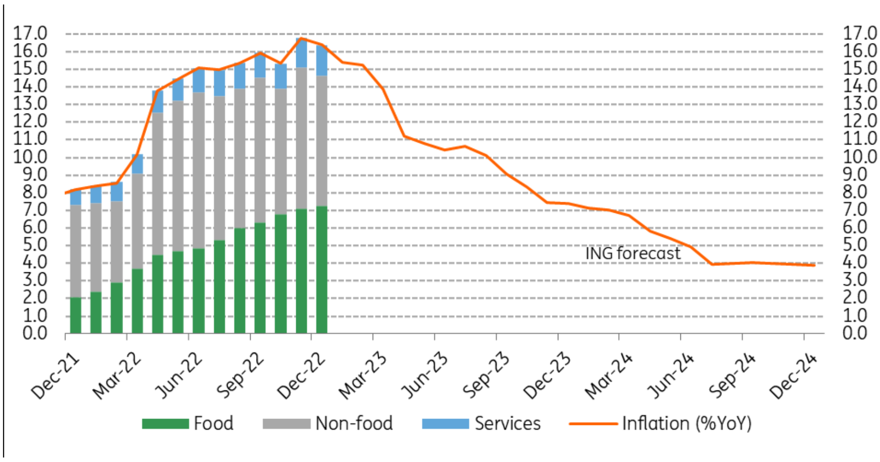
Romania's inflation softening

At 16.4%, inflation in December was very close to the central bank's 16.3% estimate and not far from our own forecast of 16.6%. With the peak in inflation safely behind us now and a gradual downward trend to follow throughout 2023, we remain of the opinion that there is very limited scope for more policy tightening and rate cuts can even be envisaged in late 2023

Given the relatively small forecast error, there are few eye-catching components to be highlighted in the December inflation. The major contribution to the slightly lower-than-expected headline number came from fuel prices which declined by over one percentage point more than we estimated. By extension, the entire non-food category witnessed a price dop of 0.3% versus the previous month, with food items advancing by 1.3% and services by 0.7%.

Inflation (YoY%) and components (ppt)

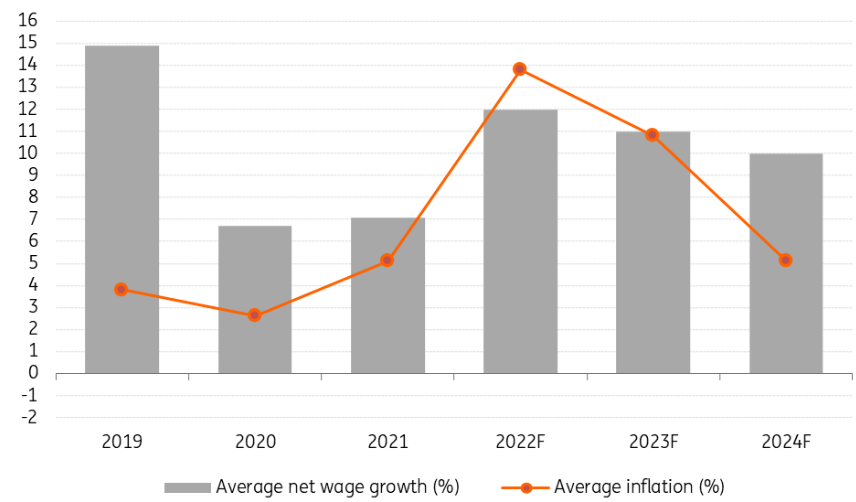


Source: NSI, ING

Looking into 2023, the inflation profile appears fairly well-behaved, to the extent that double-digit inflation lasting until the third quarter can be described that way. Nevertheless, strong base effects are at play and together with the extension of energy price capping and compensation schemes until 31 March 2025 should provide somewhat more reliable estimates compared to 2022 and even 2021.

The one area we still find relatively problematic to grasp for 2023 and even beyond (setting aside the geopolitics, supply chain disruptions, etc.) is the impact of the wage pressures in the overall CPI. The latest wage data suggests that the average net wage advance in 2022 will be around 12.0%. While this is obviously below the 13.8% average inflation rate in 2022, we argue that the difference is not that sizeable and very likely one of the smallest in the EU. Moreover, we see a good chance that the negative difference will be largely compensated for in 2023.

Wages holding up quite well



Source: NSI, ING

In all fairness, these robust wage advances will not necessarily trigger a consumption boom, but they should at least preserve purchasing power. While we do not anticipate a price-wage spiral, close attention should be paid to the topic, especially bearing in mind the approaching electoral cycle.

As mentioned in our National Bank of Romania review, we see little scope for more hikes this year. Today's inflation data reinforces our view. If needed, the NBR will probably make good use of its already deep know-how in managing interbank liquidity, in order to achieve its objectives. We expect the FX rate to hold around current levels at least through spring, while money market rates (say the three-month one) might even have some more room to the downside.

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