

Romania Watch: NBR raises key rate by lower-than-expected 75bp, to 5.5%

NBR increased the key rate by 75bp, to 5.5%, on Friday, less than expected. NBR is using firm control over money market liquidity conditions as a supplementary instrument to increase the restrictiveness of monetary policy stance. We further see the key rate reaching a peak of 7%.

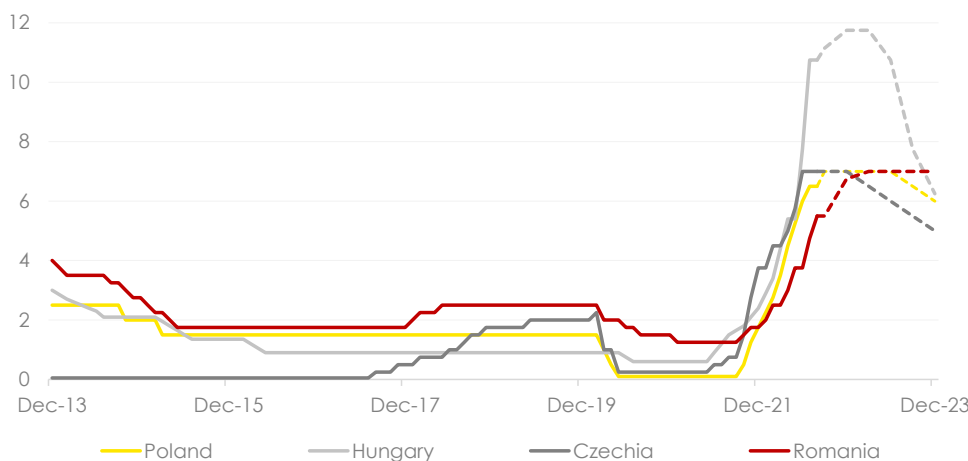
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Romania: Several steps still needed to complete the key rate hiking cycle



Source: Refinitiv, RBI/Raiffeisen Research

On Friday, the Romanian central bank (NBR) increased the monetary policy rate by **only 75bp to 5.5%**, less than both our expectations and market consensus for a larger hike of 100bp. Interest rates on standing facilities were also raised by 75bp (deposit facility interest rate to 4.5%, and credit facility interest rate to 6.5%). Also, the NBR has reaffirmed the commitment to maintain a firm control over money market liquidity conditions.

The quarterly Inflation Report including the **updated inflation forecast for the next two years will be released** in a press conference due **on Tuesday**, August 9. In the communique made public at the end of monetary policy meeting, the NBR said that:

"The updated forecast shows the prospects for the annual inflation rate to level off in 2022 Q3 and gradually decline later on, yet on a path revised moderately upwards.... The annual inflation rate is expected to post minor fluctuations in Q3, and then enter a

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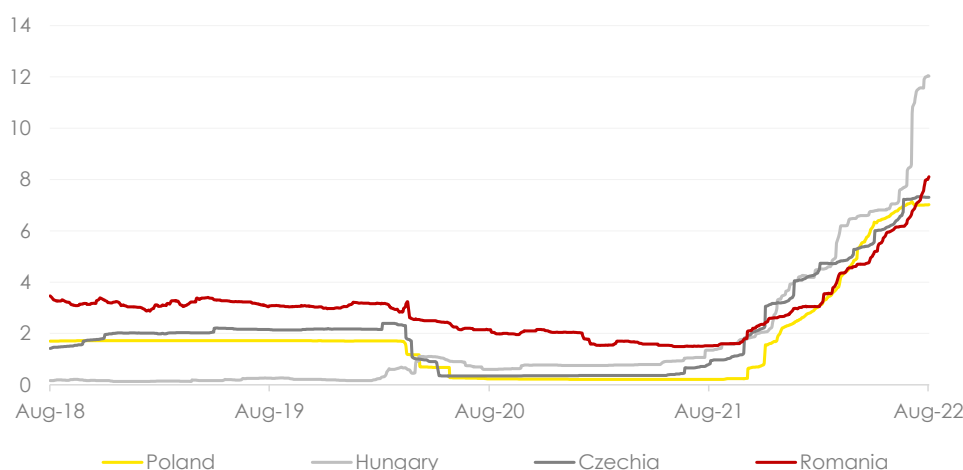
gradual downward path for three quarters, but relatively fast afterwards, falling slightly below the mid-point of the target at the end of the projection horizon."

This suggests that **NBR's inflation forecast for the second half of this year might be slightly above our current forecast** which assumes that annual inflation rate is decreasing during Q3 from a peak of 15.1% reached in June and is on the way to reach 13.5% in December.

One should have in mind that **for Romania, the monetary policy rate only partially defines the monetary policy stance**. This is because the NBR is also using the control over **liquidity conditions** in the money market as a **key monetary policy instrument**. So, because the NBR is using a firm control over liquidity conditions, the **money market interest rates are trading at levels substantially above the level of the monetary policy rate**. For instance, ROBOR 3-month was quoted today at 8.12%, a level also outpacing those of similar interest rates in Poland and Czechia where monetary policy rates are higher than in Romania.

We further expect the **NBR to increase the monetary policy rate to a level of 7%**, from 5.5% at the present. Still, we see now the peak of monetary policy rate **to be reached one monetary policy meeting later**, in January next year instead of November this year. We expect the NBR to increase the monetary policy rate again by 75bp at the monetary policy meeting on 5 October.

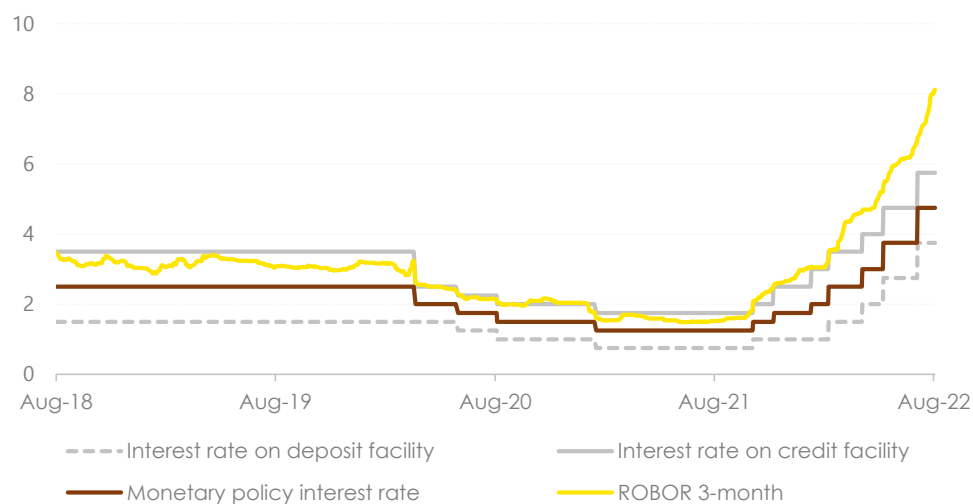
ROBOR 3-month is traded above similar rates in Poland and Czechia



3-month money market interest rates

Source: Refinitiv, RBI/Raiffeisen Research

Romania: Money market interest rates are trading much above NBR's key interest rates



Source: National Bank of Romania, RBI/Raiffeisen Research

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