

Romania | Instant Comment

Electricity drives Core inflation 1pp up to 4.3%

CPI (y/y)

Actual, Jan-21:	2.99%	Previous:	2.06%	Erste:	2.54%	Consensus:	2.45%
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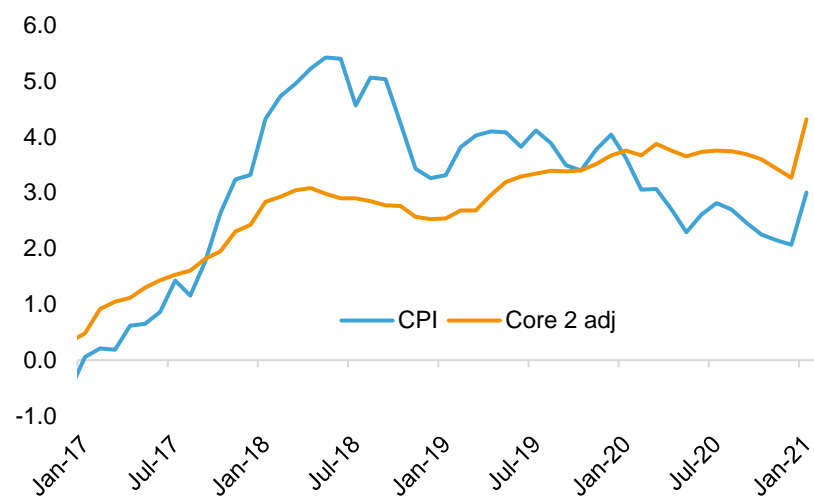
January CPI accelerated to 2.99% y/y from 2.06% previously, a significant upside surprise vs our call of 2.54% y/y and Bloomberg median of 2.45% y/y. The forecast error on our side came exclusively from higher than expected rise in energy prices which jumped by 18.38% m/m in January after the price liberalization. The impact of the electricity price hike on the headline inflation figure was about 0.9pp. Part of the increase in the energy prices is likely to be reversed over the next few months as consumers are likely to sign new competitive contracts with the energy providers. Assuming that half of the energy price increase is gradually reversed throughout the year, we hold on to our end-year 3.1% inflation forecast since such a price hike was part of our forecast assumptions.

The adjusted Core 2 inflation (CPI less administered, volatile food and fuel, tobacco and alcohol prices) jumped to 4.3% y/y in January from 3.3% at the end of December after the electricity prices are no longer regulated. The profile of our Core inflation forecast was already higher relative to the central bank projected trajectory. Given the new structure of the Core basket after the deregulation of energy prices, we see it staying above the upper bound of NBR range until January 2022, when the current hike drops out of the statistical base.

Since the current inflation surprise comes from a supply shock affecting disposable income and subsequently the aggregate demand and with no pressure from real wage growth which we see flat for this year, we expect the NBR to remain in easing mode, mainly by leaving surplus liquidity unsterilized. We could see a final 25bps key rate cut in the second quarter of the year.

Main CPI components: non-food price rose by 2.24% m/m (3.25% y/y) driven by energy and fuel prices, food CPI inched up by 0.63% m/m (2.88% y/y) on higher vegetables and fruit prices, while prices for services edged up by 0.25% m/m (2.51% y/y) on increased sewage costs. Food weight in the consumer basket decreased by 0.63pp this year.

Headline vs core inflation rate



Source: NIS, BCR Research

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