

## Romanian disinflation continues, but medium-term upside risks linger

A slightly above-expectation print in Romanian inflation does not impact our year-end forecast of 4.2%. The upside influence stemming from gas prices likely prevented another small positive surprise. That said, internal demand pressures are unlikely to fade too soon, preventing a significant deceleration of inflation through the medium term



Agri-food market in Bucharest, Romania

Romanian inflation decelerated to 4.9% in June from 5.1% in May. Food inflation inched down to almost 1.0%, remaining well-behaved, while services inflation moderated to 8.8%, continuing to stay at uncomfortably high levels. Meanwhile, a monthly jump in gas prices ahead of July's scheduled increase kept non-food inflation almost constant at 6.3% and prevented it from marking another round of visible progress in annual terms. Other relevant monthly developments are declines in food items like flour, vegetables, fruits and sugar, non-food items like fuels, and services (e.g., air fares). Core inflation made some progress but it's yet to prove that it has escaped the stickiness pressures.

Looking at the consumer basket more broadly, inflation dynamics continued to make a step in the

right direction with this print. Aside from the strong contribution of gas prices, which are not necessarily a clear mirror of the internal demand pressures, inflation could have even made another positive surprise in June. Still, price pressures remained quite spread out across the non-food and services categories and policymakers are likely continuing to pay attention to that.

In the short run, next month's print is set to reverse some of the recent gains, mainly due to the impact of fuel excise duties. This should put a small temporary brake in the advance of non-food inflation towards target. That said, we think that the services component should continue its rather slow disinflation progress largely as before.

On the outlook, even though the upside risks have increased slightly, we are currently sticking to our 4.2% year-end forecast. We don't think that there is room for inflation to decelerate much more next year, especially given the largely anticipated increase in the tax burden in 2025. Other factors, such as double-digit wage growth, the persistent fiscal slippage and the strong lending activity – all with limited room for cooling down in the near term – continue to point towards limited room for policy easing from the National Bank of Romania in 2024 and 2025.

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