

## Higher-than-expected Romanian inflation is not as bad as it looks

At 9.4%, August inflation came in higher than expected but can be largely blamed on one item: drug prices. These increased by a whopping 20.8% versus the previous month. On the bright side, core inflation dropped by 1.1pp versus July, to 12.1%, and looks on track to reach single digits this year



**9.4%** August inflation

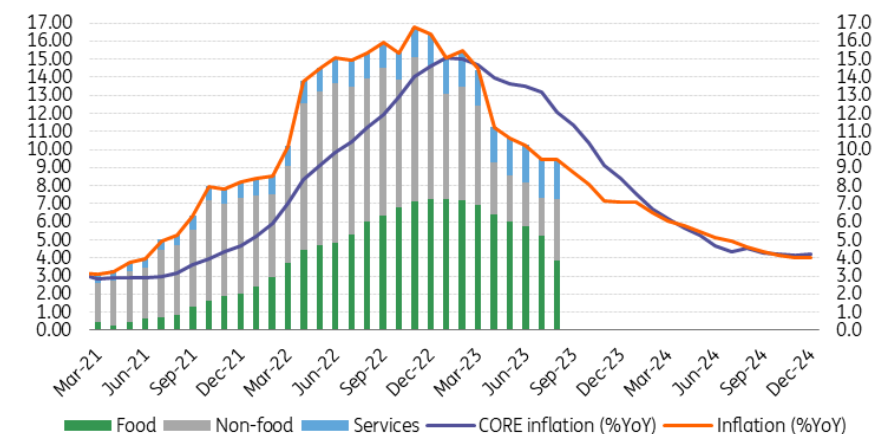
Higher than expected

August inflation in Romania was higher than anticipated, as we expected the headline print to be 8.70%. The forecast error on our side came almost entirely from a single item – drug prices – which advanced by 20.8% versus July and added 0.82pp to the headline figure, versus an assumption of flat prices. This has pushed the non-food items to increase by 2.43% compared to the previous

month, the strongest acceleration in the last 16 months. Assuming flat drug prices, the increase would have been 0.89% – still the highest in 2023, due to the recent increase in fuel prices.

Otherwise, price dynamics in the other sectors largely matched our expectations. Food prices dropped by almost 2pp versus July on seasonal items and the effect of the government ordinance which caps the mark-ups on basic food products. The latter is scheduled to expire in November, although talks about it being prolonged are already underway. Service inflation decelerated to 0.44% month-on-month, the lowest increase in the last 12 months.

## Headline and core inflation converge in 2024



Source: NSI, ING

At 12.1%, the core inflation print confirms our view that it will reach single digits this year, most likely in November and could even dip below 9.0% in December. The outlook for 2024 remains largely unchanged, as the core is likely to stay above the headline, though the spread will get narrower and could reach zero around mid-2024.

Today's data are not as bad as the headline number suggests. Capping the mark-ups on basic food items seems to be working, services inflation looks to be softening, and even wage growth appears to be moderating slightly. Moreover, the economy is clearly decelerating, and we have recently [re-confirmed our below-consensus GDP growth forecast](#) of 1.5% in 2023.

We maintain our forecast for inflation to reach 6.9% in December 2023 and 4.0% in December 2024. From a monetary policy perspective, we still believe that rate cuts can be excluded this year. The start of the easing cycle should come in the first quarter of next year, with a total of 150bp cuts by the year-end. This might be done alongside the gradual restriction on liquidity conditions in the interbank market, as the current surplus is likely not giving a lot of comfort to the National Bank of Romania.

We therefore still expect that pressure on the EUR/RON will be used as an opportunity to mop up some of the excess liquidity, hence the upside room for EUR/RON still looks limited in the short term.

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