

Romanian National Bank preview: Time to speed up tightening

The Romanian National Bank (NBR) will announce its latest policy rate decision on Wednesday 9 February. We believe (again) that a 50 basis points hike to 2.50% is most appropriate, though the Bank has so far been reluctant to increase by more than 25bp



The National Bank of Romania building in Bucharest

Source: Shutterstock

- Closing 2021 at 8.2%, the inflation rate is at more than a 10-year high and is likely to increase even further in the months to come. Core inflation reached 4.7% and should peak in the 5.5%-6.0% range in the second quarter. A return of headline or core inflation to the NBR's 1.5%-3.5% target range might not happen in the coming two years. We now estimate average 2022 inflation at 7.5%, with the year-end at 6.0%.
- The higher inflation forecast incorporates a key rate of 3.50% by the end of 2022 and a terminal rate of 4.00% in early 2023, which will likely be the lowest in the CEE4 group (Poland, Hungary, Czech Republic, Romania). The risk is for rate hikes to be frontloaded in 2022.
- Economic activity seems to have remained relatively robust in 4Q21 as retail sales have advanced by 0.5% versus the previous quarter and industrial production should have narrowly avoided a contraction as well. We know that the government spent some

RON24bn (c.2.0% of GDP) in December 2021 alone and we believe that this will lift fourth-quarter GDP above what the high-frequency data suggests. We maintain our growth estimates at 6.5% for 2021 and 4.5% for 2022 and 2023.

We continue to believe that Romania cannot sustainably maintain the key rate below its CEE3 peers. However, staying just close enough to the CEE3 pack while adjusting liquidity conditions every now and then in order to (occasionally) make the Lombard rate (which is 100bp higher than the key rate) more relevant might just do the trick in 2022 at least. We therefore wouldn't rule out another 25bp hike on 9 February instead of the 50bp we expect, but a lot will depend on [what the NBP does](#) the day before as well.

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