

## Romania | Instant Comment

# Second round effects pushed core inflation higher

### CPI (y/y)

Actual, Dec-22:	16.4%	Previous:	16.8%	Erste:	16.4%	Consensus:	16.5%
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**Inflation ended 2022 at 16.37% y/y, decelerating from 16.76% y/y in November, helped by a drop in fuel prices and some food items. This was in line with our expectations of 16.36 y/y, below Bloomberg survey median of 16.5% y/y and slightly above NBR forecast of 16.3% y/y.**

**Core CPI jumped to 14.7% y/y, matching our forecast, accelerating from 14.1% y/y in the previous month. Core inflation exceeded significantly latest NBR projection of 13.6% y/y for the end-2022. This was likely the main factor tilting the balance in favour of a 25bp rate hike to 7.00% earlier this week. We see key rate unchanged throughout 2023. Liquidity management, NBR's favourite policy tool, is likely to be actively used in the coming quarters, depending on EUR/RON and inflation developments.**

We see headline inflation above 15% y/y by the end of the first quarter, dropping sharply at the start of the second quarter due to statistical base effect, though ending the year within forecast error margin from double digits territory. We forecast sticky core inflation in the first half of the year before eventually inching just below 10% in the last couple of months of 2023.

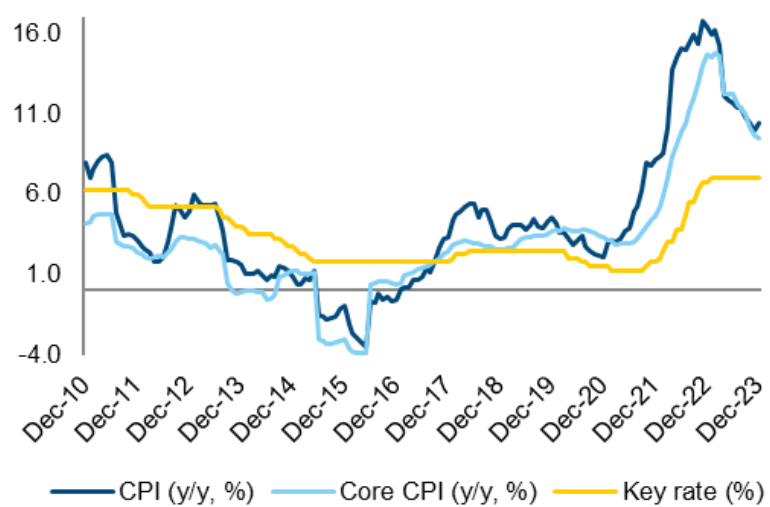
In the press release following the monetary policy decision from a few days ago, the NBR seemed rather optimistic regarding the outlook of inflation which in their view will have a more pronounced deceleration from 2Q23 and will fall into single digits territory in 3Q23. The updated forecast is due for release after 9 February rate setting meeting.

Volatile exogenous factors such as commodity prices and government measures to tackle them lead to high forecast uncertainty. We recently saw a significant drop in oil prices globally, but the ECB and the US Fed seem to remain hawkish, signaling that battle to tame inflation and bring it back to target is still raging on. The war in Ukraine would still play an important role and the re-opening of China should certainly influence the global economy with both factors potentially having meaningful impact on world commodities prices.

Food inflation accelerated to 22.05% y/y in December from 21.55% y/y in November, with the highest monthly increase recorded by eggs prices. Prices for non-food items decelerated to 14.95% y/y in December from 16.17% y/y previously with the fuel component dropping by almost 7% in monthly terms. Services inflation inched up to 9.78% y/y in December from 9.51% y/y the month before, suggesting that the domestic demand shrugged-off so far higher prices.

ESI survey showed significantly lower price expectations in December across all sectors included into the survey with the highest drop recorded in the retail sector.

### CPI inflation (core and headline) vs NBR key rate



Source: NIS, NBR, BCR Research

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