

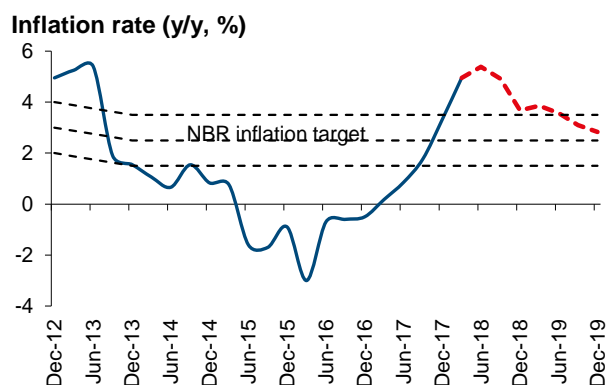
Short Note Romania

Inflation spike is behind us

The inflation rate was 5.4% y/y in June, unchanged from May, and 0% m/m. Our forecast was 5.4% y/y, while Reuters consensus stood at 5.5%.

Food price fell by 0.2% m/m in June due to cheaper fresh fruits and vegetables, in a seasonal pattern that was also seen in previous years at beginning of summer. The price of non-food items went up by 0.1% m/m due to more expensive fuels, while services saw a price increase of 0.2% m/m as monthly depreciation of the leu translated into higher prices for phone services.

Adjusted core 2 inflation which is closely followed by the NBR when taking its monetary policy decisions fell for the second month in a row and reached 2.9% y/y in June, in a sign that basic inflationary pressures are not very strong in the economy.



Source: NIS, BCR Research

Looking forward:

We think that inflation already peaked in May and June and it will begin to decrease in July, reaching 3.7% y/y at the end of 2018. Inflation will remain thus above the NBR's target in the next quarters and we see the next MPC meeting in August as a good opportunity for a hike in the policy rate, especially if one takes into consideration that the NBR will present the new Inflation Report in August, too.

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