Higher-than-expected Romanian inflation adds to backloading risks for interest rates

Romania's November inflation rate accelerated to 5.1%, above consensus. Upside pressures from energy and food inflation remain key to watch ahead. We hold on to our 2025 year-end 4.4% projection

People shopping in a supermarket in Bucharest

In monthly terms, food inflation came in slightly stronger than we had expected, but at a slower pace nevertheless compared to the sturdy outturns in September and October. Here, fresh fruits stood out, increasing significantly by 6.5% over the month, following last month's 7.9% rise. The impact of this year's drought becomes increasingly visible.

Non-food inflation also came up above our expectations, growing 0.6% due to a larger-than-expected increase in electrical energy prices, adding close to 0.2 percentage points to the headline number compared to our forecast. Services inflation continues to show persistent stickiness across the board, growing 0.3% versus the previous month, in line with the wage cost component that continues to rise in double digits (13.8% year-on-year as of September).

In year-on-year terms, both food and non-food inflation accelerated at 5.1% and 4.2%

respectively. Services inflation, on the other hand, despite decelerating slightly to 7.6%, remains at stubbornly high levels.

Looking ahead, there continue to be visible upside risks at play stemming from food, services, and energy prices. We expect this year's drought to continue to impact food inflation this winter. With wage growth still yet to moderate, the key fixed cost component of service providers is unlikely to allow a meaningful disinflation of this category in the coming months. What's more, there is uncertainty on the energy front too. Gas prices could rise as early as January, unless the current capping scheme is not extended quickly. Upside risks also stem from the potential arrival of a single electrical energy price irrespective of consumption levels, which would impact households if the current capping scheme is not extended or replaced with other measures. Lastly, potential trade protectionist measures over Europe are another factor to watch over the medium term.

At this stage, we hold on to our 2025 year-end forecast of 4.4%. In terms of policy implications, today's data adds to the likelihood of no rate cuts from the National Bank of Romania through the first half of 2025. The Bank is unlikely to continue its gradual easing cycle until a clear structure of future fiscal corrections emerges, which can then also feed into a more predictable inflation outlook. At this stage, we still maintain our call of a total of 75bp next year, taking the key rate to 5.75%, with backloading risks at play. The risks for the NBR to do less than that next year have increased meaningfully.

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