

## Romania: January CPI flat, as expected

Headline inflation came in at 3.3% year-on-year, while core inflation was unchanged at 2.5% year-on-year

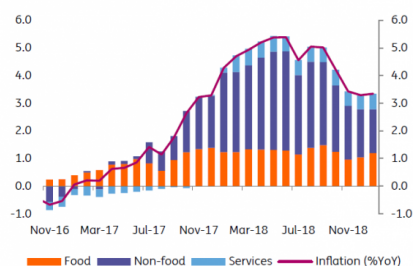


Source: shutterstock

On headline inflation, the surprise to our forecast of 3.5% YoY came exclusively from overestimating the impact of the excise duty increase on tobacco prices.

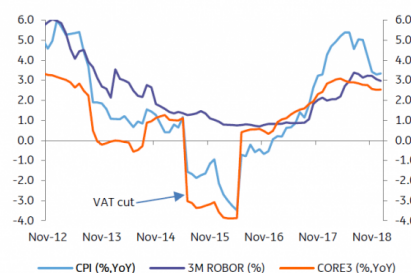
The annual change in the consumer basket shifts more weight to non-food items, mainly at the expense of food items but also services. Food prices accelerated from 3.1% to 3.8% YoY in January, while non-food inflation slowed down to 3.3% from 3.8% YoY. Services CPI inched higher to 2.7% YoY from 2.4% in December.

Fig 1 Non-food to weigh in more on CPI outlook



Source: NIS, ING

Fig 2 Interest rate and core inflation to diverge again?



Source: NIS, NBR, ING

Going forward, we expect core inflation to inch higher due to persistent wage pressures and further currency weakening, and diverge from a relatively stable expected interest rate path. This is complicating the National Bank of Romania's decision making process, especially as this will come at the same time as a slowdown in GDP growth.

We expect the NBR to stay on hold at 2.50% for this year, provided some reasonable amendments to the bank levy are adopted. The current NBR board is likely to avoid taking unpopular decisions and the new Board, which will take over in October, is unlikely to change anything at the last meeting for this year on 6 November. If anything, the new Board is likely to be even more dovish.