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# The monetary policy followed by the NBR: A balancing act

November 2022

Cristian Popa, CFA

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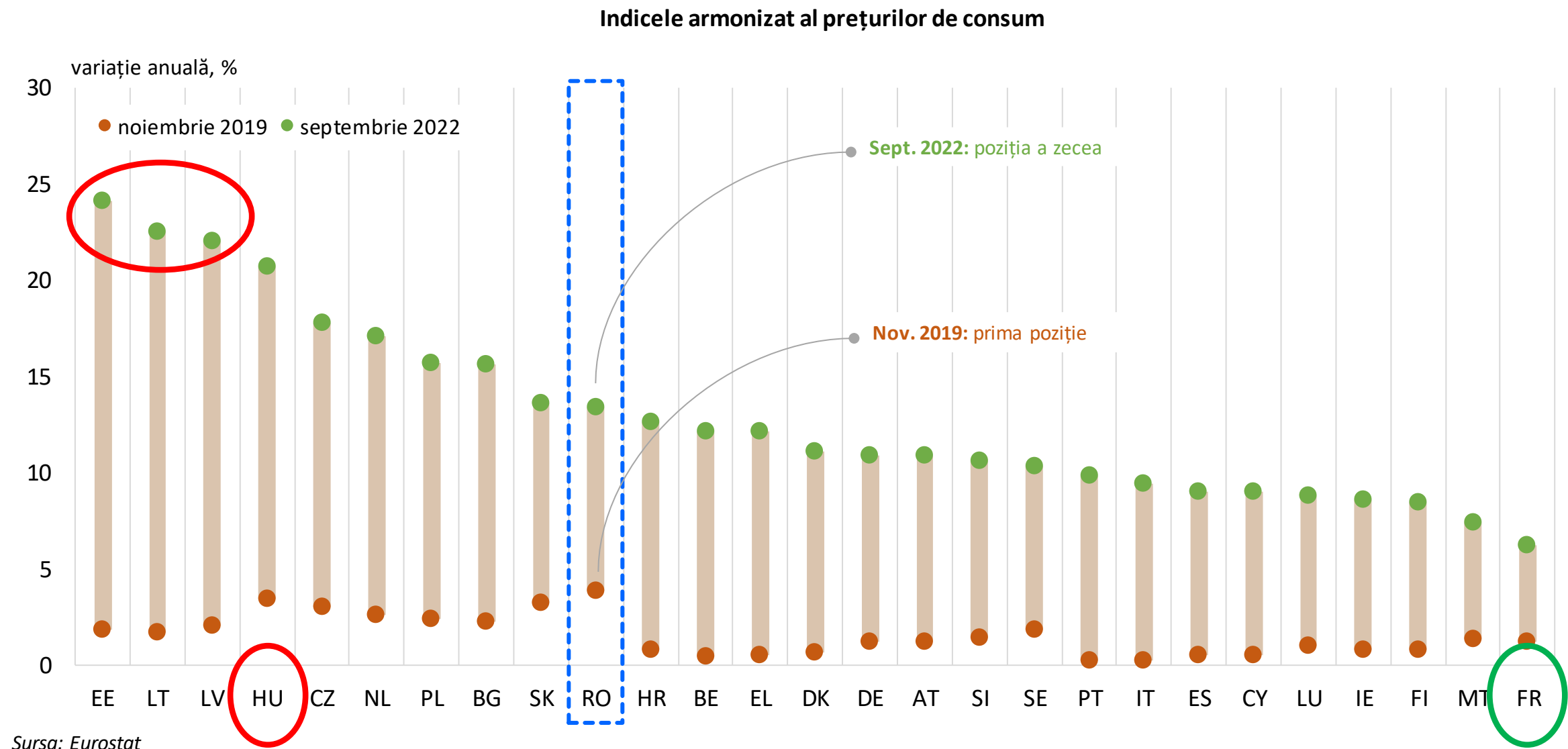
## Disclaimer

The views and opinions expressed in the upcoming presentation are personal and do not necessarily reflect the official policy or position of the National Bank of Romania.

The November 2022 Inflation Report was published yesterday, November 14, 2022 and is currently available on the National Bank of Romania's website so the information presented below has already been made public.

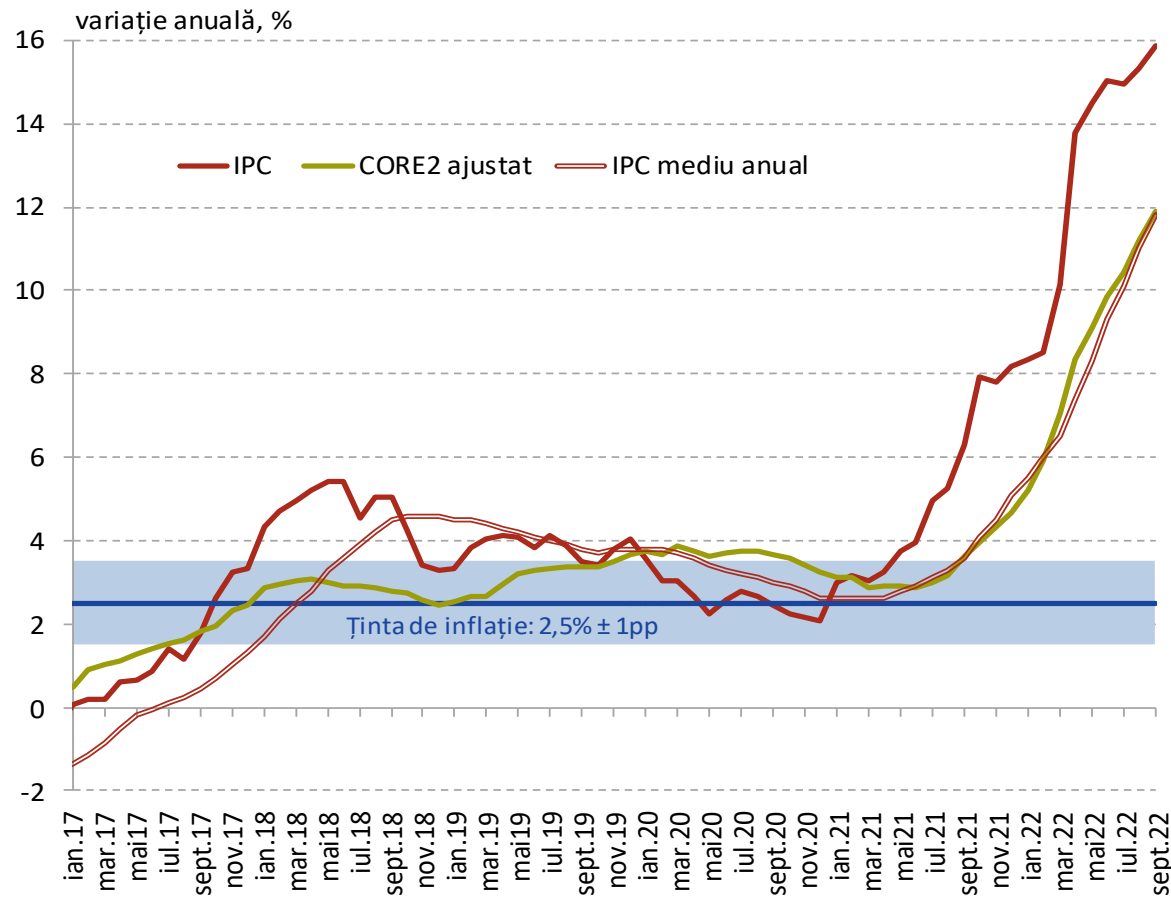
Due to time constraints this is not a comprehensive overview.

The annual HIPC rate in Romania is the tenth in the EU, a more favourable position compared to the outset of the domestic energy crisis, as well as compared to the other countries in the region and the Baltic states



Sursa: Eurostat

# The annual inflation rate (CPI) kept its upward trajectory in Q3 2022, but slowed its pace

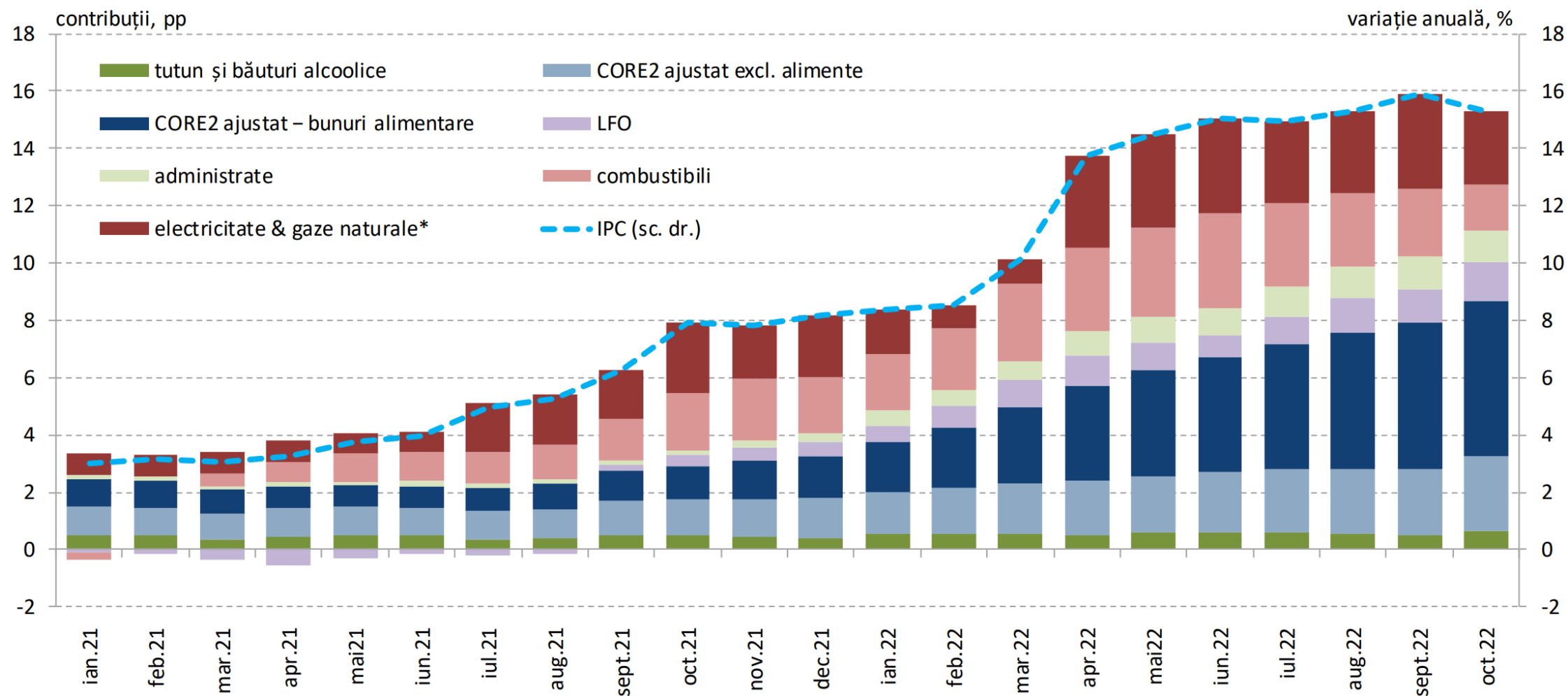


Sursa: INS, BNR

## Contributors

- ↑ Indirect effects from increased energy costs, transmitted along the production chain
- ↑ Severe drought and the ongoing war in Ukraine, which were reflected in high price levels of agricultural commodities
- ↑ Still favourable aggregate demand conditions
- ↑ Inflation expectations among economic agents remained at elevated levels
- ↓ The governmental support measures regarding the limitation of the direct effects of the increase in energy prices:
  - Support scheme for electricity and natural gas bills
  - 0.5 RON/l compensation for the price of fuel
- ↓ Brent crude oil price reduction

# Contributions to annual inflation



\*) Începând cu luna ianuarie 2021, energia electrică și gazele naturale nu mai sunt incluse în grupa bunurilor cu prețuri administrate

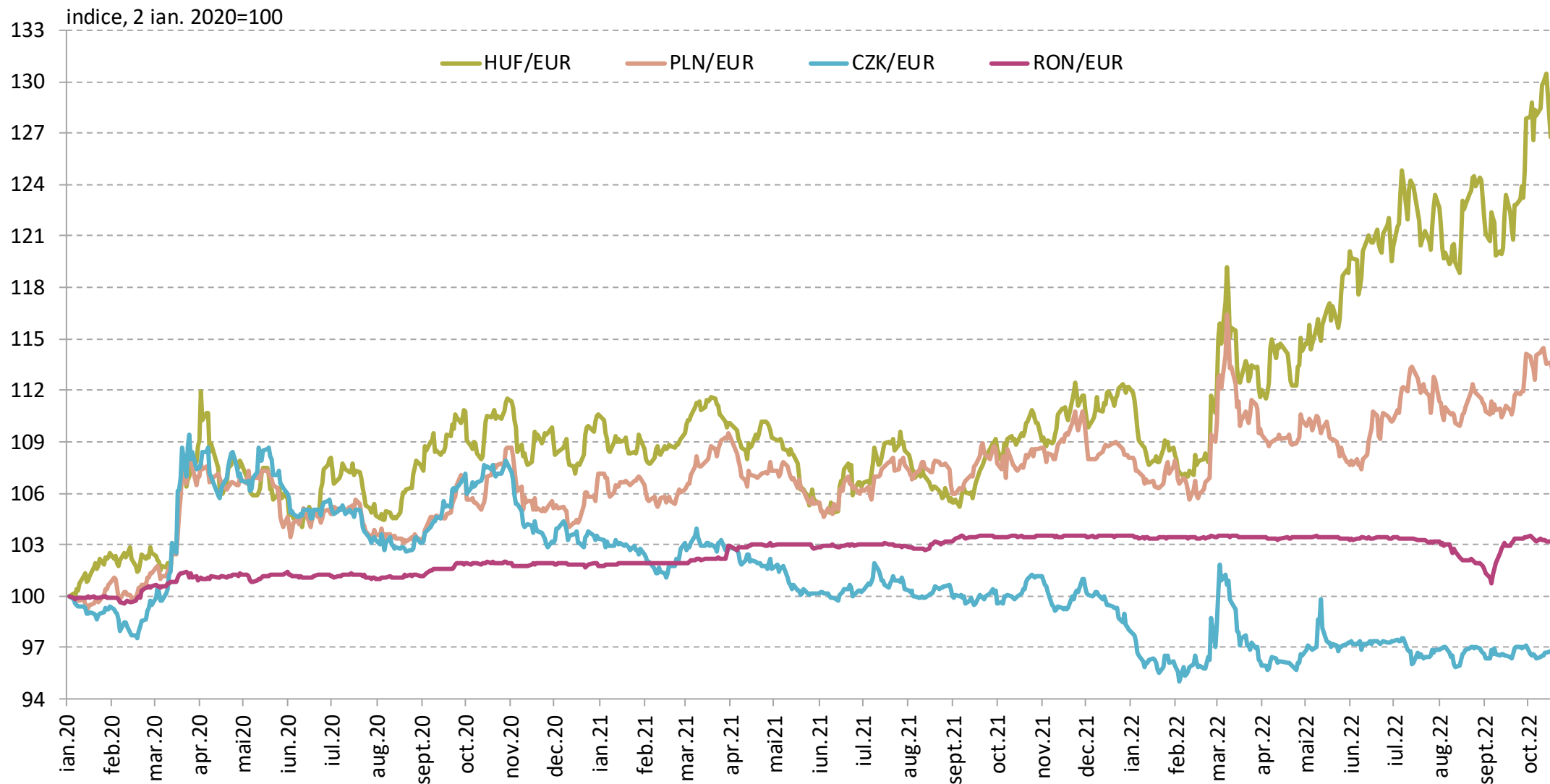
Sursa: INS, calcule BNR

## A sequence that makes sense

- A switch towards a **firm liquidity management**
- **Normalized** the corridor around the key rate
- **Stopped acquiring** government bonds
- Started **tightening the monetary policy**
- Preserved **the relative stability of the exchange rate**



# The evolution of the exchange rates of the currencies in the CEE region

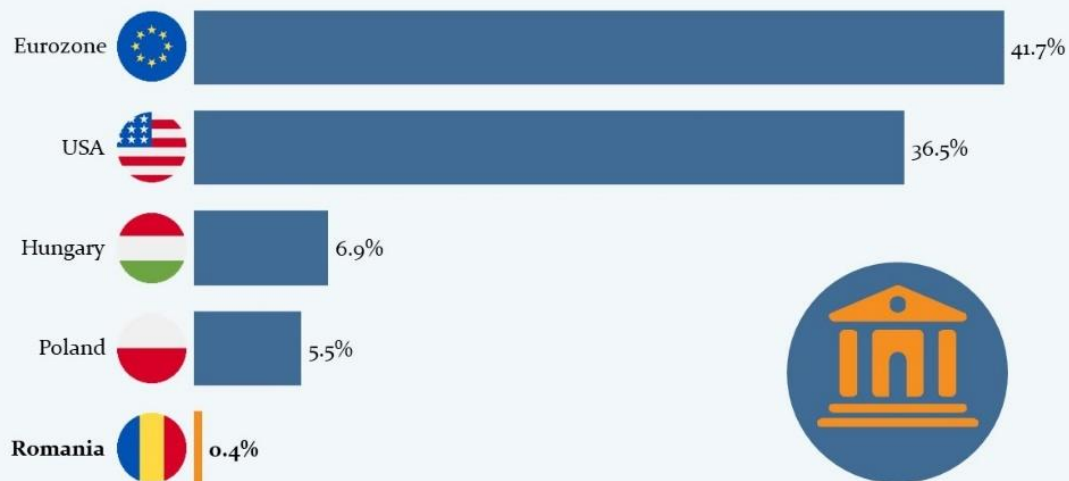


Sursa: BCE

# The National Bank of Romania refrained from resorting to unconventional monetary policies

## The magnitude of unconventional monetary policies

Quantitative easing (asset purchase/monetary creation) as a percentage of GDP in 2021

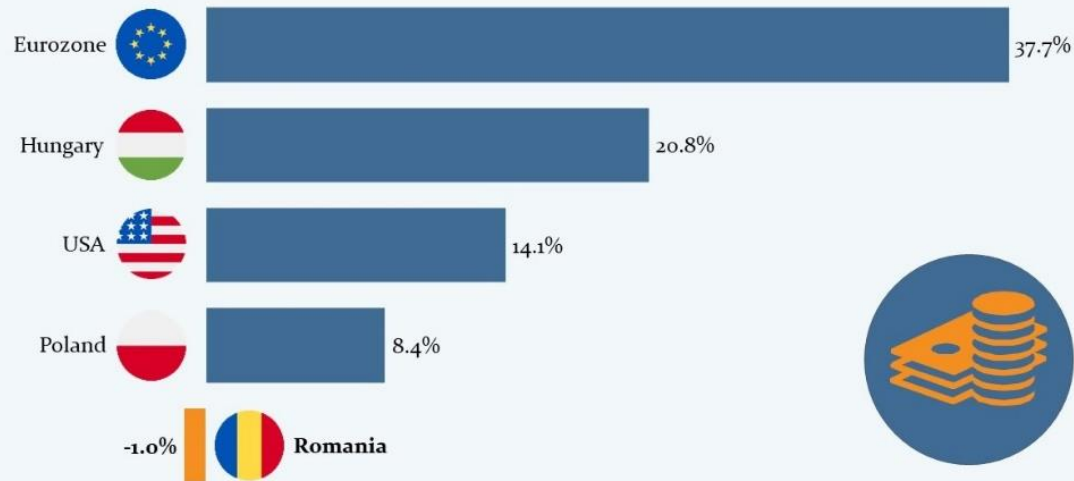


Source: Author's estimates,  
Eurostat, Central banks' websites

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## The consequences of unconventional monetary policies

Liquidity surplus/deficit as a percentage of GDP in 2021



Source: Author's estimates,  
Eurostat, Central banks' websites

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*\*as of August 2022*

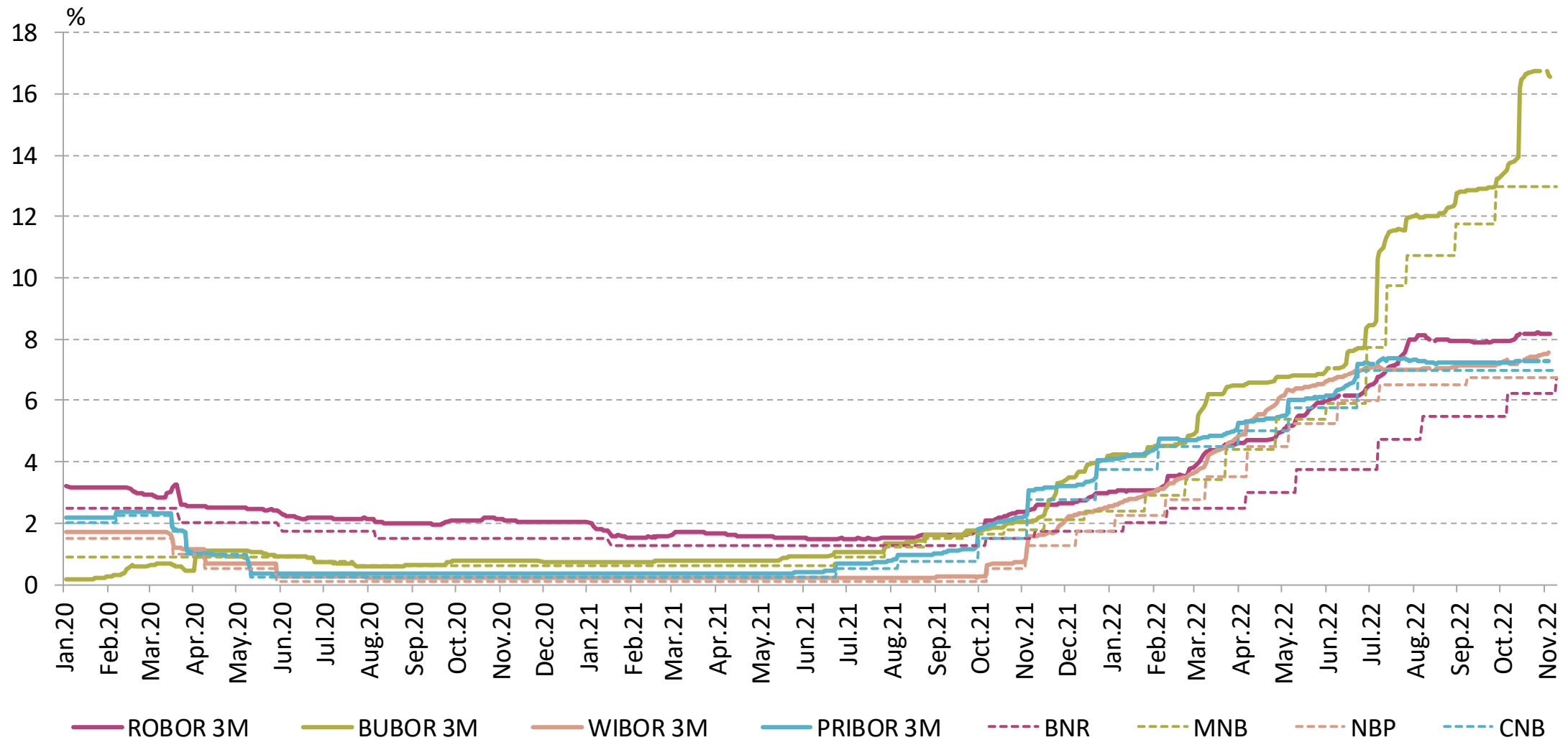


## Decisions of the NBR Board\*

- ☐ To increase the monetary policy rate to 6.75 percent per annum from 6.25 percent per annum as of 9 November 2022
- ☐ To raise the lending (Lombard) facility rate to 7.75 percent per annum from 7.25 percent per annum and the deposit facility rate to 5.75 percent per annum from 5.25 percent per annum as of 9 November 2022
- ☐ To maintain firm control over money market liquidity
- ☐ To keep the existing levels of minimum reserve requirement ratios on both RON and foreign currency-denominated liabilities of credit institutions

\*) meeting of 8 November 2022

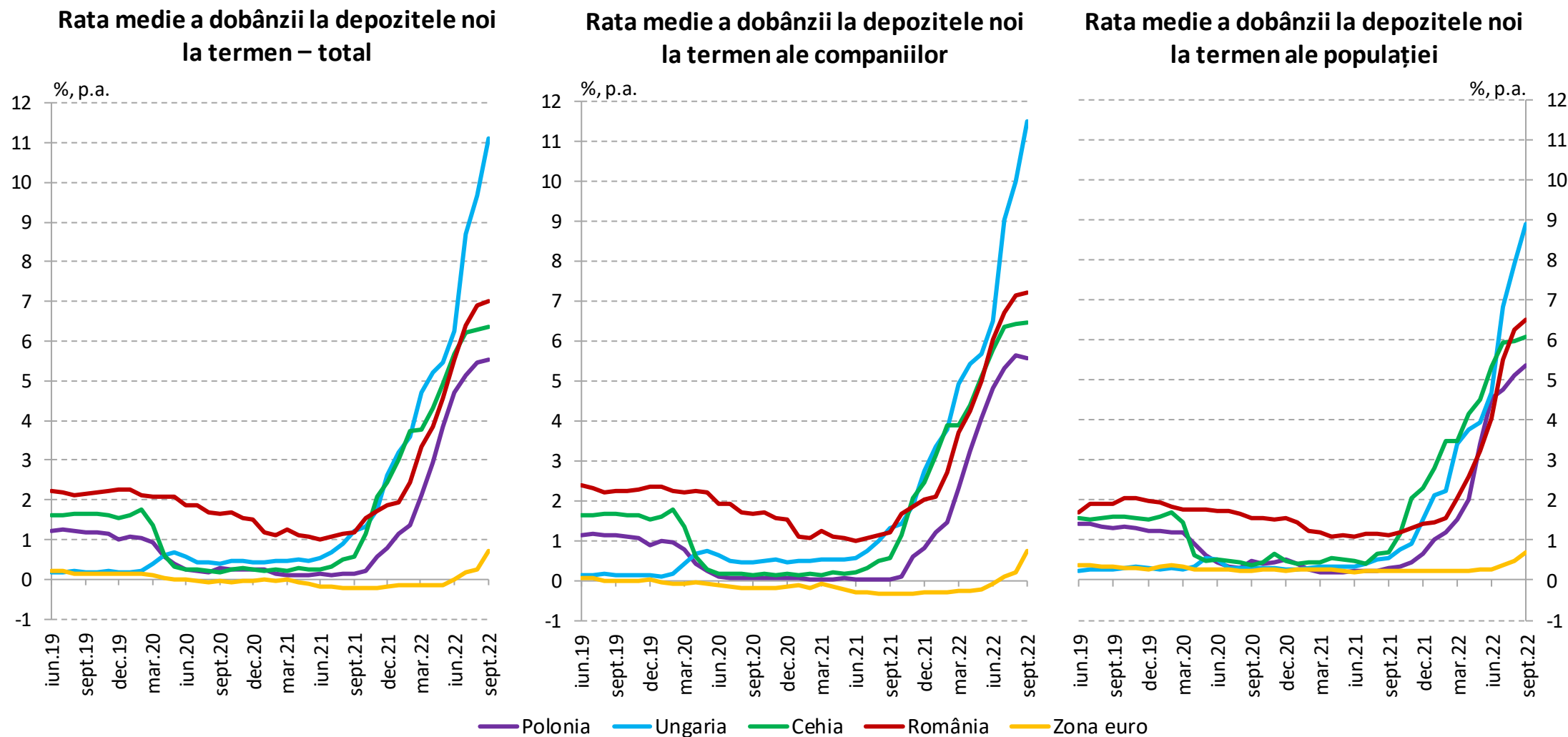
## Interest rate hikes from central banks in the region reached a standstill



Sursa: BNR, Bloomberg

# Better grip of the transmission mechanism:

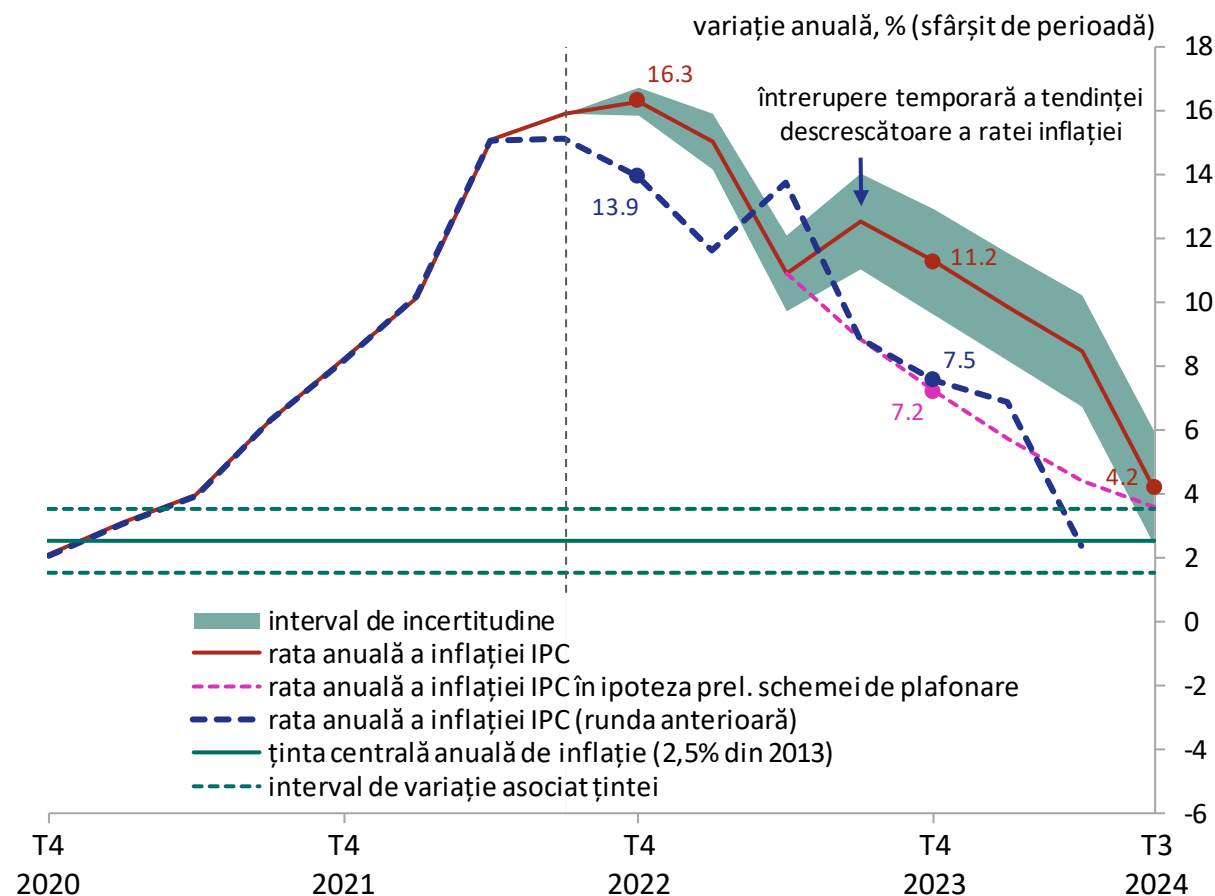
## Relatively high levels, from a regional perspective, of interest rates on new term deposits in Romania



Sursa: ECB Statistical Data Warehouse, website-uri ale băncilor centrale

# The annual inflation rate (CPI) is projected to follow a slightly upward trajectory until the end of the year, afterwards to correct, assuming the gradual dissipation of both supply shocks and aggregate demand pressures

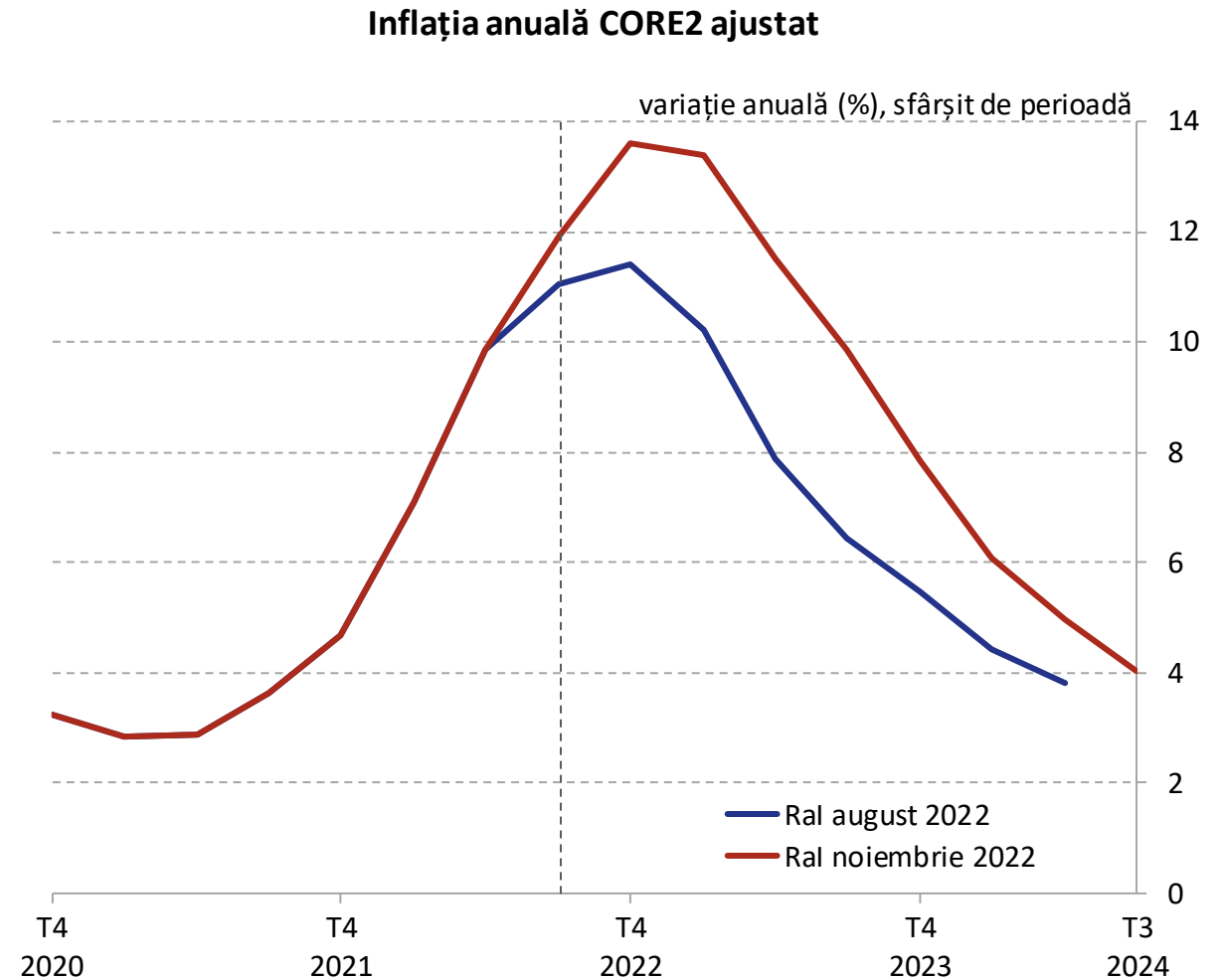
- ❑ The downward trend will be temporarily interrupted in the third quarter of 2023, once the capping price mechanism of energy goods expires, ...
- ❑ ...impacting for 4 quarters the level of the annual inflation rate CPI
  - ✓ In the event of an extension of the capping scheme after August 31, 2023, the indicator could drop at the end of 2023 by about 4.1 percentage points below the level indicated by the base scenario
- ❑ Subsequently, at the end of the third quarter of 2024, the convergence towards the inflation target is expected to be fast, with extremely favourable base effects as the main source



Source: NIS, NBR estimates, Inflation Report, November 2022 edition

# The annual rate of core inflation is forecasted to advance until the end of the current year, after which it will reverse its trend, reflecting the exhaustion of the inflationary impact of all its drivers

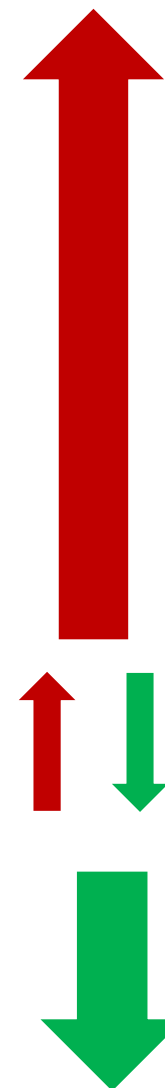
- ❑ The higher trajectory is driven **by the wider price increases that occurred in the processed food segment, ...**
- ❑ ... but also the anticipation **of a faster transmission in final prices of past and expected increases in production costs...**
- ❑ ... favoured in the short term **by the resilience of aggregate demand**
- ❑ **The trend reversal** will occur under the impact of:
  - ✓ The gradual dissipation of supply shocks (implicitly also inflationary pressures from the prices of imported goods)
  - ✓ A relatively fast absorption of surplus demand in the economy
  - ✓ The downward correction of inflation expectations, favoured by the monetary policy normalization process



Source: NIS, NBR estimates, Inflation Report, November 2022 edition

## The balance of risks for inflation remains heavily tilted to the upside

- War escalates and (or) other geopolitical tensions increase
- Full or persistent interruptions of the energy markets
- Larger-than-expected trade, financial, and commodity prices' disruptions
- De-anchored inflation expectations
- Further tightening in the labor markets
- Surging populism
- **Deglobalization**
- **Suffocation of liberalism**
- Fiscal policy stance
- The conduct of monetary policy by the ECB, the Fed and regional central banks
- Fast unwinding of supply disruptions
- Extension of the governmental support measures regarding the energy prices
- External demand



# Hikelandia: How successful can a super tight monetary policy in an emerging economy be in containing inflation?



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Where to?