

## Disinflation continues in Romania but more policy easing next month is unlikely

The deceleration in Romanian inflation from 5.1% in August to 4.6% in September is a positive sign for the trend of easing price pressures. However, the details indicate that policymakers are still far from declaring victory. We maintain our year-end forecast of 4.2%, acknowledging the presence of upside risks



People shopping in a supermarket in Bucharest

Food inflation came in stronger than we had expected, with the 0.8% monthly advance being the second highest of the year. Fruit and vegetables showed particular strength, increasing by 3.1% and 2.7% versus the previous month. Non-food inflation was only marginally above our expectations due to a smaller-than-expected decline in fuel prices, partly offset by weaker energy prices. Services inflation was pretty much in line with our forecast. Apart from airfares, which recorded a monthly drop, almost the entire category continues to suffer from broad-based stickiness.

The pick-up in food inflation could be an early sign of the impact of this year's significant drought – an upside risk we are watching in the months ahead.

Meanwhile, non-food inflation decreased visibly in annual terms and reached 3.3%. Here, there are

upside risks as well. In the short run, geopolitical tensions are set to remove at least some of the gains, which came on the back of lower oil prices. On top of that, wage growth remains elevated, well into double digits, keeping the upside pressures from the demand channel alive at least in the short term.

Lastly, despite making some progress, services inflation remains the most stubborn, at 7.8% annually - clearly indicating that this is not the time for policy complacency.

On the broader inflation outlook, we continue to expect a 2024 year-end of 4.2%, with possible upside risks. They mainly stem from the recent rebound in global oil prices due to increased tensions in the Middle East, as well as from the strong internal demand - with the latter being partly due to large fiscal deficits. For next year, we see a short-lived dip in inflation towards the National Bank of Romania's 3.5% upper target in the first quarter. Beyond that, we think that inflation will stabilise, hovering around 4.0% and ending 2025 at 4.1%.

There are also some key uncertainties next year, almost all pointing to upside risks at this stage. Consumer energy prices have upside potential if the price caps are removed, while higher taxes could bring renewed pressures, depending on how the actual measures look. For now, it appears a broad tax reform package is more a matter for the second half of 2025 or even 2026.

In terms of the implications for the economy and rates, not much has changed with today's reading. The disinflation trend carries on as expected, though a touch above the latest NBR projections. In principle, this still brings some policy space for the NBR to cut rates. We continue to think that the Bank will remain cautious this year and refrain from another rate cut in November given the significant global and domestic uncertainties.

We think that the ever-increasing fiscal deficits, coupled with strong credit activity, high wage growth and stubborn services inflation are likely to add more weight to the medium-term monetary policy considerations, which we think the NBR will increasingly start to favour. Our view is that the NBR will keep rates in place until January 2025 at the earliest and then proceed with a total of 100bp of cuts next year, taking the key rate to 5.50%.

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