BT RESEARCH

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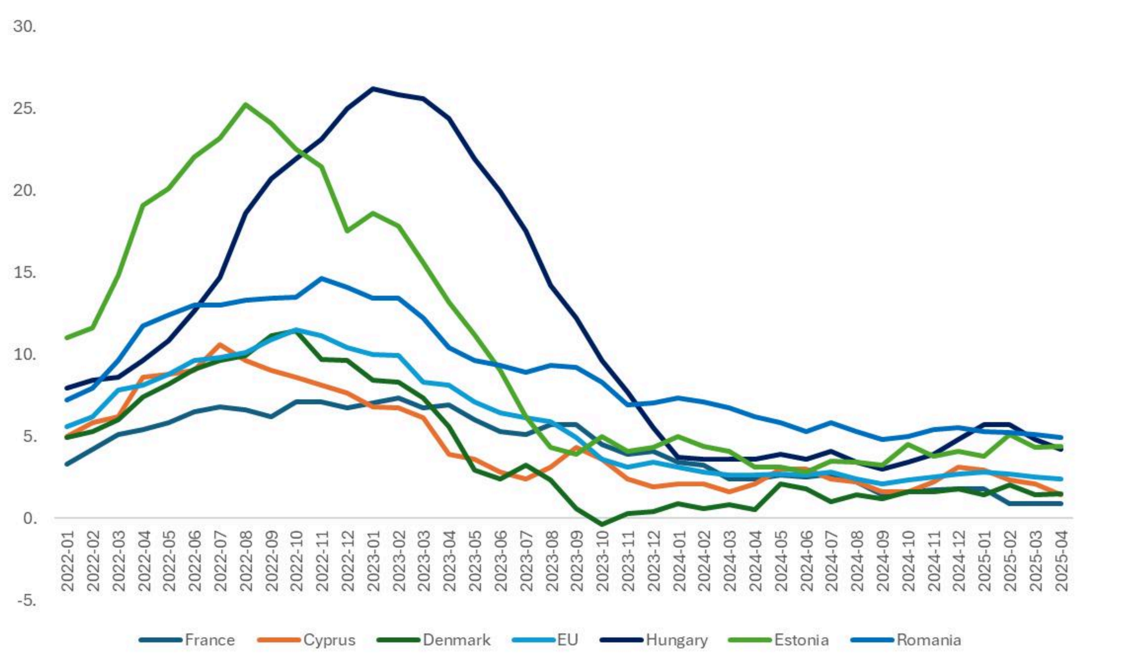
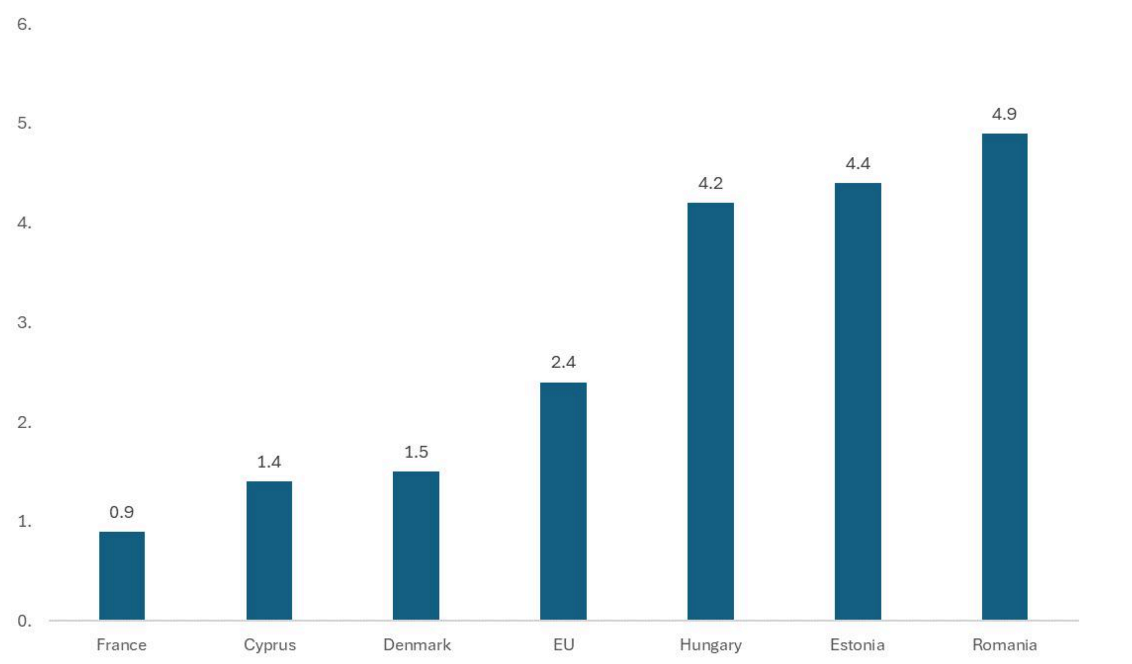


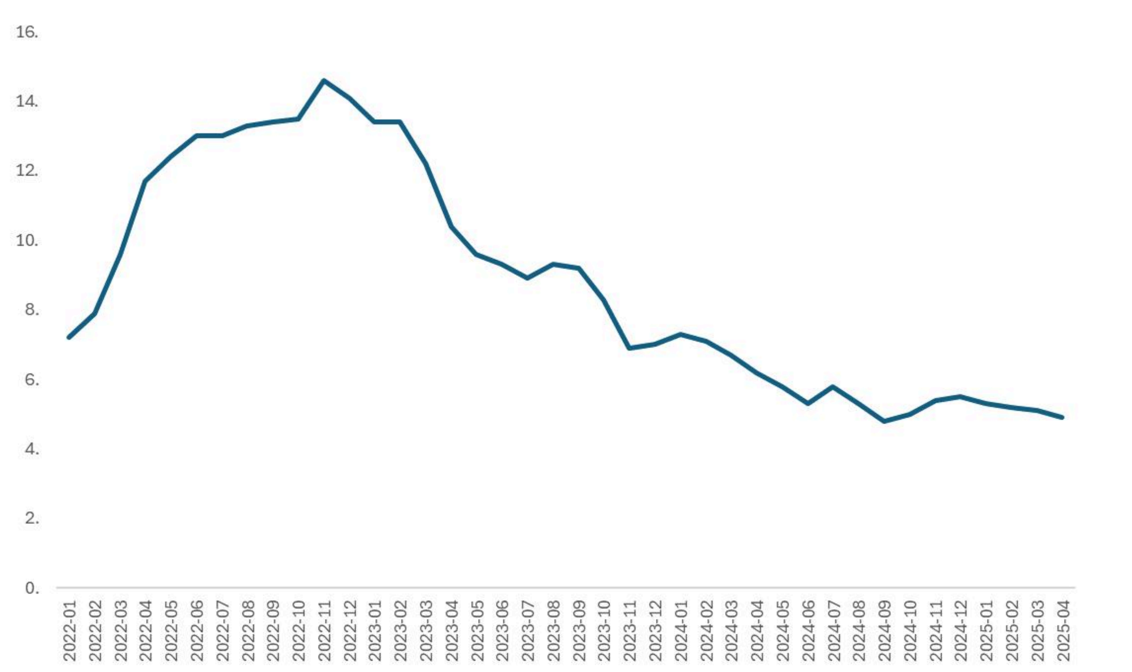
Inflation (HICP) Annual rate of change %

Source: Eurostat



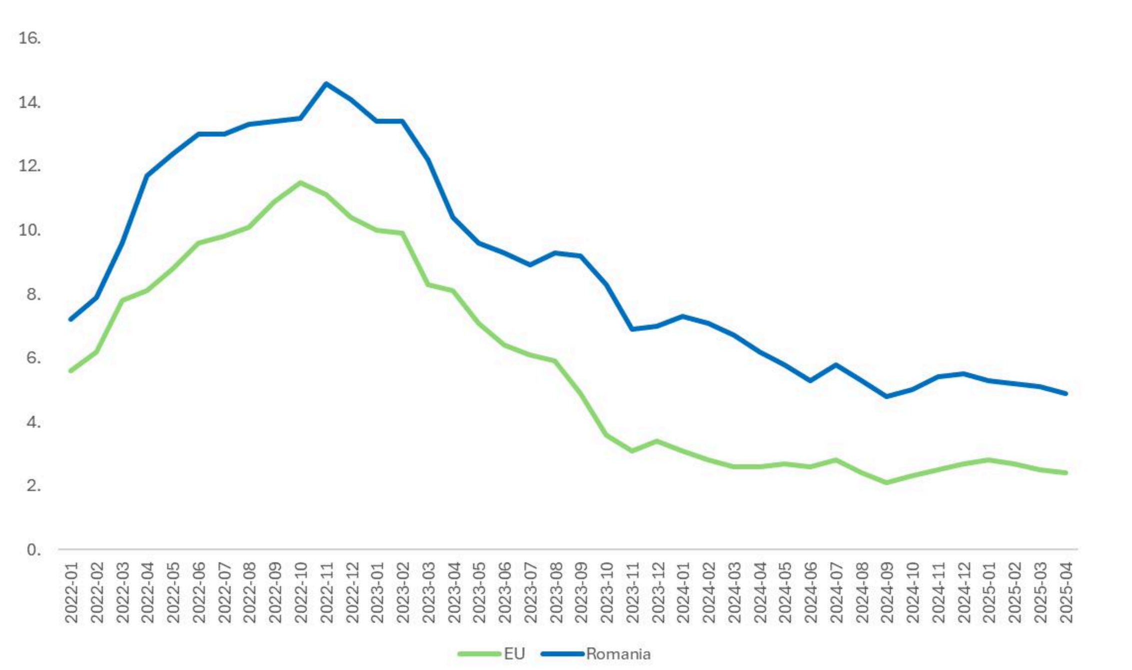
Inflation (HICP) Annual rate of change % April 2025

Source: Eurostat



Romania - Inflation (HICP) Annual rate of change %)

Source: Eurostat



Inflation (HICP) Annual rate of change %

Source: Eurostat

INFLATION DEVELOPMENTS IN THE EU AND ROMANIA

In April 2025, inflation across the European Union continued to exhibit divergence among member states, with Romania maintaining one of the highest annual inflation rates in the region. The latest data show moderating inflation pressures at EU level, while Romania's inflation, though slowing, remains elevated due to structural and fiscal factors.

Inflation in the European Union

The euro area's annual inflation rate stayed at 2.2% in April 2025, the same value as in March. For the EU as a whole, inflation decreased from 2.5% in March to 2.4% in April. These decreases are primarily driven by rising costs of services, which contributed +1.80 pp to the annual rate. Other contributors include food, alcohol, and tobacco (+0.57 pp), as well as non-energy industrial goods (+0.15 pp), while energy prices exerted a negative contribution of -0.35 pp, consistent with a broader disinflationary trend in global energy markets.

Among EU countries, Romania recorded the highest inflation rate in April of 4.9% (HICP basis), followed by Estonia (4.4%), and Hungary (4.2%). At the other end of the spectrum, France (0.9%), Cyprus (1.4%), and Denmark (1.5%) reported the lowest inflation, highlighting the wide disparity in inflationary values across the Union.

Inflation in Romania – April 2025

Romania's annual inflation rate based on the national Consumer Price Index (CPI) remained at 4.9% in April 2025. The Harmonised Index of Consumer Prices (HICP), used for EU comparisons, also recorded 4.9%. Although this marks a significant reduction from the highs of 2024 (above 6%), Romania remains an outlier within the EU.

Month-on-Month Developments

On a monthly basis, consumer prices in Romania increased marginally by 0.07%, reflecting a mixed set of influences:

- Food prices rose by 0.83%, led by fruit (+3.5%), vegetables, and edible oils (+1.7%).
- Service prices increased by 0.48%, largely due to rising costs in transport (rail +11.7%, air +23.8%), and utilities such as water and sanitation.
- Conversely, non-food products decreased by 0.65%, primarily due to a sharp decline in natural gas prices (-12.1%) and motor fuels (-2.0%).

Year-on-Year Developments and Structural Drivers

On a year-over-year basis, inflationary pressure continues to come from:

- Food products: Up 5.57% YoY, with notable surges in fruit (+12.28%), oils (+9.7%), and coffee (+9.3%).
- Services: Increased by 6.83%, reflecting cost pressures in health care, public services, and utilities.
- Energy: While electricity prices remained relatively stable, natural gas and fuels contributed negatively, easing the overall inflation burden.

Romania's inflation profile shows strong core pressures from domestically determined components like services and processed foods, while energy disinflation helps contain broader price growth.

Outlook for Romania

While inflation in Romania is gradually declining, the pace of disinflation is expected to slow down over the remainder of 2025. Unlike earlier projections of a sharper decline, the outlook has been adjusted considering Romania's worsening fiscal position and rising budget deficit pressures.

Disclaimer

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Chief Economist

"EU Inflation declined to 2,4% in April. Romania recorded the highest inflation rate in the EU (4.9%). Outlook revised: end 2025 inflation forecast increased to 4.44%.

CONTACT

Revised Forecast
The end-of-year inflation rate is now forecast at approximately 4.44%, reflecting a slower decline from April's 4.9%. Several underlying factors contribute to this revision:

- Fiscal Policy Impact: As the government deals with a significant budget deficit, potential fiscal consolidation measures (such as new taxes, cutbacks on subsidies, or price liberalizations) could pass through to consumer prices. Additionally, any shift towards monetizing the deficit or delays in addressing the fiscal gap may undermine confidence and weaken the RON, further fueling inflation through imported goods.
- Wage Pressures: With labor market tightness and potential public sector wage increases, demand-side inflation may re-emerge despite falling energy costs.
- Depreciation of the Leu (RON): The recent depreciation of the RON is expected to raise the cost of imported goods and services. This will likely put additional upward pressure on prices, particularly in non-food goods, energy, and transportation sectors, amplifying inflationary risks in the coming months.

Potential Disinflationary Forces
On the other hand, some factors may help to counterbalance these inflationary risks:

- Decline in Retail Sales: A visible slowdown in retail activity, particularly in durable goods and discretionary consumption, indicates that consumers are tightening their spending in an uncertain environment and high interest rates. This weaker domestic demand is expected to ease price pressures, especially in the non-food and services sectors.
- Global Trends: Continued stability or decline in global food and energy prices could further decrease imported inflation.

Conclusion
Romania continues to face the challenge of high inflation, which is proving persistent relative to its EU peers. Although year-on-year price growth has slowed down since late 2024, core components—especially food and services—remain elevated. The outlook for the rest of 2025 suggests a more gradual disinflation, ending the year at around 4.44%, primarily due to fiscal vulnerabilities. Nonetheless, declining retail demand and external disinflation forces are expected to play a stabilizing role. The balance of risks remains tilted towards the upside, underscoring the need for coordinated monetary and fiscal discipline to support price stability.

Key Takeaways

- Romania remains the EU country with the highest annual inflation rate as of April 2025.
- Although inflation is on a downward trend, progress has slowed down, primarily due to fiscal imbalances and core service price pressures.
- The inflation outlook has been revised upward to 4.44% by year-end.
- Energy deflation and soft retail demand are acting as stabilizing forces.

Forecast Assumptions

1. No new major supply shocks (e.g., energy, food).
2. Government implements fiscal measures by mid-2025.
3. Monetary policy remains tight, discouraging excess credit and speculative demand.
4. External trade conditions remain neutral, with limited volatility in import prices.
5. Retail sales trend slows, reducing domestic demand pressure.

Risks to the Forecast
Upside Risks (Higher Inflation)

- Delayed or insufficient fiscal consolidation, leading to deficit increase or RON depreciation.
- Higher wages driven by public pressure or political cycles.
- Global commodity price resurgence, especially in energy or food.
- Currency depreciation affecting import prices.

Downside Risks (Lower Inflation)

- Faster-than-expected drop in domestic demand, especially in consumer services.
- Stronger RON appreciation, improving import cost dynamics.
- External disinflation from trading partners (especially Germany, France).
- Better harvest and food production, easing food price pressure.