

## Higher-than-expected Romanian inflation does not change our outlook for the year

Romanian inflation decelerated to 7.2% in February, slightly above the 7.1% consensus. The strong demand observed early in the year has likely added to firms' pricing power. Both our 4.8% year-end inflation call and May rate cut call remain in place



The February release brought the second consecutive monthly rise in non-food inflation, matching our expectations. The increase in prices for detergents, hygiene products, heating and fuel stood out in particular. Food inflation fell on the month, albeit slightly less than we had expected, mainly due to particularly strong price pressures in vegetables and fresh fruits. In the services category (which also fell a touch less than we had pencilled in), smaller but still spread-out monthly increases were still present, except for a large fall in airfares. Moving to annual terms, these developments led to an acceleration in non-food and services inflation and a decline in food inflation.

Overall, this release increases the importance of avoiding another upside surprise in the March release. What we need to follow closely is also the apparently strong demand pressure seen at the start of the year, which could boost firms' confidence in their pricing power and bring new inflationary pressures ahead. While the retail numbers were very strong, we argued [here](#) why we

are rather cautious about the data and don't rule out downward revisions.

On the monetary policy front, this reading does not change our view that the National Bank of Romania will start cutting rates in May. Altogether, an unexpectedly strong goods demand early in the year, coupled with still sticky and relatively spread-out services inflation, both at a time when wage growth remains elevated, constitute the key upside risks for inflation ahead. By extension, there are also risks for our rate cuts calls further down the line. At this stage, however, we keep our year-end 6.00% forecast for the NBR key rate.

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