

Romania Watch: Elevated and broad-based inflationary pressures in February

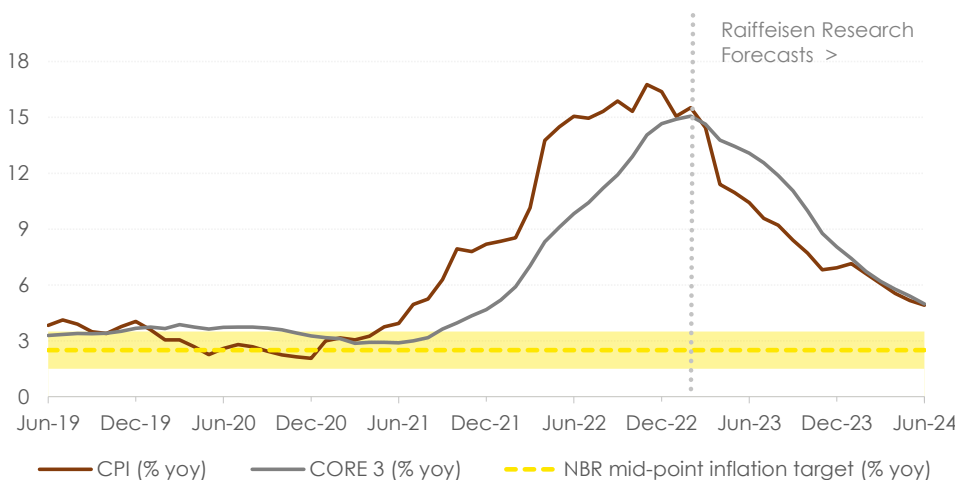
Inflation rate reached 15.5% yoy in February, above analysts' consensus of 15.3%. Monthly inflation rate of 1% was the result of rapid and broad-based price increases for many consumer goods and services. We foresee the annual inflation rate to decrease towards 7% by December.

Disclaimer 4

Analyst 8



Inflation rate to decrease rapidly in 2023, but to remain much above NBR's target



Note: CORE 3 inflation = CPI excluding administered prices, electricity and natural gas tariffs, volatile prices of fuels, fruits, vegetables and eggs, and prices of alcohol and tobacco; dashed lines denote NBR's inflation forecast

Source: National Institute of Statistics, National Bank of Romania, RBI/Raiffeisen Research

Annual inflation rate reached 15.5% in February, accelerating slightly from 15.1% in January, while remaining significantly below the peak of 16.8% recorded in November last year. Annual inflation print in February was close to our expectations of 15.6%, but above Bloomberg consensus of 15.3%.

On a monthly basis, consumer prices continued to increase rapidly in February, by 1%. The monthly dynamics was close to our estimates, being fuelled by relatively rapid increases of prices for most goods and services included in the consumer basket. In the context of broad-based increase of consumer prices, underlying inflationary pressures remained also elevated in February. Thus, according to our in-house seasonally adjusted data, monthly CORE 3* inflation rate stood at 1% in February, the gain being supported by a rapid increase of prices of both processed food products (+1.21% mom), as well as of non-

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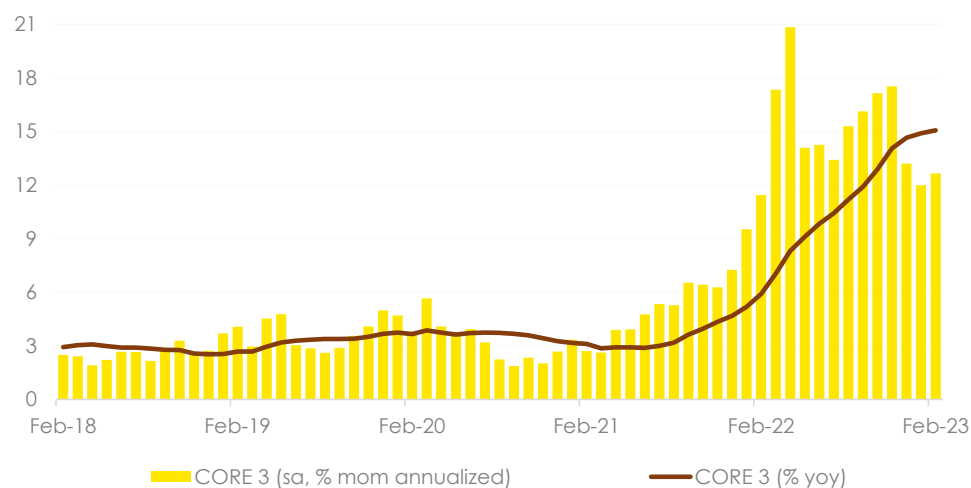
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food goods and services included in the CORE 3 structure (+0.83% mom). In this context, annual CORE 3 inflation accelerated to 15.1% in February from 14.9% in January.

Going forward, we expect the annual inflation rate to embark on a rapidly decreasing trend starting in March as the very elevated monthly inflation prints from 2022 will fade out of its computation and the intensity of inflationary pressures will gradually reduce. We currently forecast the annual inflation rate to be at 7.0% at the end of this year, and the core inflation rate to be at 8%. So, both headline and core inflation rates are forecasted by us to remain much above the upper limit of 3.5% of the central bank's inflation target band this year. While reducing a lot from 2022, the inflationary pressures would remain elevated this year.

We consider that the central bank (NBR) has concluded the key rate hiking cycle at 7%. Given the elevated underlying inflationary pressures, we expect the NBR to maintain unchanged the monetary policy rate at 7% until Q2 2024, when a new key rate cutting cycle might start. However, the control over money market liquidity conditions is providing flexibility to the NBR to adjust rapidly the monetary policy stance. Thus, the NBR could restart using a firm control over money market liquidity instead of increasing the monetary policy rate if higher rates will be needed in the following period (if pressures for leu depreciation emerge of inflation dynamics surprises on the upside).

Elevated underlying inflationary pressures persist

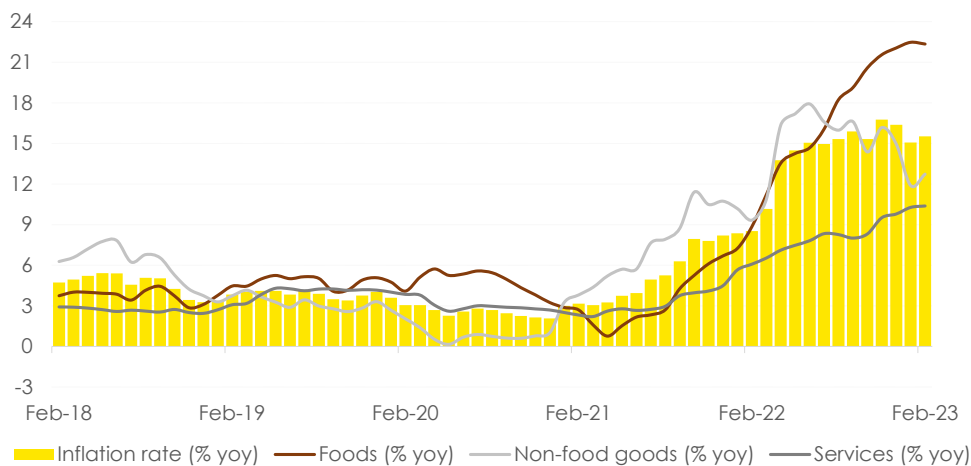


Note: in-house seasonally adjusted data

Source: National Institute of Statistics, RBI/Raiffeisen Research

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CPI's elevated level in February fuelled by broad-based increase of prices



Source: National Institute of Statistics, RBI/Raiffeisen Research

Note: CORE 3 inflation = CPI excluding administered prices, electricity and natural gas tariffs, volatile prices of fuels, fruits, vegetables and eggs, and prices of alcohol and tobacco

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RO	29.11.2022	Under Revision	Romania
RO	19.04.2022	Under Revision	Romania

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RO	19.04.2022	Not rated	Romania

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