Romanian inflation remained elevated in February amid energy price surge

Romanian inflation remained elevated in February, at 5.0%, driven primarily by energy prices and services. While this could still prove to be just a hiccup in the disinflation cycle, it further adds consistency to our above-market inflation expectations

Today's data adds yet another upside surprise to the mix, consistent with other recent data readings amid a broader trend of disinflation. Food inflation came in at 0.7% in monthly terms, somewhat better behaved than expected, but that's about the only good news we can spot. Non-food inflation came in at 1.1%, surprising to the upside on the back of stronger-than-expected energy prices, especially natural gas, which rose by a whopping 9.0% on the month. Heating prices also picked up by 2.1%. Services inflation came in at 0.7%, due to persistent price stickiness across the board.

In year-on-year terms, food inflation remained constant at 4.5%. Non-food inflation picked up to 4.8%, while services inflation saw only a marginal moderation to 6.4%.

Core inflation continued to moderate, but only marginally, coming in at 5.0% in February, from 5.1% the previous month, somewhat in line with potential early signs of diminishing wage pressures. However, the latter would need to fall into single digits before central bank policymakers could consider the internal risks picture to be more manageable.

Possible changes in energy price caps later on this year, fluctuating weather patterns, and commodity price swings continue to remain key risks. Meanwhile, potential changes to the tax burden further down the line, especially after January's negative surprise on the budget deficit front, bring both downside risks for growth and upside risks for inflation.

In the short run, we continue to see limited chances for meaningful progress on the disinflation front this year. Growth concerns, should they materialise, could potentially add some headwinds to prices. Concerning influences from abroad, tariffs on European goods remain a key short-term stagflationary concern, although the recent plans of industrial and military stimulus at the European level could bring some medium-term relief.

> Considering both internal and external risks, we continue to stick to our 4.8% year-end forecast while acknowledging that risks to the upside have increased. This still leaves some room for the National Bank of Romania to cut rates in the second half of the year, though doing more than our 50bp estimate looks rather improbable. If anything, we think that risks are currently tilted towards less easing.

Romanian industry rebounds in January

Despite a generally gloomy environment and six consecutive months of annual contraction, Romanian industry posted a nice rebound in January. Seasonally adjusted data indicates a 2.1% expansion in both monthly and annual terms. All sub-sectors contributed to this growth, with the manufacturing sector, which has the largest share in the index, leading the way as it advanced by 2.7% in January 2025 compared to the same month of 2024. These figures align with the positive data coming from Germany earlier this month.

While it is too early to jump to conclusions and call a bottom in industrial production, today's data is worthy of being highlighted. We assume that the industrial sector could have at best, a neutral contribution to this year's GDP growth, which we estimate at 1.6%.

Author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com