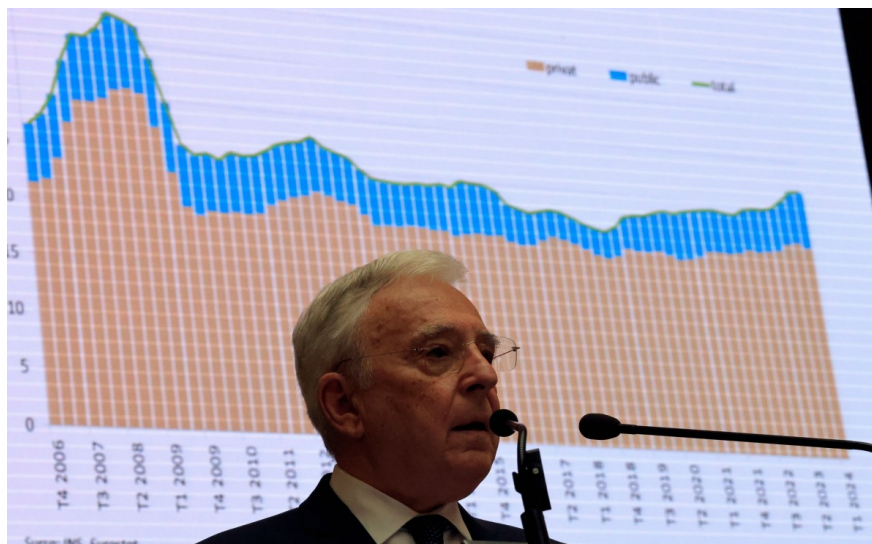


Romanian inflation: Temporary acceleration, persistent stickiness

Romanian CPI inflation rose to 5.4% in July, above the 5.1% consensus and close to our 5.5% call. We think that this temporary increase does not materially impact the disinflation prospects ahead. That said, spread-out pressures across the consumer basket point to still-noteworthy upside risks. We stick to our 4.2% year-end forecast



National Bank of Romania Governor, Mugur Isarescu, presenting the latest Inflation Report

Romanian inflation accelerated to 5.4% in July from 4.9% in June. Food inflation inched up to 1.7% from 1.1%, still remaining well-behaved. Non-food inflation picked up to almost 7.0% from 6.3%. Services inflation moderated to 8.5% from 8.8% - remaining quite sticky. Core inflation consolidated below 6.0% for a second consecutive month, but its progress towards target remains slow.

On a monthly basis, noteworthy developments came in from energy and fuel prices, which rose at a slightly smaller pace than we had expected. Fuels increased by almost 3%, electricity 1.1%, and gases 1.1%, all adding roughly 0.3pp to the headline annual measure. As for food prices, flour, sugar and meat added upside pressures. On the services front, prices picked up at the strongest monthly pace since February, showing a persistent stickiness across most items; water, sanitation, and airfares stood out particularly this month.

Looking at the consumer basket more broadly, two things can be noted. The first, a positive, is that most of the current increase is of a temporary nature, driven by energy and fuel excises, and will likely have only a short-term impact on the disinflation process. The second one, a negative, is that after keeping out these likely temporary factors, inflation would not have progressed towards target. This is in line with our view that price pressures are likely to become more stubborn as we continue to approach 4%.

Today's wage growth data (12.5% YoY) continues to add to the medium-term risks of services inflation.

As for the outlook, we expect the August print to show some mild improvements before we see more solid advances towards our 4.2% year-end forecast in September-October. From here onwards, our view is that the stimulative nature of wage growth, strong credit activity and loose fiscal policy is set to make the battle against still-sticky inflation quite challenging. Indeed, some downside pressures from the weaker state of the export-driven manufacturing growth will matter, too. However, the near-term strength of internal demand will likely keep firms' confidence in their pricing power in place ahead of next year's expected increase in the tax burden.

Concerning the NBR, while the policy space we envision could allow the central bank to make another 25bp rate cut in autumn, our base case is that the dangers stemming from medium-term upside risks will likely rank higher on the policymakers' agenda at the next decision.

Author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@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 <http://www.ing.com>.