

## Romania: Inflation decreasing slower than expected

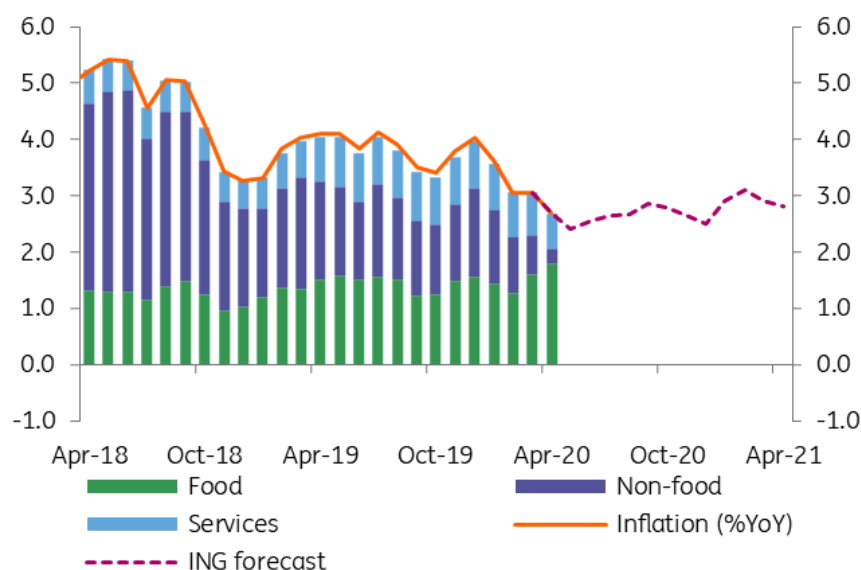
At 2.7% in April, inflation is starting to look better behaved, but sticky food prices raise an eyebrow



People shopping in a supermarket in Bucharest

April inflation printed a touch above the 2.50% consensus view and ING forecast. On our side, almost the entire forecast error came (again) from fresh fruit and vegetables prices which both spiked by almost 5% in April compared to the previous month. This has contributed decisively to food prices increasing by 1.3% in April versus March. Non-food prices declined by 0.3% while services came in flat in April.

## Inflation and components



Source: NIS, ING

Core inflation inched slightly lower to 3.7% from 3.9% in March. Under the impact of contracting demand, we should see core inflation consolidating a touch – but not meaningfully lower than these current levels. Sticky core inflation does limit the National Bank of Romania's space for monetary action. Nevertheless, we still expect a 50 basis point cut in the key rate sooner rather than later this year.

After four months of 2020, in which inflation has averaged 3.1%, it is time to revisit our 2.5% forecast for both average and year-end inflation. While we maintain the latter, we are revising higher the former to 2.8% for 2020. We believe that inflation will stay within the NBR's target corridor of  $2.5 \pm$  for the entire 2Y forecast horizon. We see the NBR cautiously continuing to ease both in the key rate (via another 50bp cut) and the minimum reserve requirements.

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