

## Romanian inflation getting serious

May inflation reached 3.75%, quite a bit above the ING and market call for 3.50% and 3.57%, respectively. Looking forward, inflation will settle rather comfortably above 4.0% starting in the second half of this year and might even flirt with the 5.0% level in the last quarter. We revise our year-end forecast to 4.7%

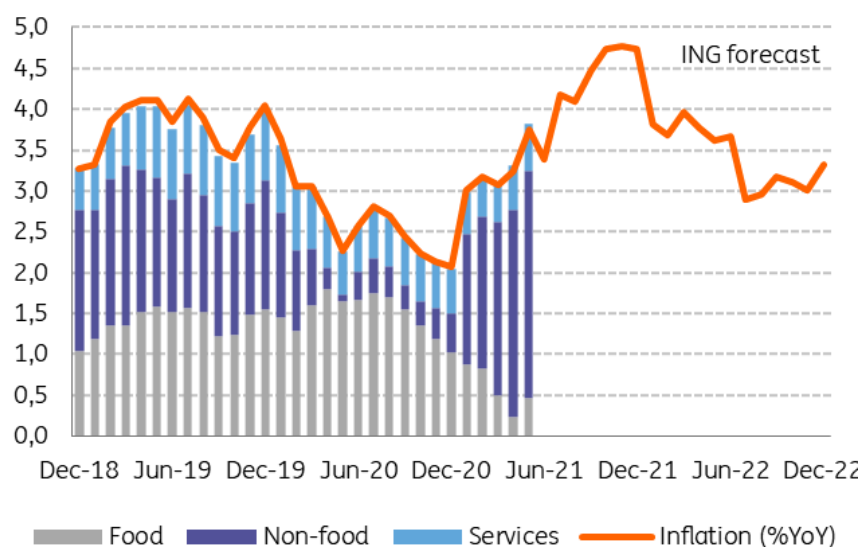


Source: Shutterstock

As we approach the second half of 2021, the Romanian inflation profile looks set to consolidate above the National Bank of Romania's 3.5% upper limit even earlier than expected. The upside surprise in May -and almost our entire forecast error- came from fresh fruit and vegetable prices, with the former advancing by almost 9% versus the previous month. Coupled with an almost 12% monthly increase in the price of potatoes, it pushed May's food inflation to 1.1% compared to April. This is pushing our year-end forecast from 4.3% to 4.7% and the annual average to 3.9%.

Looking forward, June inflation could be the last to print below 4.0% this year, as a new round of price hikes for gas and electricity is scheduled for July. We see inflation printing in the 4.0%-4.5% range in 3Q21 and 4.5-5.0% range in 4Q21. Starting with 1Q22, favourable base effects will kick in and could bring inflation slightly below 4.0% again, followed by a gradual descent towards the 3.0%-3.50% area throughout 2022.

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



Source: NSI, ING

## Central bank reaction? Not yet, but it's getting tense...

It was not so long ago that we were still thinking inflation could stay within the NBR's 1.5%-3.5% target range this year. Despite the rather significant departure from those expectations, the inflation bout will still be mainly driven by supply-side factors and this should help the NBR to stay on hold for the rest of the year, taking advantage of the relatively high interest rate differential versus its peers. Yes, today's inflation increases the chance of seeing a rate hike in 2021, but we're not there yet and might just get away without one.

We maintain our view for a gradually firmer liquidity stance as we move ahead into 2021, with rate hikes more likely in the first half of 2022. The end of 2022 should see the key rate at 1.75% with risks skewed to the upside. Our main issue with this rationale is that liquidity management is probably a blunter tool in anchoring inflation expectations compared to a "classical" rate hike. Hence, if the NBR determines that expectations are starting to drive the inflation rate higher, we might see straight rate hikes as soon as 4Q21.

### 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>.