Romanian inflation slowed as expected in August

Inflation decelerated to 5.1% in August, close to our and the market's 5.0% estimate. While the disinflationary trend is likely to continue into this autumn, the higher-than-expected food prices and still sticky service inflation show that the National Bank of Romania (NBR) cannot call a win on inflation yet

People shopping in a supermarket in Bucharest

August inflation in Romania brings a mixed bag of data to the table. While nothing seemed particularly out of order, we did raise an eyebrow seeing food inflation advancing by 0.3% versus the previous month, with some items such as vegetables and potatoes posting price increases against what would have normally been pretty steep seasonal price drops. In annual terms, food prices accelerated to 4.2% in August, from July's low of 1.7%. Nevertheless, the higher food prices have been largely offset by lower-than-expected non-food prices. That said, the 0.03% contraction in non-food prices versus the previous month has been driven largely by cheaper fuel and a lower-than-expected electricity price increase. Benefiting from a large base effect, the annual acceleration of non-food prices slowed to 4.3%, from 6.9% in July.

And that brings us to service inflation, which seems to remain as sticky as it can get, likely on the back of still robust wage advances. The monthly service price decelerated somewhat in August to

0.5% versus 0.7% in July, but that was still enough to show an actual acceleration in annual terms from 8.5% in July to 8.6% in August. Core inflation also posted an acceleration to 5.8%, from 5.5% the previous month. Our projection for service prices shows that we are likely to close 2024 below but not far from 7.0%, with core inflation likely approaching but remaining above the 5.0% level.

What does this mean for the National Bank of Romania?

Today's inflation data is unlikely to have a meaningful impact on the NBR's policy decisions. Despite some hiccups and mildly disturbing details, the general disinflationary trend is largely on track. We maintain our year-end estimate at 4.2%, versus the NBR's 4.0%. What could have a more meaningful impact on the central bank's policy decisions, however, is the latest weak GDP data which could tilt the balance of risks towards a more dovish approach from the central bank. While at this point our base case for the interest rates path remains one of stability for the rest of the year, the chances of seeing one more rate cut at either the October or November NBR policy meeting are clearly material. If a 25bp key rate cut is to materialise, it would come on top of our forecast of 75bp cumulated rate cuts in 2025.

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