

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



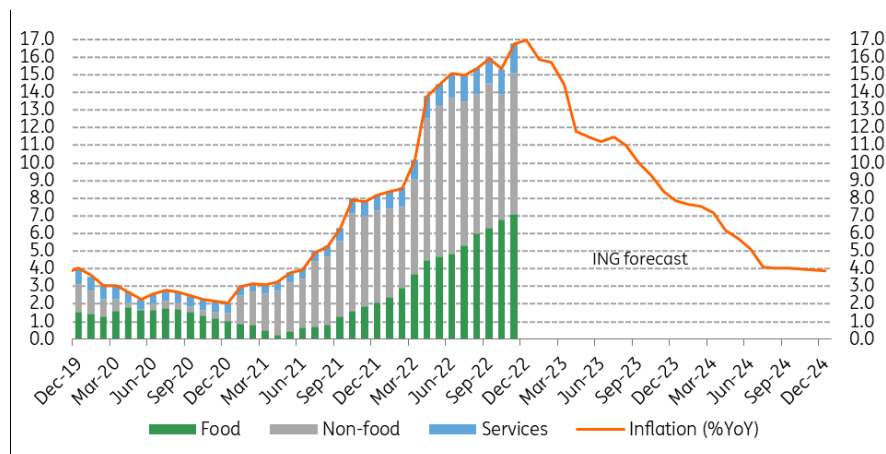
16.8% November headline inflation

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.

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