Romanian inflation holds steady as pressures persist

Romanian inflation came in at 4.9% in April, weighed on significantly by lower gas and fuel prices, but boosted by most other items. We continue to expect year-end inflation of 5.0% and an annual average of 5.2%

Food inflation continued to show upside pressures, particularly fresh fruits

Today's data came in slightly below our expectations, but that's where the good news ends. Both food and services inflation continued to show upside pressures, coming in at 0.8% and 0.5% respectively in monthly terms. Here, fresh fruits showed a noticeable increase, while services prices continued to show widespread stickiness, with a particularly stronger month for transportation prices.

Concerning the monthly evolution of non-food items, prices fell by 0.7%, almost solely driven by gas and fuel prices which subtracted around 0.4pp compared to our forecast. Still, on the energy front, higher-than-expected electricity and heating prices compared to our forecast added around 0.1pp.

In year-on-year terms, food inflation picked up to 5.6%, non-food inflation slowed to 3.6%, while services inflation moderated to 6.8%. Core inflation did not move compared to the previous month, coming in at 5.3%.

Looking ahead, the recent FX depreciation episode should start to gradually add upside pressures through the coming months, although the apparently better behaved energy prices could offset some of the impact. At this stage, our forecast remains for no further FX depreciation for the rest of the year, though some temporary overshoots are still possible. In the near term, risks to our inflation outlook could also come from the anticipated fiscal package, but this is very much dependent on the final form of the measures.

> Considering the whole picture, we maintain our end-2025 inflation forecast of 5.0% and an average of 5.2% for the year. Our base case remains for 50bp of cuts from the National Bank of Romania later this year, although for that to happen, most of the current risks to the outlook would need to vanish.
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> A return towards a credible fiscal path and no rating downgrade are key factors that could allow some mild policy easing.

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