

Romania: another jump in inflation puts pressure on central bank to hike rates

At 16.8%, the November 2022 inflation print is the highest it has been in Romania in almost 20 years. We are reasonably confident that December 2022 will mark the peak of this cycle at around 17.0%. Nevertheless, price pressures in the service sector are becoming more prominent and could nudge the central bank into another 25bp hike to 7.00% in January



16.8%

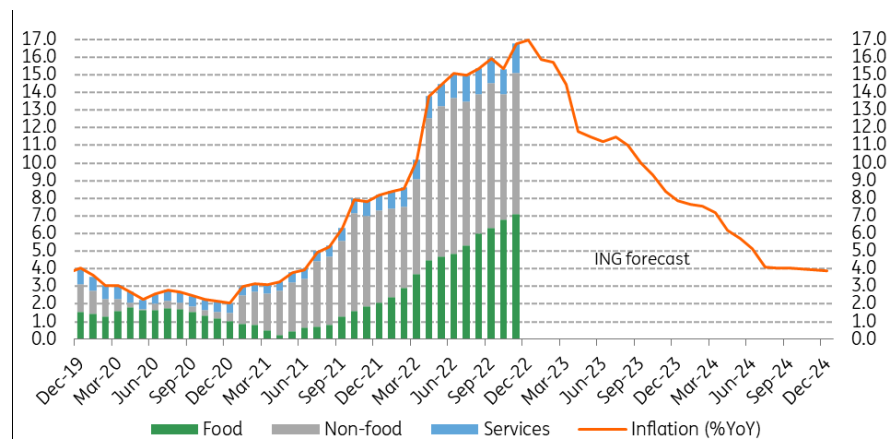
 November headline inflation

Higher than expected

While we have attempted to call the peak in inflation already twice this year, we now have a stronger reason than ever to believe that November-December will mark the summit: there are no

more months left in the year to see higher prints. November inflation accelerated well beyond the 16.1% Bloomberg consensus but relatively close to our 16.6% estimate. The forecast error on our side came entirely from the service sector where broad price pressures are beginning to surprise to the upside.

Inflation (YoY%) and components (ppt)



Source: NSI, ING

Headline inflation might inch a little bit higher this month, probably touching 17%. Starting in January 2023, strong base effects should push the headline inflation back around 16.0% while the end of the first quarter could see inflation closer to 15.0%. A gradual descent towards low double digits will follow, but getting back below 10% might not be achievable until the fourth quarter of 2023.

With core inflation already above 14.0%, there is mounting pressure for the National Bank of Romania (NBR) to deliver another hike at the January 2023 policy meeting. While we narrowly opted for the end of the hiking cycle at the current 6.75% key rate, we underlined that a final 25bp increase in January was still a strong possibility. Based on today's data, the balance might be now tilted toward the latter option.

Author

Valentin Tataru

Chief Economist, Romania

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 www.ing.com.