

## Romanian National Bank review: not quite there yet

The National Bank of Romania delivered a mild hawkish surprise today, hiking by 75bp to 6.25%, against ING and market expectations of a 50bp hike. We had estimated that the hiking cycle would stop in November at 6.25%, but today's decision opens the door for the hikes to continue into 2023 with the 7.00% handle now in sight



The National Bank of Romania

# 6.25%

Romania's key rate

+75bp

Higher than expected

In our view, the key to today's relatively hawkish decision lies in the following statement issued alongside the decision: "According to current assessments, the annual inflation rate will probably stick to an upward path towards year-end, under the impact of supply-side shocks, yet at a visibly slower pace."

This means that the National Bank of Romania (NBR) now sees inflation inching higher rather than tanking some 1pp starting in October on base effects. This is indeed a surprise and if that's the case it fully explains today's decision. It also warrants another rate hike in November, for which we currently do not completely overrule our initial 25bp forecast, which would terminate the hiking cycle at 6.50%. Supporting this approach is the regional central bank's behaviour, with Poland, Czech Republic and Hungary all signalling that they are strongly reluctant to initiate more hikes. However, a 50bp hike in November makes more sense given that the NBR sees inflation still on the rise into this year-end.

## Terminal rate in the 6.5-7.0% range

While we still think that there is a high probability (say 30%) of only a 25bp hike in November, it looks more likely for the NBR's usual sequential approach to prevail and take the key rate to 6.75% in November 2022 and 7.00% in January 2023.

### What to expect in rates and FX markets

In the bond market, during September, the Romania government bond (ROMGBs) curve moved up about 70bp, resulting in a bear-steepening. The global sell-off has led the curve to its steepest shape since the second half of August, supported by issuance particularly at the belly and long end of the curve. The 10yr yield has reached the 8.50% mark for the first time since July. However, we believe the global sell-off is still not over and the yield still has room to move closer to the 9.00% level. This view is also supported by CEE peers' comparisons, which make ROMGBs look expensive at the moment. During September, the premium over Polish government bonds has fallen 60bp from local highs. On the other hand, we believe Romania is well positioned in relative terms within CEE for the coming winter and the slowdown in the global economy. Moreover, against its direct competitor Hungary, Romania has the advantage of the absence of EU money issues and benefits from stable FX. In the event of an end to the global sell-off and favourable European economic numbers, we believe ROMGBs are well positioned against peers.

On the FX side, the Romanian leu has moved back to 4.95 EUR/RON after a brief excursion to stronger levels and the NBR seems to have the situation fully under control, for now. We do not expect any changes in the short term, however, the global selling pressure on the CEE region is also affecting the RON market. Looking at the Hungarian forint and Polish zloty, we can assume that the NBR's FX defence costs have increased significantly over the last two weeks, indicating that stability cannot last forever. For now, we expect a shift higher in our forecast for the intervention level early next year. Today's hawkish decision eases the NBR's situation in the short term, however, the winter months could bring increased pressure on FX and push the NBR to ease the plunger a little earlier.

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