

Romania: Inflation starts to descend

January inflation dropped to 3.6% from 4.0% in December. We think this is just the beginning of the consolidation at lower levels



Source: istock

January inflation marked the beginning of what we believe to be an extended period of lower inflation numbers.

Starting next month, we expect headline inflation to start coming in within the central bank's upper target band range (between 2.5% and 3.5%) for the entire 2-year forecast horizon.

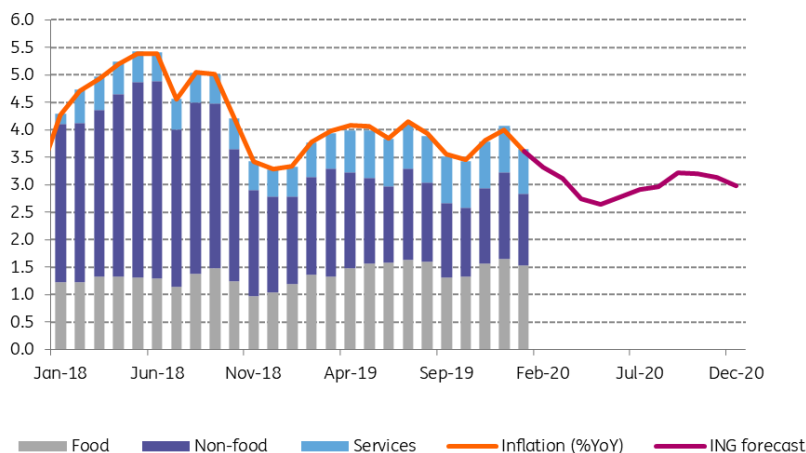
In 2020, the low point should come in April-May when we could see prints as low as 2.7%. However, what is slightly more concerning is that core inflation is likely to remain 0.2-0.4bp above the headline figure for the entire forecast horizon, without meaningful prospects for consolidating lower.

Back to January inflation, except for important base effects (almost 0.4ppt), the 0.4% monthly advance versus December 2019 came mainly on the back of higher food prices which advanced by almost 1.0% driven by important advances in fresh fruit and vegetable prices of c.2.0% and c.3.0% respectively.

Non-food items came virtually flat, as the anticipated drop in the fuel price (caused by the

elimination of the special excise duty starting 1 January) was balanced by – also anticipated – higher tobacco prices and heating energy.

CPI breakdown and forecast



Source: NIS, ING

In their latest February 2020 inflation report, the central bank marginally lowered the year-end inflation forecast, now matching our already long-standing 3.0% projection. This should mean one less headache for the NBR, but we doubt that it will lead to policy easing in 2020.

Albeit projected to fade a bit, the twin deficit issue still remains while core inflation is also looking rather sticky to the downside. Hence, we maintain our forecast for flat key rates at 2.50% this year.

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 <http://www.ing.com>.