

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



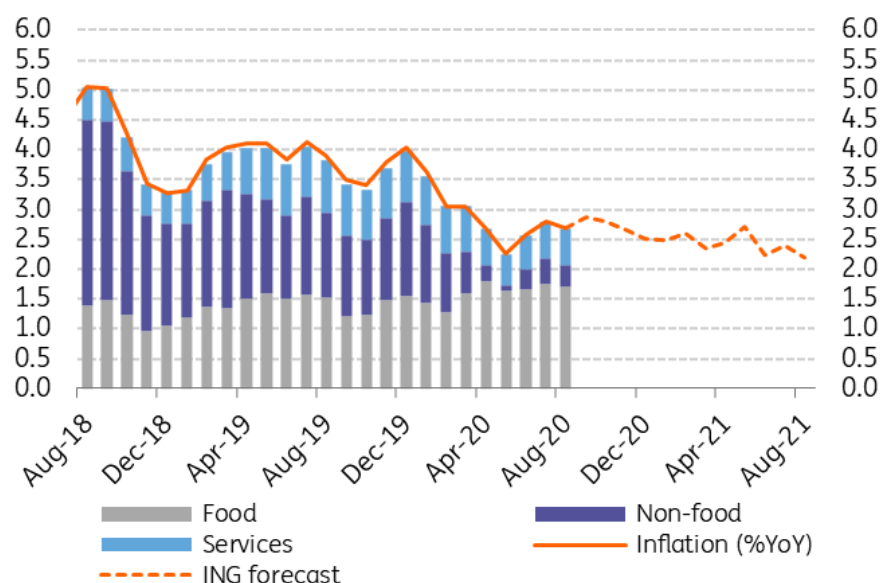
People shopping in a supermarket in Bucharest

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.

Author

Valentin Tataru

Chief Economist, Romania

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.