Snap | 11 August 2022 Romania

# Romanian inflation plateaus; wages advance robustly

At 15.0% in July, inflation will hover around current levels until September, before embarking on a downward trend. Today's numbers are unlikely to change the NBR's policy path; the hiking pace should decelerate to 50bp and 25bp at the October and November meetings. On the other hand, wage advances remain robust and should support a very soft landing in 2H



We estimated July inflation at 14.6%, the same as the market consensus. On our side, the forecast error came entirely from gas and electricity prices which the Statistical Institute estimated to have increased by 8.2% and 2.8%, respectively, versus our no-change forecast.

Snap | 11 August 2022

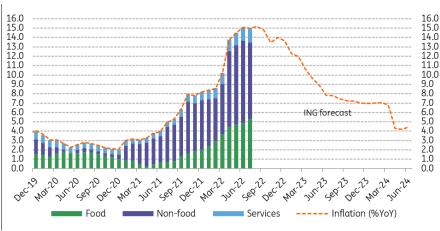
15.0% July

July Inflation

Higher than expected

Somewhat surprisingly - but in line with our estimates - monthly food inflation accelerated in July to 0.9%, from 0.6% in June, with some diverging dynamics taking place in different subgroups. While prices for fresh fruit, oil and most vegetables accelerated more than expected, other items such as milling and bakery products, meat and especially potatoes came below our estimates. Overall, the usual summer disinflation effect on some food prices looks to be less pronounced this year.

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



Source: NIS, ING

Since June, inflation seems to have reached a plateau and we expect numbers very close to current levels until September. Whether the actual peak was in June, at 15.1%, or August, at 15.2%-15.3%, is probably less relevant. What matters more in our view is that the overall inflationary trend seems to have peaked and that we should embark on a gradually descending path from October. Our 13.0% estimate for average 2022 inflation looks on track and we believe that the year-end number could come in lower than the National Bank of Romania's 13.9% estimate.

We don't think that today's slightly higher-than-expected inflation will change the NBR's policy. In presenting the August Inflation Report today, NBR Governor Mugur Isarescu had quite a few dovish remarks, essentially signalling that there is limited room ahead for additional tightening. The dovish stance came despite the inflation forecast being revised higher: from 12.5% to 13.9% for 2022 year-end and from 6.7% to 7.5% for 2023 year-end. However, inflation should continue to descend and is set to reach the NBR's mid-point of its 1.5%-4.5% target range by June 2024. While we agree that inflation could indeed enter the NBR's 1.5%-4.5% target range by the end of the two-year forecast horizon, printing as low as 2.3% by mid-2024 seems a bit optimistic. 2024 will be

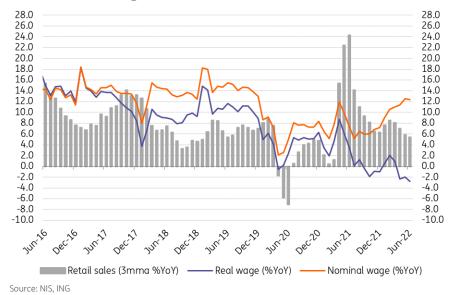
a very important electoral year and the chances for the fiscal stance to turn inflationary even as early as 2023 are not negligible.

The NBR's inflation forecast looks plausible for the first 12-18 months and slightly optimistic for the 18-24 month timeframe. The key rate will most likely be increased to 6.25% by the end of the year, followed by a long pause (probably throughout 2023). However, market rates could gradually come lower as the NBR might start to tolerate gradually improving liquidity conditions. EUR/RON should remain below 4.95 for the rest of 2022 and we maintain our 5.10 estimate for end-2023.

## Wage advance remains robust

We've been arguing quite a few times that despite the inflation spike, wage advances in 2022 would not be that far from beating inflation. In all fairness, this argument came more often when inflation estimates did not exceed 10%, but even as it became clear that inflation would turn higher, we maintained our optimistic outlook on the labour market.

## Sales and wages

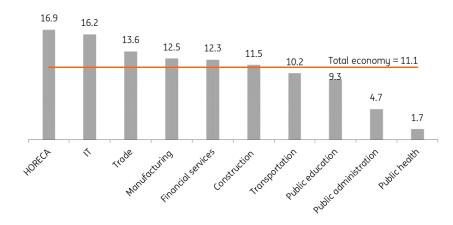


In the first half of the year, net average wages advanced by 11.1% while average inflation for the same period was 11.7%. Basically, average wage growth started to be below inflation only in April this year. The trend, however, is clearly for the advance in real wages to remain in minor negative territory for the rest of the year. Nevertheless, with average 2022 inflation estimated by us at 13.0% and the average wage advance at 12.0%, real wage dynamics are definitely not as bad as one feared at the beginning of the year.

By selected categories, the picture looks somewhat in line with expectations. The seasonal HORECA sector will likely show a less impressive performance once the summer season ends, which leaves

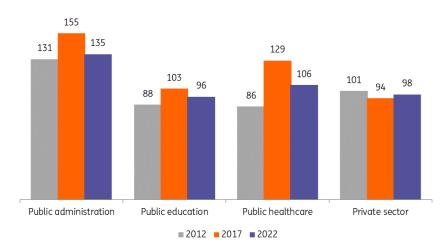
the IT and trade sectors clearly outperforming the other sectors. We do notice the relatively small public sector wage advances which should be a sign of much-needed fiscal discipline. However, to put things into perspective, most public sector employees already earn above-average wages. Moreover, with the very important electoral year of 2024 already looming, it is rather unlikely that public wage dynamics will remain in this low single-digit area in 2023 and 2024.

## January-June wage advance (%) by selected categories



### Source: NIS, ING

## Sectorial wage as % of average wage



Source: NIS, ING

We've already been saying that after a very strong first quarter, the economy seems to have entered a phase of quasi-stagnation. We currently estimate 2Q22 growth at +0.4% versus 1Q22, though we might be a touch on the optimistic side here. Faced with rising living costs, higher interest rates and a gloomy informational environment, consumers are likely to turn more cautious in the second half of 2022 and stay that way throughout the winter. However, today's wage data confirms that the labour market remains a strong argument for the soft-landing camp against a grimmer outlook. Should inflation confirm the estimated downward profile starting in 4Q22, Romania could get away without a

#### technical recession throughout this soft landing phase.

#### **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 http://www.ing.com.