

Central bank is expecting a capping of annual inflation rate in Q3 2022

The updated forecast of the National Bank of Romania highlights the prospect of capping the annual inflation rate in the third quarter of this year and its subsequent decrease gradually, but on a moderately revised upward trajectory, a BNR release reads.

"The prospect of capping and decreasing the annual inflation rate is intended to mitigate the impact of global shocks on the supply side, including in the context of the application of energy price capping schemes by March 2023, as well as the manifestation of extensive disinflationary base effects, together with the influences arising from the likely rapid collapse and closure of the excess aggregate demand in the middle of next year, followed by the widening of the GDP gap in the negative territory," the document published by the BNR on Friday says.

Given this background, the annual inflation rate is expected to experience minor fluctuations in the third quarter, and then to enter a decreasing trajectory, gradually, for three quarters, but relatively alert afterwards, descending at the end of the forecast horizon slightly below the central point of the country.

Uncertainties are however associated to the presumed impact, but also to the duration of the schemes for capping and offsetting the prices of electricity and fuels. Notable risks also continue to come from the evolution of energy prices, as well as from the persistence of bottlenecks in the production and supply chains - in the context of the war in Ukraine and the associated sanctions - which are joined by those arising from the prolonged drought at home and in other European countries, the central bank points out.

According to the NBR, the war in Ukraine and the sanctions imposed on Russia remain a major source of uncertainties and risks to the perspective of economic activity, implicitly of the medium-term evolution of inflation, through the possible greater effects exerted, in multiple ways, on the purchasing power and the confidence of consumers, as well as on the activity, profits and investment plans of companies, but also through the potentially more severely affecting the European/global economy and the perception of risk on the economies of the region, with an unfavourable impact on the financing costs.

"At the same time, the absorption of European funds, mainly those related to the Next Generation EU program, is conditioned by the fulfillment of strict priorities and milestones in the implementation of the approved projects, but it is essential for the realization of the necessary structural reforms, including the energy transition, but also for the counterbalancing, at least in part, of the contractionary impact of the shocks on the supply side, amplified by the war in Ukraine. The absorption and maximum capitalization of these funds is vital," it is also specified in the press release.

According to the central bank, uncertainties and major risks are also associated with the conduct of fiscal policy, given the requirement to continue budgetary consolidation in the context of the excessive deficit procedure and the general trend of tightening of financing conditions, but in a difficult economic and social context at domestic and global level, which has led to the implementation of several sets of support measures for population and companies, with potentially adverse implications on budgetary parameters. From this perspective, the coordinates of the envisaged budget amendment are particularly important, considers the BNR.