

## Higher Romanian inflation points to more rate hikes

We anticipated an upside surprise, but the number came in even higher than expected. October inflation reached 7.9% versus our 7.8% estimate. While energy is still to blame - natural gas in particular - it is clear that price increases have become more generalised. We expect year-end inflation at 8.0% and more rate hikes from the central bank



People shopping in a supermarket in Bucharest

**7.9%** July inflation rate

Higher than expected

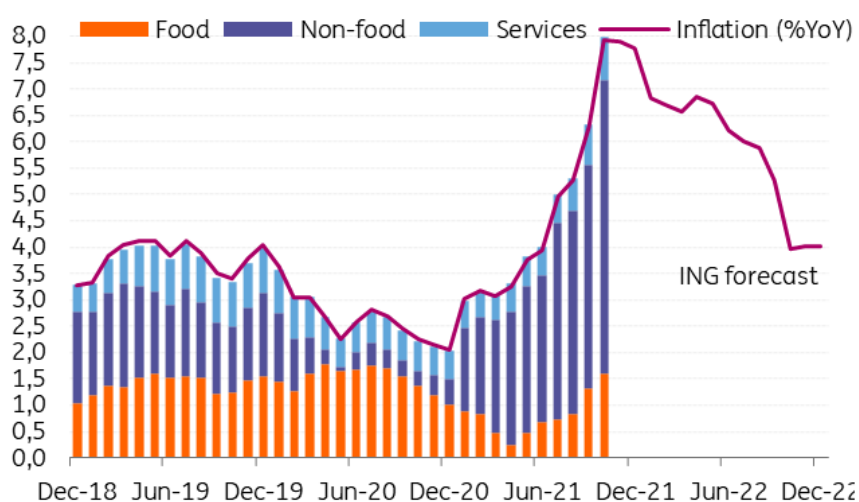
Another month, another upside surprise in inflation. The October CPI data confirms that previous (and still to come) energy price increases have been transmitted to the wider economy. For certain, more energy intensive items such as bakery products, price increases have reached a 10-year high, while for other items where seasonality should have had a downward impact - such as

fruit - prices have remained sticky to the upside.

However, the most relevant price increases have remained concentrated in the energy sector, with prices for natural gas increasing by 21.2% versus the previous month. This was something that we anticipated, but what we did not anticipate in full - and therefore our 0.1ppt forecast error versus the headline number - was the 6.5% month-on-month increase in fuel prices. The increase is above what we'd estimated for diesel and petrol prices, hence the difference must come from other items included in the fuel category, such as firewood, coal and things that people generally burn and/or can be used as fuel.

We estimate year-end inflation at 8.0% in 2021 and 4.0% in 2022. Next year's average inflation should hover in the 5.5%-6.0% range.

### Inflation rate (YoY%) and its main components



Source: NIS, ING

Tomorrow, 11 November, the National Bank of Romania (NBR) will publish its latest Inflation Report. For now, we know that the updated forecasts show a “significant additional worsening...under the strong impact of supply-side shocks”. In line with our expectations, the NBR sees headline inflation only returning to the 1.5%-3.5% target range in the third quarter of 2023.

An optimist could say that the higher inflation prints now mean stronger disinflationary base effects next year. There is some truth to that, but that's not how inflation will stay sustainably lower. We believe that the NBR will need to continue with its rate hiking cycle until it reaches a terminal rate of 3.00% in mid-2022. If given the chance, we think that the central bank would like to do less tightening, but the context doesn't seem to help their wishful dovish stance. In parallel, the FX rate will remain tightly managed and the 4.95 level should hold for most of 2022 as well.

## Author

### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.