

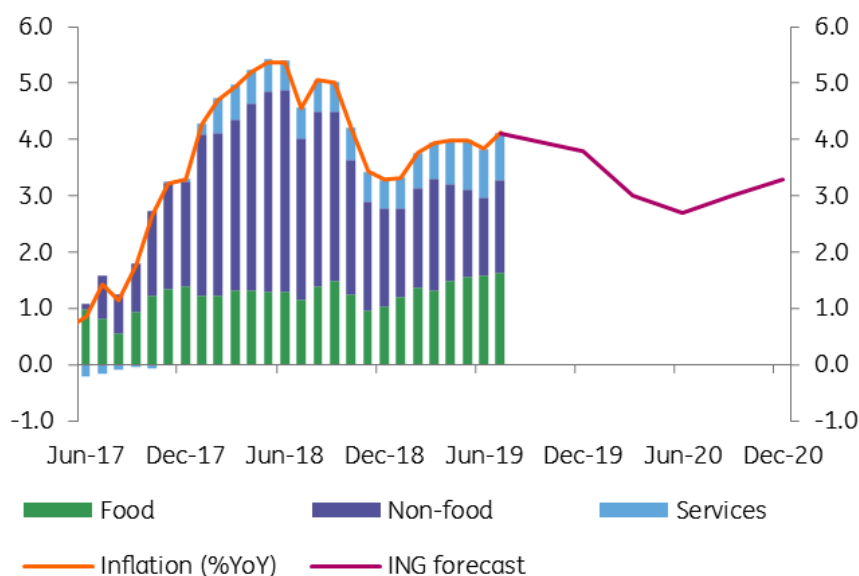
## Romania: Inflation above 4% again

At 4.1% year-on-year, July inflation for Romania came 0.1ppt higher than our call. This will probably be the highest print for the year. We maintain our 3.8% year-end forecast



The 0.1ppt error on our side is due almost exclusively to lower than anticipated deflation for vegetables. Food inflation inched 0.2ppt higher to 5.2%, non-food prices accelerated by 0.5ppt to 3.4%, while services CPI decelerated to 4.1% from 4.3%.

## Inflation makeup and prediction



Source: NIS, ING

We see headline inflation below but close to 4.0% for the rest of the year. Presenting the inflation report, the NBR governor Mugur Isarescu sounded relatively relaxed about the prospects of headline inflation hovering around the upper range of the NBR target band (i.e.3.5%). The tone was slightly more harsh though when it came to core inflation, which the central bank sees slightly above 3.5% for the rest of the forecasting horizon (2Q2021). In fact, the NBR sees core inflation exceeding the headline number from the first quarter of 2020.

We believe that the sticky inflationary environment will keep the pressure elevated on monetary policy to firmly anchor inflation expectations. While we don't envisage any policy tightening, the room for complacency is fairly limited in the short term as well. We expect the central bank to loosen the liquidity management once headline inflation prints sustainably below 4.0%. The first rate cuts are unlikely before the second quarter of next year, in our view.

### Author

**Valentin Tataru**

Chief Economist, Romania

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

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