

Romania Watch: Very elevated underlying inflationary pressures in October

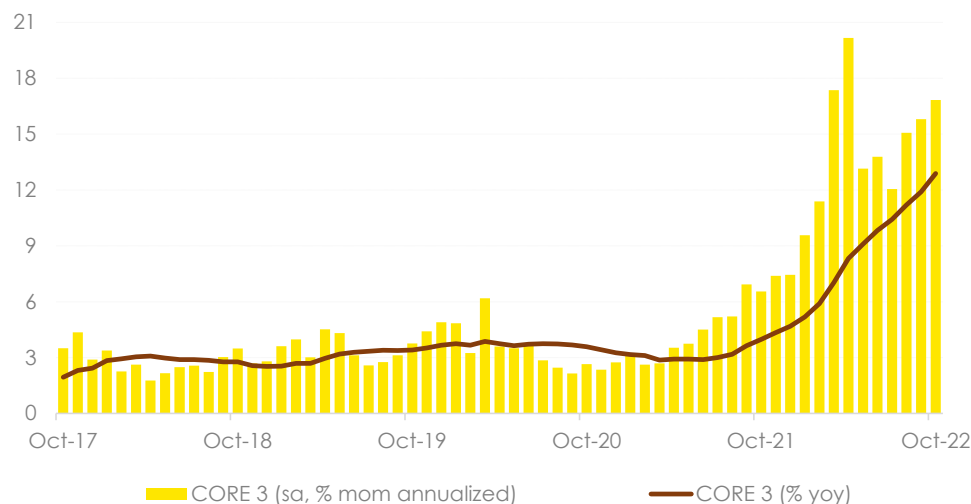
Annual inflation decelerated to 15.3% in October from 15.9% in September, but only due to a favorable statistical base effect. Otherwise, core inflationary pressures strengthened further in October, suggesting that inflation rate might end the year above our call of 16.5% yoy.

Disclaimer 4

Analyst 8



Underlying inflationary pressures remain on an upward trend



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

Source: National Institute of Statistics, RBI/Raiffeisen Research

Annual inflation rate decelerated to 15.3% in October from 15.9% in September. The downward move was in line with our expectations, however the decrease was marginally lower than we have projected (15.2%). The slowdown of annual inflation rate in October was due only to a favorable statistical base effect given that monthly inflation rate was very elevated in October 2021 (1.8%). Otherwise, the advance of consumer prices remained very rapid in October, monthly inflation rate standing at 1.3%.

The monthly CPI increase in October was driven by the continuing broad-based increase of prices of consumer goods and services. Also, in October there was again a notable increase in prices of foods, respectively of 2.3% mom and of 20.6% yoy.

At the same time, underlying inflationary pressures continued to increase in October, their intensity being also stronger than we have expected. Thus, according to our in-house

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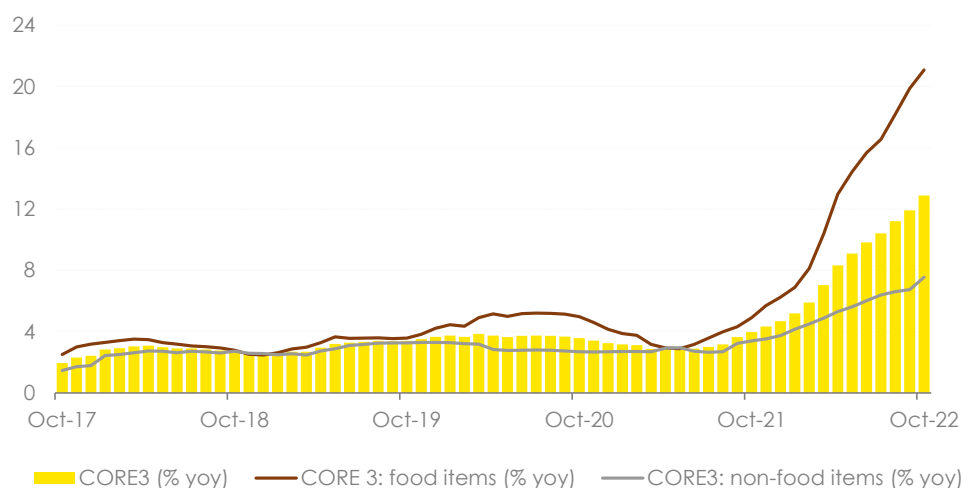
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seasonally adjusted data, CORE 3 inflation* increased to 1.3% mom in October from 1.23% mom in September. The strengthening of core inflationary pressures in October was due to the acceleration of prices of non-food goods and services included in the CORE 3 structure, to 0.89% mom from 0.67% mom in September (to some extent a result of the depreciation of RON against the EUR from September-October reflected in the increase of telephone tariffs). Increase in prices of processed foods included in CORE 3 structure remained elevated in October, totaling 1.82% according to our estimates. Annual dynamics of CORE 3 inflation measure jumped to 12.9% in October from 11.9% in September.

Strong and broad-based underlying inflationary pressures

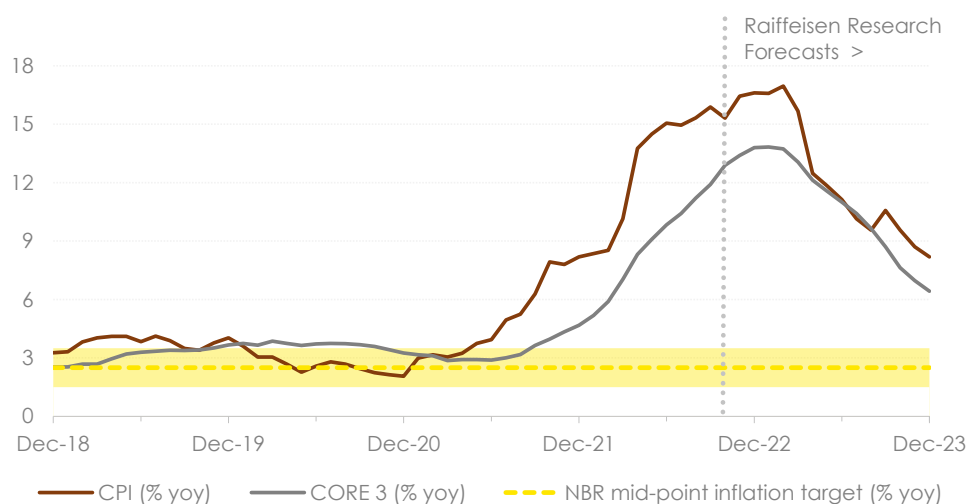


Source: National Institute of Statistics, RBI/Raiffeisen Research

Our baseline scenario places the annual inflation rate at 16.5% at the end of this year. However, we do not rule out that effective inflation rate could reach a higher level as inflationary pressures outpaced again our expectations in October. The peak in annual inflation rate might be close to 17% and might be observed during Q1 2023. Starting Q2 2023, the annual inflation rate might enter on a downward trajectory, decreasing towards 8.2% in December 2023 according to our current forecast. However, the uncertainty regarding our inflation forecast is very elevated. In our baseline scenario we have assumed that electricity and natural gas prices will increase by around 29% during 2023, most of this increase taking place in September. However, the ruling coalition plans to preserve the current caps on electricity and natural gas prices during 2023 (and possible until 2025). This implies downside risks to our inflation forecast for 2023. On the other hand, underlying inflationary pressures prove to be much stronger than we have assumed, which implies upside risks to our forecast for a 6.5% increase in CORE 3 inflation rate during 2023.

On Monday, the central bank (NBR) will make public the quarterly Inflation Report including the inflation forecast for the next 8 quarters during a press conference of the NBR's Governor.

Inflation to remain on a very elevated trajectory



Source: National Institute of Statistics, National Bank of Romania, 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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Symbol	Date	Recommendation	Company
RO	19.04.2022	Under Revision	Romania
RO	07.02.2022	Under Revision	Romania
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Symbol	Date	Recommendation	Company
RO	19.04.2022	Not rated	Romania
RO	07.02.2022	Not rated	Romania

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