

## Romania: Another upside surprise in inflation

Consumer prices increased by 3.9% in June, surprising to the upside again. This was likely the last print below 4.0% until 2Q22. We maintain our 4.7% year-end forecast, but upward risks are starting to build



Source: Shutterstock

# 3.94%

 June Inflation Rate

Higher than expected

It has become almost business-as-usual for inflation to surprise to the upside this year. Unlike other months, this time the forecast error on our side cannot be tracked down to one or two particular items. The upside surprise was rather generalised in June, with a number of higher-than-expected price movements.

Starting in July, a new round of price hikes for gas and electricity will come into effect which, together with higher fuel prices, should push July inflation above 4.5%. Flirting with the 5.0% level could be the new normal for the rest of the year. Favourable base effects will bring the inflation rate below 4.0% again in early 2Q22, while getting within the central bank's 1.5%-3.5% target band might not happen before the third quarter of 2022.

## Central bank reaction to be very gradual

So far, the central bank reaction to higher inflation has been relatively limited, which we expect to be the case for the rest of 2021. A firmer grip on the liquidity situation will likely continue to be employed, better anchoring carry rates around the 1.25% key rate. Straightforward rate hikes will probably be considered in 1H22, when we predict a relatively modest 50bp hiking cycle. Should inflation be more demand-driven earlier than currently expected, we might see rate hikes starting as soon as 4Q20.

### Author

#### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

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