There's not much news on the inflation front lately, but no news does not necessarily mean good news. We now see the average 2022 inflation rate at 7.2%, with the year-end rate at 5.5%. Headline inflation within the National Bank of Romania's 1.5%-3.5% target range is a matter for the second half of 2023 at best. The inflation peak should be touched in the second quarter at around 8.5% but a lot depends on what policy makers decide regarding the caps and subsidies for electricity and gas prices.
- Economic growth remains on a downward trend, though the latest data should be regarded as a return to a more normal growth pace rather than spelling trouble. We believe that the sizeable year-end public spending (i.e. some 2.8%-2.9% of GDP spent in the last two months of 2021) might lift fourth quarter GDP way above what the high-

frequency data will suggest. This will boost the carry-over effect for 2022. We maintain our growth estimates at 6.5% for 2021 and 4.5% for 2022 and 2023.

- Apart from the 50bp rate hike, we expect a further widening of the standing facilities corridor from  $\pm 0.75$ pp to  $\pm 1.00$ pp. This will take the credit facility rate (Lombard) to 3.25%. We believe that the Lombard rate will become the relevant policy rate for most of 2022 as the NBR will likely not tolerate an excess liquidity environment. Hence, we might see the NBR again becoming a net creditor to the banking system on a more permanent basis, somewhat like we saw through most of 2020.

We expect the terminal key rate at 3.5% in mid-2022. The NBR has a bit of catching up to do as Romania cannot sustainably maintain the key rate below its CEE3 peers (Poland, Hungary, Czech Republic). However, as mentioned above, one should not pay strict attention to the key rate level alone, as the actual market rates (especially in the longer tenors) could trade quite decoupled from the key rate.

### Author

#### 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

## **THINK economic and financial analysis**

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 [www.ing.com](http://www.ing.com).