

## Lacklustre growth in Romania and inflation's still a problem

Romanian inflation moderated to 5% in January from 5.1% the previous month. But it remains sticky across most components, and we're yet to see a solid resumption of any disinflationary trend. Flash GDP figures at 0.8% are slightly above our expectations but will disappoint many



Shoppers in Bucharest

### Somewhat strong monthly inflation advances across the board

Romanian food inflation came in at 0.8% in monthly terms, roughly in line with our expectations. Non-food inflation came in at 0.95%, surprising slightly to the upside on the back of stronger-than-expected gas prices. Fuel prices also rose 2.3% on the month due to higher excise duty. Services inflation came in at 1.2%, visibly propped up by an unexpectedly strong increase in water and sewage collection prices.

In year-on-year terms, food and services inflation moderated further, at 4.5% and 6.5%, respectively. That said, non-food inflation recorded its fourth consecutive acceleration at 4.56%.

While inflation print deviation from expectations seems to have normalised and reduced lately, they remain annoyingly one-sided, namely to the upside.

There are some small positives when we look at core inflation, which has been getting closer to the headline inflation. This is also in line with somewhat diminishing wage pressures, although the latter would likely still need to consolidate well into single digits to bring policymakers more comfort to ease financial conditions in the future.

Possible changes in energy price caps from the spring, weather patterns and commodity price swings pose key short-term upside risks. Potential changes in the tax burden, likely the largest uncertainty right now, bring both downside risks for growth and upside risks for inflation.

We see a small chance of meaningful progress on the disinflation front this year. We think that pressures remain mostly tilted to the upside, and only a quite negative change in internal demand could add more serious downward pressures at this stage. We maintain our year-end inflation estimate at 4.8%, with an average of 5% for the full year.

## Anaemic GDP growth confirmed

Today's data calendar also brought the preliminary GDP release for the fourth quarter of 2024. Given that this is a flash print, there's little to mention beyond the number itself. The 0.8% quarterly acceleration came a bit above our expectations. However, the overall 0.9% full-year growth, although above our 0.7% estimate, will disappoint many.

While the detailed growth numbers are due on 7 March, we can say already that the weak growth is unlikely to have resulted from weak internal demand. On the contrary, the 13.4% increase in average wages means that private consumption remained by far the biggest contributor to growth, with fixed investments coming a distant second. However, Romania's structural dependence on imports means that a large chunk of the consumption pick-up has been covered via imports. Supply-side changes are needed for improvements on that front.

Given that wage growth and an 8.6% budget deficit, the 0.9% GDP expansion shows the limits of Romania's consumption-driven model. We maintain our estimates for 2025 GDP growth at 1.6% and 2026 at 2.5%.

### Authors

#### Valentin Tataru

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

#### Stefan Posea

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

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