

Positive Romanian inflation data supports case for May rate cut

Romanian inflation decelerated to 6.6% in March, below the 6.8% market consensus and our 6.7% call. This result will likely provide the National Bank of Romania (NBR) with the necessary confidence to begin a cautious easing cycle in May. We're keeping our year-end inflation estimate at 4.8%



A supermarket in Bucharest

The March release brought positive developments regarding both food and services inflation. Food inflation fell from 4.4% to 2.8% - the first component to land in the inflation target corridor - marking a significant progress from the massive 21.5% recorded one year before in March 2023. Mild downside surprises in the fresh fruit and vegetables categories supported the reading.

As for services inflation, the progress was smaller, and it's still yet to go into single digits by a close margin, landing at 10.2%. Spread-out price pressures here are still a worry and a factor to watch going forward. And non-food inflation could now be a new source of concern, at least in the short term. It decelerated in monthly terms, yet it was the only category where price pressures picked up in annual terms. The sharp pick-up in demand for non-food items uncovered by January-February retail sales figures could be an important driver in the short term, as we discuss [here](#). The March release also brought a smaller increase in fuel prices than we had expected, hence a larger increase reflected in the April numbers is likely.

Core inflation printed 7.1%, down from 7.6% in February, a slightly more pronounced deceleration than expected. We nevertheless see core inflation staying above the headline number for the rest of the year, though the gap between the two might be narrower than expected.

We continue to see inflation trending down towards our 4.8% year-end call, which we maintain. Upside risks come from rising consumer demand and still-sharp wage growth, which we think will continue, as well as from the latest oil price and fiscal developments. In our view, this result paves the way for a first 25bp rate cut at the next NBR meeting in May and a cautious easing cycle ahead, though there are clear upside risks to our year-end 6.00% call for the key rate.

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