

Romania: Year-end inflation above target band

At 4.0% YoY, December inflation came in slightly above our 3.9% forecast and market consensus. We believe that this will be the peak for many months to come



Our base case is now for just one 25bp rate cut from the National Bank of Romania in its last meeting of the year in November, with risks for delays towards 2026

Romania inflation closed the year a touch above expectations, after advancing by 0.4% MoM in December. More than half of the advance was a result of the low base effect. The error in our forecasts came almost exclusively from higher tobacco prices as companies have apparently adopted more gradual price increases (we had included a steeper increase in the Jan-20 figure). Food inflation accelerated to 0.8% MoM, pushing the annual rate to 5.1%.

CPI by main components

The main takeaway however is that core inflation inched up by 0.1ppt to 3.6%. From Feb-20 we envisage lower inflation prints (below 3.50%) for both headline and core. In fact, we don't expect another print like today's over the entire forecast horizon. Alongside this, we have argued that once the fiscal backdrop allows, the NBR could revert in the first instance to looser liquidity

management before any rate cuts. However, we attach a lower probability to this scenario as core inflation will still need to be carefully contained and also because the new index for retail loans is forcing NBR to keep front end rates better anchored around the key rate. We believe that a 2ppt cut in hard currency minimum reserve requirements will be on the table at the next NBR meeting on 7 February while the key rate will be maintained at 2.50% for all of 2020.

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