# 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%

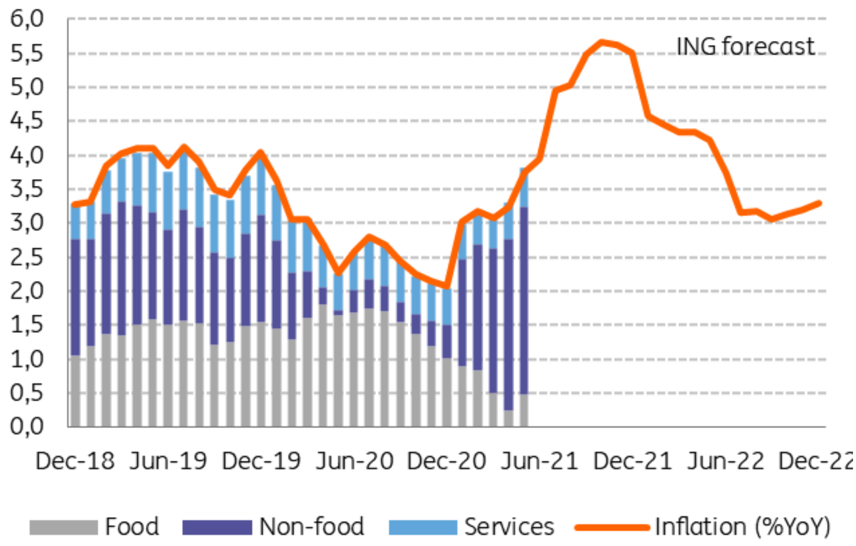
July Inflation Rate

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.

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