

## Romania: no surprises on the inflation front

June inflation came in at 2.6% year-on-year, close to our 2.5% forecast, as prices advanced by a mere 0.08% from the previous month. The future path looks stable around the 2.5% central bank target

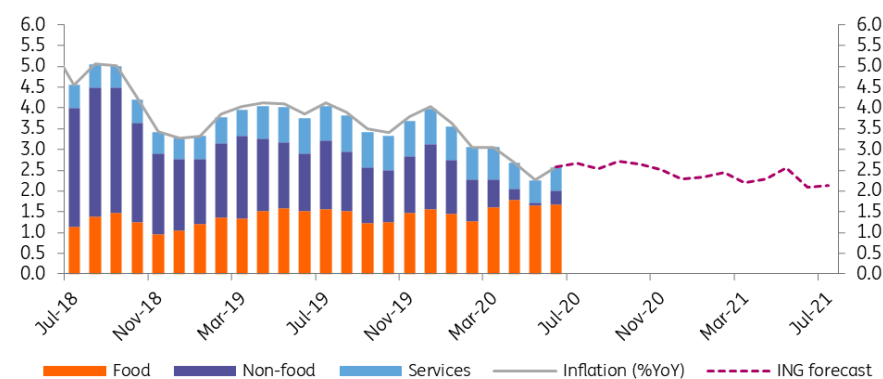


People shopping in a supermarket in Bucharest

Although the 0.08% monthly advance in June was just shy of the 0.05% in May, the underlying drivers have changed somewhat. Food prices contracted by 0.4% over May, the first monthly contraction since Sep-2019, while non-food prices expanded by 0.3%, the first advance in the last five months. The services sector, on the other hand, offered few surprises as price decreases are quite rare here, with the last one happening in February 2017.

Looking forward, better behaved food prices should last at least through the summer which will help headline inflation to stay close to today's print. Another factor which should keep inflation in check will be the already announced 1.9% reduction of electricity prices starting 1 July 2020 and a likely (though gradual and less predictable) fall in natural gas prices following the market liberalisation that took place on 1 July 2020. On the opposing side, fuel prices still have some potential to push inflation higher, together with some limited FX weakness.

## Inflation and components



Source: NIS, ING

We continue to believe that the central bank will hold on to its current 1.75% key rate level at least through 2020 and 2021. We admit that the room for policy easing looks ample, but – consistent with its previous behaviour – we think that the National Bank of Romania will look through the current cycle and prefer to avoid a situation where it lowers the policy rate in 2020 and has to increase it next year. In the end, even in the unlikely scenario of another 25 basis point cut to 1.50% (not our base case though) we do not think that market rates will proportionately move lower and continue to see the 3-month Robor rate close to 2.00% over 2020 and 2021.

### Author

#### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto: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 [www.ing.com](http://www.ing.com).