

## Romania | Instant Comment

# We see key rate flat at 7.00% in 2023

**We expect the NBR to keep monetary policy rate unchanged at 7.00% at the 9 February Board meeting, in line with broad consensus. Hence, it is shaping up mostly as a non-event. The highlight is coming afterwards with the updated CPI forecast presented in the Inflation Report.**

Perhaps the only question is whether the NBR will announce the end of the rate hiking cycle as the other central banks in the region already done with raising rates for some time, and ECB and US Fed peak-rates in sight. Though there's room to adjust policy stance both ways via liquidity management, we don't see compelling reasons for the NBR to give up this optionality.

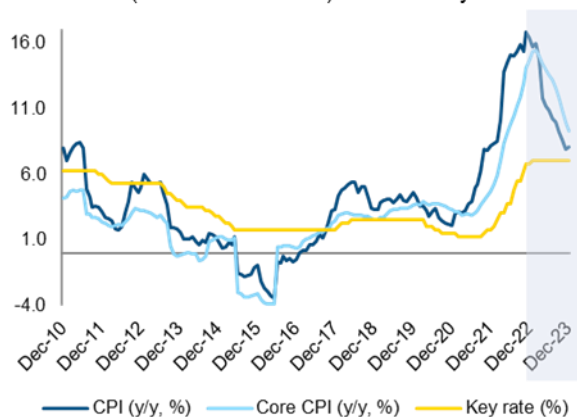
We expect no change in broad monetary policy conditions after January dovish hike which combined with the drop in commitment to tight liquidity management from press release actually led to an easing in monetary conditions afterwards. We see key rate unchanged throughout 2023. Liquidity management, the NBR's favourite policy tool, is likely to be actively used in the following quarters, depending on the EUR/RON and upcoming inflation readings. Hence, RON money market interest rates should trade within the NBR standing facilities corridor of 6.00-8.00% throughout 2023.

Updated inflation forecast is due for release after the meeting with the new Inflation Report. In the communique after the previous meeting, the NBR was expecting inflation 'to reach one-digit levels in 2023 Q3 already'. Furthermore, central bank's spokesman Dan Suciú said that price growth in Romania will probably ease to about 7% by the end of this year.

We recently [revised inflation forecast](#) downwards to 8.0% by year-end vs. the 8.7% previously. We expect core inflation to peak-out in January 2023 at 15.4%, end 2023 at 9.2%, and remain above headline inflation over the entire forecast horizon. Headline inflation is projected to decline to around 5.0% by end-2024, still above the upper bound of the NBR's target range of 2.5%±1pp.

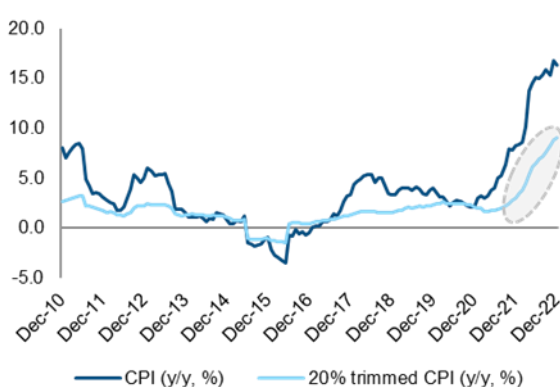
**Market implications: neutral for RON and ROMGBs as both flat rates and lower CPI outlook are already mostly priced-in. Medium-term, a significant deceleration in inflation should imply higher 'two-way flexibility' on FX. The NBR already signalled its discomfort with RON strengthening bias by loosening money market liquidity management.**

**Fig. 2: Double-digit core inflation for most of 2023**  
CPI inflation (core and headline) vs. NBR key rate



Source: NIS, NBR, BCR Research

**Fig. 4: Trimmed inflation: broad-based price growth**  
CPI inflation vs. trimmed inflation rate



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