Romania: November CPI jumps to 3.2% YoY

This is above the Bloomberg median of 3.1% and below our call of 3.3%. Core inflation came in at 2.3% YoY, up from 2.0% previously

Source: Shutterstock

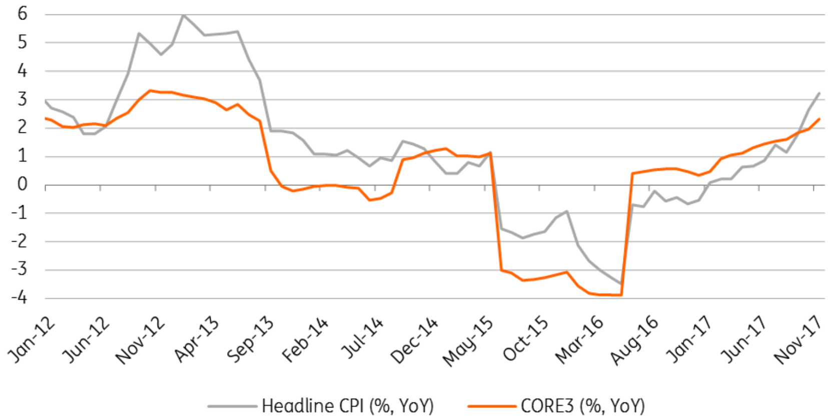
The print is significantly above the National Bank of Romania's 2017 year-end forecast of 2.7%, presented in November. The error from our side came from an overestimation of the gasoline prices pass-through into fuel prices. The prices for dairy products pushed food inflation to 3.9% YoY (+0.6 MoM) helped by the relatively low statistical base effect.

Low base affected non-food prices which jumped by 4.1% YoY (+0.9% MoM) driven in November 2017 by higher oil prices and weaker RON. Prices for services were up by 0.1% YoY (+0.3% MoM) as this category is affected by fiscal changes which will drop out of the statistical base in February 2018 when we should see the services CPI jumping to c.2.7% YoY, where we also see core inflation by that time, as both are more accurately reflecting the domestic demand pressures.

Core inflation reached 2.3% YoY, and it is approaching the NBR mid-target of 2.5%. The latest NBR core inflation projection was 2.0% YoY in December 2017. Hence, already outdated. In fact, the NBR near-term inflation outlook looks more benign than our projection, with the central bank seeing inflation peaking at 3.9% YoY in 1H18, while we see it peaking at 4.5%.

Anyway, both forecasts see inflation surpassing the upper limit of the target interval. With Core inflation also moving into the upper half of the target interval, starting January 2018 when we see it at 2.7% YoY, the pressure will intensify for NBR to act.

Core inflation nears NBR mid target



The latest inflation number is raising concerns that the NBR will fall behind the curve with policy tightening.

Recently, the NBR has made important steps to get on the curve, but if it is perceived again that it is risking to fall behind the curve, we will likely have an outflow from ROMGBs from the offshore accounts and, as a result, a deterioration of the capital account which is expected, along with foreign direct investments to fund the current account shortfall.

These concerns are related to NBR governor downplaying the short-term spike in CPI and emphasising on lower revision for the medium-term CPI profile at the presentation of the last inflation report.

For January NBR policy meeting, after the recent significant policy tightening, we see no policy change as the NBR governor mentioned the need to assess the impact of the recent abrupt shift in policy stance.

We recall that the 3M ROBOR index to which are linked the floating rate loans, including the outstanding amount, jumped 124bps since end-August. Hence, the equivalent of 5 hikes. We look for the first rate hike at the 7 February meeting when the NBR will present the updated inflation forecast. We expect four hikes, of 25bps each, in 2018 and the terminal rate for the tightening cycle reaching 3.50% by mid-2019.