

## Romania: May CPI flat at 4.1%

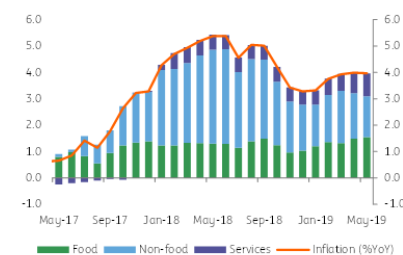
The year-on-year headline rate was in line with Bloomberg's consensus, but above Reuters' consensus of 3.9% and our forecast of 3.7%. Core CPI came in line with our expectations at 3.3%, up 0.3 percentage points versus the previous month



Source: shutterstock

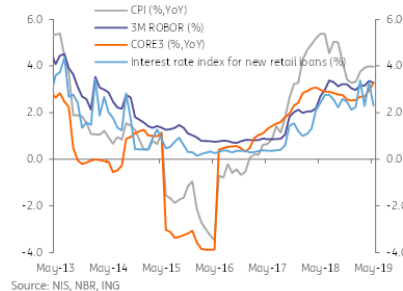
The error from our side came exclusively from food items, with most of this coming from fresh fruit, vegetables and pork. The latter could continue to put upside pressure on headline CPI due to African swine fever spreading in Asia. Food inflation inched 0.2ppt higher to 5.2%, non-food prices decelerated by 0.4ppt to 3.3%, while services CPI was flat at 4.1%.

Fig 1 Broad based inflationary pressures



Source: NIS, ING

Fig 2 Different perspectives to real rates



Source: NIS, NBR, ING

We see CPI at 3.8% by year-end versus the National Bank of Romania's forecast of 4.2%. Core CPI has reached levels that require NBR action to tame it. We expect more frequent NBR open market operations to address the policy easing resulting from a change in the index used for pricing floating rate loans. We view variable rate tenders for market operations as a more efficient tool as liquidity is likely to become more abundant over the next couple of months. Given the global context, the probability for rate hikes from the NBR is very low.