

Romanian inflation finally dips into single digits

After a couple of months of questionable inflation data, July confirmed that double-digit inflation prints are now safely behind us. However, consistently strong wage advances might complicate the disinflation story as the 2024 electoral year approaches



Bucharest, Romania.
Food prices decreased
in July by 0.5% versus
June

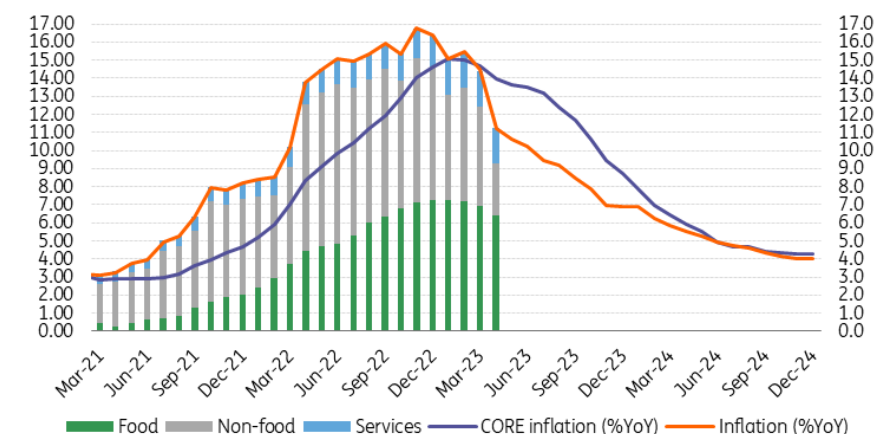
The 9.44% July inflation print surprised marginally to the downside (vs our 9.60% estimate) due almost exclusively to lower electricity prices. Recently-adopted caps on the mark-ups of basic food products seem to be working already, slightly ahead of schedule, and might cause another downside surprise to August inflation, which we currently estimate at around 9.0%.

To put a number on it, food prices decreased in July by 0.5% versus June (+16.3% year-on-year), which marks a return to more usual seasonal behaviour. Non-food items advanced by 0.25% (+4.3% YoY) with pretty well-behaved price dynamics across the subcomponents, while services remained a mild outlier, advancing by 1.00% monthly (+11.6% YoY), a slight upset in an otherwise positive inflation print.

Perhaps the less-than-positive news for today comes from core inflation which proves to be quite sticky, falling to 13.2% in July from 13.5% in June. At this moment it is not certain that we will see

core inflation below 10% this year, though our base case is that it will dip below in December. In any case, core inflation is probably less of a concern for the National Bank of Romania (NBR) right now, as it most likely wants to see headline inflation safely lower first.

Inflation (YoY%) and components (ppt)



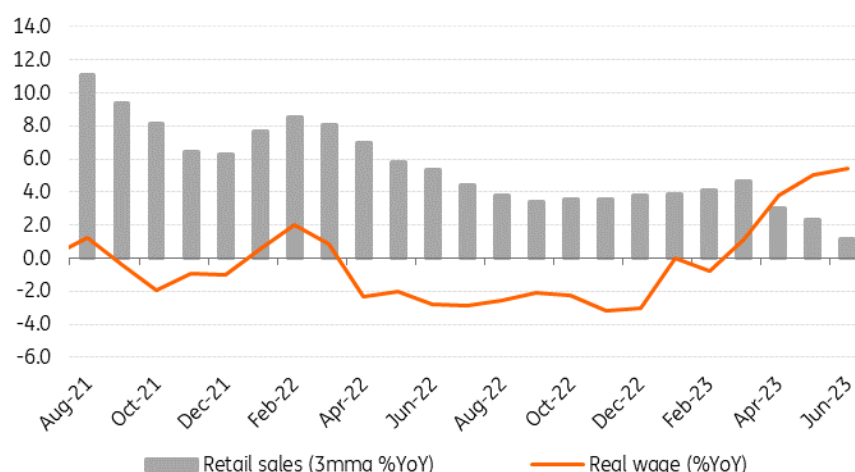
Source: NSI, NBR, ING

Strong wage growth is here to stay

The average net wage advance continues to impress, printing at +15.7% in June and it looks increasingly likely we'll see full-year average wage growth above 15.0% in 2023. Besides the usual sectors which have posted above-average wage advances lately (e.g. agriculture, IT services, transportation etc.), June saw a whopping 28.7% increase in the public education sector's wage, boosting the general public sector average wage growth to 14.0%, not far from the 16.1% growth in the private sector. This trend is most likely to continue in the coming quarters, given recent and ongoing public wage demands and the approaching electoral year.

The extent to which the strong wage advance will filter into inflation is still unclear, given that it overlaps a period of fiscal uncertainties, economic slowdown and still relatively high interest rates which are more stimulative for savers. However, it is also difficult to believe that it will have no effect either. As recently underlined by the NBR's Governor, Mugur Isarescu, wage-led inflation might prove quite dangerous and tricky to control, given that it could require a further restriction of the aggregate demand via even higher interest rates.

Positive real wages to support consumption



Source: NSI, ING

We maintain our estimate of a 6.9% year-end inflation reading, though we admit that risks are mildly to the upside on the back of the recently announced (but not yet adopted) fiscal package. These risks have been clearly underlined by the NBR as well, as they indeed have the potential to derail the disinflation story. On the other hand, next year's profile hasn't changed much, as we see headline inflation below 7.0% (NBR's key rate) in February 2024, followed by a gradual descent toward the 4.0% area by the year-end, where our projection also stabilises for the medium-term.

All in all, we remain reasonably confident that the NBR will start the cutting cycle in the first half of 2024, with a total of 150bp cuts by the year-end. If anything, risks are for the cycle to be more backloaded rather than frontloaded. To the extent that the global risk sentiment will not worsen, it is likely that the accommodative liquidity conditions are here to stay for longer, though we tend to be increasingly cautious about this.

Author

Valentin Tataru

Chief Economist, Romania

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 www.ing.com.