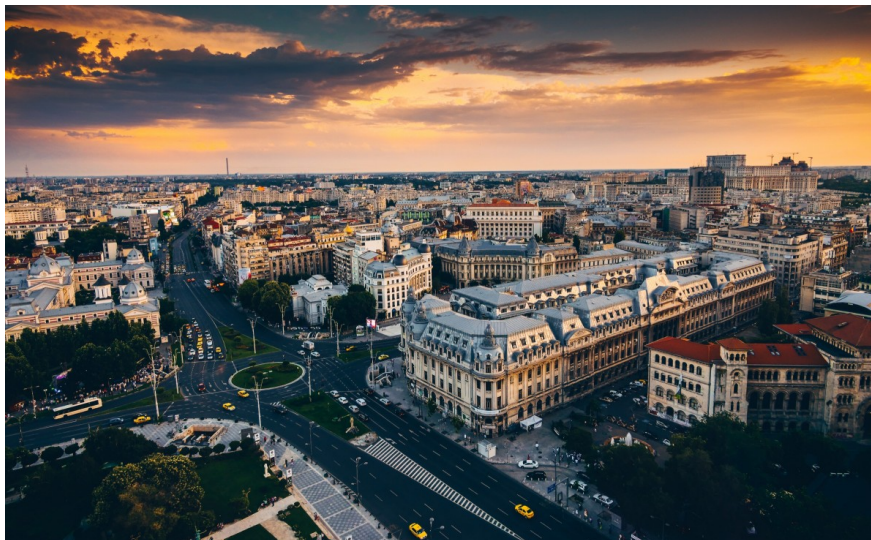


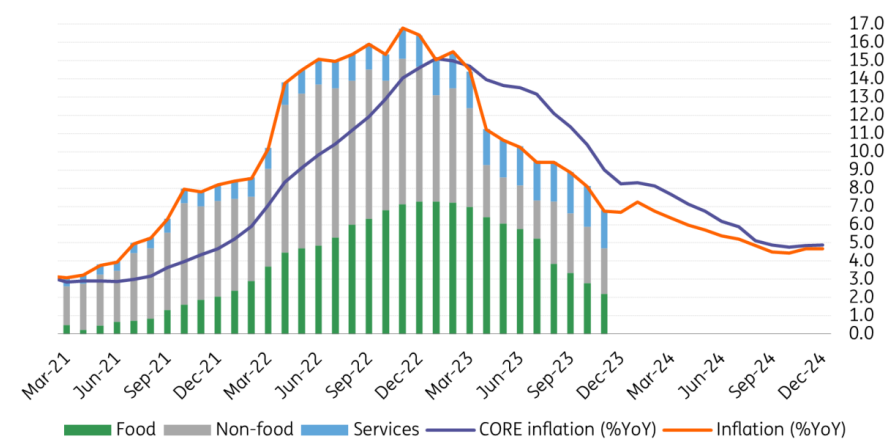
Romanian inflation surprises to the downside

Price pressures fell more than expected in November as inflation reached 6.7%, below our 7.3% estimate. We are adjusting our year-end forecast to 6.7% but we're retaining our 2024 year-end forecast of 4.7% on the back of strong wage data



Bucharest, Romania

Inflation outlook - core to continue to remain above headline



Source: NSI, ING

Looking at the breakdown, the downside surprises were broad based, with monthly declines in food and non-food items as well as a weaker-than-expected pick-up in services inflation. At a more granular level, fuel and energy applied the strongest downward pressure, complemented by a few other noticeable dips like basic food items and airfares. We adjust our 2023 year-end forecast to 6.7% but still keep our 4.7% 2024 year-end forecast. While today's inflation data surprised on the positive side, wage data for October shows a strong, private sector-driven wage growth of 17.1% (the third quarter average was 14.9%). We believe that persistent wage growth is here to stay.

While the impulse from the private sector might not see as much strength into 2024, a higher fiscal burden, minimum wage increases and public sector workers' demands during the big electoral year will continue to add support to wage-driven inflationary pressures. As such, we are reluctant to extrapolate the current disinflationary trend to 2024 inflation.

What we make of it

As for the outlook of the National Bank of Romania's policy, we don't see much has changed at the moment because this is likely just a temporary blip before inflation picks up again in the first quarter of next year. If anything, this positive surprise helps probably at preventing the worst case scenario of a higher for longer regime, but does not materially change the outlook for 2024. We continue to see the first rate cut in the second quarter of next year and the key rate at 5.50% by the end of the year.

Authors

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

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>.