

Romania: inflation remains stable in July

Inflation advanced by 2.80% In July (and was unchanged versus June), in line with the consensus and just a touch above our 2.75% estimate. We maintain our 2.80% forecast for average 2020 inflation with year-end at 2.50% and no change in key policy rate from National Bank of Romania for the rest of this year

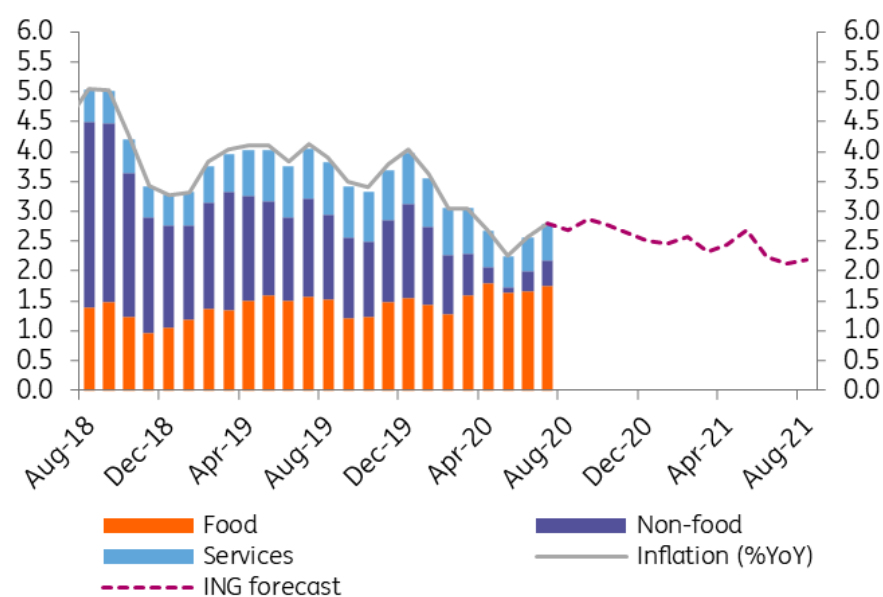


People shopping in a supermarket in Bucharest

Stable but not calm

July inflation confirms the remarkable stable path that prices have embarked this year and which we see continuing through 2021 as well. The underlying drivers are nevertheless not as stable, but they tend to offset each other so the headline number remains quite close to NBR's central inflation target of 2.50%. So when food prices increased earlier this year the oil price was decreasing to offset that, then the oil price started to increase but the food seasonality calmed down the prices of fruits and vegetables in particular. In July the fuel price continued to rise, seconded by a 2.00% MoM increase in tobacco prices, but this time the drop in electricity and gas prices helped to counter these increases.

Inflation and components



Essentially, all this means that while the headline figure gives the appearance of very calm inflation, the underlying drivers have actually witnessed important shifts.

In August we will probably continue to see a mild increase in fuel prices while food prices should remain relatively stable versus July, hence it will probably be up to the service sector to offset these developments and maintain the monthly inflation close to zero.

For the NBR, inflation will probably remain one of the least worries over the short-to-medium term. An eventual tax hike in 2021 (possibly in VAT) could complicate things a little bit, but the prospects of that to happen still seem fairly distant. We believe that the 1.50% key rate will not be changed at least through mid-2021 and the central bank will continue its easing via the hard currency reserve requirement levels.

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 www.ing.com.