Snap | 13 January 2023

Romania

# Romania's inflation softening

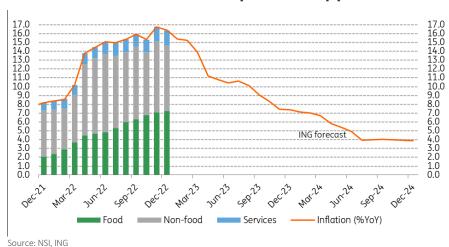
At 16.4%, inflation in December was very close to the central bank's 16.3% estimate and not far from our own forecast of 16.6%. With the peak in inflation safely behind us now and a gradual downward trend to follow throughout 2023, we remain of the opinion that there is very limited scope for more policy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

Snap | 13 January 2023

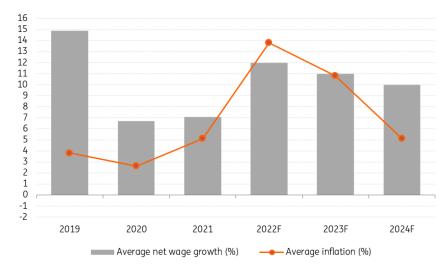
### Inflation (YoY%) and components (ppt)



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

Snap | 13 January 2023 2

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 <u>National Bank of Romania review</u>, 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.

### **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.

Snap | 13 January 2023 3