

# REPORT ON INFLATION

14 September 2016

***As effects of oil price fall are fading, headline inflation is on the rise. Underlying price pressures dynamics remained modest.***

- Annual consumer price inflation rose to -0.2% in August, after -0.8% in July (see Chart 1), by adding 0.1% in monthly comparison, meeting our expectation but overshooting the market consensus of -0.4% (Reuters survey). Meanwhile underlying inflation indicators also rose, albeit much more modestly. The NBR's preferred adjusted CORE2 inflation climbed a touch higher (less than 0.1 percentage point), ending last month at 0.5% YoY (Chart 3). Simultaneously, our in-house underlying price indicator, the so called *filtered inflation*<sup>1</sup> which among others excludes the first round impact of tax changes, also accelerated a bit, to 1.5% YoY, up from 1.4% YoY a month earlier.
- The 0.6 percentage point rise in YoY inflation was driven mainly by non-core items, like the oil price base effect (fuel inflation -4.6% from -7.2% in July). Unprocessed food inflation got further momentum (Chart 7), despite the reportedly favourable agricultural year, while tobacco and alcohol prices also picked up sharply, after a rather flat evolution in the first half of 2016.
- However the big picture remained the same, as the effect of January's VAT reduction did not fade out yet (excluding this tax change, the headline inflation would have increased by almost 1.3% YoY, according to our in-house estimation) and the very sluggish price evolutions on external markets continue to weigh on the domestic CPI dynamics. Crude oil prices seemingly still wrestle with the key psychological level of 50 USD per barrel and agricultural commodity prices show little evidence of a broad-based acceleration. On the other hand, domestic developments signal rising pressures, as the growth rate of households' consumption hit another post-crisis high at 11.2% YoY (for further details please see our Q2 2016 [GDP report](#)) and average wages' growth are in double-digit territory.
- The modest increase in our filtered inflation (slightly less than 0.1 percentage point, reaching 1.5% YoY) was mainly fuelled by gains in the case of processed foods and to a lesser extent by non-durable goods. Non-durable goods bounced back in August (Chart 9) on several demand-sensitive items, such as clothing, newspapers and cosmetic articles, but probably it would be too early to speak about a more general turnaround. In addition, the downward trend in durable goods continued last month too, without any signs of a potential change, which may be the result of low import prices. At the same time, market services' inflation slid slightly further in August, even though domestic demand for services appeared to be quite strong. We recall that the main driver of Romania's economic growth remained the sector of market services in Q2 too. Among the main components of this group, only accommodation prices got strong momentum in August. Nonetheless, services' CPI should remain in focus, as it could be more exposed to cost pressures coming from rapidly surging wages.
- On the very short run, we suspect that the annual inflation rate may wobble relatively close to its August's level, ending the year at around -0.3% YoY, slightly above the NBR's forecast of -0.4% YoY. Underlying price dynamics may point to marginal acceleration, while uncertainties remain, especially due to volatile non-core items.
- The headline figure may sustainably return into positive territory starting only from January 2017, when the impact of the four percentage-point VAT cut fades out. Nonetheless, the outlook for next year continues to be quite misty, as another smaller-scale VAT reduction will be implemented, while there are other plans too, recently discussed among lawmakers with potential impact on the evolution of the headline CPI.
- Regarding the medium-term perspective, we continue to expect that in the light of the definitely strong domestic demand and the tightening labour market, the annual inflation should rise further. Moreover, the risk of a potential overheating also persists. Therefore, the National Bank of Romania may start to normalize its monetary policy next year, as we noted in our previous [report](#).

<sup>1</sup> *Filtered inflation is an in-house measure of underlying inflation dynamics. It excludes unprocessed food, fuels, administered as well as beverage and tobacco prices, filtering out the first-round impact of indirect tax changes. Moreover, it eliminates certain other items too, such as telephone charges and car prices, as these are strongly connected to the EUR/RON exchange rate.*

## Headquarter Treasury Sales

**Alexandru Tibuleac**  
+40372 31 85 85  
alexandru.tibuleac@otpbank.ro

**Cristian Ilie**  
+40372 31 85 86  
ilie.cristian@otpbank.ro

**Corina Bejan**  
+40372 31 85 84  
corina.bejan@otpbank.ro

**Andreea Nica**  
+40755 000 106  
andreea.nica@otpbank.ro

## Regional Treasury Sales

**Szilamer Kozma - Cluj**  
+40755 000 400  
szilamer.kozma@otpbank.ro

**Tudor Zaman - Bucuresti**  
+40755 000 199  
tudor.zaman@otpbank.ro

**Alexandru Sabin - Arad**  
+40730 577 959  
alexandru.sabin@otpbank.ro

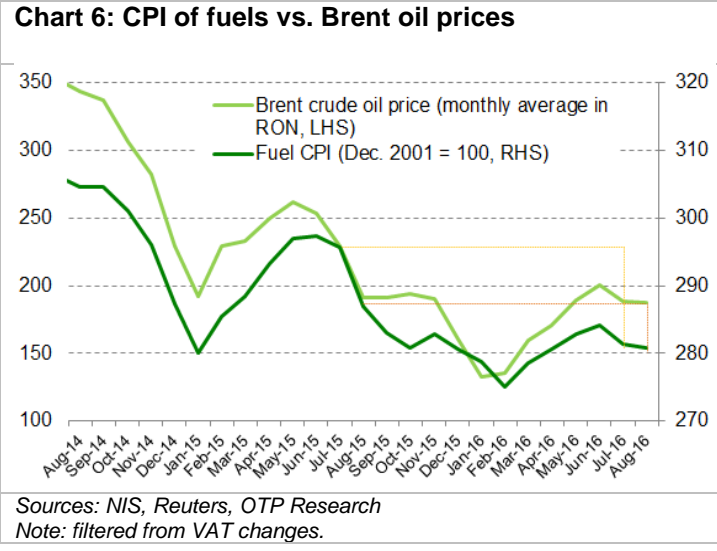
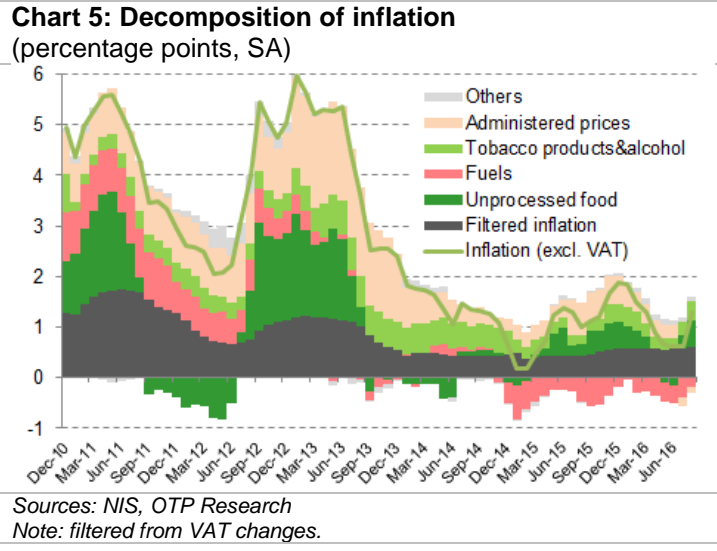
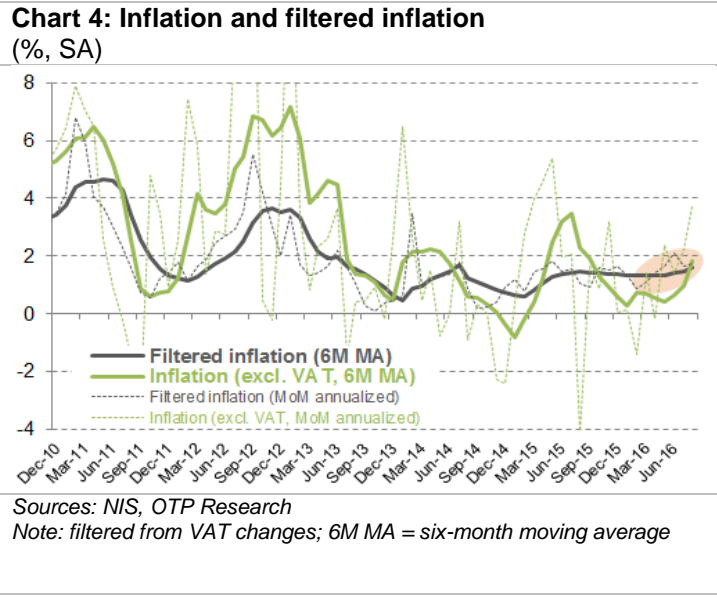
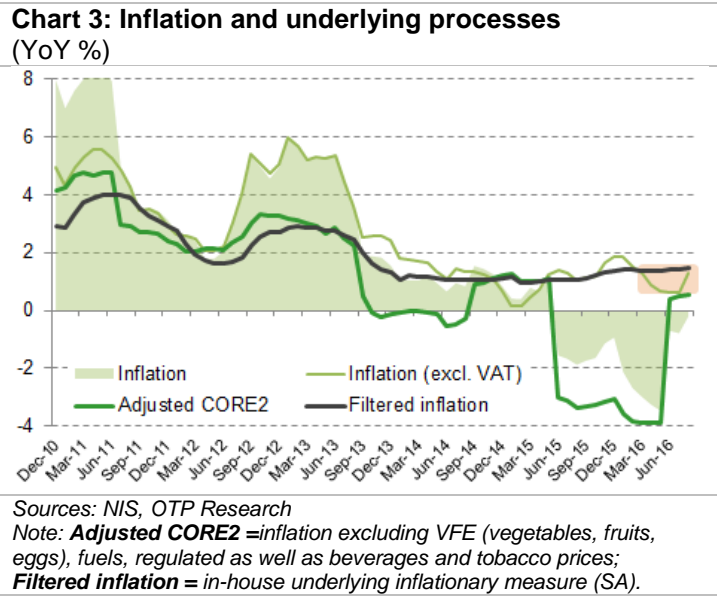
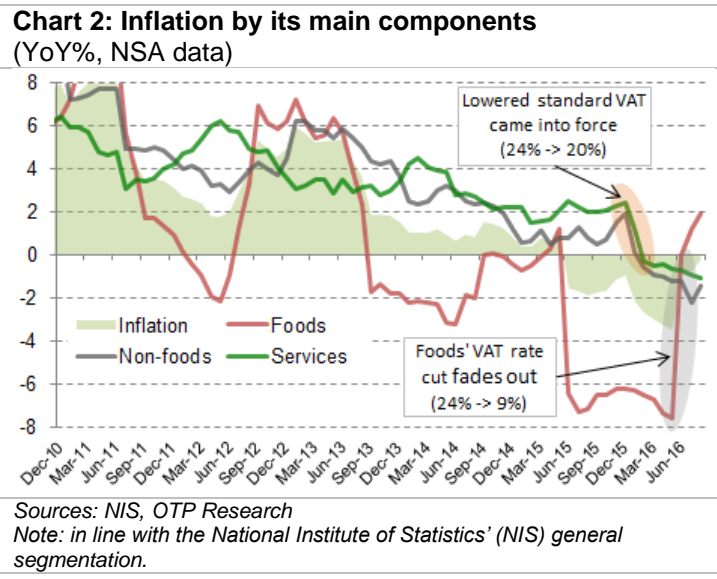
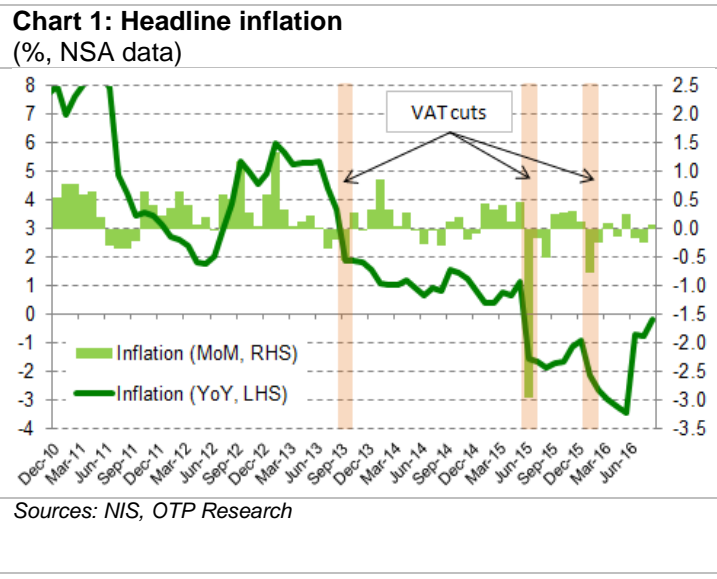
## Chief Economist

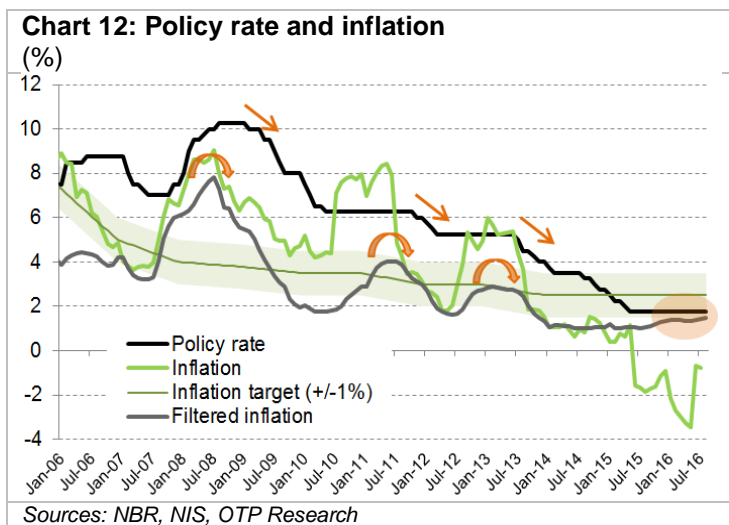
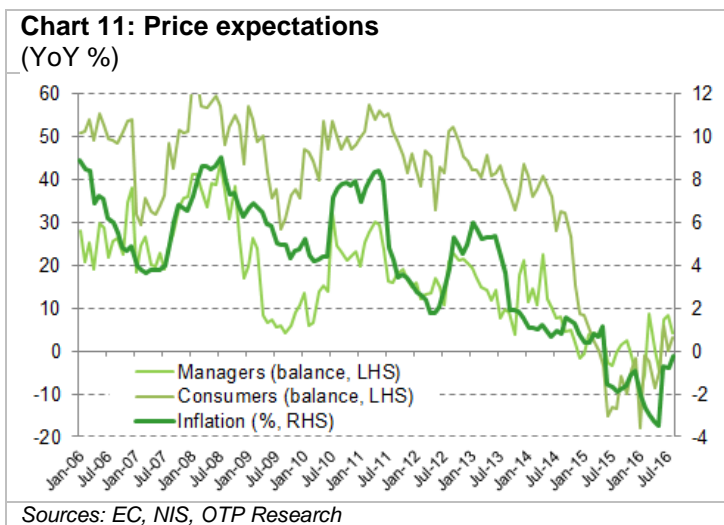
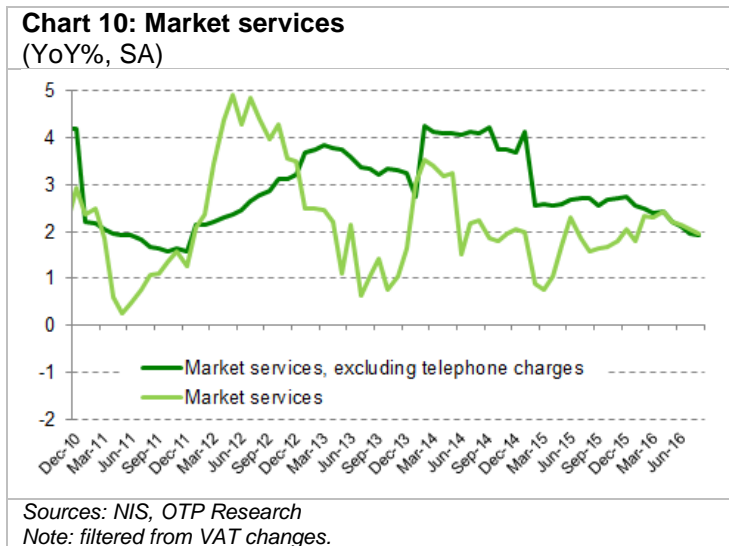
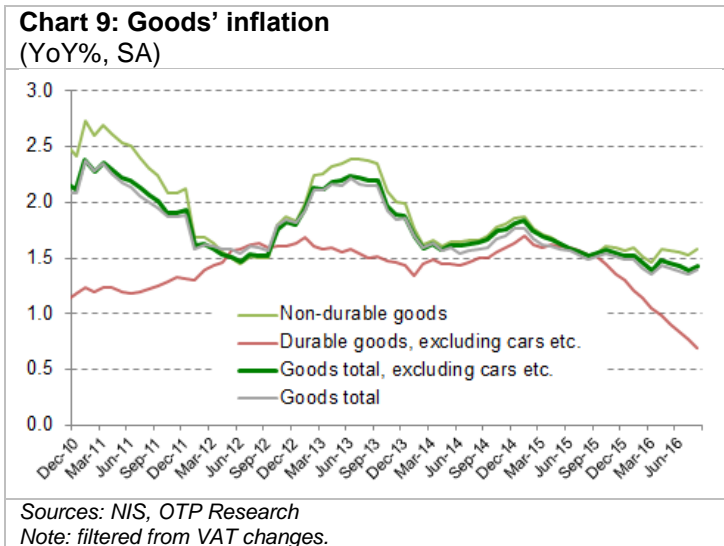
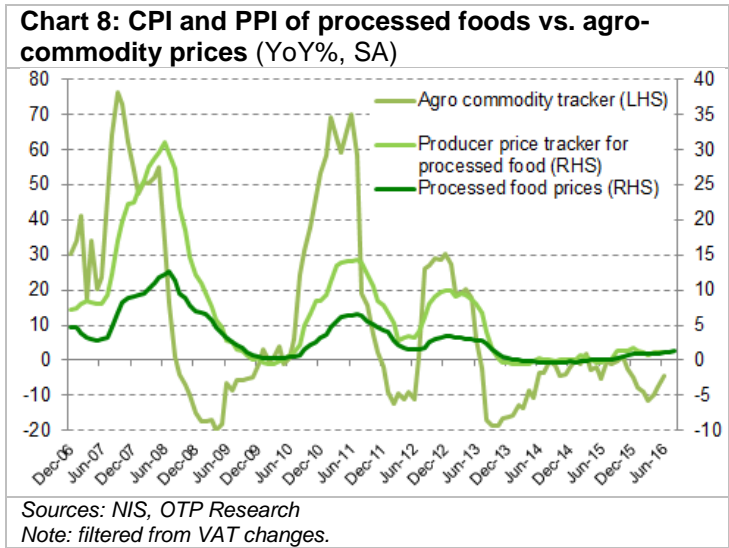
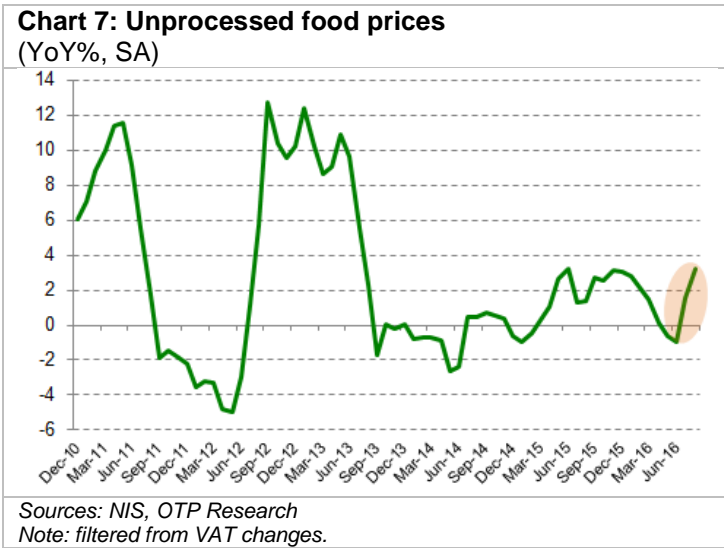
**Gergely Tardos**  
+36 1 374 7273  
tardosg@otpbank.hu

## Analyst

**Csaba Bálint**  
+4021 307 58 96  
csaba.balint@otpbank.ro

Chart set:





## Disclaimer

OTP Bank Romania S.A. does not intend to present this document as an objective or independent explanation of the matters contained therein. This document a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication does not contain a comprehensive analysis of the described issues. This report is issued for information purposes only and should not be interpreted as a suggestion, an invitation or an offer to enter into any transaction, as an investment advice, and it does not constitute legal, tax or accounting advice. Also it is not and should not be considered a recommendation for investment in financial instruments according to NSC Regulations no. 32/2006 and 15/2006.

Information herein reflects current market practices. Additional information may be available on request. This document is intended only for the direct and sole use of the selected customers of OTP Bank Romania S.A. Any form of reproduction or redistribution to any other person that the intended recipients, including publication in whole or in part for any purpose, must not be made without the express written agreement of OTP Bank Romania S.A. Although the information in this document has been prepared in good faith from sources which OTP Bank Romania S.A. believes to be reliable, we do not represent or warrant its accuracy and such information may be incomplete or condensed. The issuer of this report does not claim that the information presented herein is perfectly accurate or complete. However it is based on sources available to the public and widely believed to be reliable. Also the opinions and estimates presented herein reflect a professional subjective judgment at the original date of publication and are therefore subject to change thereafter without notice. Furthermore there can be no guarantees that any market developments will unfold as forecasted. Opinions and estimates constitute our judgment and are subject to change without notice.

OTP Bank Romania S.A. may have issued reports that are different or inconsistent with the information expressed within this report and is under no obligation to update or keep current the information contained herein.

OTP Bank Romania S.A. may hold a position or act as market maker in the financial instrument of any issuer discussed herein or act as advisor or lender to such issuer. This document is not intended to provide the basis for any evaluation of the financial instruments discussed herein. In particular, information in this document regarding any issue of new financial instruments should be regarded as indicative, preliminary and for illustrative purposes only, and evaluation of any such financial instruments should be made solely on the basis of information contained in the relevant offering circular and pricing supplement when available. OTP Bank Romania S.A. does not act as a fiduciary for or an advisor to any prospective purchaser of the financial instruments discussed herein and is not responsible for determining the legality or suitability of an investment in the financial instruments by any prospective purchaser.

This report is not intended to influence in any way or to be considered a substitute to research and advice centred on the specific investment objectives and constraints of the recipient (including tax concerns) therefore investors should obtain individual financial advice. Before purchasing or selling financial instruments or engaging investment services, please examine the prospectuses, regulations, terms, agreements, notices, fee letters, and any other relevant documents regarding financial instruments or investment services described herein in order to be capable of making a well-advised investment decision. Please refer to your competent adviser for advice on the risks, fees, taxes, potential losses and any other relevant conditions before you make your investment decision regarding financial instruments or investment services described herein. OTP Bank Romania S.A. in compliance with the applicable law, assumes no responsibility, obligation, warranty or guarantee whatsoever for any direct or indirect damage (including losses arising from investments), or for the costs or expenses, detrimental legal consequences or other sanctions (including punitive and consequential damage) sustained by any natural or legal person as a result of the purchase or sale of financial instruments or engaging investment services described herein, even if OTP Bank Romania S.A. was warned of the possibility of such occurrences.

Figures described herein refer to the past and past performance is not a reliable indicator of future results. Investments in financial instruments carry a certain degree of risk (fluctuation of share prices, uncertainty of dividend, yields and / or profits, exchange rate fluctuations, etc.). The capital invested is not guaranteed, investment gains, usually assumed proportionate to risk, and past performance of financial instruments is not a guarantee for future performance.

Please note that the Internet is not a secure environment and OTP Bank Romania S.A. does not accept any liability for any loss caused by the result of using this report in a form altered or delayed by the wilful or accidental interception, corruption or virus infection.

All rights reserved – OTP Bank Romania S.A. (registered seat: Street Buzesti, no. 66-68, 1st district Bucharest, Romania; company registration number: 01-10-041585; NBR registration no RB-PJR-40-028/1999; for further information please refer to: <https://www.otpbank.ro/en>).

This document has been provided to the recipients upon their prior request. Your abovementioned permission may be withdrawn by an e-mail addressed to [csaba.balint@otpbank.ro](mailto:csaba.balint@otpbank.ro) or a written mail addressed to OTP Bank Romania S.A., Buzesti Street, no. 66-68, 1st district, Bucharest, Romania. Please refer to your name and e-mail address in both cases.