

## Romanian inflation: No surprises this time

Romania's inflation rate in December remained steady at 5.1%, matching expectations. Looking ahead, key factors to monitor include upward pressures and risks from food and energy markets, as well as the impact of various fiscal scenarios. For 2025, we anticipate an average inflation rate of 4.9%



Eggs and fresh fruit prices grew at the strongest pace across the food items basket

In monthly terms, food inflation came in at 0.29%, below last year's average of 0.41%. Eggs and fresh fruit prices grew at the strongest pace across the food items basket, but were largely in line with expectations. Non-food inflation came in at 0.31%, almost in line with last year's average of 0.36%. Nothing particularly eye-catching here this time. Lastly, services inflation came in at 0.27%, marginally above what we had expected but below last year's average of 0.57%.

In year-on-year terms, both food inflation remained constant at 5.1%, non-food inflation picked up slightly to 4.4%, while services inflation made another shy step in the right direction, sitting now at 7.1%.

Overall, there are multiple factors at play adding upside pressures to inflation at the current juncture. Among the most important are last year's drought continuing to leave its mark on food

inflation, a less stimulative but still uncertain fiscal policy, higher fuel excise duty starting on 1 January, rising oil prices, and still robust consumer demand.

Further down the line, there are important uncertainties regarding the energy price caps and/or the removal of the basic food items commercial mark-up. There will also be uncertainties about this year's increased tax burden, particularly to the extent companies can pass it through into prices.

In terms of policy implications, today's data keeps the picture pretty much unchanged. We still think that the National Bank of Romania is unlikely to continue its cautious easing cycle until it has a clearer view of the broader inflationary picture and its fundamental drivers.

In 2025, we expect inflation to end the year at 4.7% and average 4.9%. In this context, we expect the National Bank of Romania to continue its easing cycle carefully, with only 50bp of cumulative cuts this year, starting no earlier than the second half of this year. We assess risks for our rates and inflation outlook as balanced.

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