Why we shouldn't be fooled by Romania's lower April inflation figures

Romania's 5.9% headline figure came significantly lower than our 6.6% expectations and the 6.4% market consensus. On our side, the entire forecast error came from the large impact of lower energy price caps. Beyond that, however, there is not much to cheer about


Agri-food market in Bucharest, Romania

Romanian inflation decelerated to 5.9% in April from 6.6% in the previous month. There was a large (unanticipated) impact estimated by the National Statistics Institute regarding government measures to cap the intermediary gas prices, which – together with a smaller but still relevant drop in the electricity price – lowered the headline rate by roughly 0.6 percentage points.

Stripping the energy effect, price developments do not offer decision-makers many reasons to be complacent. Services inflation remains stubbornly in double digits at 10.1%, and even accelerated in monthly terms to 0.6% from 0.4% in the month prior on broad-based price pressures. Non-food inflation was dragged lower by the energy prices, but taking this out, they actually accelerated in both monthly and annual terms. Meanwhile, food inflation remains somewhat better behaved, benefitting from lower agri-food commodity prices and the cap on the mark-ups for basic food.

Technically, today's lower-than-expectation inflation data should proportionally move the inflation profile lower for one year ahead. For the moment, however, we maintain our 4.8% year-end estimate. This is given that we were anticipating upside risks within our estimate stemming domestically from the fiscal stance, strong wage growth and potential extra fiscal measures needed to keep the budget in check, and externally from the higher oil price.

> It is unclear to what extent the National Bank of Romania anticipated this drop in inflation yesterday when it decided to maintain the policy rate on hold – and, equally importantly, to what extent the latest medium-term inflation projection considers today's data. Tomorrow's press conference, when the May Inflation Report will be presented, should clarify this. If the data came as a surprise for the NBR, then a rate cut in July looks more probable than in August, as we have it now. In any case, we still don't think that there is much room for the central bank to cut this year, and expect limited 50bp cuts until year-end.

Author

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com