

## Romanian National Bank preview: time to talk the talk

The Romanian National Bank (NBR) will announce its latest policy rate decision on 9 February. We don't expect any change in the key rate level, but a mildly cautious tone could be employed to balance the obvious easing of monetary conditions since the last meeting



The Romanian National Bank in Bucharest

# 7.00%

NBR's key policy rate

We expect no change

Looking solely at the market data, one might find it hard to believe that the 10 January policy decision in Romania was in fact a rate hike. Pretty much all of the main developments since then have pointed to a relaxation of monetary conditions: the 3-month rate dropped by some 30 basis points and is now trading quite close to the 7.00% policy rate, carry rates in FX swaps have traded consistently below the 6.00% deposit facility, with only a short-lived spike around the beginning of the new reserve maintenance period, while 10-year government bonds dropped by some

25-30 basis points to the current 7.40% on record high demand. On top of that, the EUR/RON not only departed from the 4.95 resistance area but has even tested consistently below 4.90, likely related to local bond inflows.

The root cause for the drop in market rates has undoubtedly been the massive liquidity surplus which, according to our estimates, reached historic highs in January, at over RON21bn. This beats by a wide margin our initial estimates, which were somewhat closer to the December surplus of around RON11bn. It also explains why carry rates remain close to, or even below the 6.00% deposit facility despite a record issuance month for the Ministry of Finance which managed to sell some RON26bn worth of bills and bonds in January.

A no-change decision is widely anticipated, but considering the above, we tend to expect a relatively cautious tone from the NBR which might be fearful of the market being too complacent given these recent developments. Possibly more important than the decision itself will be the February Inflation Report which will contain the updated NBR forecasts. We expect the 2023 year-end inflation rate to be revised much closer to our 7.4% estimate. It will also be interesting to watch for the longer-dated NBR estimates, particularly whether they see inflation entering the 1.5%-3.5% target range over the two-year forecast horizon. Our base case is that headline inflation will not dip below 4.0% over the next two years.

## What to expect in rates and FX markets

On the bond side, Romanian government bonds (ROMGBs) have become rock stars within the CEE region since the beginning of the year. MinFin has taken advantage of record demand and good market levels to secure nearly 30% of ROMGBs issuance and 75% of ROMANI issuance since the beginning of the year. On the local currency side, this is by far the most within the CEE region, which together with a heavy cash buffer puts MinFin in a comfortable position. The potential for a sell-off is thus limited in our view given that MinFin can easily avoid issuing bonds if market conditions deteriorate. We can expect auction results to return to normal in the coming weeks, but the ROMGB picture remains positive. Fiscal policy and FX are basically fixed and, unlike some CEE peers, Romania does not face political conflicts with the EU and is not exposed to energy import dependence. Although the level of ROMGB yields is not as attractive as at the beginning of the year, in relative terms against CEE peers, we still do not find them expensive. Overall, we thus remain positive on ROMGBs.

The record demand for ROMGBs is also having a positive impact on the Romanian leu, which has been below the NBR's intervention level most of the time since the beginning of the year. Massive inflows into bonds have helped the RON to test levels below 4.90 EUR/RON several times. Plus, global conditions led by falling gas prices and a higher EUR/USD are positive for FX. On the local side, the FX implied yield remains attractive as well, fluctuating steadily in the 6.60-7.00% range for the 3M tenor, comparable to the Czech koruna and Polish zloty. However, given the NBR's solid track record of managing the RON, potential FX depreciation losses look limited, which gives a distinct advantage, especially against the Hungarian forint and Polish zloty. Thus, we continue to expect the RON to hold below the EUR/RON 4.90 level depending on further inflows into ROMGBs.

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