

## Romania: Inflation headaches

April CPI inched 0.1ppt higher to 4.1% year-on-year, in line with our call and above the Bloomberg and Reuters consensus of 3.9%. The inflation peak is not behind us. We see CPI at 3.8% at year-end, with the core rate at 3.2%



The National Bank of Romania building in Bucharest

Source: Shutterstock

The government emergency decree from December, which alongside the bank levy included a tax on turnover for telecom companies, led to a 0.1ppt CPI increase in April as companies continue to pass it on to consumers. This led to a significant spike in core inflation from 2.7% to 3.0%, above our expectations. Food inflation spiked 0.5ppt higher to 5.0%, non-food prices came in 0.5ppt lower at 3.7% on base effects from regulated prices, while services inched 0.7ppt higher to 3.8%.

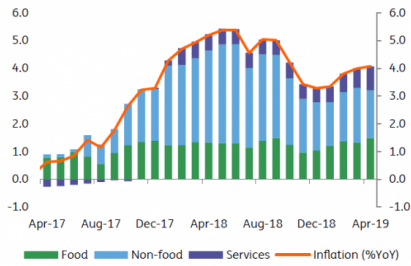
**4.1%**

April CPI (% YoY)

In line with ING call

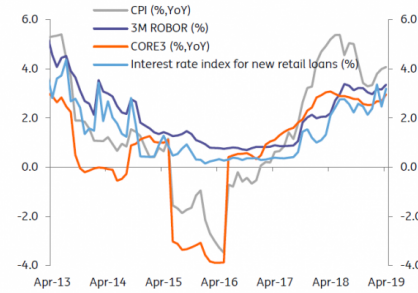
Higher than expected

Fig 1 Broad based inflationary pressures



Source: NIS, ING

Fig 2 Different perspectives to real rates



Source: NIS, NBR, ING

We see CPI at 3.8% by year-end, with the core rate at 3.2%. We expect the National Bank of Romania to stay on hold on Wednesday and revise its CPI forecast higher, towards our projection. The asymmetric outlook for the leu means asymmetric risks in the inflation outlook as well. The NBR is likely to allow some depreciation in the leu once the election fever cools off. Moreover, we expect the NBR to become more innovative to cope with legal changes which affected the interest rate transmission mechanism. This might call for an update of the policy toolkit.