

## Romanian inflation below expectations: blame it on the cheap potatoes

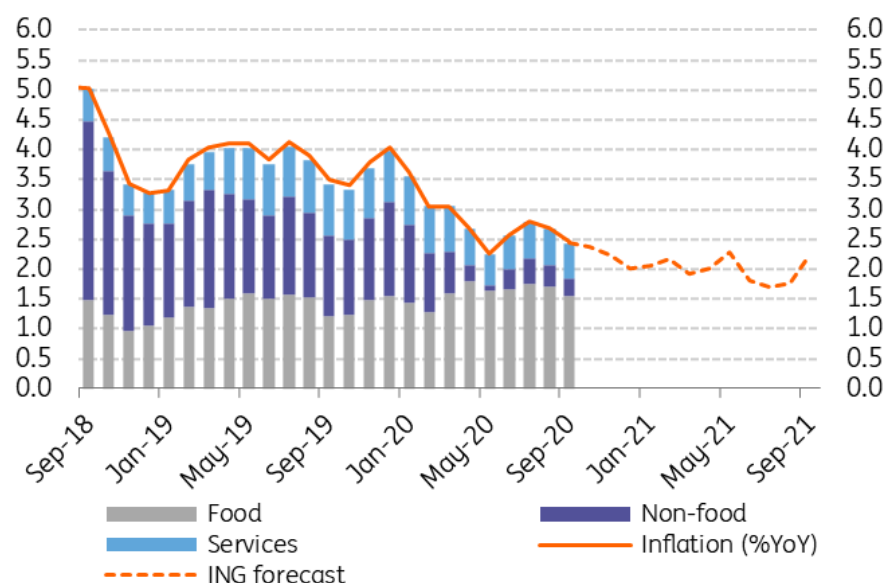
Inflation advanced by 2.5% in September, below our 2.7% estimate and the 2.8% consensus. This is pushing lower our annual average forecast for 2020 to 2.7% and year-end to 2.1%. We maintain our call for for unchanged policy rates at least through mid-2021



People shopping in a supermarket in Bucharest

On our side, most of the September inflation surprise came from an unexpectedly large drop in the price of potatoes which contracted by 27% compared to the previous month! This was the largest price decline in the last nine years for this item. Fresh fruit prices surprised to the downside as well, but to a lesser extent as they contracted by just over 8.0%. This was still the largest decline in the last three years.

## Inflation (YoY%) and components(ppt)



Source: NIS, ING

Looking forward towards the remaining months of 2020, the inflation profile looks to have changed to the downside. We now expect December inflation to reach 2.1% (from 2.5% initially) with the annual average changing from 2.8% to 2.7%.

For 2021, we have a forecast of 2.5% for both average and year-end inflation which we still affirm, though we acknowledge that risks are clearly skewed at least for lower average inflation. Nevertheless, there is still limited policy visibility beyond the December elections, especially on the fiscal side where we believe that budget patching via some tax revamp (a VAT hike is our main suspect) cannot be excluded. The National Bank of Romania is due to publish its Inflation Report in November and -together with lowering its forecasts at least for 2020- will likely underline the uncertainties that lie beyond the elections.

We believe that the 1.50% key rate will not be changed through mid-2021 and that the next step towards more easing will be made via lowering the reserve requirement levels.

### Author

#### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto: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 <http://www.ing.com>.