

# Romanian inflation inched down ahead of the energy shock bite

Romania's inflation rate decelerated to 9.3% in February, matching expectations. With the current energy market situation at play, inflation looks set to exceed 10% from March until the middle of the year



Shoppers at a supermarket in Bucharest

## The situation in a nutshell

Food and services inflation matched our expectations at 7.8% and 11.3% year on year, respectively. Non food inflation came in slightly higher than anticipated, at 9.4%, mainly due to stronger price increases in fuels and tobacco.

Services inflation remains somewhat sticky, although the trend is gradually softening. Today's wage data supports this view: annual average wage growth slowed to 3.6% in January, a level typically associated with recessionary conditions.

Our long held view has been that inflation would hover between 9% and 10% until the summer, then decline more visibly as last year's tax hikes and electricity market liberalisation drop out of the annual comparison.

However, the emergence of a new geopolitical conflict - with no clear resolution in sight- now suggests additional upward pressure in the March-April readings, primarily through higher oil prices. This would temporarily push headline inflation back above 10.0%.

While favourable base effects expected over the summer still stand, the level of inflation at which the NBR feels comfortable beginning to cut rates becomes increasingly important. With this new oil shock, an earlier easing cycle looks less likely.

Finally, this fresh supply side shock hits an economy already showing stagflationary features. Weak January retail sales and industrial production data, combined with the expected near term rise in inflation, point to increasing economic strain and the likelihood of another quarterly GDP contraction.

## What do we make of it

A few weeks ago, today's inflation figure might have been interpreted as a mildly positive surprise. In the current context, however, it is unlikely to attract much attention. The recent surge in oil prices - and the broader effects it triggers across the economy - has the potential to significantly alter the inflation outlook. With oil prices at today's levels, achieving an inflation rate below 5% by year end now seems quite unlikely. This shift will probably push any meaningful discussions about monetary policy easing into late summer or even autumn.

Reflecting this, we recently revised our expectation for the first rate cut from May to August and now see this year's easing cycle totalling 75bp. Still, these projections remain subject to change until the dust settles, literally and metaphorically, in the Middle East.

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