

## Romania: Inflation decreasing slower than expected

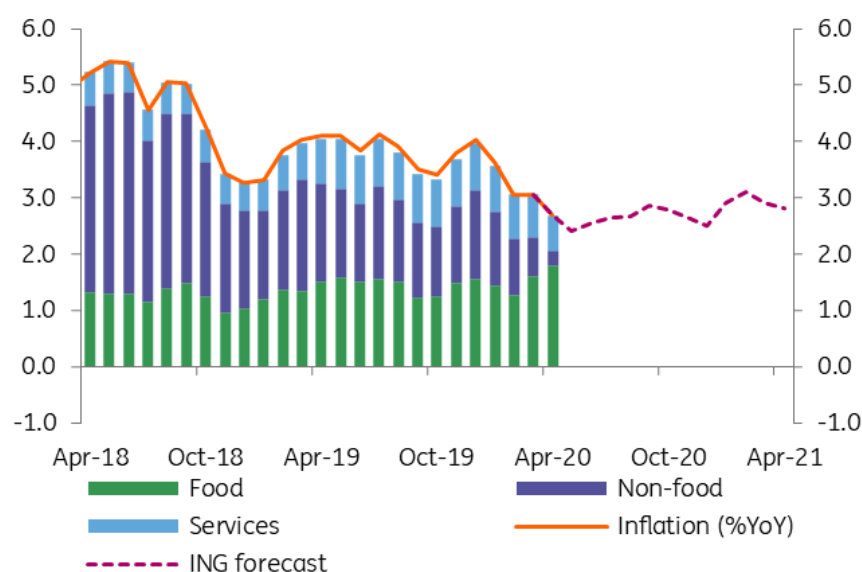
At 2.7% in April, inflation is starting to look better behaved, but sticky food prices raise an eyebrow



Our base case is now for just one 25bp rate cut from the National Bank of Romania in its last meeting of the year in November, with risks for delays towards 2026

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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