

## Upside surprise in Romanian inflation complicates the easing cycle

Romanian inflation exceeded expectations and rose to 7.4% in January due to broad-based price pressures. Strong services inflation and its influence on wages, coupled with higher growth than expected, may continue to keep the National Bank of Romania neutral over the months ahead. We maintain our 4.7% estimate for this year's December inflation figure



Agri-food market in Bucharest, Romania

January price pressures increased significantly in month-on-month terms compared to the previous month, especially in the food and services categories. This was partially expected given the hike in excise duties for fuel, tobacco, alcohol and VAT for some sugary items, recreational activities and few other targeted items.

Aside from what was implied by tax changes already, a few items saw particularly large increases. These include fruits and vegetables from the food section, as well as air fares, water distribution, rents, and postal services from the services section. Waters were somewhat calmer in the non-food section, where increases were slightly lower than we expected and upside pressures came mainly from fuels, as expected. Core inflation remained constant at 8.2%.

Overall, this reading removes some of the important gains achieved at the end of last year on the inflation front and pushes the profile slightly higher in the short term. More specifically, getting back towards the December levels looks now more likely in April than in March. More broadly, it might show as well that firms were confident enough to pass on the increased costs into prices amid the tax hikes, acting early on the pick-up in retail sales from the fourth quarter and strong real wage growth which is expected to continue into 2024.

On the monetary policy front, today's data doesn't simplify the outlook. With both inflation and economic growth printing above expectations, chances of a delay in the National Bank of Romania's easing cycle have increased. We're sticking to May this year as the starting point for the easing cycle. On the other hand, we acknowledge our 5.50% terminal rate call for 2024 is probably too ambitious in an environment where real positive rates are targeted and the deposit facility is the relevant policy rate. Alongside that, we have the record-breaking interbank liquidity – which results in a policy easing outcome in itself – and the stronger-than-expected growth momentum confirmed by the GDP data. We revise upwards our terminal rate for this year to 6.00%.

We maintain our year-end inflation estimate at 4.7%. For 2025, our view is that inflation will remain above the NBR's target and settle slightly above 4.0%.

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