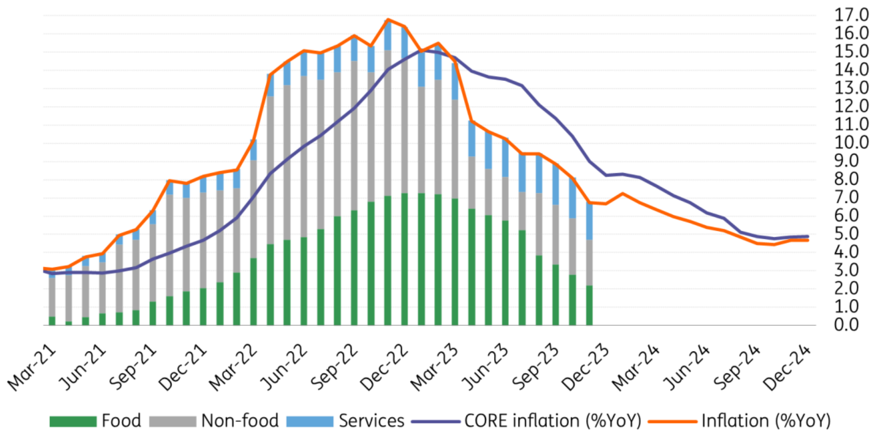
Romanian inflation surprises to the downside

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.

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