

Romania: October inflation inches lower

CPI came in at 3.4% year-on-year in October, down from 3.5% in the previous month, in line with our forecast and the Bloomberg median



Consumer prices jumped by 0.4% month-on-month on a seasonal increase in food prices, but the base effect from October last year was higher, pushing the annual inflation rate one percentage point lower. Core inflation stood flat at 3.4% year-on-year. Food inflation accelerated by 0.1 percentage point to 4.2% year-on-year, while non-food prices slowed down by 0.2ppt to 2.6% YoY. The increase in prices for services moderated by 0.1ppt to 4.1% YoY.

Fig 1 Monetary easing for consumers

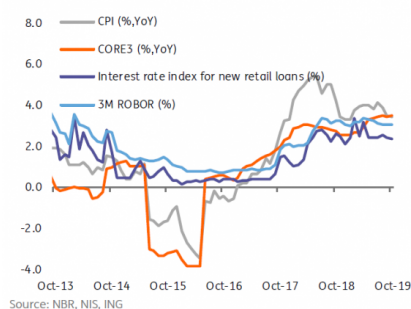
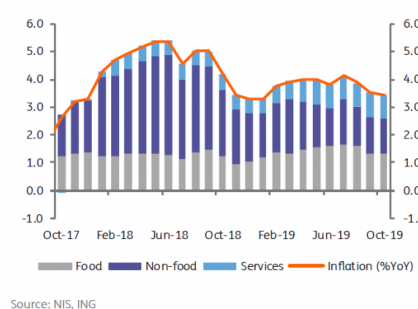


Fig 2 Non-food and services drive disinflation



We continue to see headline inflation at 3.8% by year-end with the risk profile to the forecast

slightly skewed to the downside. The National Bank of Romania recently revised its year-end forecast down to 3.8% from 4.2% previously. We expect the NBR to hold rates unchanged until early 2021 to keep inflation expectations in check, despite the lower global rate environment.

3.4% YoY October CPI
In line with ING forecast

As expected

The NBR has plenty of room to ease if the economic outlook worsens, but it is constrained by the fiscal stance. NBR easing is dependent on fiscal consolidation which is unlikely until after the general election due in late 2020. If the interest rate differential widens further, prompting significant capital inflows, we could see the NBR loosening liquidity controls to push market rates lower, while keeping the key rate unchanged to retain flexibility if things change rapidly.