

## An unconvincing dip in Romanian inflation

At 8.07%, October inflation came in a touch below the market's 8.17% estimate but slightly above our 7.90% forecast. We revise our end-2023 estimate from 7.1% to 7.4%. For 2024, the higher excise duties and VAT will induce a small hump in the disinflationary trend, and we revise year-end inflation to 4.7% from 4.1%



The slow-paced disinflationary trend continues in Romania, with October inflation largely confirming that the downward trend remains rather sticky and is not a given. The main forecast error versus our 7.9% estimate was in the food items, particularly vegetables, though services printed a touch above what we estimated as well. This has kept core inflation in double digits, at 10.4%.

Starting from November, we expect core inflation to dip below 10.0% and to close the year around 8.7%, below the central bank's 9.1% estimate. Speaking of official estimates, in its latest Inflation Report, the National Bank of Romania (NBR) revised higher next year's inflation profile on the back of higher VAT and excise duties, expected to go live on 1 January 2024.

## NBR and ING forecasts for headline and core inflation (%)

Headline	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
NBR	7.5	7.7	6.8	5.7	4.8	3.6	3.6	3.3
ING	7.4	7.3	6.3	5.2	4.7	4.1	4.0	4.0

Core	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
NBR	9.1	8.0	6.7	6.4	5.2	4.1	3.7	3.4
ING	8.7	7.3	6.1	5.8	5.2	4.5	4.2	4.1

Source: NSI, NBR, ING

While we largely agree with the NBR's view on next year's inflation path for both the headline and core rates, we see the disinflation trend coming to a stand-still towards the end of 2024 at around 4.0% and do not project the headline inflation rate to reach the NBR's target band in 2025.

### What we make of it

Today's data does not change our view on the central bank's future policy decisions, but it does increase (again) the risk of an on-hold for longer scenario. We essentially remain somewhat below the market's (and central bank's) expectations regarding the short-term inflation profile, but we diverge higher as we move towards the end of the two-year forecast horizon. We still expect the NBR to begin cutting the key rate in the second quarter of 2024 (our main scenario is for April, though now, May 2024 is equally possible) and reach 5.50% by the end of the year. Should the rate cuts start later in the year (say 3Q24), they could be done in larger increments (i.e. 50bp instead of 25bp) and still reach the same key rate by December 2024.

Market-wise, the slightly higher inflation projections for 2024 should mean that EUR/RON has very limited upside potential from current levels. Our end-2024 forecast of 5.05 for the pair takes into account the still large twin deficits and the inflation differential between Romania and its main trading partners, but we do have to say that it is not a high-conviction forecast. In any case, we reaffirm what we've been saying for a couple of years already, which is that the EUR/RON is unlikely to meaningfully depart from the 5.00 level for the foreseeable future.

In parallel, the liquidity surplus from the money market is likely to remain hefty, maintaining the pressure on market rates up to 1-year or so to trade close to, or even below the deposit facility level. In the fixed income space, this should keep the front end well anchored, while the longer tenors remain more sensitive to the external context but also to the timing of the NBR's rate-cutting cycle.

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