

Romanian National Bank Review: still some time to buy

While both economic activity and short-term inflation are set to print “considerably” above its previous forecasts, the National Bank of Romania (NBR) is not yet in a hurry to rebuild its – arguably still generous – policy space. “Strict” liquidity management remains the tool of choice. We maintain our view for a first 25 basis points rate hike in 1Q22



The National Bank of Romania building in Bucharest

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- The NBR decided today to maintain the key rate at 1.25%, deposit facility rate at 0.75% and Lombard rate at 1.75%
- We believe that the risks for the year-end inflation to exceed 5.0% are significant and – though largely correct – attributing it to factors outside of monetary policy control can only hold so much. The new Inflation Report will be out on 9 August and we expect the updated NBR forecasts to reflect our predictions that inflation flirting with the 5.0% level will be the new normal for the rest of the year. While the extent to which this inflation bout is transitory can be debated, we believe that a 5.0% (or higher) headline inflation will not leave the NBR indifferent as it risks deteriorating inflation expectations even further.

- The economy continues to perform above expectations and all signs point to a strong second quarter growth, which we estimate in the 1.5%-2.0% area versus the previous quarter. The 2Q21 flash GDP print is due 17 August.

What next?

We reaffirm our main scenario of no rate hikes in 2021 and a relatively modest 50 basis points hiking cycle in 1H22. Depending on the dynamics of the interest rate differential versus regional peers, frontloading the first hike in November this year could be employed, without changing the overall size of the hiking cycle.

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