

## Romanian inflation continues to soften

At 14.5%, March inflation printed a tad above the market's 14.4% consensus and our 14.2% estimate. This doesn't change the bigger disinflationary picture as we expect an approximate 3pp drop in April inflation and single-digit inflation by September. The central bank should be on hold for the rest of the year

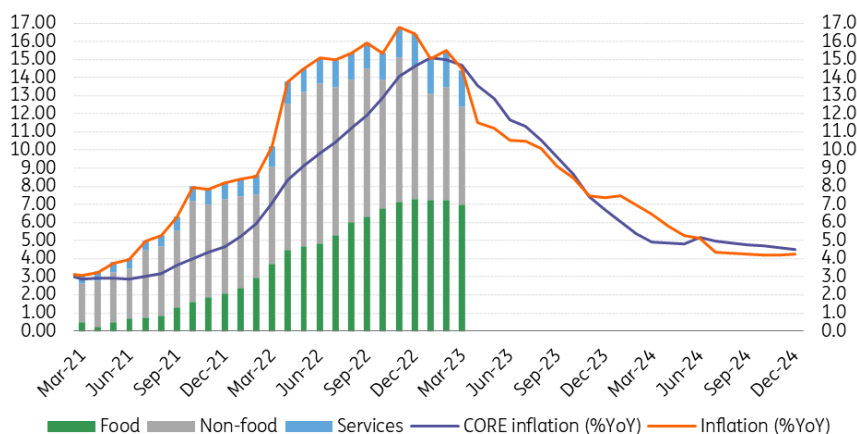


The Dambovitza river in Bucharest, Romania

When it comes to our forecast error, this can be entirely put down to the category of “other vegetables and tinned vegetables”, where prices increased by a whopping 11.2% versus the previous month. This is by far the most rapid price increase since 2005 when our data series began. This item aside, inflationary developments in March were much in line with our expectations. Food prices were up 1.9% in monthly terms, non-food 0.4% and services 1.1%.

Core inflation inched lower as well, toward 14.7% (from 15.1% in February) and we expect it to remain slightly above the headline for most of 2023.

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



Source: NSI, ING

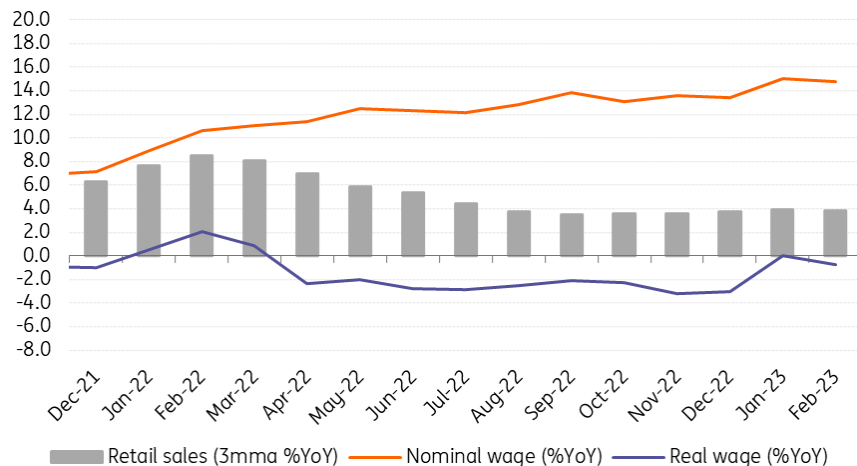
For April, strong base effects are at play, and we estimate that headline inflation will drop by approximately 3 percentage points, to around 11.5%. The base effects refer mainly to energy prices which, back in April 2022, increased by a monthly 28.6% for electricity and 26.5% for natural gas. These increases will drop off the statistical base from this month. While this should be not a surprise to anyone, the magnitude of the inflation drop could still impress some market participants.

We maintain our December 2023 inflation forecast of 7.4% and 4.1% for the end of 2024.

## Labour market still looks impressively strong

As already underlined in our [previous note](#), we remain slightly puzzled by the strength of wage growth in Romania. After advancing by 15.0% in January, the average net wage growth remains resilient at relatively high levels, printing at 14.8% in February. As the real wage growth remains marginally negative, one could say that inflationary pressures stemming from here are limited. While we (still) largely agree, it remains a somewhat tricky assumption if we corroborate the wage momentum with the descending inflationary profile and the approaching electoral year.

## Wages holding up well



Source: NSI, ING

We expect the National Bank of Romania (NBR) to stay on hold for the rest of 2023. We expect the next move to be a rate cut in early 2024. In essence, the central bank has already switched to a looser policy stance by tolerating historically high liquidity surplus in the money market. This has been pushing market rates below the key rate even for tenors of up to 1-year and made the 6.00% deposit facility more relevant than the 7.00% key rate. This is not necessarily unusual from a historical perspective, as the local rates have often been decoupled from the key rate, but it is somewhat unexpected.

Since the highs of 2022, the relevant 3-month rate has gradually dropped by well over 100 basis points, with largely similar moves taking place in the FX swap market as well. This is quite noticeable policy easing which, given the descending inflation profile, looks more likely to be maintained than reversed. On the other hand, should any upward pressure on EUR/RON re-emerge, the liquidity situation could change rather quickly and cause a spike in short-term rates.

## 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>.