

## 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

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- 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  $\pm 0.75\text{pp}$  to  $\pm 1.00\text{pp}$ . 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.

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