

Romanian inflation remains stable in August

Inflation in Romania increased by 2.7% in August. We expect inflation to remain predominantly in the 2.50-3.00% range for most of the 2-year forecasting horizon and maintain our call for unchanged policy rate at least through mid-2021



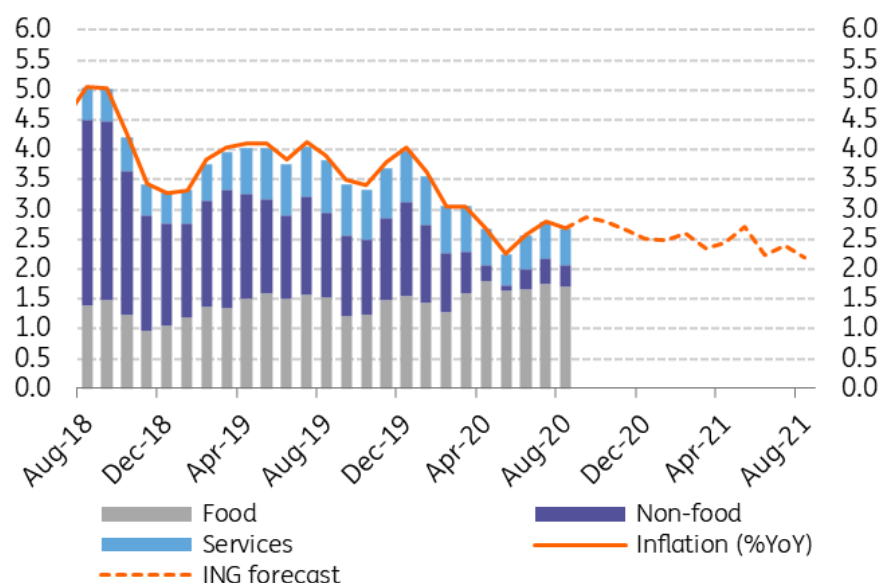
People shopping in a supermarket in Bucharest

Romanian price dynamics in August confirm the stabilisation of inflation in the upper range of the central bank's 2.5% ± 1 pp target.

This time all three main components (food, non-food and services) have witnessed lower price volatility than in the previous month.

For us, the only eye-catching development (and the main source of our small forecast error) was the evolution of fresh fruits prices which have dropped by over 7.00% versus the previous month, as seasonality has probably been stronger than we anticipated.

Inflation (YoY%) and components



Source: NIS, ING

Looking forward towards the remaining months of 2020, inflation should come in very close to today's number, with the lowest point in December when we see inflation at 2.50%.

We reiterate our view that inflation is much lower on the list of things that the central bank is likely to be concerned about but this might become complicated by an eventual VAT hike in 2021, something that we haven't incorporated in our 2021 forecast and average and year-end inflation.

We believe that the 1.50% key rate will not be changed at least through mid-2021 and the central bank will continue easing via the hard currency reserve requirement levels.

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