

Romania: CPI hits 5.4% in May

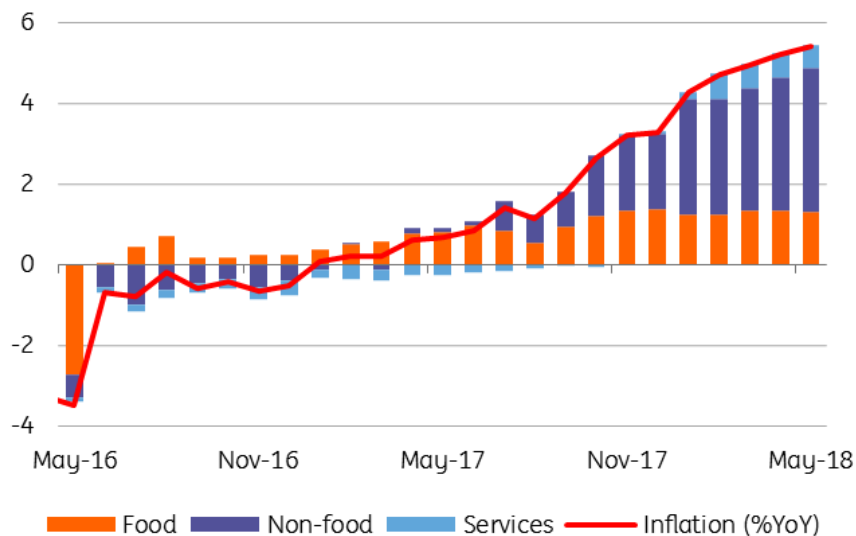
Inflation hit its highest level in almost five years (since June 2013). Core inflation, however, inched 0.1ppt lower to 3.0%, in line with our expectations



Source: Shutterstock

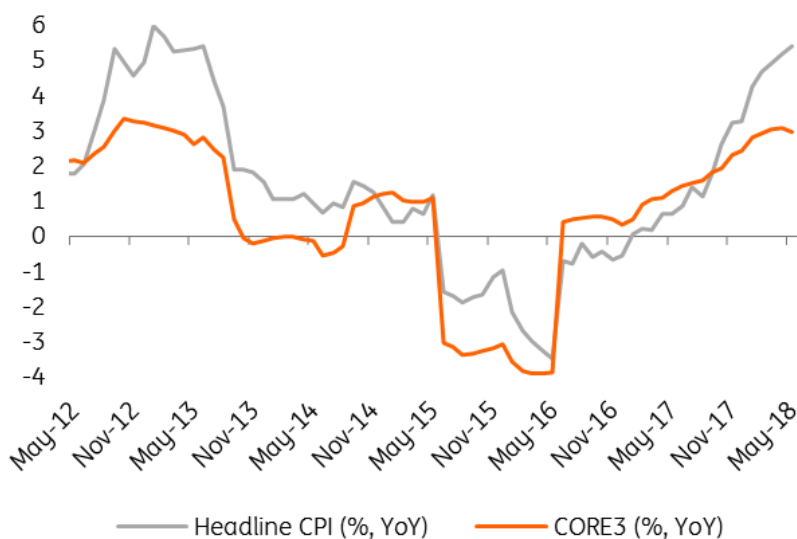
Headline inflation was in line with the Bloomberg median but above our call of 5.2%. Our forecast error came almost entirely from underestimating the price increases of some food items (vegetables in particular) and the excise duty for tobacco - which seemed to take effect in a more phased way than anticipated (we included most of the impact in last month's inflation). Overall, food prices were up by 3.9% year on year and contributed 1.3ppt to May inflation. Non-food jumped by 7.7% YoY and thus contributed 3.5ppt. Services increased by 2.8% YoY, reflecting diminishing pressures from domestic demand and contributing only 0.6ppt to the total 5.4%.

Broad based inflationary pressures



Source: NIS, ING

Headline and core CPI diverging



Source: NIS, ING

Core inflation, on the other hand, was better behaved and decreased by 0.1ppt to 3%, in line with our expectations. This reinforces our view of no change in the key policy rate for the rest of the year. Today's CPI is still consistent with our year-end forecast of 3.6%, which is similar to the central bank's (NBR) projection. Risks are clearly skewed to the upside.

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