

Romanian inflation edges lower

Inflation in Romania closed 2023 at 6.6%, slightly higher than our estimate of 6.5%, largely in line with the consensus call of 6.65%. The breakdown by components matched our expectations, with only the non-food item prices ending slightly above our call



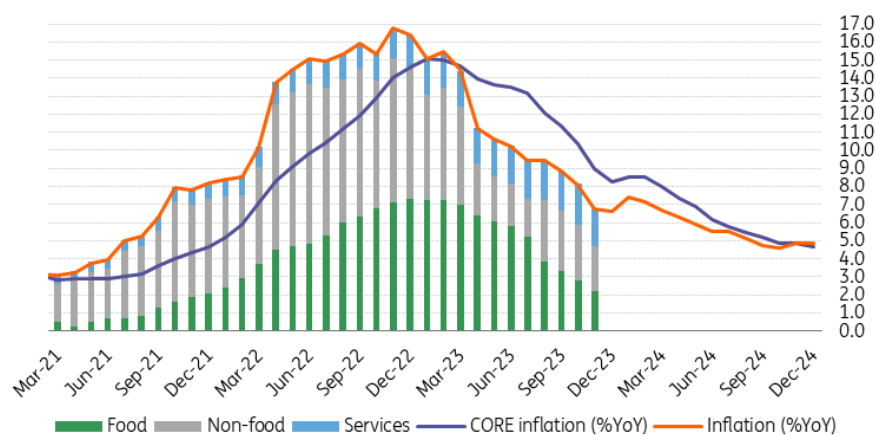
Inflation in Romania is expected to be lower by the end of the year

Compared to the previous month, December price pressures stopped dropping in month-on-month terms and recorded small increases in all categories. The largest positive contribution was again from services. Fuel items continued to get slightly cheaper due to positive developments in the world oil markets, while heating got slightly more expensive in line with seasonal heating demand. Core inflation ended up at 8.2%, decelerating from 9.1%.

Overall, such small monthly changes reconfirm that price pressures have been milder than the market had expected at the end of the year. What's more, the reading also sets the stage for price pressures to remain well-behaved in the first quarter of this year when higher taxes and excise duties kick in. These are likely to briefly push the headline back above 7.0% in January 2024 and create a hump in the inflation profile. However, by the end of the first quarter of this year, inflation should be largely back where we are today and continue the gradual descent towards our 4.7% estimate for December 2024.

Inflation outlook - core to continue to remain above headline

Source: NSI, ING



Looking at the outlook for 2024, once the impact of higher taxation has been largely incorporated by firms, we think that wage pressures will continue to be the main driver against the disinflationary trend. Wage data for November showed a robust annual increase of 15.1%, in line with our view that real income growth should fuel consumption ahead. The main risk to our view is whether consumers will start to act on their extra income earlier and more forcefully than expected, giving firms the full confidence to maintain their profit margins after the tax hikes. However, at this stage, we keep our 4.7% forecast for the end of the year.

As for the outlook for the National Bank of Romania, we don't see much change at the moment. Our expectation is that the Bank will avoid being too dovish at today's meeting, even though it will most likely welcome the positive developments on the inflation front at the end of the year, as we explain in more detail [here](#). We hold on to our view of a first rate cut in May, although April is equally likely if firms choose a more cautious pricing strategy in early 2024.

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