

## 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.

## 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 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>.