

Romanian inflation shifts up a gear, suggesting policy reaction

Due mainly to large price increases in gas and electricity, July inflation reached 5.00%, relatively close to our 4.83% estimate and above the market consensus of 4.40%. We revise our year-end forecast from 4.7% to 5.5% and add a rate hike to our forecast



People on Calea Victoriei, Bucharest

5.00% July Inflation Rate

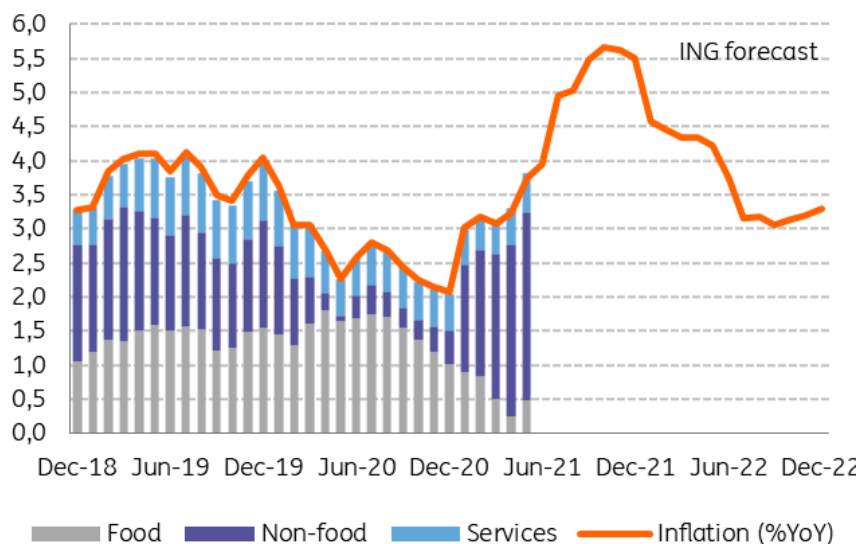
Higher than expected

It's been quite some time since market expectations missed the actual monthly inflation reading by such a wide margin (5.00% actual July inflation versus 4.40% Bloomberg consensus). The main culprit was gas, with prices increasing by a staggering 20.5% versus the previous month, most likely as consumers did not rush to roll over their expiring contracts (gas price liberalisation took place a year ago). A 4.2% increase in electricity prices (which was quite a bit below our

expectations) was another significant contributor as was the 2.1% rise in fuel prices, given its share in the CPI basket.

Adding insult to injury, the seasonality in food prices was a touch less pronounced, especially for fruit which advanced by 1.6% versus our expectations for a small drop in the monthly price.

Inflation rate (YoY%) and its main components



Source: NIS, ING

Revising our Dec-2021 forecast higher

Given today's data and the likelihood of energy prices staying on an upward path, we are revising our year-end inflation forecast to 5.5% and annual average to 4.4%, with risks still tilted to the upside. We maintain our forecast for end-2022 at 3.3%. Given the (still recent) price liberalisation for gas and electricity but also the uncertainties regarding oil prices and agri products, we expect that the increased volatility in both estimates for inflation and actual results will persist.

Adding one rate hike to our scenario

We had a long-standing scenario of a 50bp key rate hike in the first part of 2022. While the current inflation bout remains largely driven by prices outside the National Bank of Romania's (NBR) control, we believe that headline inflation of 5.5% or even more by year-end cannot be played down by the NBR with the already well-known rhetoric about its transitory nature.

In addition, the economy is performing far better than expected and, as underlined in the NBR's latest inflation report, the output gap turned positive faster than expected. Hence, as we move towards year-end, inflationary forces have the potential to be more demand-driven, prompting a policy reaction.

We therefore add a 25 basis point key rate hike to our forecast, taking the terminal key rate to 2.00% in 2022. In our view, the first hike will come at the November meeting, followed by another two 25bp hikes in the first quarter of 2022. The timing of these hikes will be heavily

influenced in our view by the behaviour of other regional central banks as well, especially the National Bank of Poland.

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.