

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

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 <http://www.ing.com>.