

Romanian inflation below expectations: blame it on the cheap potatoes

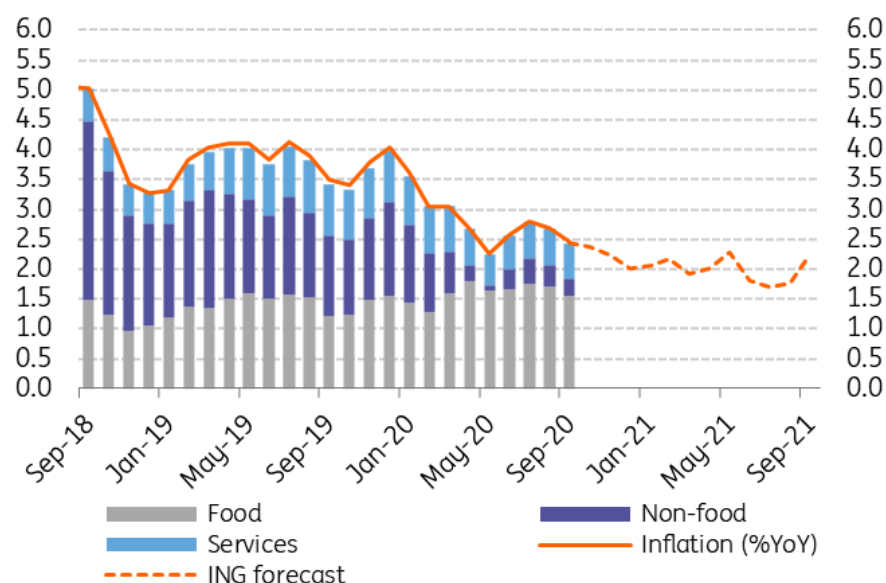
Inflation advanced by 2.5% in September, below our 2.7% estimate and the 2.8% consensus. This is pushing lower our annual average forecast for 2020 to 2.7% and year-end to 2.1%. We maintain our call for for unchanged policy rates at least through mid-2021



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.

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