

NATIONAL
BANK OF
ROMANIA

Inflation Report

August 2025

Year XXI, No. 81

Inflation Report

August 2025

NOTES

Some of the data are still provisional and will be updated as appropriate in the subsequent issues.

The source of statistical data used in charts and tables was mentioned only when they were provided by other institutions.

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Foreword

The primary objective of the National Bank of Romania is to ensure and maintain price stability, with monetary policy being implemented under inflation targeting starting August 2005. In this context, active communication of the monetary authority to the public at large plays a key role, and the major tool that the central bank uses to this end is the *Inflation Report*.

Apart from analysing the most recent economic, monetary and financial developments and explaining the rationale and the manner of implementing monetary policy in the previous period, the *Report* provides the National Bank of Romania's quarterly projection on inflation over an eight-quarter horizon, including the associated uncertainties and risks, and an assessment of the recent and future macroeconomic context from the perspective of the monetary policy decision.

By drafting and publishing the *Inflation Report* on a quarterly basis, in accordance with the frequency of the forecasting cycle, the National Bank of Romania aims to provide all those interested with the opportunity of best comprehending its analytical framework and hence the reasons underlying the monetary policy decisions. Securing a transparent and predictable monetary policy is meant to strengthen monetary policy credibility and thus help achieve an effective anchoring of inflation expectations and lower the costs associated with ensuring and maintaining price stability.

The analysis in the *Inflation Report* is based upon the statistical data available at the date of drafting the *Report*, so that the reference periods of indicators herein may vary.

The *Inflation Report* was approved by the NBR Board in its meeting of 8 August 2025 and the cut-off date for the data underlying the macroeconomic projection was 29 July 2025.

All issues of this publication are available in hard copy, as well as on the NBR's website at <http://www.bnr.ro>.

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Summary

Developments in inflation and its determinants

The annual CPI inflation rate went up to 5.66 percent in June, from 4.86 percent in March, exceeding by 0.6 percentage points the level anticipated in the previous *Report*. This acceleration was mainly driven by the notable hike in vegetable and fruit prices, amid extreme weather events, while behind the persistently high core inflation stood the pick-up in short-term inflation expectations and the still elevated dynamics of unit labour costs. Conversely, in Q2, the inflationary contribution of the output gap to the annual adjusted CORE2 inflation rate neared zero. At the same time, energy prices recorded negative quarterly changes, amid the de-escalation of tensions in the natural gas market, the depreciation of the US dollar against the domestic currency and the decline in the Brent oil price April through May. The average annual CPI inflation rate, calculated based on the national methodology, hovered around 5.1 percent during Q2, while the corresponding indicator measured in accordance with the harmonised index (HICP) shed 0.1 percentage points versus March to 5.3 percent in June 2025. The harmonised index continued to converge slowly towards the European average, the gap with the latter remaining significant.

The annual adjusted CORE2 inflation rate halted its decline during Q2, climbing from 5.2 percent in March to 5.7 percent in June. This was driven by persistently high wage costs, with an impact particularly on the food industry, also faced with upswings in some commodity prices – meat and milk. Specifically, the food component had a prevalent contribution to the faster rise in the adjusted CORE2 inflation rate, recording an annual pace of increase of 5.5 percent in June (a year-and-a-half high), i.e. 1 percentage point above the March level. Non-food items saw a slightly slower annual growth rate, i.e. 5.1 percent in June, down 0.3 percentage points versus March, whereas services accelerated by 0.3 percentage points to 6.6 percent; the levels of the two sub-indices have remained high from a historical perspective, fuelling persistent short- and medium-term inflation expectations. The depreciation of the leu against the euro generated additional pressures on the prices of some services expressed in foreign currency and of some categories of imported goods.

The annual dynamics of unit labour costs economy-wide declined to 8.4 percent in Q1, after posting double-digit levels for two years. Labour productivity made a notable contribution to this evolution, mainly on account of the drop in employment; the annual change in the compensation per employee saw a decrease to 13.8 percent from 14.7 percent at end-2024. In contrast, the annual growth rate of unit wage costs

in industry stepped up to 16 percent in 2025 Q1, from 10.5 percent in 2024 Q4. The acceleration was driven by the rise in the minimum wage at the beginning of the year, but also by the removal of tax breaks in the food industry, with some companies partially compensating for the negative effect of this measure on the net wage of

employees by increasing the gross wage. April through May, the annual dynamics of unit wage costs moderated to 12 percent, owing to a favourable base effect in May 2025.

Monetary policy since the release of the previous Inflation Report

In its meeting of 16 May 2025, the NBR Board decided to keep the monetary policy rate at 6.50 percent per annum. The interest rates on standing facilities were also left unchanged, i.e. the deposit facility rate at 5.50 percent per annum and the lending (Lombard) facility rate at 7.50 percent per annum. In 2025 Q1, the annual inflation rate had declined less than anticipated, given that the decreases in the dynamics of fuel and tobacco product prices during that period, alongside those in the growth rates of non-food sub-components of core inflation, had been partly counterbalanced, in terms of impact, by the swifter increase in energy prices, administered prices and processed food prices. In turn, the annual adjusted CORE2 inflation rate had resumed its decrease in 2025 Q1 at a slower-than-expected pace, dropping to 5.2 percent in March from 5.6 percent at end-2024. The disinflationary base effects from non-food sub-components and the slowdown in import price dynamics had had a downward impact, while notable opposite influences had come from the hike in some agri-food commodity prices, as well as from the gradual pass-through of increased wage costs to some consumer prices, also amid the high levels of short-term inflation expectations.

Heightened uncertainties continued to be associated with the future fiscal and income policy stance, given on the one hand the budget execution in the first three months of the year and, on the other hand, the budget consolidation requirement according to the *National Medium-Term Fiscal-Structural Plan* agreed with the European Commission and to the excessive deficit procedure. High uncertainties and risks also stemmed from the future evolution of energy and food prices, largely correlated with developments in commodity prices, as well as from the trade policy measures taken in the advanced economies, with a potential significant impact on the international prices of some intermediate and final goods. High uncertainties and risks to the outlook for economic activity, implicitly the medium-term inflation developments, arose from the external environment, given the protracted war in Ukraine and Middle East situation, but especially amid the uncertainty and the potential effects generated by the US trade policy and by the retaliatory measures taken by other countries, affecting the developments in the global economy and in international trade. Furthermore, the absorption and use of EU funds, especially those under the Next Generation EU programme, were essential for counterbalancing, at least in part, the contractionary effects of budget consolidation and of geopolitical/trade conflicts, as well as for carrying out the necessary structural reforms, energy transition included. The ECB's and the Fed's monetary policy decisions, as well as the stance of central banks in the region, also continued to be relevant.

Subsequently, the annual inflation rate had stayed at 4.85 percent in April 2025 (4.86 percent in March), while in May it increased to 5.45 percent. The advance versus the end of 2025 Q1 owed to a further faster rise in food and electricity and natural gas prices, which outweighed considerably, in terms of impact, the new decreases in the dynamics of fuel and tobacco product prices, as well as of the non-food sub-component

of core inflation. Concurrently, the annual adjusted CORE2 inflation rate had seen yet again a halt in its downward trend, going up to 5.4 percent in May, from 5.2 percent in March, given that the influences stemming from disinflationary base effects and the decline in the import price dynamics were more than offset over this period by those coming from the hike in some agri-food commodity prices and the gradual pass-through of high wage costs to some consumer prices, as well as from the pick-up in short-term inflation expectations and the increase in the EUR/RON exchange rate. In turn, economic activity had stalled in 2025 Q1, after adding 0.5 percent in the previous three months (quarterly change), which had made it likely for the negative output gap to open more visibly over that period compared to expectations. Annual GDP growth had moderated further in 2025 Q1 to 0.3 percent from 0.5 percent in 2024 Q4. Domestic demand had continued, however, to see a swifter increase in annual terms, mainly on account of the dynamics of gross fixed capital formation, which had surged, making a strong return into positive territory, whereas household consumption had posted a notably slower rise, but remained the main driver of GDP advance. By contrast, in 2025 Q1 net exports had exerted again a significantly larger contractionary impact, given the further widening of the negative differential between the annual dynamics of exports of goods and services, in terms of volume, and those of imports, amid the latter advancing somewhat more visibly versus the previous quarter. Consequently, the annual growth rate of trade deficit had posted a strong re-acceleration, while the current account deficit had continued to record a fast year-on-year pace of increase.

At the time of the NBR Board meeting of 8 July 2025, the latest assessments showed that the annual inflation rate would pick up considerably in the following months, under the transitory impact of the expiry of the electricity price capping scheme and the increase in VAT rates and excise duties starting 1 August, thus climbing well above the values indicated by the May 2025 forecast over the short time horizon.

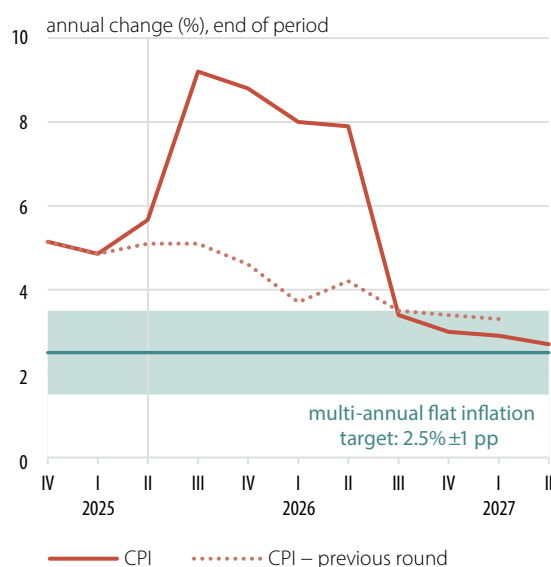
Based on the data and assessments available at that time, as well as in light of the particularly elevated uncertainty, the NBR Board decided in the meeting of 8 July 2025 to keep the monetary policy rate at 6.50 percent per annum. Moreover, it decided to leave unchanged the deposit facility rate at 5.50 percent per annum and the lending (Lombard) facility rate at 7.50 percent per annum. Furthermore, the NBR Board decided to maintain the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions.

Inflation outlook

The global economic environment is still surrounded by elevated uncertainty and economic recovery is slow and uneven. Expansion in a number of emerging economies is partly offset by lacklustre growth or even decline in economic activity in some advanced economies. In the United States, the Federal Reserve retained a cautious stance, keeping the federal funds rate unchanged. This caution reflects expectations of additional inflationary pressures stemming from the gradual pass-through of the effects of the recent tariff hikes by the US administration. In the euro area, the newly released economic sentiment indicator and confidence indicators for companies and consumers point to a protracted stagnation in economic activity, caused by ongoing weakness of manufacturing and the expected slowdown in

exports to emerging markets. The European Central Bank has continued its rate-cutting policy in the period since the previous *Inflation Report*, following the convincing recent signs of easing inflationary pressures. However, services inflation is still high, although a future moderation in labour cost dynamics is foreseeable.

Inflation forecast



Source: NIS, NBR projection

At global level, disinflation is delayed by adverse shocks: the reshaping of trade flows in response to protectionist measures, energy price volatility, but also the impact of climate factors on agricultural supply. The outlook shows a slow decline in the annual inflation rate, while risks are further mostly on the upside, in particular those associated with food and energy price developments, two categories of goods highly sensitive to shocks and with a great cross-border impact.

In the present baseline scenario, the annual CPI inflation rate is projected to rise in 2025 Q3, reaching 9.2 percent in September, and thereafter to fall slightly to 8.8 percent in December. The disinflationary path is expected to resume as of 2025 Q4, but inflation will stay high until the summer of 2026. This persistence owes to the major supply-side shocks in 2025 H2 being included in the calculation of the

annual rate for as long as 12 months. The CPI inflation forecast for end-2025 was revised upwards by 4.2 percentage points compared to the previous round. The revision mainly reflects three sources of inflationary pressure: the large increase in electricity prices after the electricity market liberalisation – with an additional contribution of 1.5 percentage points –, the higher VAT rates – with a contribution estimated at 1.6 percentage points –, and the hike in excise duties – with an impact of 0.4 percentage points. There are also additional contributions of 0.4 percentage points each from core inflation and the price dynamics of volatile components, fruit and vegetables in particular. For December 2026 and March 2027, the horizon of the previous forecast, the annual CPI inflation rate is projected to be lower, by approximately 0.4 percentage points for each point in time, reflecting disinflationary influences of fiscal consolidation and the gradual adjustment of inflation expectations.

The annual adjusted CORE2 inflation rate climbed to 5.7 percent in June 2025 from 5.2 percent in March. Over the short term, the indicator is anticipated to peak in 2025 Q3, as a direct effect of the hike in indirect taxes. Subsequently, it is seen dropping gradually starting in 2026 Q3, as the direct inflationary effect of fiscal shocks fades away, domestic demand continues to cool off and import price pressures abate. In the baseline scenario, the annual adjusted CORE2 inflation rate is projected at 7.1 percent in September 2025, 6.8 percent in December 2025, 2.7 percent in December 2026 and 2 percent in June 2027. The medium-term correction is primarily driven by the contractionary effects of fiscal consolidation, reflected in the significant widening of the output gap in negative territory. The values of the annual core inflation rate forecasted for December 2026 and March 2027 are notably lower than in the previous *Inflation Report*, by 0.5 and 0.6 percentage points respectively.

Romania's growth forecast for 2025 and 2026 is heavily influenced by fiscal consolidation effects. The already adopted measures will dampen domestic demand significantly, leading to a visible slowdown in economic activity, with further corrections anticipated from the beginning of 2026, when additional, far-reaching measures in the recently adopted package are due to take effect. Following the economy's standstill in 2025 Q1 and its modest recovery anticipated for Q2, as suggested by sectoral developments, a stronger worsening of its path is expected for Q3. The subdued growth dynamics are mostly attributed to fiscal consolidation, while influences from external demand and real monetary conditions are seen to play a secondary part at the current juncture.

Private consumption, the main driver of economic growth in 2024, is forecasted to lose considerable momentum amid households' weaker purchasing power. Measures such as freezing wages in the public sector and pensions, raising electricity prices and increasing indirect taxes will contribute to slower growth in real disposable income, which may even decline during 2026. Against this backdrop, gross fixed capital formation is expected to become the main driver of domestic demand growth. However, investment dynamics could be more moderate than previously estimated, especially in 2026, amid the planned cut in public capital expenditure and slower EU funds absorption. Greater risks are associated with Next Generation EU programme, as the eligibility deadline, i.e. August 2026, approaches, which largely reduces the timeframe for mobilising significant private investments into projects.

Given the slow-paced recovery of external demand and decelerating import growth as a result of fiscal consolidation measures, the contribution of net exports to economic growth will probably remain negative during 2025, yet markedly smaller than in 2024. Over the medium term, the further slowdown in domestic demand will lead to subdued import dynamics, running significantly below the historical average. This will be the main channel for correcting the current account deficit in the short and medium term. Under the circumstances, the contribution of net exports to GDP could turn positive again in 2026, supported *inter alia* by a more visible recovery of external demand. Nonetheless, in the absence of complementary structural reforms, pressures on the external position could swiftly mount again, due either to a rebound in domestic demand or to negative external shocks that are difficult to foresee and counteract.

The NBR's recent monetary policy stance aimed to bring the annual inflation rate back in line with the 2.5 percent $\pm$ 1 percentage point flat target on a lasting basis, *inter alia* via the anchoring of inflation expectations over the medium term, in a manner conducive to achieving sustainable economic growth.

A significant part of the risks identified in the previous forecasting round have materialised since the release of the May 2025 *Inflation Report*. The most notable event was the adoption by the Romanian authorities of the first fiscal adjustment package. This package of measures is being implemented in an economic environment already marked by a visible cyclical slowdown, rendering fiscal policy strongly pro-cyclical. Under these circumstances and in the absence of quantifiable coordinates on the configuration of the next reform packages, it is difficult to foresee the extent to which economic growth will lose momentum and the horizon for its recovery, even when

compared to relatively similar episodes in the past. Another materialised risk, with significant implications for the inflation path, is the rise in the electricity price after the capping scheme expired, the revised levels exceeding those envisaged in the prior forecast. Geopolitical tensions persist, yet without notable increases, whereas the agreement in principle between the US and the European Union on tariff rates does not substantially alter the working assumptions in the baseline scenario. Hence, the balance of risks to inflation continues to be tilted to the upside, especially over the short term, given that uncertainties linger over the developments in administered prices – particularly for natural gas –, as well as over the possibility of further indirect tax adjustments. These uncertainties also fuel the risk of a weaker anchoring of economic agents' inflation expectations over the medium term.

The short-term path of economic activity worsened, posing mainly downward risks, whereas inflationary pressures increased, largely as a result of raising indirect taxes. Looking ahead, additional wage claims could arise from the pressures to restore households' purchasing power, dampened by the recent fiscal consolidation, as well as from the persistent structural features of the labour market, which remains relatively tight (see the Box). Nevertheless, these pressures could exert a lower impact on inflation, at least temporarily, if companies opt for partial cost absorption, amid soft domestic demand, which limits the room for price adjustments. Conversely, in the absence of the authorities' firm clarifications on the temporary or permanent nature of some of the fiscal adjustment measures, there is a risk that firms and consumers may revise inflation expectations upwards and anchor them to levels above the inflation target over the medium term. Specifically, uncertainty about the inflation path, especially during 2026, remains high. The effect of these diverging influences may as well differ from the net disinflationary one assumed in the baseline scenario. This will hinge crucially on the clarity of economic policy messages, labour market dynamics, households' behaviour in the face of lower real income, and on firms' capacity to accommodate potentially higher wage costs or to pass them on into prices.

The adoption of the first fiscal consolidation package helped clarify where fiscal policy is headed in the near run, yet significant uncertainties still surround the medium-term prospects. The present economic context is marked by overlapping factors with a potentially divergent impact on inflation and economic activity. On the one hand, further indirect tax adjustments cannot be ruled out. On the other hand, there is a risk of income policy easing in 2026 H2, via possible pension and wage increases, which would counter the anticipated pace of disinflation at this horizon. At the same time, despite a relatively stable perception from rating agencies, uncertainties persist over the actual pace of budget consolidation, the magnitude of the economic impact of the fiscal package, the final design of the National Recovery and Resilience Plan, as well as, most importantly, over the authorities' capacity to absorb the related funds. In these conditions, a swift clarification of the Next Generation EU framework becomes critical, given its potential to take off some of the downward pressure on domestic demand and to support potential GDP growth. Maintaining a consistent fiscal adjustment course, together with an efficient use of EU funds, is key to containing inflationary risks and strengthening economic growth sustainability.

The domestic economy is still exposed to significant risks, especially amid the subdued economic growth in the euro area, Romania's main trading partner. Even though the

recent agreement between the US and the EU has reduced some of the trade uncertainty, the new tariff rates are higher than those in force a few months ago and may speed up the reshaping of global value chains via reshoring and friend-shoring. These shifts affect the direction and volume of international trade flows, thus reducing to some extent the potential for current account adjustment via competitiveness gains and export growth. Against this backdrop, the correction of the external deficit could become increasingly contingent on domestic policies to moderate demand, with a direct impact on import volumes. While this approach, also included in the baseline scenario, could help effectively correct the external imbalance over the short term, the adjustment costs for economic activity would likely be significant in the absence of a sustainable rebound in exports. Such a recovery would call for additional support from the economic policy mix, particularly via structural reforms that should strengthen the economy's competitiveness over the medium term.

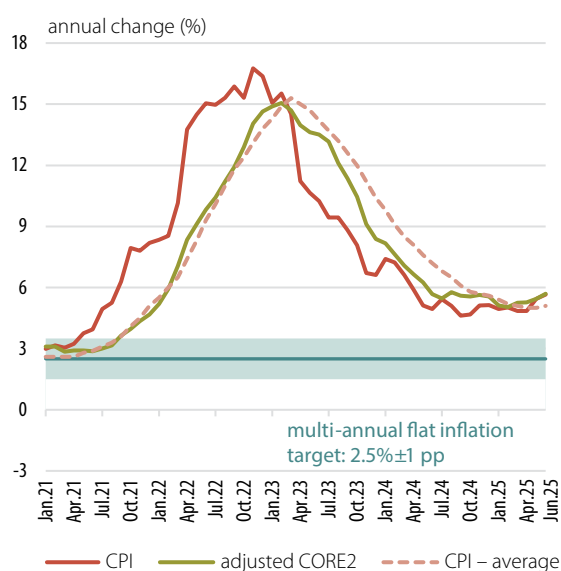
Monetary policy decision

Given the marked worsening of short-term inflation outlook following the expiry of the electricity price capping scheme on 1 July and the increases in VAT rates and excise duties as from 1 August in the context of implementing the corrective fiscal measure package, and considering the risks and uncertainties associated with the new projections, the NBR Board decided in its meeting of 8 August 2025 to keep the monetary policy rate at 6.50 percent. Moreover, it decided to leave unchanged the lending (Lombard) facility rate at 7.50 percent and the deposit facility rate at 5.50 percent. Furthermore, the NBR Board decided to maintain the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions.

1. Inflation developments

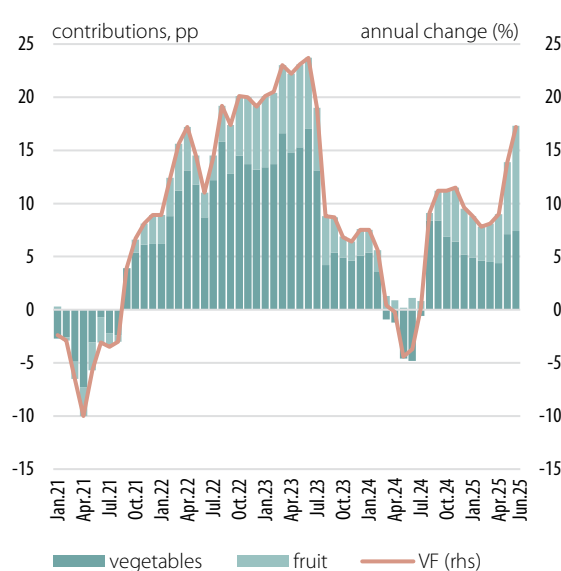
The annual CPI inflation rate went up to 5.66 percent in June, i.e. 0.80 percentage points higher than in March. Extreme weather events, with a direct effect on vegetable and fruit supply, were the main source of the increase in inflation, while behind its persistence at a relatively high level have stood the further pick-up in short-term inflation expectations and the still elevated dynamics of unit labour costs. Conversely, the inflationary contribution of the output gap neared zero. Against this background, the annual adjusted CORE2 inflation rate also witnessed an upward trend, albeit somewhat more moderate, rising by 0.5 percentage points to 5.7 percent in June (Chart 1.1).

Chart 1.1. Inflation developments



Source: NIS, NBR

Chart 1.2. Vegetable and fruit prices

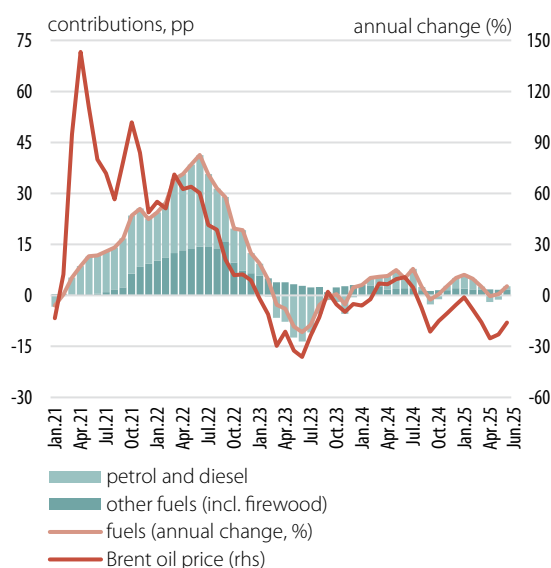


Source: NIS, NBR calculations

The pick-up in CPI inflation was largely driven by exogenous components, especially vegetable and fruit prices, whose annual dynamics exceeded 17 percent in June, i.e. more than double the value at end-Q1 (Chart 1.2). This was mainly attributable to adverse weather conditions (snowfall in April, heavy rainfall in May, and drought in June), with a negative effect primarily on fruit production, both locally and in Europe. Energy prices had a lower contribution to the advance in CPI inflation, which was solely determined by the faster annual change in electricity and natural gas prices on the back of a base effect associated with the significant price cuts April through May 2024, driven by legislative amendments that enabled the decline in regulated prices for the centralised procurement mechanism. In fact, in 2025 Q2, the electricity and natural gas markets experienced favourable conditions, with negative cumulative monthly changes during the quarter, once the cold season ended, following the easing of the natural gas market, as well as the migration of some electricity consumers

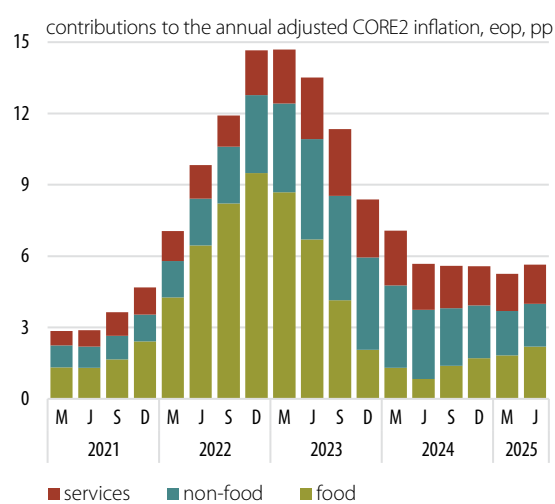
towards lower consumption brackets. The annual dynamics of fuel prices stood at a level similar to that at end-2025 Q1, the cumulative monthly changes over the quarter being negative for this segment as well, amid the depreciation of the US dollar in Q2 and the decline in the Brent oil price April through May (to approximately USD 65 per barrel), determined by the gradual reversal of output cuts and by further uncertainty surrounding global economic growth¹ (Chart 1.3).

Chart 1.3. Crude oil and fuel prices



Source: NIS, Bloomberg, NBR calculations

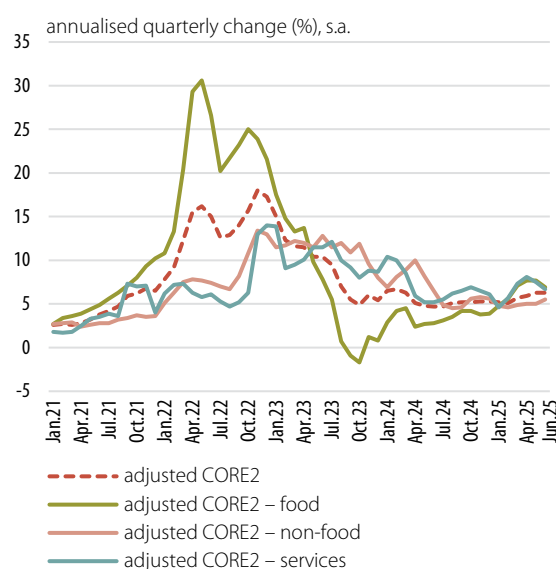
Chart 1.4. Adjusted CORE2 inflation components



Note: Contributions include VAT rate changes.

Source: NIS, NBR calculations

Chart 1.5. CORE momentum



Source: NIS, NBR calculations

Annual adjusted CORE2 inflation rate also witnessed an uptrend, albeit at a somewhat slower pace, rising to 5.7 percent in June (from 5.2 percent at end-Q1). The food sub-group made a substantial contribution (Chart 1.4), with prices going up by 5.5 percent from the same year-ago period (+1.0 percentage point compared to March), i.e. a 1½-year high. The other two sub-components of core inflation recorded smaller changes in their annual dynamics from March (-0.3 percentage points for non-food items, down to 5.1 percent in June, and +0.3 percentage points for services, up to 6.6 percent), yet remained high from a historical perspective. Disinflation has stalled due to the rise in short-term inflation expectations, on the one hand, and to the still swift dynamics of unit labour costs, on the other hand. In addition, the processed food segment continued to face cost hikes for some agri-food commodities

¹ Even if the oil price surged in June (to an average of around USD 70 per barrel) with the escalation of the Middle East conflict, the impact of this shock did not offset the effects of the disinflationary developments in 2025 Q2 overall.

(meat and dairy), while some market services whose prices are expressed in euro (telephony or rents) reacted to the increase in the EUR/RON exchange rate. Non-food items benefited in Q2 as well from relatively benign conditions in terms of imports, yet the core momentum for the segment seems to re-embark on an uptrend (Chart 1.5).

Economic agents' expectations on short-term price developments continued the upward path started three quarters earlier in all sectors; the rise in the balance of answers is especially visible in construction (Chart 1.6). At the same time, financial analysts' expectations on the annual inflation rate over the one-year horizon adjusted upwards, yet the two-year ahead indicator fell below the upper bound of the variation band of the inflation target.

Chart 1.6. Expectations on price developments

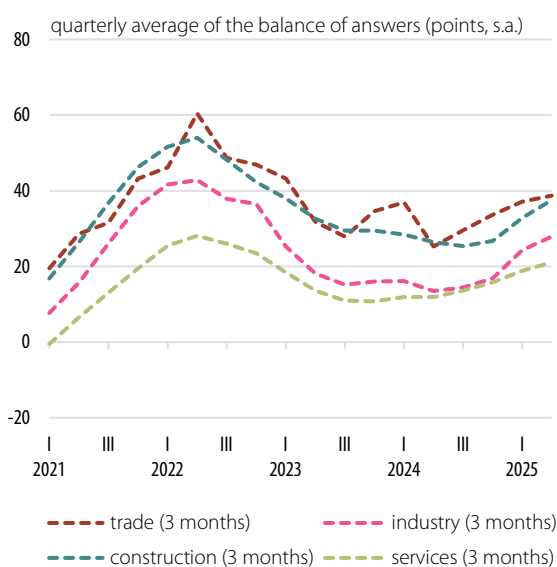
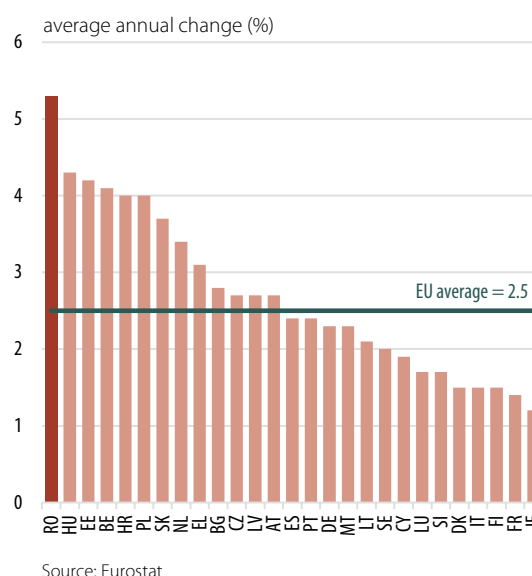


Chart 1.7. Average annual HICP in the EU – June 2025



Expressed as an annual average, the inflation rate was almost unchanged: the indicator calculated based on the national methodology remained at 5.1 percent, whereas that calculated in accordance with the HICP structure saw only a marginal decline (-0.1 percentage points from the previous quarter), i.e. to 5.3 percent in June 2025 (Chart 1.7).

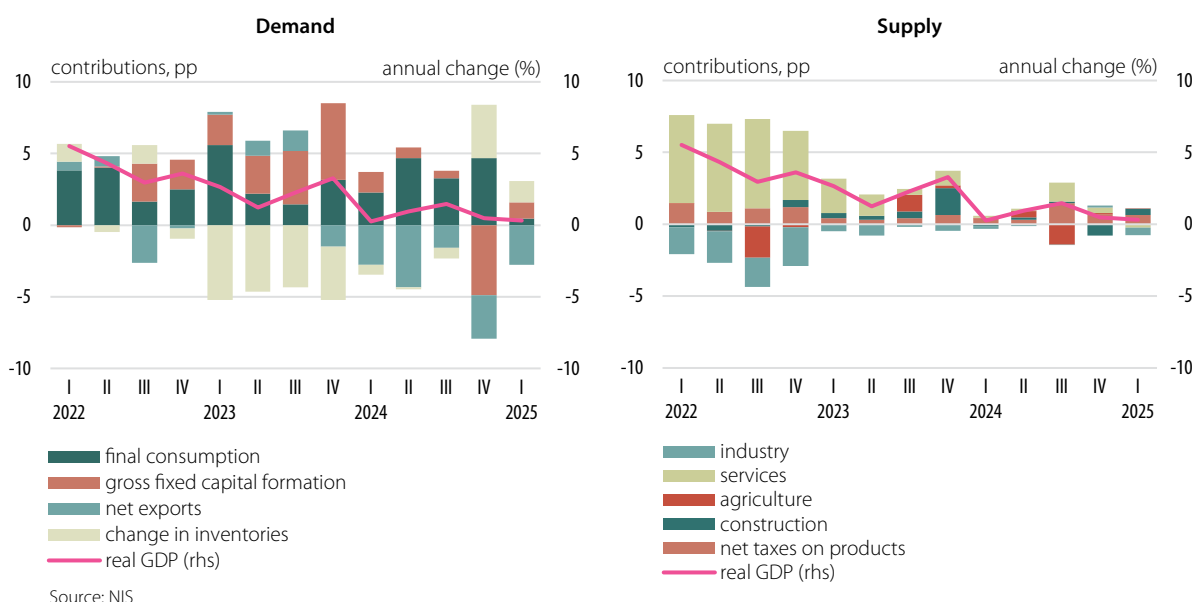
At end-2025 Q2, the annual inflation rate stood 0.6 percentage points above the level anticipated in the May 2025 *Inflation Report*, primarily due to the higher-than-expected dynamics of food prices, especially vegetable and fruit prices.

2. Economic developments

1. Demand and supply

Romania's economic growth was subdued at the beginning of 2025 – the annual advance by merely 0.3 percent² in real GDP was lower than that seen in 2024 Q4 (0.5 percent) and the 2024 average (0.8 percent), Chart 2.1.

Chart 2.1. Contributions to economic growth

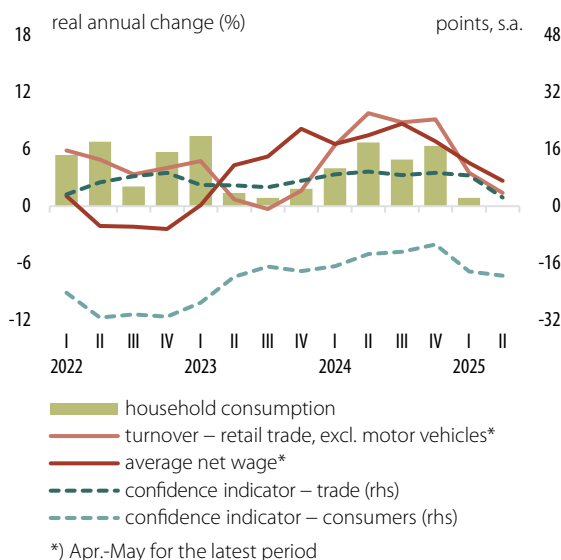


On the supply side, the positive dynamics were ascribed to net taxes on products (0.7 percentage point contribution), the same as in the previous quarters. By contrast, the negative annual change of GVA deepened slightly (-0.4 percent versus -0.2 percent in the previous quarter), given that the rise in construction was insufficient to offset the GVA contraction in industry and services (down by 3 percent and 0.4 percent respectively), whereas the contribution from agriculture was nil. As regards the industrial activity, the challenges encountered over the past years have started a shift towards streamlining production and hence increasing workflow efficiency. This seems to be the case with the automotive industry, where, on the one hand, several manufacturers of motor parts decided to reduce or even cease their activity, while on the other hand, stronger interest is shown in enhancing the automation and robotisation of production lines. Domestic demand stayed on an upward path,

² In this section, the analysis of annual GDP dynamics relies on the volume series expressed in the prices of the corresponding quarter of the previous year.

amid a new, albeit slower growth of private consumption, concurrently with a rebound in investment. Consequently, imports of goods and services rose at a faster pace (7.6 percent), visibly outpacing export dynamics.

Chart 2.2. Household consumption



Source: NIS, EC-DG ECFIN, NBR calculations

Household consumption saw its annual growth rate slow down visibly, to 0.9 percent in 2025 Q1, given the further downward courses of the annual dynamics of real net wage (down to 4.5 percent³) and new consumer loans. Additionally, consumer demand was affected by mounting political uncertainty, the consumer confidence indicator going down by 7.6 points against the 2024 Q4 average, to -18.3 points in 2025 Q1. Specifically, retail trade and services witnessed a slower annual pace of increase, i.e. to approximately 3 percent, with food sales and market services to households posting contractions, i.e. -2.0 percent and -2.4 percent, respectively, in annual terms. In the former case, although demand has weakened recently, on the supply side there have been movements that could boost the volume of purchases – on the one hand, modern retail chains have continued to expand, with market information even pointing to faster

expansion compared to 2024, while on the other hand, the fiercer competition among food retailers has increased their concern for cutting operating costs through digitalisation and investment in photovoltaic power stations (Chart 2.2).

Consumer demand will probably continue to post moderate growth rates, on the back of further political uncertainty in Q2 and the restrictive effects of fiscal consolidation measures in H2, which result in a more prudent consumer behaviour. This is first signalled by the consumer confidence indicator, which fell to -24.8 points in June 2025 (down by approximately 9.3 points from May), due largely to households' worsening expectations regarding their financial standing and the economic activity in the following 12 months. This outlook is also indicated by the slower annual growth rate of retail trade turnover (down to 1.4 percent in April-May), as well as by the deterioration of the short-term confidence of retailers. Specifically, the corresponding indicator reached in Q2 a post-pandemic low of 2.4 points, a significant contribution in this respect coming from the automotive trade, where the confidence indicator dropped to -4.1 points. Automotive sales will probably also be affected by the adjustment in the car fleet renewal programme for households, as the funds allocated under the programme were cut to a third of the initially announced amount.

In 2025 Q1, the general government budget execution led to a deficit of lei 43.7 billion (2.3 percent of GDP), well above that posted in the similar period of 2024, i.e. lei 35.9 billion

³ Including due to the removal of some tax breaks for the employees in construction, IT, agriculture and food industry, which were only partly compensated by gross pay rises implemented by some employers

(2.0 percent of GDP). However, compared to 2024 Q4, the budget deficit shrank considerably⁴, in line with the intra-annual pattern of budget execution⁵, given the sharp decrease in total budget spending⁶, on the back of both capital expenditure and some current expenditure^{7,8}. Budget revenues witnessed a smaller-sized drop

in this period⁹, mainly amid the declines in receipts from corporate income tax^{10,11}, VAT¹² and excise duties¹³, which were somewhat offset in terms of impact by the higher receipts from personal income taxes¹⁴ and non-tax revenues¹⁵.

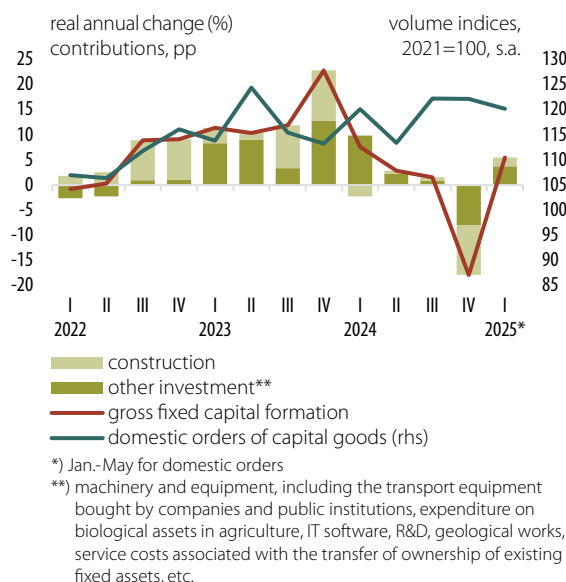
Budget execution saw a halt to its deterioration trend in 2025 Q2, ending in a smaller deficit than in the similar year-ago period, i.e. lei 26.1 billion (1.4 percent of GDP) compared to lei 27.8 billion (1.6 percent of GDP) in 2024 Q2.

In 2025 H1, the budget deficit however reached lei 69.8 billion (3.7 percent of GDP), which is higher than that in 2024 H1 (lei 63.7 billion or 3.6 percent of GDP).

In Q1, gross fixed capital formation increased by 5.5 percent in annual terms, but this does not necessarily stand for a recovery, considering that it

occurred after a sharp decline in late 2024 (Chart 2.3). In fact, the average for the two quarters¹⁶ was 1.7 percent lower than that for Q1-Q3 2024, with similar trends being visible for both main components – construction and non-construction investment¹⁷.

Chart 2.3. Investment



Source: Eurostat, NIS, NBR calculations

⁴ In 2024 Q4, the negative balance increased to lei 56.5 billion (3.2 percent of GDP); the analysis relied on the operational data on budget execution as published by the MF.

⁵ Atypically, in 2024 Q1, the budget deficit was slightly higher in absolute terms than that recorded in 2023 Q4 (lei 33.6 billion, accounting however for 2.1 percent of GDP).

⁶ Its real annual growth rate halved, i.e. down to 4.9 percent, from 10.1 percent in the previous quarter.

⁷ Larger declines were reported by spending on goods and services (whose real annual dynamics fell into negative territory), spending on other transfers, compensation of employees (whose real annual change halved, falling to one-digit levels), as well as by other expenses. However, an opposite impact had the hikes in interest expenses and social security spending, even though in the latter case its real annual dynamics posted a significant decline, returning to one-digit levels.

⁸ In turn, spending for projects financed from non-repayable external funds decreased visibly, but with a relatively minor effect on budget balance, owing to the somewhat similar evolution of disbursements from the EU.

⁹ However, in real annual terms, they resumed growth, picking up by 1.9 percent (after dropping by 1.0 percent in the previous quarter), yet primarily due to the smaller disbursements from the EU.

¹⁰ This evolution was mostly seasonal, attributable to the tax calendar; the real annual dynamics of receipts from corporate income tax however fell into negative territory.

¹¹ Disbursements from the EU also recorded a sharp decrease, but with a low impact on budget balance.

¹² Their real annual rate of change fell into negative territory, also amid the increase in tax refunds.

¹³ However, they rose further in real annual terms.

¹⁴ Amid, *inter alia*, the surge in receipts from the tax on dividends in January, as a result of higher payments made by applying the 8 percent tax rate (it was raised to 10 percent as of 2025).

¹⁵ The increase in receipts from property taxes and fees, specific to the beginning of the year, acted in the same direction.

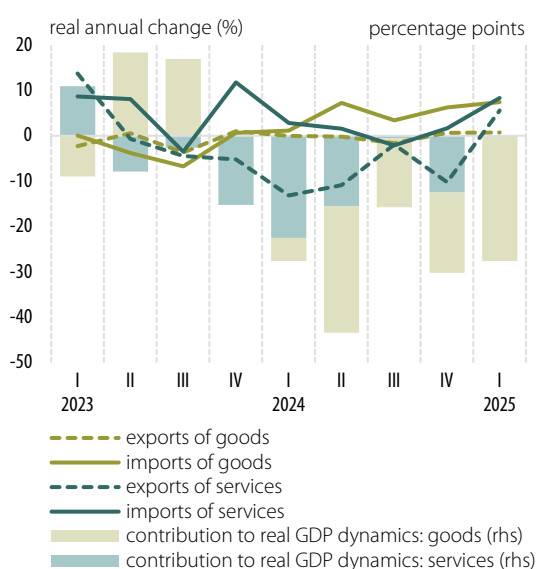
¹⁶ Determined based on seasonally adjusted values expressed in constant prices

¹⁷ Machinery and equipment, including the transport equipment bought by companies and public institutions, IT software, R&D, geological works, investments in biological assets, etc.

This reflected mostly the domestic environment fraught with uncertainty, shaped by the expected restrictive fiscal framework and the protracted electoral process, which also have been conducive to a subdued short-term investment outlook. Favourable expectations emerge however for civil engineering works (especially amid the continued transport infrastructure works, most completion dates in this segment being set for 2025 H2), as well as for selected industries, such as energy, where several large-scale projects are under way or will start in Q3.

Financing prospects are relatively pessimistic. Companies' own resources remained at low levels, after the unsatisfactory developments seen by most sectors over the past year. Expectations on the domestic public resources are rather unfavourable, in the context of the fiscal consolidation process, while the absorption of non-repayable EU funds was modest throughout 2024 and in 2025 H1. Specifically, the absorption rate of structural and cohesion funds under the MFF 2021-2027 stood at merely 16 percent at end-June. However, in this month, Romania managed to cash in EUR 1.3 billion under the NRRP (following the European Commission's partial approval of the third payment request). Thus, the cashed-in amounts totalled EUR 10.7 billion (absorption rate of 37.6 percent). While the administrative capacity to manage these funds remains a challenge, the risk of suspension of European funding for projects underway fell considerably following the adoption of a first set of measures to reduce the budget deficit. Moreover, the NRRP revision in order to allocate resources to projects enabling the complete use of non-repayable funds and compile the list of major loan-financed projects may boost the absorption of funds. Net FDI inflows in the form of equity¹⁸ rose by 46 percent as against January-May 2024. Even though the

Chart 2.4. Foreign trade



Source: NIS

tightening of the fiscal framework and the global uncertainty stemming from the US trade policy will probably result in the short-term delay of some investment projects in the local economy, Romania remains an attractive investment destination¹⁹ in the longer run.

Net external demand further had a negative impact (-2.8 percentage points) on the annual dynamics of real GDP, as a result of the widening deficit on trade in goods (Chart 2.4). The latter is little likely to see an adjustment across the forecast horizon, as the need to cover domestic demand will further support the positive dynamics of imports, while exports will continue in a challenging environment (still weak performance of European economies, also due to the strong fragmentation of value chains, induced by the tightening of global trade ties). However, the industrial managers' expectations on the portfolio

¹⁸ Including the estimated value of reinvestment of earnings

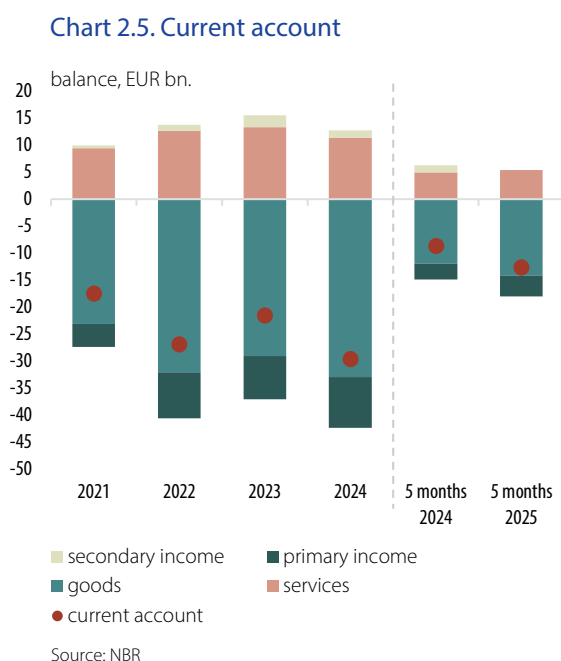
¹⁹ According to the *EY Attractiveness Survey* (June 2025), 58 percent of investors consider that Romania's attractiveness will increase in the following three years (the percent is however lower than that recorded in 2024, i.e. 67 percent), due to a number of structural strengths, such as cost efficiency, market size, access to finance, increased digital adoption.

of external orders (DG ECFIN survey) do not rule out an increase in exports of industrial goods in Q2 (with a contribution from electrical equipment and electronic components). A possible explanation lies with the temporary growth of euro area demand in order to replenish stocks, following the frontloading of sales to the US in the first months of the year, before the first deadline for implementing trade tariffs²⁰. Moreover, exports of motor vehicles seem to support external sales in Q2, the automotive industry output seeing a 5 percent advance in April-May compared to January-March 2025, probably driven by the recent launch of new car models with competitive prices. However, the export performance of the automotive industry will not be smooth, as the European electric vehicle market is faced with fierce competition from Chinese-made electric cars. Additionally, the sub-sectors manufacturing motor parts, which are better anchored to the trend of German industry, may post weak dynamics, due *inter alia* to the disruptions in international supply chains, following China's decision adopted in April to impose restrictions on exports of rare earths, requiring Chinese exporters to obtain rare earth export licences²¹.

In 2025 Q1, the modest performance of exports of goods was again primarily ascribed to the agricultural sector, affected by adverse weather conditions in 2024 (the surplus on trade in agri-food commodities dropped by 39 percent in terms of volume). Worsening trade balances were also recorded by certain processed food products (particularly vegetable oils, fruit beverages and processed and preserved fruit and vegetables). Waning exports were also reported by other industrial goods, intended

for final use (e.g., consumer electronics, motor vehicles, machinery and equipment) or for being used as inputs in production processes abroad (selected electrical equipment, metal products). The energy trade balance saw a relative improvement, as the contraction in the activity of some energy-intensive industries (such as metallurgy and the chemical industry) led to lower imports of inputs (higher rank coal and coke) and released additional amounts of natural gas for exports. Trade in crude oil and petroleum products also made a small positive contribution, the motor fuel sales rising more swiftly than imports of crude oil.

The negative differential between the annual change in exports of goods and that in imports thereof (in volume terms) led to an 18 percent widening of the deficit on trade in goods in January-May (according to the balance of



²⁰ The volume of euro area's exports of goods to the United States stood 17.3 percent higher than in 2024 Q4 (especially in March, when the monthly growth rate was 25 percent), reverting in April to a level similar to that recorded in the latter part of 2024.

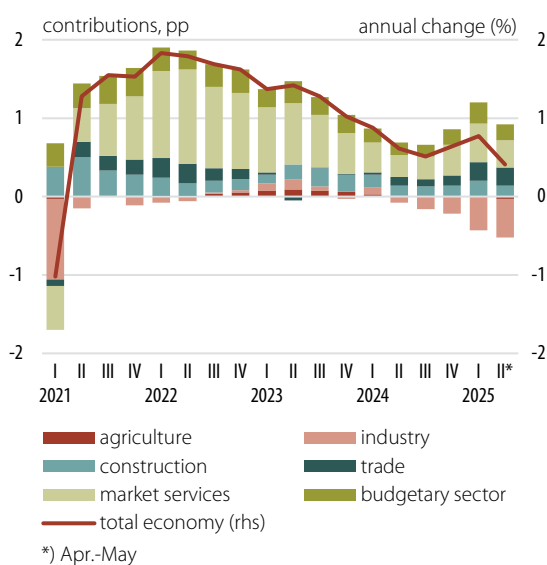
²¹ As regards the relationship with EU countries, in June 2025, China announced however its willingness to establish a "green channel" to step up the release of export licences.

payments)²². However, the deterioration was even steeper for the current account deficit (46.7 percent), owing also to the unfavourable developments recorded in income accounts – the rise by 32.9 percent of primary income deficit (mainly on account of interest payments on government securities) and the shift of the secondary income account to a slight deficit, amid the slower absorption of non-repayable EU funds and the decline in remittances of workers from abroad. Conversely, the services surplus increased by 9.3 percent, especially as a result of developments in ICT and freight transport (possibly due to Romania's joining Schengen area), but the positive outcome was eroded by the deepening shortfall of travel (Chart 2.5).

Labour market

2025 began with rather visible changes in the main labour market indicators, which reflected more clearly the sluggish economic activity recorded in the previous year. Both labour demand and supply witnessed adjustments suggestive of an easing of labour market conditions and the annual wage growth, although further high, decelerated.

Chart 2.6. Number of employees economy-wide



Source: NIS, NBR calculations

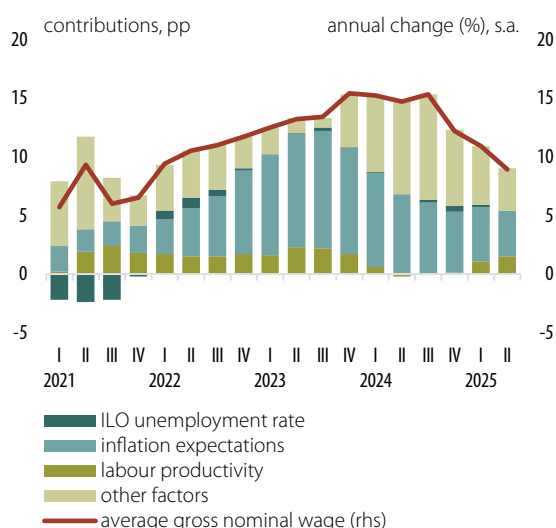
Labour market tightness declined in 2025 Q1, posting the lowest post-pandemic level. The job vacancy rate fell to 0.6 percent in Q1 – even though the change is marginal, the decrease becomes relevant amid the prolonged stability of the variable (which stood at 0.7 percent for more than one year). In parallel, the ILO unemployment rate increased markedly, to 6 percent (+0.3 percentage points from 2024 Q4). While the provisional data for April-May show that the unemployment rate was 5.8 percent, its level will most likely run higher in 2025 Q2 as a whole, in view of the modest outlook for economic activity. The latest results of the DG ECFIN survey are also indicative of weaker labour demand, shortage turning into a less pressing issue for companies. The AHK Business Survey 2025 conducted by the German-Romanian Chamber of Commerce and Industry in March 2025 reached a similar conclusion as well, signalling a change in the ranking of

firms' concerns, as the demand for goods and services, the political and economic environment and labour costs came before the lack of skilled staff. While in the background, the structural problems of the labour market (such as the inefficient education system, high emigration levels in the post-accession period and population ageing) remain and fuel the persistence of chronic labour shortage and of a certain threshold for labour market tightness (see the Box).

²² An additional contribution came from the price component, the rise in the unit value of exports being outpaced by that of imports (3.1 percent versus 4.2 percent, year on year), according to international trade data (classification by broad economic categories, BEC) for January-April.

In 2025 Q1, the annual growth rate of the number of employees stepped up slightly to 0.8 percent (+0.1 percentage points versus 2024 Q4), Chart 2.6. In the private sector, positive contributions mainly came from trade and construction, but also from information technology, where restructuring ceased. By contrast, the industrial sub-sectors that had already recorded declines in headcount continued to be reorganised, particularly the manufacture of motor vehicles, where automation via industrial robots is under way²³. In addition, hiring in the food industry followed a steeper downward path. In the budgetary sector, the first three months of 2025 witnessed a rise in payrolls, the annual dynamics of the number of employees accelerating to 1.4 percent from 1 percent in 2024 Q4. The data for April-May economy-wide showed a deceleration in the annual pace of increase of the number of employees to 0.4 percent, most sectors posting either slower growth rates or sharper contractions; the trend was manifest in both private and budgetary sectors.

Chart 2.7. Developments in the average gross wage economy-wide



Note: In this specification of the wage Phillips curve, wage dynamics are determined by labour productivity, labour market conditions and labour market participants' inflation expectations (assumed to be adaptive, with a two-quarter transmission lag) as follows:

$$\Delta \text{average gross wage}_t = \beta_1 \Delta \text{average gross wage}_{t-1} + \beta_2 \Delta \text{labour productivity}_t + \beta_3 \Delta \text{CPI}_{t-2} + \beta_4 \Delta \text{ILO unemployment rate}_{t-2} + \text{other factors}$$

Changes are approximated by logarithmic differences.

Source: NIS, Eurostat, NBR estimates and forecasts

The employment environment remains cautious in the near future. The DG ECFIN survey indicates modest developments in labour demand, employment expectations in 2025 Q2 being comparable to those in Q1. The ManpowerGroup Employment Outlook Survey (for 2025 Q3) shows a similar perspective, the net employment outlook standing at the same level as in the previous quarter (6 percent, among the lowest in Europe).

The annual growth rate of the gross wage economy-wide followed a downtrend, decreasing to 11.7 percent in 2025 Q1 (-1.5 percentage points from 2024 Q4) and to 10.2 percent in April-May. In the private sector, wage dynamics remained relatively stable in the first quarter of 2025 – 12.4 percent, on average, 0.1 percentage points above the level in the previous three-month period. To this contributed the new hike in the gross minimum wage as of 1 January 2025 and the decision of some employers in the food industry and construction to partially compensate employees for the removal of tax breaks by covering a share of the income loss (while this approach was less visible in the other two sectors affected by the said measure, i.e. ICT and agriculture).

Subsequently, the annual pace of increase of private sector wages slowed down, standing at 11.4 percent April through May. The trend will most likely persist for Q2 overall as well – according to the in-house estimates of the wage Phillips curve (Chart 2.7), the unfavourable contribution of exogenous factors further decreases, while labour productivity becomes relevant again for wage bargaining. In the budgetary sector, the annual wage dynamics decelerated markedly to 9.4 percent in 2025 Q1 and 5.7 percent in April-May 2025, given the decision to freeze these wages as of the beginning of this year.

²³ Dacia launched a voluntary separation programme for its employees working at the plant in Mioveni whereby they could resign until 20 June in exchange for substantial payments, employment contracts terminating as of 1 July 2025.

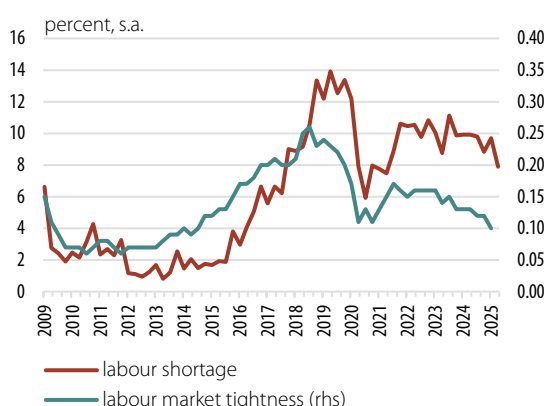
Box. Structural features of labour shortage in Romania

Labour shortages occur when employers encounter difficulties in filling job vacancies because labour supply is either scarce or it does not match the specific requirements of available job openings. This imbalance is usually captured using surveys that gauge companies' perception of the skill mismatch intensity and its impact on their activity. In a narrower sense, the concept may also be linked to that of labour market

tightness (Groiss and Sondermann, 2023), Chart A.

Both indicators show the labour demand-to-supply ratio, yet firms' perception of labour shortage can provide a direct measure of the phenomenon, which may be looked at from different angles: cyclical versus structural, but also in qualitative versus quantitative terms. The skills acquired during formal education and the motivation for lifelong learning, alongside demographical challenges and emigration, are factors that include a significant structural component and influence labour shortage²⁴. In a context in which structural deficiencies have become a long-lasting feature of the labour market in Romania, this box aims to provide an overview of the progress and, as the case may be, the setbacks recorded over the past years by the relevant indicators.

Chart A. Labour market tightness



Note: The labour market tightness indicator is calculated as the ratio of the job vacancy rate to the ILO unemployment rate (monthly data). Labour shortage refers to the share of answers of companies citing the difficulty of finding workforce as a factor that constrains their economic activity.

Source: NIS, Eurostat, EC-DG ECFIN, NBR calculations

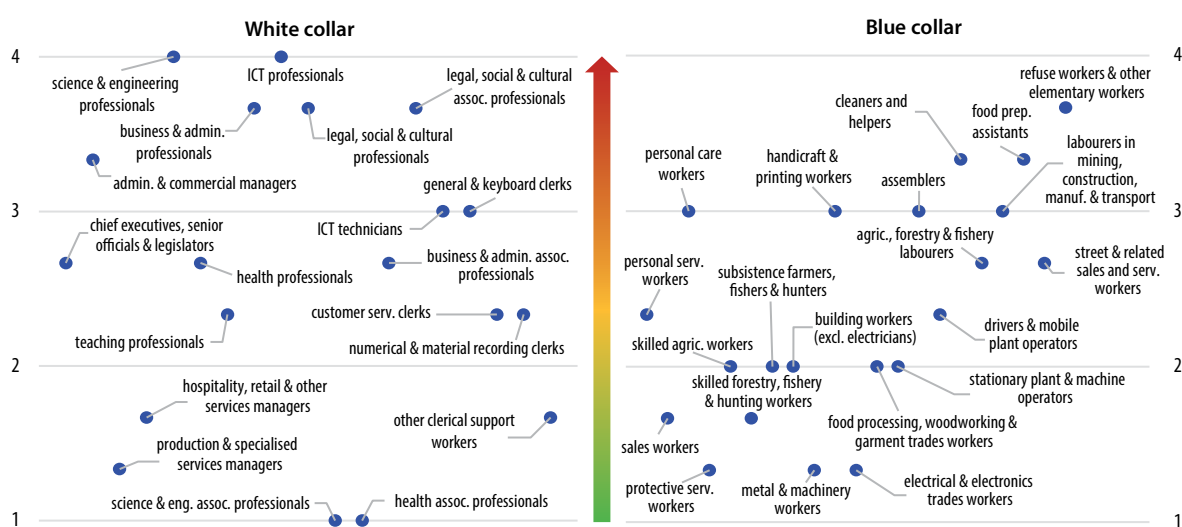
The results of the *Survey on the access to finance of non-financial corporations in Romania* conducted by the NBR showed that the availability of skilled staff was a rather widely reported concern among firms September 2024 through February 2025 (ranking fourth in terms of importance), approximately 40 percent of them mentioning the lack of skilled labour as a pressing problem (the share rising to 54 percent in the case of large companies). According to the DG ECFIN survey, the percentage of companies citing labour shortages as a constraint to their activity was somewhat stable over the past four years, running at around 10 percent. Nevertheless, the fairly low level as compared to that indicated by alternative data sources suggests a possible underestimation of labour shortage, as filling in the questionnaire is optional and thus firms may no longer send it when the issue becomes chronic and the measures taken are no more than a palliative.

According to the ECB's *Survey on the access to finance of enterprises* (SAFE) (which is similar to the NBR's *Survey on the access to finance of non-financial corporations in Romania*), the acute shortage of skilled labour appears to affect Romania more strongly than other EU Member States. On a scale of 1 to 10, in ascending order of importance, domestic companies rated by 8.1 points, on average, the lack of skilled

²⁴ In this vein, at end-2024, the Council of the European Union approved the conclusions on tackling labour and skills shortages in the EU and set out a number of recommendations whereby it invited Member States to help underrepresented groups gain increased access to available job vacancies.

staff in April-September 2024, whereas the EU-27 average was 6.7 points. The result is also corroborated by the latest EURES *Report on labour shortages and surpluses 2024*, according to which Romania ranks fifth in the EU in terms of shortage occupations. The unfavourable rank is mirrored by several employment indicators, Romania posting one of the lowest labour force participation rates (particularly for young people, women and the Roma minority) and one of the highest shares of young people neither in employment nor in education and training (NEET²⁵). Thus, although the employment rate²⁶ remained on an upward trend, it reached only 63.8 percent in 2024 (versus 49.5 percent in 2009), standing almost 10 percentage points below the EU average.

Chart B. Labour shortage index by occupational group



Note: A score of 4 indicates higher shortage, whereas a score of 1 indicates no shortage.

Source: Cedefop, the 2024 edition

Cedefop²⁷ data by occupational group (Chart B) show that labour supply appears to remain limited over the long term especially as regards elementary occupations, which post, on average, the largest labour shortage (for instance, building construction labourers, freight handlers, cleaners, hand packers, kitchen helpers). In parallel, substantial difficulties persist also in ICT, sciences, engineering and health areas, which require a high degree of specialisation. However, labour shortage seems to be less pronounced in the case of low-skilled technical occupations, with some regions in Romania even posting a surplus. Specifically, the latest EURES *Report on labour shortages and surpluses 2024* points to a surplus of information and communications technicians in the North-West region of the country, as well as of physical and engineering science technicians in the South-East and West regions.

²⁵ The percentage of the population of a given age group who is not employed and not involved in further education or training.

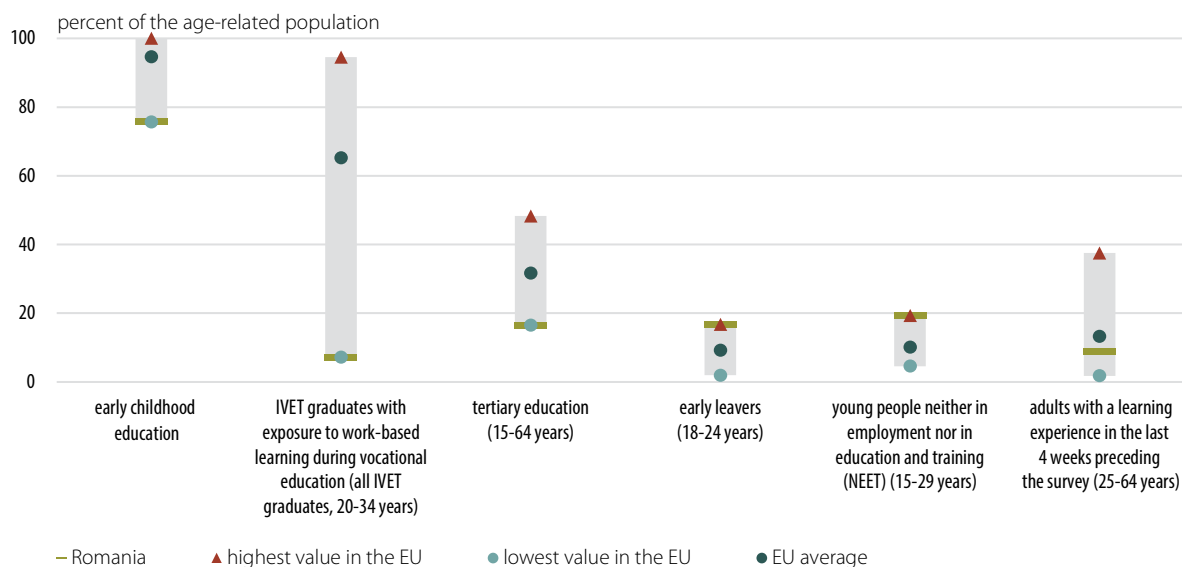
²⁶ Calculated for persons aged 15 to 64

²⁷ European Centre for the Development of Vocational Training

Education

Basic skills and medium-level qualifications can be acquired by participating in a vocational training programme. At EU level, vocational upper secondary education (vocational and technical education – IVET²⁸) includes vocational high schools, technological high schools, VET schools/dual VET schools and short VET programmes²⁹.

Chart C. Relevant lifelong learning indicators



Source: Eurostat

In Romania, the share of students enrolled in upper secondary vocational education programmes (high schools and VET schools) exceeds that of students participating in upper secondary general education programmes³⁰ (the theoretical track in upper secondary education), i.e. 56 percent against 44 percent in 2023. Nevertheless, the former category reports a higher dropout rate and a lower Baccalaureate exam pass rate (slightly below 60 percent versus approximately 86 percent in the case of general education students), which implicitly impacts skilled labour supply. Moreover, Romania records by far the largest share of non-enrolled students in upper secondary education, even though they are of appropriate age – almost 27 percent in 2023, well above the EU average, i.e. around 7 percent. Furthermore, Romania ranks last from the perspective of exposing IVET graduates to work-based learning, at a considerable distance from the EU average (Chart C). In addition to the poor quality of education, these figures reflect an alarming social reality. A significant share of the rural population has limited (or even no) education opportunities, given the high exposure to the risk of poverty (41.7 percent in 2024) and the substantial urban-rural disparities in terms of educational alternatives and the related assessment standards.

²⁸ Initial vocational education and training

²⁹ Until recently, the vocational education offer in Romania was narrower, being primarily confined to technological high schools and VET schools (including dual VET schools), but the new education law (adopted in 2023) covers the entire IVET cycle.

³⁰ They ensure a wide range of theoretical and practical knowledge in various fields (e.g. Mathematics, Information and Communications Technology, Natural Sciences, Humanities, Social Sciences).

According to their average scores on the 2022 PISA (Programme of International Student Assessment) tests³¹, Romanian students ranked next to last among EU peers, making no progress since the previous PISA cycle (2018). Specifically, approximately 42 percent of students did not meet minimum proficiency in reading, 49 percent in mathematics and 44 percent in science, meaning that they cannot understand what they read, cannot make mathematical connections and cannot recognize the correct explanation for familiar scientific phenomena, respectively.

As expected, socio-economically disadvantaged students from rural areas (almost half of the population) or from the Roma community (almost one third of the rural population was self-identified Roma in 2023) tend to opt for the upper secondary vocational track. This choice is most likely rooted in a poor educational start, compounded by the urban-rural divide (only 7.4 percent of the children enrolled in nurseries in 2023 were living in rural areas³²). In the same year, only 75.7 percent of pre-school children aged over 3 were enrolled in early childhood education, a value below both the 2013 reading (84.1 percent) and the EU average (94.6 percent), the latter being already close to the 2030 participation target (96 percent).

Unlike high school students who pursue a vocational track, those enrolled in the theoretical track have a higher academic achievement. For instance, in 2025, almost 30 percent of the students in the latter category passed their Baccalaureate with a mark of at least 9 as compared with about 6 percent for students in the vocational stream. In addition, participation in STEM³³ education (which involves particularly students in the theoretical track), a benchmark for the capacity of an education system to underpin innovation and develop skills tailored to current labour market requirements, shows that Romania ranked below the EU average in 2023 (86.3 university students enrolled per thousand inhabitants³⁴ against approximately 98.7 higher education students in the European Union), but not among the lowest levels. In this vein, significant funding under the NRRP (Component 15) is channelled towards modern laboratories and digital equipment to promote the integration of STEM activities into the curriculum.

From the perspective of adults, mention should be made of their stronger interest in lifelong learning over the past years, the adult participation rate in education and training programmes increasing by almost 7 percentage points in 2013-2024.

Recent attempts to reform and modernise Romania's education system signal some favourable prospects, Law No. 1/2011 on national education being replaced by two new legal acts at end-2023. On the one hand, Law No. 198/2023 on pre-university education, which covers early childhood education, primary and secondary education, sets forth structural and organisational changes by: integrating nurseries

³¹ Intended to measure 15-year-old students' reading, mathematics, and science literacy

³² *Report on the state of pre-university education in Romania 2023-2024*

³³ Science, Technology, Engineering, and Mathematics

³⁴ Of the population aged 20 to 29 (enrolled in tertiary education)

into the national education system; providing more equitable funding (the funding formula is adjusted for learners with special education needs); introducing new assessment methodologies (for instance, implementing the preschooler's/student's educational portfolio, setting up a digital maturity monitoring mechanism, making all assessments based on national assessment standards for each field of study); adopting regulations on in-service teacher training (the implementation of mentorship programmes designed to improve pedagogical skills); and extending dual secondary education so as to cover all IVET cycles. On the other hand, Law No. 199/2023 on higher education aims to diversify the education offer to include supposedly more attractive options for vocational students, with a view to ensuring a smoother transition from upper secondary to tertiary education (introduction of dual vocational bachelor programmes and short-cycle tertiary programmes), encouraging lifelong learning (with a focus on reintegrating early leavers into the system, increasing university enrolment of vulnerable students and in STEM fields).

Apart from the qualitative side of labour shortage, which depends intrinsically on the quality of the education system, the quantitative side is also relevant, in the context of massive migration and the negative natural population change that Romania has faced over the past decades.

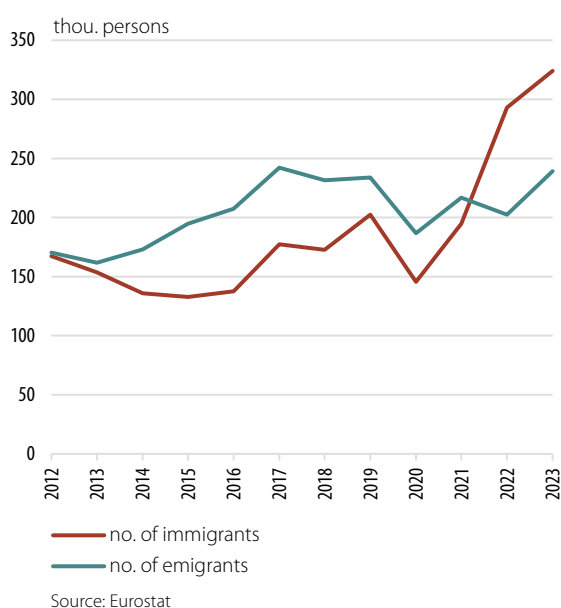
Migration

After more than two decades when Romania recorded a negative net migration rate, standing among the few EU countries faced with this issue, the indicator has taken positive values in the past two years. Although a still large number of Romanian citizens have chosen to establish residency in Western countries, the

number of persons coming to Romania has grown to a level similar to that of emigrants. Specifically, in the 2022-2023 period, the net migration rate turned positive³⁵, i.e. around 5 percent (almost 1 percentage point below the EU average), due to the authorities' decision to raise, since 2022, the annual quota of admitted foreign workers to 100,000 persons, as well as to the significant increase in Romanian citizens' interest in returning to their home country after the COVID-19 pandemic (Chart D).

Looking at foreign citizens, the number of immigrants has soared in recent years, especially on account of inflows of workers from Nepal, Sri Lanka, Vietnam and other non-EU countries (in general, they are probably labourers from developing economies) and to a much lower extent from EU countries (4.2 percent³⁶ versus

Chart D. Migrant flows

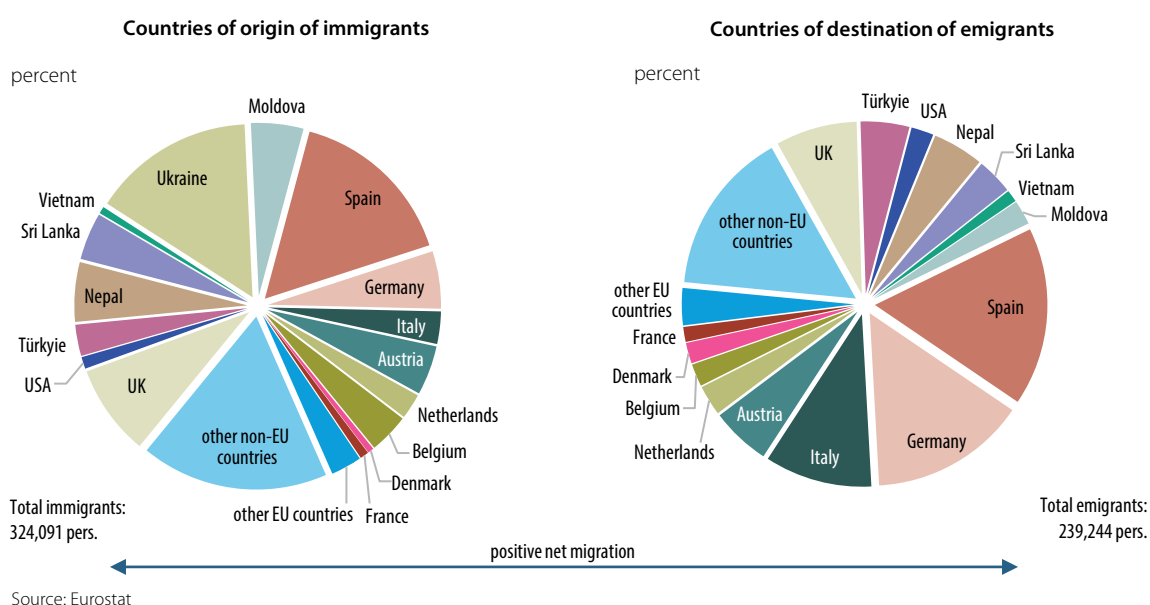


³⁵ According to Eurostat estimates

³⁶ Excluding the nationals returning to Romania

nearly 30 percent from non-EU countries). At the same time, Romania continues to lose a large number of workers, possibly with higher education/skills than those entering the country, as they manage to settle in more developed countries (such as Spain, Germany or Italy), where they find better prospects and higher living standards (Chart E). According to the 2024 Standard Eurobarometer 101, the Romanian citizens are the least satisfied with the life they lead, with only 62 percent of respondents stating they are satisfied with the living conditions as compared to 85 percent of EU citizens.

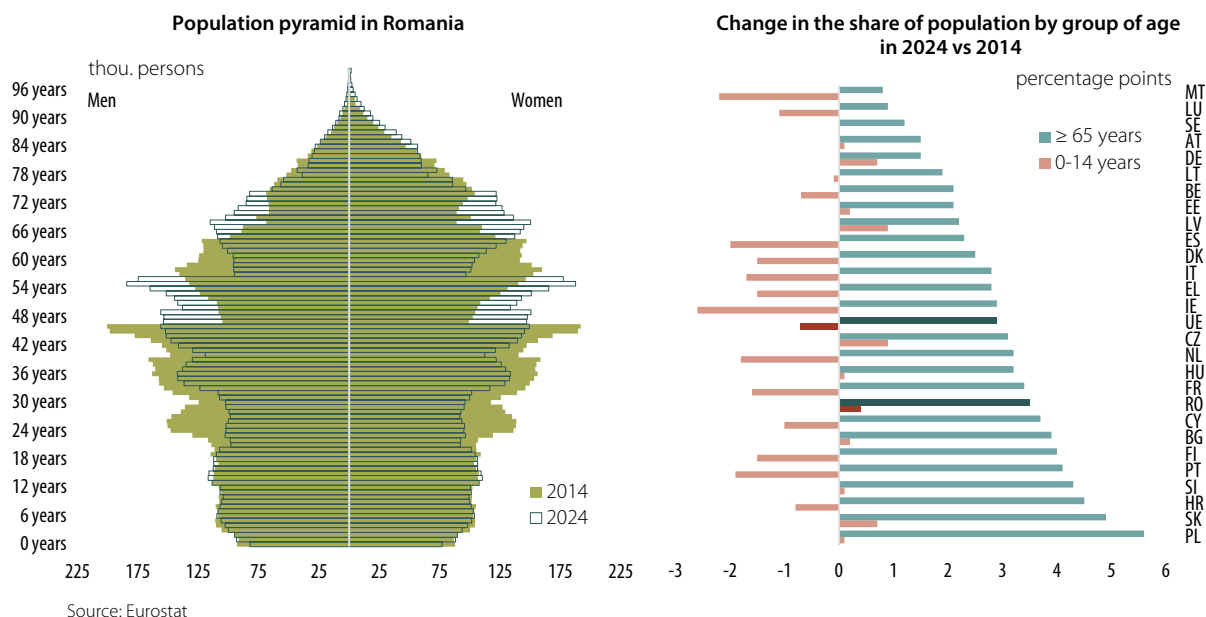
Chart E. International migration flows in and from Romania, 2023



Demographics

The ageing of the population and the changes in the population composition by age group have a direct impact on the available labour force in the medium and long run. In Romania, the population aged at least 65 years has grown steadily since 2013, expanding by almost 17 percent until 2024. Specifically, the share of elderly people reached 20 percent of total population in 2024 (versus 16.3 percent in 2013), whereas the median age increased to nearly 44 years compared to 40.5 years in 2013. Although the total population has stopped declining in recent years (annual change of 0.1 percent in 2023 and 2024), the demographic projections of Eurostat hint at a contraction of almost 10 percent by 2035. However, some positive developments are visible in the young population: the share of persons aged up to 15 years has improved since 2017, staying above the EU average in recent years as well. Although the negative natural population change has shrunk over the past two years, it still remains below the level recorded before the COVID-19 pandemic outbreak, i.e. -4.4 percent in 2023 versus -3.1 percent in 2019 (in the same years, the European average was -2.6 percent and -1.1 percent respectively). While the overall gender ratio highlights a slight prevalence of women in total population (in 2024, the number of women exceeded by nearly 6 percent the number of men), the analysis by age group shows that men up to 55 years old hold a prevailing share (Chart F).

Chart F. Demographic trends



Although the current demographic developments in both Romania and other European countries³⁷ seem to weigh on the sustainability of labour supply, groundwork has been laid for these trends to weaken. In this vein, the European Commission developed at end-2023 a set of tools available to EU Member States to help them substantiate domestic policies, in response to the major demographic changes they have to manage. The toolbox is structured around four pillars: improving the work-life balance (with a focus on ensuring parents' access to childcare services in order to reduce gender inequality); empowering younger generations to thrive (mainly by lowering territorial disparities); promoting the welfare of older generations (by encouraging active ageing – through flexible work schemes –, in a good health condition); and managing migration (by attracting non-EU workers and creating good living conditions for them).

Instead of conclusions...

Despite some signs of improvement, labour shortage remains a pressing, strongly structural issue that can be solved solely in the medium and long run through active social policies, from increasing the quality of the education system and its capacity to produce adequately skilled candidates to improving the quality of life, so that the decision to have children and remain in the native country should come naturally.

The current labour market challenges, emerged in the context of the fourth industrial revolution that is now underway, relate to the integration of new AI technologies, the management of big data, the robotisation and automation of production

³⁷ Demography of Europe – 2025 edition, European Commission

processes. The human resource is increasingly sought for skills necessary to perform activities requiring more than basic competencies. Against this background, it is essential to solve the structural problems under review, especially in what concerns the quality of education and the migration of highly skilled workforce, in order to establish and preserve a resilient candidate pool (able to face current challenges), with implications for most macroeconomic indicators, from growth potential and competitiveness to price stability.

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2. Import prices and producer prices on the domestic market

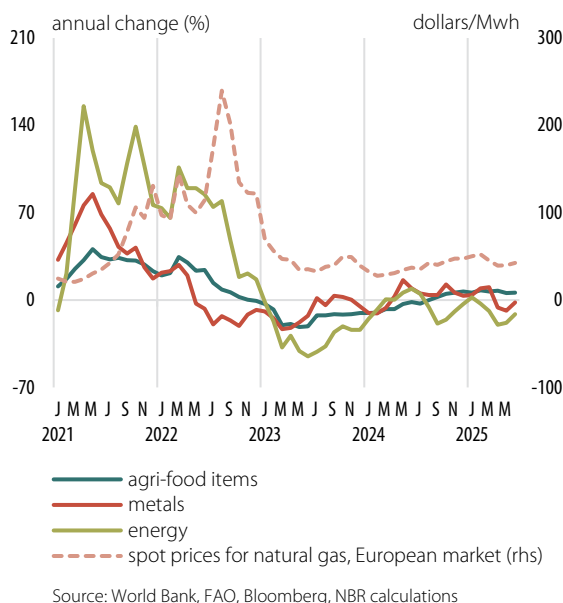
In 2025 Q1, both import prices and industrial producer prices on the domestic market saw an acceleration in their annual rates of change up to positive values, under the impact of lower temperatures that led to significant increases in electricity and natural gas prices. In April-May, however, the annual dynamics of industrial producer prices on the domestic market lost momentum, reflecting generally benign developments in commodity markets. Although moderating, the growth rate of unit labour costs has continued to exert pressure on companies, which will also be affected by higher electricity bills starting in July, following the expiry of the price capping scheme.

2.1. Import prices

In 2025 Q1, amid a slight recovery in manufacturing, the aggregate commodity price index calculated by the World Bank recorded an annual increase of 0.9 percent. Subsequently, however, against the backdrop of weakening global growth and trade-related uncertainty, 2025 Q2 saw renewed declines (-11.1 percent overall), with energy commodity prices falling more sharply (Chart 2.8).

Specifically, except for the price spikes in January, the Brent oil price followed a steep downward path until May, dropping below USD 65/barrel, its lowest level in the past four years. The correction was driven by an increase in OPEC+ production and a deteriorating outlook for global demand. This trend came to a halt in June, amid the

Chart 2.8. International commodity prices



escalation of the Middle East conflict, with the Brent oil price climbing back to levels close to USD 80/barrel, while towards the end of the month, the possible ceasefire between Israel and Iran pushed the price below the USD 70/barrel threshold. In the case of natural gas traded on the European market, the price hikes seen in the first two months of the year were followed by an adjustment, as the period of exceptionally low temperatures came to an end. Subsequently, some price pressures stemmed in late May from the unplanned shutdown of several natural gas extraction and processing facilities in Norway – a key producer and supplier to the European market – and in June from the escalation of the Middle East conflict, which raised concerns about potential disruptions to liquefied natural gas (LNG) flows through the Strait of Hormuz.

Metal prices exhibited positive annual dynamics in 2025 Q1, driven by the improvement in global economic activity, amid frontloaded deliveries to the US ahead of the implementation of trade tariffs announced by the Trump Administration. However, their annual rate of change turned negative in 2025 Q2, against the backdrop of a deteriorating demand outlook and escalating trade tensions. The price of iron ore fell sharply, as major producers (Australia and Brazil) maintained high output levels, while China's demand for steel weakened, largely due to sluggish construction activity.

As for agri-food commodities, the annual rate of change of the FAO index remained in slightly positive territory in 2025 H1. Prices for meat and milk continued to rise, reflecting supply-side pressures linked, *inter alia*, to livestock disease outbreaks and climate change-related constraints. By contrast, grain prices posted negative dynamics, given the favourable harvest prospects.

In 2025 Q1, import prices had an unfavourable impact on domestic price dynamics, as the unit value index of imports increased by 2.5 percentage points compared to the previous quarter, reaching 102.3 percent. The contribution of exchange rate movements was negligible in the case of the euro, but added to the price pressures in the case of the US dollar (which is the settlement currency for most imported commodities), with mineral and fuel prices thus increasing by more than 10 percent.

Looking at the goods holding a relevant share in the CPI basket, the UVIs of food items generally stood above one, except for meat and sugar, which nevertheless picked up compared to the previous quarter.

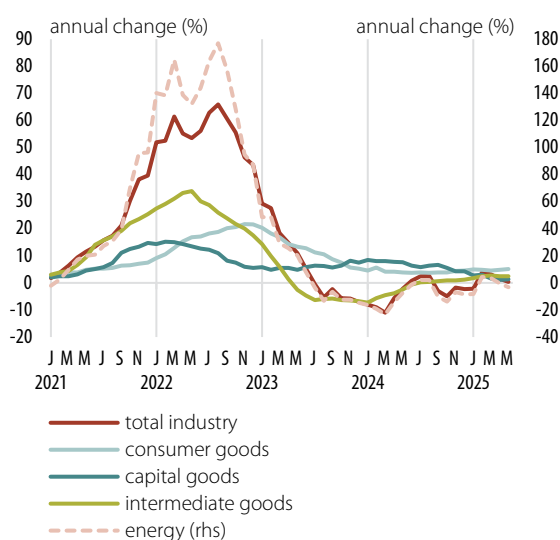
2.2. Producer prices on the domestic market

In April-May 2025, the annual growth rate of producer prices on the domestic market stood at 0.9 percent, 0.7 percentage points below the Q1 level, reflecting generally benign developments in commodity markets (Chart 2.9). The breakdown shows that the rates of change of producer prices for capital and energy goods slowed down,

while those of the other categories picked up slightly. However, the DG ECFIN survey for June-August points to a rise in the balance of answers on future developments in producer prices, to 30.6 percent (from 25.2 percent in the first five months of the year), amid the hike in electricity costs in July, following the expiry of the price capping scheme.

The annual dynamics of producer prices for capital goods continued to decline, due to the gradual fading of cost pressures from streamlining production lines in the automotive industry and to the easing of labour cost pressures, particularly in the automotive components sub-sector, where layoffs have been ongoing. However, looking ahead, the path of prices in this sector may record a turning point, given China's restrictions on critical mineral exports, which are expected to affect producers in the field via higher input costs and delays or halts in production.

Chart 2.9. Industrial producer prices on the domestic market



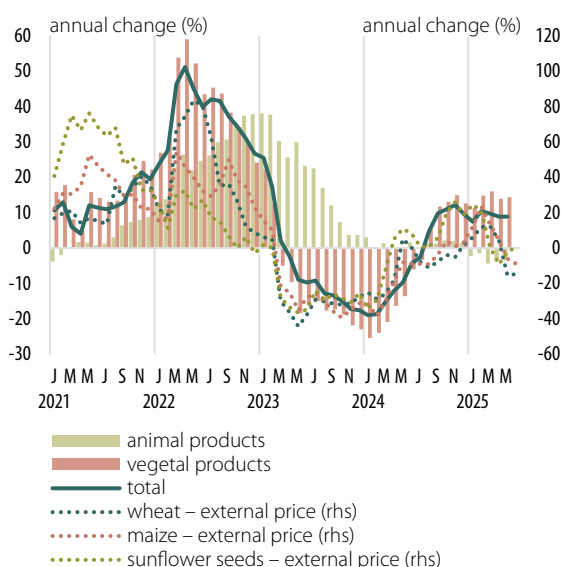
Source: NIS, Eurostat, NBR calculations

Energy prices posted a negative annual rate of change (-1.8 percent, down 1.5 percentage points from Q1), amid benign conditions in energy markets. Specifically, in line with developments at the European level, natural gas prices on the domestic market followed a downward path as the cold season ended. Domestic wholesale electricity prices displayed a similar trend (negative values were recorded during certain time intervals in April), reflecting, alongside the decline in natural gas prices, an increase in electricity generation from renewable sources, particularly from solar panels. Indeed, the renewable energy segment holds significant potential to expand its share over the coming years, provided that the announced large-scale investments, including in storage facilities, materialise. Additional impetus in this regard has come from the Contracts for Difference scheme, which states that the producer is guaranteed a selling price (strike price) for their output. The second auction under this scheme was organised in May, covering 2,000 MW of wind energy and nearly 1,500 MW of solar energy (the first auction had taken place at end-2024, resulting in contracts for more than 1,000 MW of wind energy and almost 500 MW of solar energy). Similarly to the other energy prices, crude oil processing prices declined at a faster pace year on year, in line with the downward trajectory of international oil prices, compounded by the depreciation of the US dollar.

The annual dynamics of producer prices for intermediate goods saw a modest increase (+0.2 percentage points, to 2.5 percent), supported by the manufacture of building materials and that of wood, possibly linked to the improvement in

construction. Conversely, annual rates of change remained negative in metallurgy, where manufacturers have reported competitive pressure from low-cost imports originating in Türkiye, Egypt and several North African countries (which are not subject to the EU's strict environmental standards and therefore incur lower production costs).

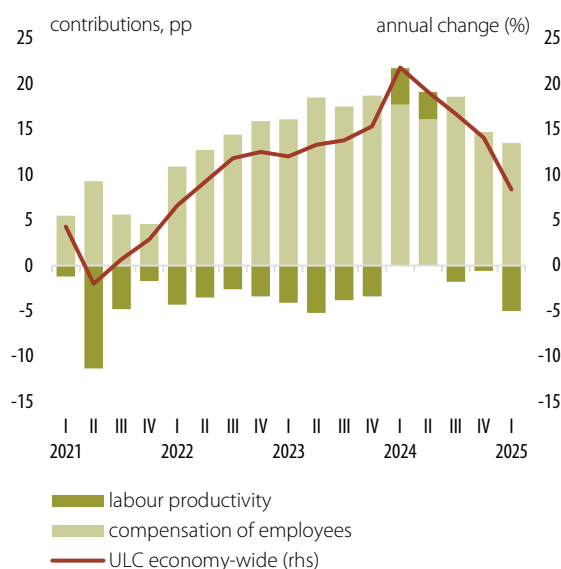
Chart 2.10. Agricultural producer prices



Source: NIS, Bloomberg, NBR calculations

The annual growth rate of producer prices for consumer goods increased slightly to 5.0 percent. In the food industry, producer prices rose by 4.8 percent in annual terms (+1.4 percentage points compared to 2025 Q1), reinforcing the upward trend they had embarked on in mid-2024. This may be attributed to higher costs of some commodities (such as meat and milk), given that disease outbreaks both domestically and in some European countries curbed supply. Another contributing factor was the rise in gross wages, driven by the increase in the minimum wage and by the decision of some companies to partially compensate for the income loss incurred by employees following the removal of tax breaks. For the period ahead, the outlook is mixed, as the emerging signs of easing pressures from agri-food commodities, amid favourable estimates for new crops, may be counterbalanced by upward pressures from other production costs, especially energy-related ones.

Chart 2.11. Unit labour costs



Source: NIS, NBR calculations

The annual rate of change of agricultural producer prices remained in positive territory April through May 2025, standing at 8.9 percent, solely on account of vegetal products (14.2 percent year on year). However, there are signs of alleviating pressures, particularly for wheat, barley and rapeseeds, as recent estimates point to good domestic crops, while global prospects are also positive. Conversely, recent precipitation shortages and high temperatures are expected to weigh on maize and sunflower yields domestically. As for animal products, prices continued to contract slightly in annual terms, although upward pressures have emerged for some varieties of meat³⁸ and dairy products (Chart 2.10).

Unit labour costs

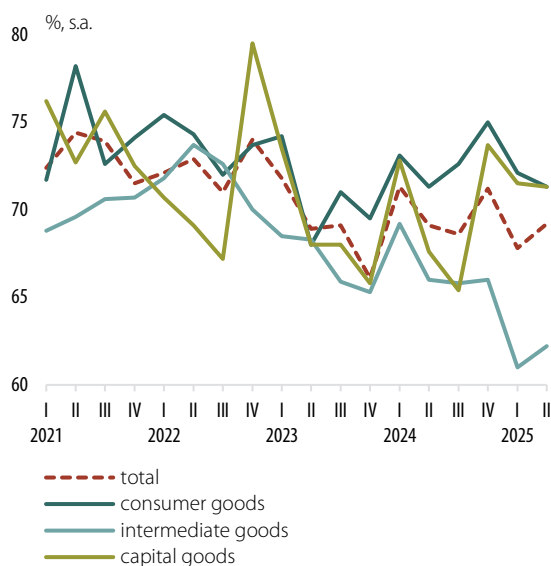
The annual dynamics of unit labour costs economy-wide declined to 8.4 percent in Q1, after having posted double-digit levels for two years (Chart 2.11). Both components of the ratio contributed to this slowdown, with labour productivity playing a more significant

³⁸ Compared to 2017, when the first case of swine fever was confirmed, the pig sector has been facing a steady decline in livestock numbers, which were over 25 percent lower as at 1 December 2024.

role, as its annual growth rate accelerated to 5 percent in 2025 Q1 (+ 4.4 percentage points compared to the previous quarter), mainly on account of the drop in employment; the annual change in the compensation per employee slid to 13.8 percent from 14.7 percent at end-2024.

In contrast, the annual growth rate of unit wage costs in industry stepped up to 16 percent in 2025 Q1, from 10.5 percent in 2024 Q4. The acceleration was driven by the rise in the minimum wage at the beginning of the year, with wage hikes being visible in the food industry – also impacted by the removal of tax breaks and the resulting compensatory increases in gross wages – as well as in the light industry, the manufacture of furniture and that of wood, sub-sectors more sensitive to changes in the minimum wage; an additional upward influence came from the annual rate of change of labour productivity entering into negative territory.

Chart 2.12. Capacity utilisation rate in industry



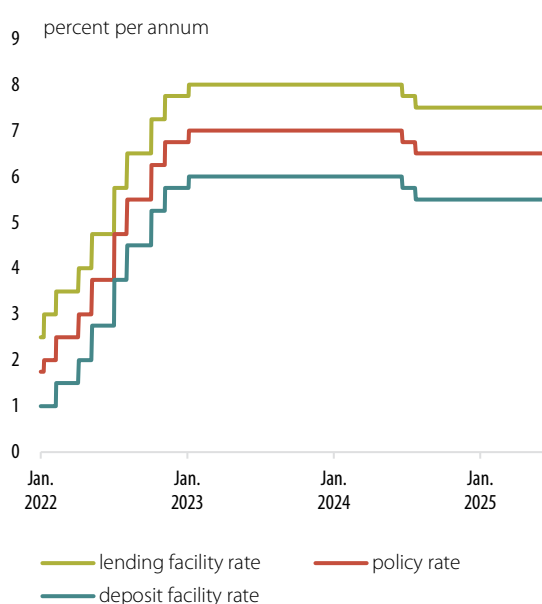
Although the annual dynamics of unit labour costs moderated to 12 percent April through May, this was solely due to a favourable base effect in May, when the annual growth rate of labour productivity surged to 9.2 percent. Nevertheless, a lasting recovery appears unlikely, given the unfavourable short-term outlook for industrial activity: manufacturing confidence indicators (PMI and DG ECFIN), both in the euro area and in Romania, remained in contraction territory in Q2, while the capacity utilisation rate in domestic industry stayed in the 65-70 percent range in the first half of 2025 – a historically low level – within which it has hovered almost continuously over the past two years (Chart 2.12).

3. Monetary policy and financial developments

1. Monetary policy

In May and July 2025, the NBR kept the monetary policy rate at 6.50 percent and left unchanged the lending and deposit facility rates at 7.50 percent and 5.50 percent respectively (Chart 3.1). Moreover, the central bank kept the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions at 8 percent and 5 percent respectively. The decisions aimed to ensure and maintain price stability over the medium term, in line with the 2.5 percent ± 1 percentage point flat target, in a manner conducive to achieving sustainable economic growth.

Chart 3.1. NBR rates



The NBR Board decisions in May were taken in a context in which inflation developments and outlook deteriorated further compared to the previous forecast, especially in the middle segment of the projection horizon, while the uncertainties and risks surrounding the new forecasts remained elevated.

Specifically, the annual inflation rate fluctuated during the first three months of 2025, declining in Q1 overall less than anticipated, to 4.86 percent in March from 5.14 percent in December 2024, given that the markedly swifter increase in energy prices, administered prices and processed food prices largely counterbalanced the decreases in the dynamics of fuel and tobacco product prices, as well as of non-food sub-components of core inflation. In turn, the annual adjusted CORE2 inflation rate resumed its decline at a slower-than-expected pace, dropping to 5.2 percent³⁹ in March from 5.6 percent at end-2024

amid the uneven developments in the price dynamics of the three sub-components, namely a further step-up in the case of processed food and a slower decrease for services, but a sharper downward trend in the non-food segment⁴⁰.

³⁹ The disinflationary base effects from non-food sub-components and the more visible slowdown in import price dynamics had a downward impact on core inflation in 2025 Q1, while notable opposite influences continued to come, over this period, from the hike in some agri-food commodity prices, as well as from the gradual pass-through of increased wage costs to some consumer prices, also amid the high levels of short-term inflation expectations.

⁴⁰ The annual dynamics of prices remained high in the case of non-food sub-components of core inflation.

At the same time, the updated medium-term forecast⁴¹ indicated a new worsening of the inflation outlook compared to previous forecasts, especially in the middle segment of the projection horizon. Specifically, the annual inflation rate was expected to fluctuate further until 2025 Q3, before decreasing for four quarters, on a significantly higher path than that anticipated in February. It was seen falling no sooner than in 2026 Q3 and only marginally below the upper bound of the variation band of the target, before remaining relatively constant until the end of the projection horizon. Thus, the annual inflation rate would decline to 4.6 percent in the closing month of 2025 and to 3.4 percent in December 2026, compared to the corresponding levels of 3.8 percent and 3.1 percent respectively forecasted in February, and it would reach 3.3 percent in March 2027.

The significantly higher-than-previously-projected values anticipated for the annual inflation rate in the following four quarters, but also the generally downward path it was expected to follow starting in 2025 Q4, were largely attributable to supply-side factors. Their action was envisaged to become and remain inflationary over the near term⁴², while towards end-2025 it would turn slightly disinflationary again⁴³. Moreover, the future evolution of energy and food prices remained a source of inflationary risks, given the forthcoming expiry of capping measures and the potential developments in commodity prices. Notable risks also stemmed from the trade policy measures taken in advanced economies, which could affect the international prices of some intermediate and final goods.

At the same time, underlying price pressures were expected to remain inflationary over the short term, gradually easing, and turn disinflationary starting no sooner than in the second part of the forecast horizon, given the lagged materialisation of the disinflationary effects of the negative output gap anticipated to open and to widen moderately in 2025⁴⁴, as well as amid the persistence of pressures from wage costs. The latter's growth rate during the current year was seen sticking to double-digit levels in the private sector, above the gradually declining values forecasted previously. Moreover, the current account deficit would witness a modest downward correction over the two-year horizon of the projection, yet it would stay well above European standards as a share in GDP.

Heightened uncertainties and risks stemmed, however, from the future fiscal and income policy stance, given on one hand the budget execution in the first three months of the year and, on the other hand, the budget consolidation requirement according to the *National Medium-Term Fiscal-Structural Plan* agreed with the

⁴¹ Incorporating data available until 30 April 2025

⁴² Mainly amid unfavourable base effects, the expiry of the electricity price capping scheme, and the increase in some agri-food commodity prices

⁴³ Due to the base effects in core inflation sub-components and in the fuels and administered prices segments, as well as following the decline in other commodity prices, inter alia in the context of global trade tensions

⁴⁴ According to the new data and assessments, economic growth was expected to recover during 2025-2026, yet more modestly than previously anticipated, stepping up gradually amid the slight moderation in inflation and the use of European funds under the Next Generation EU instrument, but also reflecting a relatively more sluggish revival of external demand, inter alia in the context of global trade tensions. The developments were likely to cause the output gap to become negative and widen moderately in 2025, but also to shrink more slowly over the course of 2026, including as compared to earlier forecasts, implying that it would remain significant at the end of the projection horizon.

European Commission and to the excessive deficit procedure. The uncertainties and risks were compounded by the protracted electoral period and the ensuing rise in domestic political tensions, which entailed substantial capital outflows, in various forms, during the first 10-day period of May, with a major impact on local financial market conditions.

High uncertainties and risks to the outlook for economic activity, implicitly the medium-term inflation developments, also came from the external environment, given the protracted war in Ukraine and Middle East situation, but especially amid the tensions triggered worldwide by the US trade policy, affecting the global economy and international trade. A major source of risks and uncertainties remained also the absorption and use of EU funds, especially those under the Next Generation EU programme, essential for counterbalancing in part the contractionary impact exerted by budget consolidation and by geopolitical/trade conflicts, as well as for carrying out the necessary structural reforms, energy transition included.

According to subsequently released statistical data, the annual inflation rate increased in the first two months of 2025 Q2 overall, relatively in line with forecasts, to reach 5.45 percent in May, amid a further faster rise in food and energy prices, which outweighed considerably, in terms of impact, the new decreases in the dynamics of fuel and tobacco product prices, as well as of the non-food sub-component of core inflation. In turn, the annual adjusted CORE2 inflation rate saw yet again a halt in its downward trend, going up to 5.4 percent in May⁴⁵, given that the further acceleration in the dynamics of processed food prices was accompanied by the step-up in the growth rate of services prices⁴⁶ and by slower disinflation in the non-food segment.

Economic activity stalled in 2025 Q1, after having added 0.5 percent in the previous three months, which made it likely for the negative output gap to open more visibly over this period compared to May expectations. At the same time, the annual GDP growth rate declined further, to 0.3 percent from 0.5 percent in 2024 Q4, but domestic demand continued to see a swifter increase in annual terms, mainly on account of the dynamics of gross fixed capital formation, which surged, making a strong return into positive territory, whereas household consumption posted a notably slower rise, but remained the main driver of GDP advance. By contrast, net exports exerted a significantly larger contractionary impact in 2025 Q1 as well, given the further widening of the negative differential between the annual dynamics of exports of goods and services, in terms of volume, and those of imports, amid the latter advancing more visibly versus the previous quarter. Consequently, the annual growth rate of trade deficit posted a strong re-acceleration, while the current account deficit continued to record a fast year-on-year pace of increase.

⁴⁵ The small disinflationary influences that continued to come during this period from base effects and the slowdown in import price dynamics were more than offset by the influences stemming from the hike in some agri-food commodity prices and the gradual pass-through of high wage costs to some consumer prices, as well as from the pick-up in short-term inflation expectations and the increase in the EUR/RON exchange rate.

⁴⁶ After a six-quarter decrease

Looking at the labour market, the latest data and surveys revealed an easing of tensions in the first three months of the year – given also the fall in the job vacancy rate over this period –, sending out, however, mixed signals on the probable developments in Q2 and in the near future. Specifically, the number of employees economy-wide decreased in March and April 2025, while the ILO unemployment rate diminished in April-May overall⁴⁷ and employment intentions over the very short horizon stayed, on average, unchanged versus the previous three months, accompanied however by a significant shrinking of the labour shortage reported by companies. The annual dynamics of gross wage recorded, nevertheless, a slower decline in the first four months of 2025 overall, remaining in the double-digit range⁴⁸, while those of unit labour costs in industry posted successive surges in Q1 and in April, going up to 21.8 percent after having dropped considerably in the final quarter of 2024.

Financial market conditions tended to normalise in the second half of Q2, amid the defusing of tensions in the domestic political landscape – after the end of the electoral calendar – and the headway in talks over the new ruling coalition and the setup of the package of corrective fiscal measures, conducive to the alleviation of financial investor concerns about budget consolidation prospects. Thus, the main interbank money market rates witnessed mild declines, staying however significantly above the April levels, while long-term yields on government securities corrected relatively quickly and fully the abrupt increases seen in the first 10-day period of May. Moreover, the EUR/RON exchange rate embarked on a downward path, which then steepened slightly, before reverting in the second part of June to values close to those recorded towards the end of the previous month. In relation to the US dollar, the leu strengthened significantly, recovering entirely the ground lost in the first part of May, as the former resumed the overall weakening trend in international financial markets.

The annual pace of increase of credit to the private sector stepped up further during the first two months of Q2 overall⁴⁹, given that the domestic currency component grew at a slightly faster tempo, solely on the back of loans to non-financial corporations, while the sizeable decline in the dynamics of forex credit was more than offset by the statistical effect of the leu's exchange rate developments. Hence, the share of the leu-denominated component in credit to the private sector narrowed to 69.8 percent in May from 70.0 percent at the end of 2025 Q1.

The updated assessments in this context indicated a sharp worsening of the near-term inflation outlook, following the expiry of the electricity price capping scheme on 1 July 2025 and in view of the increase in VAT rates and excise duties starting 1 August, in line with the recently approved package of fiscal and budgetary measures. Under their impact, the annual inflation rate was expected to pick up considerably in the following months, thus climbing well above the values indicated by the May 2025 forecast over the short time horizon.

⁴⁷ After its rise to 6.0 percent in 2025 Q1

⁴⁸ *Inter alia* amid the hike in the economy-wide gross minimum wage and the partial compensation by employers of the impact exerted by the removal of some tax breaks

⁴⁹ Reaching 9.7 percent in May, from 9.2 percent in March

The inflationary impact anticipated to be generated in Q3 by the two successive supply-side shocks would, however, have a transitory nature and its fadeout in four quarters' time would probably entail a marked downward correction of the path of the annual inflation dynamics. At the same time, the overall implementation of the recently adopted fiscal consolidation package was conducive to stronger underlying disinflationary pressures over the longer horizon, mainly through the effects exerted, via multiple channels, on aggregate demand, while additional effects were foreseen to stem from the temporary decline in households' purchasing power, owing to the inflation bout entailed by the two major supply-side shocks, which would affect consumer demand in particular.

Underlying inflationary pressures were expected to persist over the near-term horizon, but to ease more visibly than anticipated in May, given the prospects for the negative output gap to widen markedly in Q2 and Q3⁵⁰, including in relation to previous forecasts, but also the time lag necessary for the disinflationary effects thus generated to become manifest, as well as the likelihood for the annual dynamics of unit wage costs in the private sector to remain elevated, relatively in line with earlier forecasts.

Uncertainties were, nevertheless, further associated with the additional corrective measures likely to be adopted in the future in order to place the budget deficit on a sustainable downward path, in line with the *National Medium-Term Fiscal-Structural Plan* agreed with the European Commission, as well as with the excessive deficit procedure.

Moreover, high uncertainties and risks to the outlook for economic activity, implicitly the medium-term inflation developments, continued to arise from the external environment, given the war in Ukraine and the Middle East situation, but especially amid the global trade tensions. Major uncertainties were further associated with the absorption of EU funds, especially those under the Next Generation EU programme.

The analysed context overall warranted a policy rate status-quo, with a view to ensuring and maintaining price stability over the medium term, in a manner conducive to achieving sustainable economic growth.

Under the circumstances, in its meeting of 8 July 2025, the NBR Board decided to keep the monetary policy rate at 6.50 percent and to leave unchanged the lending and deposit facility rates at 7.50 percent and 5.50 percent respectively. At the same time, the NBR Board kept the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions.

⁵⁰ The new assessments pointed to very mild economic growth during 2025 Q2 and Q3 overall, and much more modest than previously envisaged, amid the recently adopted package of fiscal and budgetary measures to be implemented starting August for budget consolidation purposes.

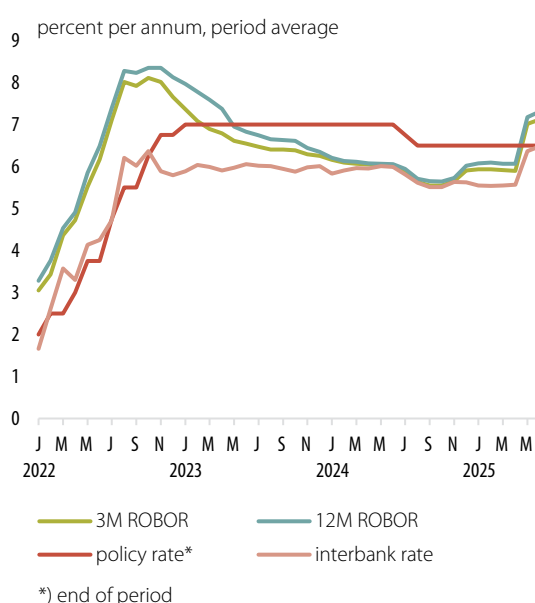
2. Financial markets and monetary developments

The daily average interest rate on interbank transactions⁵¹ and longer-term rates grew markedly during Q2 overall. The EUR/RON exchange rate climbed to somewhat higher readings in April, before witnessing a significant rise in the first 10-day period of May, which was however corrected somewhat in the latter half of Q2, amid fluctuating developments. The annual growth rate of liquidity in the economy contracted further April through May overall, whereas that of credit to the private sector stuck to a slowly upward trend.

2.1. Interest rates

The daily average interest rate on interbank transactions continued to fluctuate slightly above the central bank's deposit facility rate in April, while in the days immediately following the first round of the presidential elections it climbed into the upper half of the interest rate corridor, where it stayed until the first 10-day period of June, when it embarked on a downward course. The quarterly average of the indicator thus added 0.77 percentage points, to 6.32 percent⁵².

Chart 3.2. Policy rate and ROBOR rates



Its behaviour reflected the changes in money market liquidity conditions during Q2⁵³, in the context of the electoral events in the first part of May⁵⁴ – which triggered high uncertainties and entailed substantial capital outflows –, but also amid the subsequent defusing of tensions in the domestic political landscape and the headway in talks over the new ruling coalition and the setup of the package of corrective fiscal measures, conducive to the alleviation of financial investor concerns about budget consolidation prospects.

At this juncture, 3M-12M ROBOR rates held steady in April as well, but rose considerably in the week following the first round of the presidential elections in May, *inter alia* amid the change in banks' expectations on the outlook for money market liquidity conditions. In the second part of

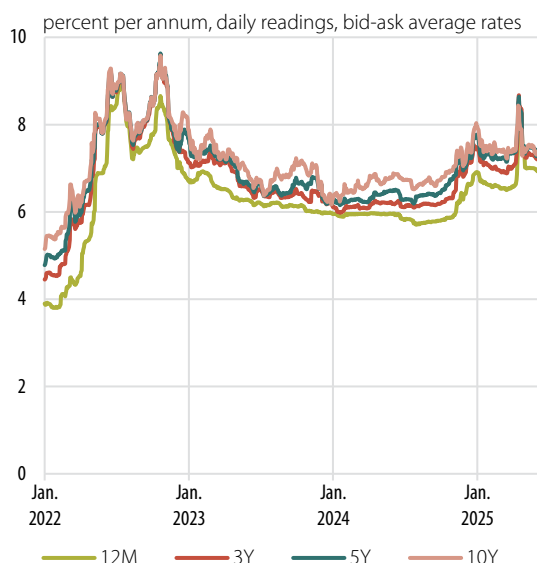
⁵¹ The average interest rate on transactions in deposits on the interbank money market, weighted by the volume of transactions

⁵² Average weighted by the volume of transactions

⁵³ Banks' net liquidity position remained considerably positive at the onset of the period, but shrank quickly afterwards and then turned negative, before tending to return into positive territory towards the end of the quarter. Against this background, the central bank further mopped up excess liquidity via the deposit facility in April, while towards end-May it started and then continued to provide liquidity to credit institutions through 1W repos carried out via auctions at a fixed rate (i.e. the monetary policy rate) and with a preannounced volume. The value of liquidity injections conducted by the central bank diminished gradually during the closing month of the quarter.

⁵⁴ The first round of the presidential elections was held on 4 May 2025, with the second on 18 May.

Chart 3.3. Reference rates on the secondary market for government securities



Q2, they witnessed declines, albeit of small sizes, remaining significantly above the levels recorded at the beginning of the quarter (Chart 3.2). Their quarterly averages increased more steeply during this period, adding 0.76-0.78 percentage points versus the previous quarter, to stand at 6.68 percent for the 3M rate and 6.77 percent and 6.86 percent for the 6- and 12-month maturities respectively.

At the same time, medium- and long-term reference rates⁵⁵ on the secondary market for government securities posted abrupt increases in the days immediately following the first election round in May⁵⁶, which were however fully corrected once the electoral process was over (Chart 3.3). Rates at the shorter end of the maturity spectrum witnessed a more sizeable advance, while their downward adjustment remained incomplete at the end of the quarter, given the closer correlation with

developments in the monetary segment. In terms of monthly averages, the rates on 6- and 12-month Treasury certificates rose in June against those in the closing month of Q1 by 0.68 percentage points and 0.41 percentage points respectively (to 6.92 percent and 6.98 percent respectively), those for the 3- and 5-year maturities added 0.32 percentage points and 0.19 percentage points respectively (to 7.28 percent and 7.43 percent respectively), whereas in the case of 10-year securities they went up only marginally (to 7.44 percent). Hence, the positive slope of the yield curve moderated significantly.

The average accepted rates on the primary market⁵⁷ posted relatively modest increases for the 3- and 5-year maturities, by up to 0.19 percentage points in June versus March

⁵⁵ Bid-ask averages

⁵⁶ Thus, they widened their spread versus rates in advanced economies and in the region. The long-term (10-year) government security yield in the US trended upwards during May overall, amid the easing of trade tensions, conducive to lower adverse risks to economic activity, but also in the context of concerns over the prospects for the US budget deficit and public debt. In June, however, it discontinued its upward path, sticking in the first part of the month to the end-May levels and then witnessing a downward adjustment, partly reflecting the lower-than-expected developments in inflation and some labour market indicators, as well as amid the escalating Middle East conflict. Long-term government security yields in the euro area fully corrected in the second half of May the advance seen in the first part of the month, in the context of developments associated with trade tensions, before tending to stabilise in June. Conversely, similar yields in countries across the region followed a generally upward course in the period from May to June, *inter alia* amid the prudent monetary policy stance of central banks in these states.

⁵⁷ During 2025 Q2, the MF's "Tezaur" programme saw the monthly issuance of government securities with 1-, 3- and 5-year maturities, at rates of: (i) 6.80 percent, 7.50 percent and 7.80 percent respectively in April, (ii) 6.60 percent, 7.30 percent and 7.60 percent respectively in May, and (iii) 6.75 percent, 7.40 percent and 7.80 percent respectively in June, totalling lei 5.1 billion. Moreover, under the "Fidelis" programme, the MF issued government securities for households as follows: (i) in April, securities both in domestic currency, with 1-, 3- and 5-year maturities, at rates of 6.60 percent, 7.30 percent and 7.60 percent respectively, worth lei 838 million, and in euro, with 2- and 7-year maturities, at rates of 3.60 percent and 6.00 percent respectively, totalling EUR 100 million; (ii) in May, government securities in lei, with 1-, 3- and 5-year maturities, at rates of 6.75 percent, 7.40 percent and 7.80 percent respectively, worth lei 620 million, and in euro, with 2- and 7-year maturities, at rates of 3.85 percent and 6.25 percent respectively, totalling EUR 112 million; (iii) in June, government securities in lei, with 2-, 4- and 6-year maturities, at rates of 7.35 percent, 7.70 percent and 7.95 percent respectively, and in euro, with 2-, 5- and 7-year maturities, at rates of 3.90 percent, 5.60 percent and 6.50 percent respectively. In addition, the MF issued in May EUR-denominated government securities on the domestic market, with maturities of 1 year and 3 years respectively, at average rates of 3.52 percent and 3.82 percent respectively, totalling EUR 1.6 billion.

(to 7.46 percent and 7.52 percent respectively), while the rate on 10-year securities shrank 0.10 percentage points (to 7.36 percent). During Q2 overall, the total value of securities issued went down markedly against the previous three months (by lei 9 billion, to lei 20.9 billion), as the MF lowered the scheduled volume of issues in May and

fully rejected the primary dealers' bids submitted at two auctions held in this quarter⁵⁸. Investors' weaker appetite for this type of investments is also reflected by the developments in the ratio of the amounts of bids submitted to the announced volume at auctions, as well as in the ratio of the volume of issues to the announced volume, both declining in Q2 overall to three-year lows, i.e. 1.69 (from 2.30 in 2025 Q1) and 1.17 (from 1.36 in the prior three months) respectively.

The average interest rate applicable to non-bank clients' new loans recorded a mild decline in the period from April to May overall (-0.11 percentage points, to an average of 7.79 percent), comparable in size to the previous quarter's increase, whereas the average remuneration of new time deposits followed a significantly steeper upward path (+0.40 percentage points), coming in at 5.43 percent (Chart 3.4).

Chart 3.4. Bank rates

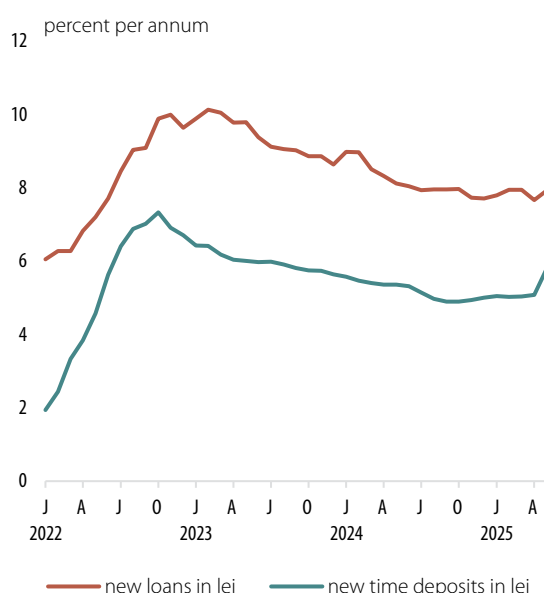
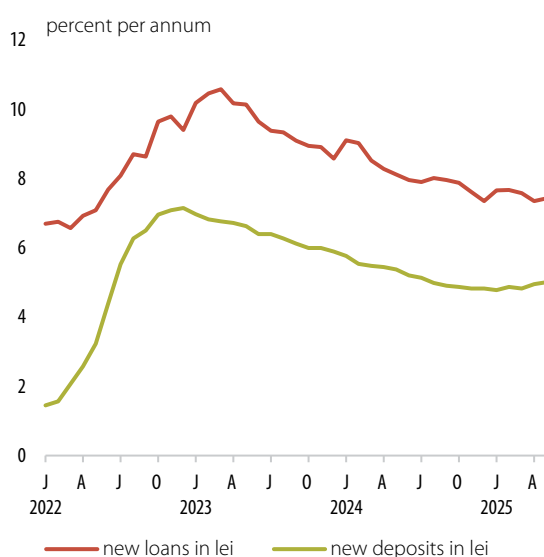


Chart 3.5. Interest rates for households*



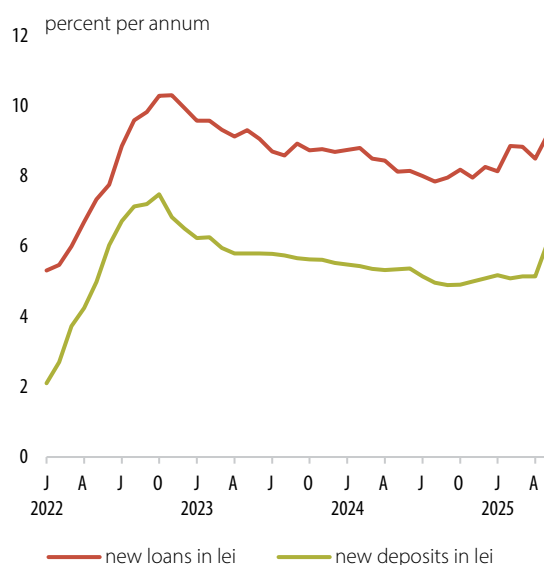
*) households and non-profit institutions serving households

Looking at lending rates on new business, developments were heterogeneous from a sectoral perspective. Specifically, the average interest rate on new loans to households resumed its decrease versus the previous quarter, shedding 0.25 percentage points (to 7.39 percent), amid the reduction in the average interest rate on both types of loans (Chart 3.5). The average interest rate on new consumer credit saw a significant drop (-0.73 percentage points, down to a more than three-year low of 8.98 percent), in line with the findings of the May issue of the NBR's *Bank Lending Survey*, which indicated for 2025 Q2 expectations of a slight easing of banks' credit standards and lending terms and conditions for this type of financing. In turn, the average interest rate on new housing loans continued to shrink gradually (-0.15 percentage points against the previous quarter, to 5.83 percent).

⁵⁸ The value of net issues added, however, approximately lei 3.9 billion (to lei 13.2 billion), given the hefty drop in the volume of securities maturing in this quarter (by around lei 13 billion, to lei 7.7 billion).

By contrast, the average lending rate on new business to non-financial corporations went up further in the April-May period overall, reaching 8.84 percent (+0.23 percentage points versus 2025 Q1), as it reflected more visibly the movement of relevant interbank

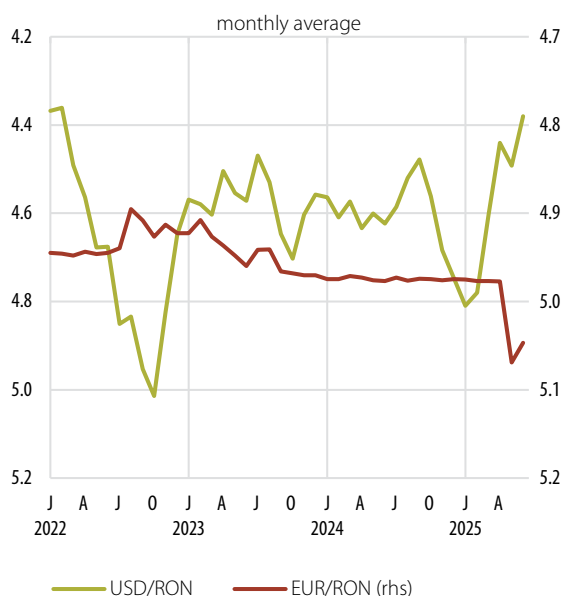
Chart 3.6. Interest rates for non-financial corporations



money market rates (Chart 3.6). The average interest rate on high-value loans (above EUR 1 million equivalent) witnessed a heftier increase, thus sticking to an upward course and adding 0.37 percentage points from 2025 Q1, to 8.50 percent. At the same time, the average interest rate on low-value loans (below EUR 1 million equivalent) moderated its advance significantly (+0.05 percentage points), to stand at 9.01 percent.

As for the remuneration of new time deposits, rates moved in the same direction from a sectoral perspective. Specifically, the average interest rate on new time deposits from households halted its decline, climbing 0.16 percentage points versus 2025 Q1 (to 4.98 percent), while that on similar deposits from non-financial corporations saw a significantly steeper advance (+0.49 percentage points against Q1, to 5.63 percent).

Chart 3.7. Nominal exchange rate



2.2. Exchange rate and capital flows

The EUR/RON exchange rate climbed to somewhat higher readings in April, before witnessing a significant rise in the first 10-day period of May, which was however corrected somewhat in the latter half of Q2, amid fluctuating developments (Chart 3.7).

The EUR/RON exchange rate shifted to somewhat higher readings at the beginning of April, and then trended further upwards, reflecting the heightened volatility on international financial markets in the first 10-day period of the reported month, in response to escalating global trade tensions⁵⁹, as well as amid financial investor concerns about the widening twin deficits.

In the first 10-day period of May, however, the interbank forex market was strongly affected, alongside other financial market segments, by the influences from the electoral context⁶⁰ and the ensuing rise in domestic political tensions, which triggered

⁵⁹ Against this background, the EUR/USD exchange rate temporarily sharpened its upward trend.

⁶⁰ The first round of the presidential elections was held on 4 May 2025.

high uncertainties and entailed substantial capital outflows, in various forms (Table 3.1). Thus, in the days immediately following the first round of the presidential elections, the EUR/RON exchange rate saw a significant abrupt increase and then stayed at the new levels, before embarking on a downward, albeit fluctuating path once the electoral process was over, *inter alia* amid the improvement of the international financial market sentiment following the easing of global trade tensions⁶¹.

Table 3.1. Key financial account items

	EUR million					
	5 mos. 2024			5 mos. 2025		
	Net acquisition of financial assets*	Net incurrence of liabilities*	Net	Net acquisition of financial assets*	Net incurrence of liabilities*	Net
Financial account	7,594	15,388	-7,794	1,278	11,430	-10,153
Direct investment	1,107	3,192	-2,085	2,248	3,709	-1,460
Portfolio investment	22	8,557	-8,534	-455	5,146	-5,602
Financial derivatives	46	0	47	-74	0	-74
Other investment	1,232	3,639	-2,407	4,676	2,575	2,100
– currency and deposits	287	-390	677	4,903	-836	5,739
– loans	-122	789	-912	234	1,922	-1,688
– other	1,068	3,239	-2,172	-461	1,490	-1,950
NBR's reserve assets, net	5,186	0	5,186	-5,117	0	-5,117

*) "+" increase/"-" decrease

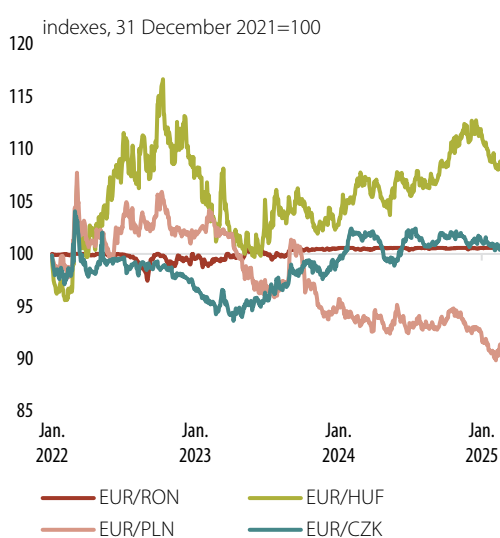
The EUR/RON witnessed a slightly steeper decrease in the first part of June, amid the defusing of tensions in the domestic political landscape and the headway in talks over the new ruling coalition and the setup of the package of corrective fiscal measures, conducive to the alleviation of financial investor concerns about budget consolidation prospects. Nevertheless, the currency pair then shifted upwards, returning in the closing days of June to the vicinity of the end-May readings, *inter alia* in the context of a temporary deterioration of the global risk appetite due to the escalating Middle East conflict.

In relation to the US dollar, the leu posted an even sharper depreciation in the first part of May, which was however fully recovered by end-Q2, as the former resumed the overall weakening trend in international financial markets it had embarked on at the beginning of this year.

The exchange rates of major currencies in the region versus the euro went up markedly in the first half of April, before shifting to a downward, albeit winding course, which extended until towards end-Q2 for the forint and the Czech koruna, but reversed temporarily in June for the zloty. Against this background, during Q2, the Czech koruna strengthened further against the single currency, whereas the forint and the zloty weakened (Chart 3.8).

The interbank forex market turnover rose in 2025 Q2 to a historical high, while the overall foreign currency deficit widened to a record level, on account of both non-residents' and residents' transactions.

Chart 3.8. Exchange rate developments on emerging markets in the region



Source: ECB, NBR

⁶¹ During this period, the US and China engaged in talks and agreed to reduce reciprocal tariffs over a period of at least 90 days.

During 2025 Q2 overall, the leu depreciated against the euro in both nominal terms (by 1.4 percent)^{62,63} and real terms (by 0.9 percent), while in relation to the US dollar the domestic currency strengthened at a faster pace (5.1 percent in nominal terms and 5.6 percent in real terms respectively). Looking at the annual change in the quarterly averages of the exchange rate, the leu steepened its weakening trend versus the euro, but halted its similar trend against the US dollar, recording a significant appreciation in Q2.

2.3. Money and credit

Money

During the first two months of 2025 Q2, the annual dynamics of broad money (M3) further decreased, reaching an average of 8.3 percent⁶⁴ (from 9.3 percent in Q1), in correlation with the characteristics of budget execution (Table 3.2).

Looking at M3 components, the slowdown in broad money growth was driven, in this period as well, solely by time deposits with a maturity of up to two years, whose annual dynamics continued to see a relatively steep decline⁶⁵, under the impact of

Table 3.2. Annual growth rates of M3 and its components

	nominal percentage change					
	2024			2025		
	II	III	IV	I	Apr.	May
	quarterly average growth					
M3	10.5	10.1	11.0	9.3	7.9	8.7
M1	7.0	7.8	9.5	10.0	10.1	11.1
Currency in circulation	9.3	9.7	12.8	14.5	12.8	16.2
Overnight deposits	6.2	7.1	8.3	8.3	9.0	9.2
Time deposits (maturity of up to two years)	16.0	13.9	13.2	8.4	4.7	5.2

a new significant drop in the rate of change of leu-denominated deposits, due to developments in both household and corporate segments (Chart 3.9). This decrease was offset only to a small extent by the further swifter growth of the foreign currency component (expressed in EUR) – reflecting the surges in dynamics posted by both major sectors' deposits in May –, as well as by the positive statistical effect of the EUR/RON exchange rate movements.

By contrast, the annual change in narrow money (M1) continued to rise slowly in this period⁶⁶, given that the sizeable step-up in households' and non-financial corporations' forex overnight deposits outweighed, in terms of impact, the loss of

momentum of similar leu-denominated deposits⁶⁷, amid the uncertainty associated with the presidential elections held in May. At the same time, the growth rate of currency in circulation stuck during the overall period to the high, double-digit level reached in the previous quarter, yet amid large fluctuations: a moderate drop in April,

⁶² Based on the June 2025 and March 2025 averages of the EUR/RON exchange rate

⁶³ In the same period, the Czech koruna strengthened versus the euro by 0.8 percent, whereas the forint and the zloty depreciated 0.6 percent and 2.0 percent respectively.

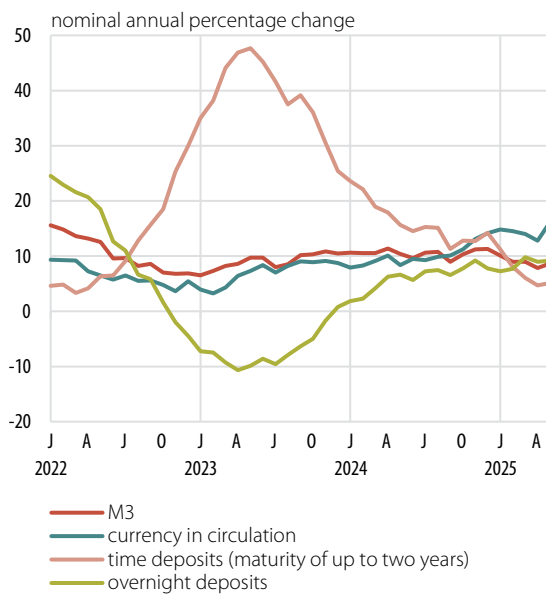
⁶⁴ In turn, the real annual growth rate of M3 continued to decline, i.e. to an average of 3.0 percent in April-May, from 4.2 percent in 2025 Q1.

⁶⁵ However, their monthly rate of change halted its downward path in May, increasing slightly compared to the previous month.

⁶⁶ Reaching a 12-quarter high

⁶⁷ Specifically, their dynamics fell to one-digit levels for the first time in seven quarters.

Chart 3.9. Main broad money components



followed by a significant hike in May⁶⁸. Against this background, the share of M1 in M3 remained on the slightly upward trend it had re-embarked in February, widening in May to 60.6 percent from 60.5 percent at end-2025 Q1.

The breakdown by holder shows that behind the slower dynamics of M3 stood mainly the new loss of momentum of corporate deposits⁶⁹, in correlation with the further decrease in the growth rate of retail trade turnover in April-May, as well as amid the faster annual rate of change of payments made for some fiscal obligations and the simultaneous decline in some disbursements from the government budget⁷⁰. The dynamics of household deposits further moderated at a relatively more subdued pace, their average sticking to double-digit readings, *inter alia* given that the high annual change in households' investments in government securities posted a slower increase during the period overall.

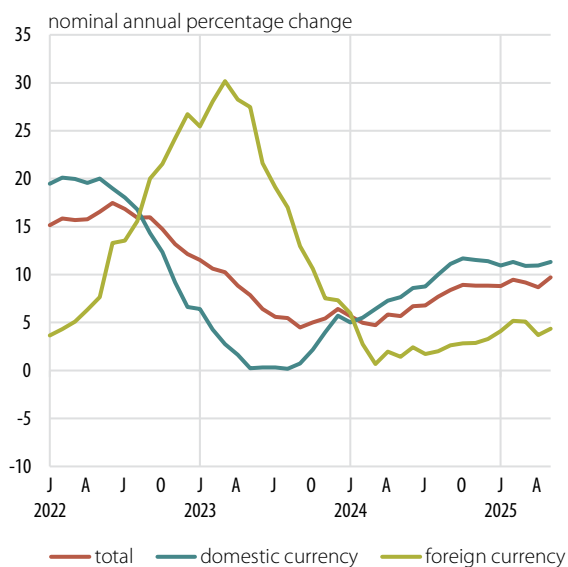
From the perspective of M3 counterparts, the weaker pace of increase of this monetary aggregate was correlated with the significantly slower growth of net credit to the central government and, to a smaller extent, with the further deceleration in the rate of change of the net foreign assets of the banking system.

Credit to the private sector

The annual dynamics of credit to the private sector remained on a slow uptrend during the first two months of 2025 Q2 overall, going up to an average of 9.2 percent⁷¹ from 9.1 percent in Q1, given that the growth rate of leu-denominated credit saw a renewed slight acceleration, while the loss of momentum recorded by the foreign currency-denominated component (expressed in EUR) in this

period was fully offset by the statistical effect of the EUR/RON exchange rate movements (Chart 3.10). The share of leu-denominated loans in total credit narrowed to 69.8 percent in May from 70.0 percent in March.

Chart 3.10. Credit to the private sector by currency



⁶⁸ It reached an approximately four-year high in May 2025. The monthly fluctuations in the annual dynamics of currency in the April-May period partly reflect the base effects related to the earlier payment in April 2024 of pensions and some social security benefits for May.

⁶⁹ Their annual dynamics fell to a 12-year low (assessment based on quarterly averages).

⁷⁰ According to general government budget execution data

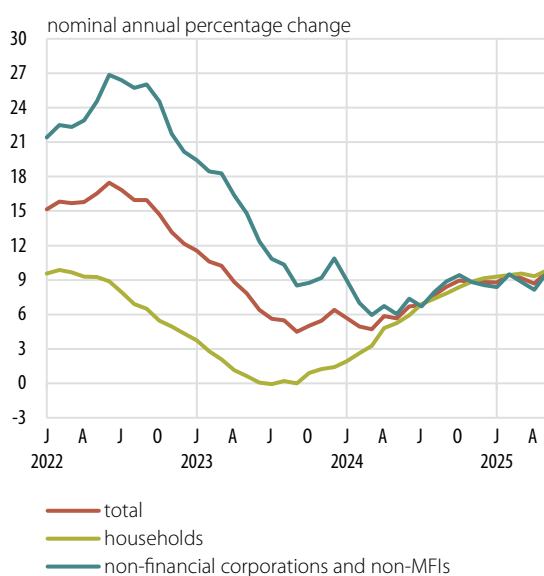
⁷¹ The real annual growth rate of credit to the private sector narrowed marginally to 3.9 percent in April-May from 4.0 percent in Q1.

The marginal pick-up in private sector credit dynamics in this period was ascribable to the developments in loans to both major institutional sectors (Chart 3.11). Specifically, the annual growth rate of household credit extended its slow upward course, yet solely on the back of the foreign currency-denominated component, which, based on values expressed in EUR, moderated its sizeable contraction against the same year-earlier period and was boosted by the statistical effect of the EUR/RON exchange rate movements.

By contrast, leu-denominated loans saw their dynamics record a small decline after a continuous six-quarter rise, given that the further larger decrease in the very high rate of change of consumer credit and other loans⁷² was accompanied in this period by a slower pick-up in the growth rate of housing loans⁷³.

In turn, the dynamics of credit to non-financial corporations rose again in April-May, entirely prompted by the statistical effect of the EUR/RON exchange rate movements, as the change in the stock of foreign currency-denominated loans (expressed in EUR) remained constant compared to the 2025 Q1 average. The growth rate of the leu-denominated component also held steady on average for the period, but increased progressively in both months, due *inter alia* to an increased contribution from the flow of loans granted under government programmes (IMM Invest Plus).

Chart 3.11. Credit to the private sector by institutional sector



⁷² The volume of new consumer loans in lei went up, however, in both months, reaching a new historical high in May (assessment based on the flows adjusted for the value of renegotiated loans).

⁷³ Nevertheless, the volume of new housing loans stayed close to the historical peak reached in December 2024 (assessment based on the flows adjusted for the value of renegotiated loans).

4. Inflation outlook

The annual inflation rate will undergo substantial changes in its path over the projection interval, i.e. the next eight quarters, given the expiry of the electricity price capping scheme and the implementation of the fiscal consolidation package. Specifically, in the first part of the interval, the path of inflation incorporates the strong impact of the increase in electricity prices in July 2025 and in indirect taxes – VAT rates and excise duties – one month later, both shocks having first-round effects assessed at 2 percentage points each. The influence of these measures on the annual CPI inflation rate will persist for 12 months. In the latter part of the forecast interval, the disinflationary effects of fiscal consolidation will become prevalent, as reflected in the easing of aggregate demand, consumption and investment in particular. Against this background, the annual inflation rate is projected to reach 8.8 percent at end-2025, 3 percent at end-2026 and 2.7 percent at the forecast horizon, i.e. 2027 Q2.

Compared to the projection in the May 2025 *Inflation Report*, the annual CPI inflation rate estimated for the end of this year is 4.2 percentage points higher. Behind this revision stood the hike in indirect taxes, accounting for 2 percentage points, and the previous underestimation of the impact of the costlier electricity, explaining another 1.5 percentage points. Conversely, for the end of next year, the annual inflation rate is 0.4 percentage points lower, as a result of the revision of core inflation.

Despite the materialisation of some of the previously mentioned strong upward risks, the balance of risks associated with the annual CPI inflation rate projection continues to be tilted to the upside, suggesting possible further upward deviations from the path in the baseline scenario, especially in the short run. Uncertainties linger over the developments in administered prices – particularly for natural gas –, as well as over the possibility of new fiscal measures. These uncertainties also amplify the risk of a weaker anchoring of economic agents' inflation expectations over the medium term.

1. Baseline scenario

1.1. External assumptions

Compared to the previous *Report*, the dynamics of trading partners' economic activity, as proxied by the EU effective GDP, were maintained at 1.1 percent for 2025 and revised downwards to 1.3 percent for 2026 from 1.5 percent previously (Table 4.1). Over the short run, the forecast shows a slowdown in the EU effective GDP growth due to

the fading-out of the effect from the frontloading of exports in 2025 Q1, amid the unilateral tariff hike by the US, and to the persistent uncertainty surrounding trade policies. Over the medium term, the recovery is expected to be driven by a rise in real disposable income, a gradual abatement in uncertainty and an improvement in

Table 4.1. Expected developments in external variables

	annual averages	
	2025	2026
EU effective GDP growth (%)	1.1	1.3
Euro area annual inflation (%)	2.0	1.7
Euro area annual inflation excluding energy (%)	2.4	2.0
Annual CPI inflation rate in the USA (%)	2.9	2.9
3M EURIBOR (% p.a.)	2.1	1.8
USD/EUR exchange rate	1.13	1.18
Brent oil price (USD/barrel)	69.4	65.8

Source: NBR assumptions based on data provided by the European Commission, Consensus Economics and Bloomberg

external demand. A favourable contribution to the stronger growth is also foreseen to come from EU and domestically funded programmes. Against this background, the effective external output gap was revised slightly downwards for the final quarter of this year and the first half of 2026, with the indicator expected to persist in negative territory throughout the projection interval, similarly to the previous assessment.

The average annual inflation rate in the euro area was revised to lower levels than that in the previous *Report* for both this year – 2 percent versus 2.3 percent – and the next – 1.7 percent versus 1.9 percent –, mainly on account of the energy sub-component,

but also due to the stronger euro. In 2026, the revision also incorporates the impact of the expected drop in electricity prices in Germany on the back of lower grid fees. The annual headline inflation rate reached the ECB's 2 percent benchmark in 2025 Q2, three quarters earlier than previously envisaged. Subsequently, until the projection horizon, headline inflation is foreseen to run below or even at 2 percent, touching a 1.4 percent low anticipated for 2026 Q1.

The forecast of the euro area HICP inflation excluding energy⁷⁴ was maintained at 2.4 percent for 2025 and lowered to 2 percent for 2026, from 2.2 percent in the prior *Report*. Looking by quarter, it will further follow a downward track, close to, albeit slightly above in the short term, the path of headline inflation rate. Among the factors with a bearing on this indicator are the expected drop in services inflation, softer wage pressures and lower energy prices. At the projection horizon, i.e. 2027 Q2, the HICP inflation rate excluding energy is forecasted to reach a level similar to that of headline inflation, i.e. 2 percent.

The nominal 3M EURIBOR stayed on a downtrend and is seen declining in the short term to a 1.8 percent low in 2025 Q4. Over the longer term, this rate is projected to revert slowly to 2 percent, reaching this level in 2027 Q2. The sliding of the real 3M EURIBOR below its estimated equilibrium level in 2025 Q3 signals that the ECB's policy stance is turning stimulative. The real 3M EURIBOR gap is thereafter envisaged to fall deeper into negative territory.

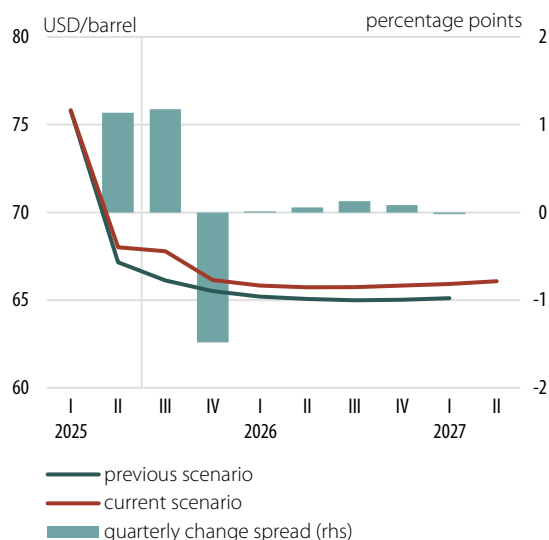
In 2025 Q2, the US dollar weakened notably against the euro. In 2025 Q3, the US dollar is seen experiencing a further quarter-on-quarter depreciation. Thereafter, during the projection interval, the pace of depreciation of the US dollar against the euro is anticipated to slow markedly. This will occur as the outlook for the euro area

⁷⁴ A proxy for imported inflation in the case of Romania.

economy improves, as a result of the EU's commitment to ramp up defence spending, while the prospects for the US economy worsen, amid trade tensions triggered by the new protectionist measures, but also in the context of a broader set of economic policies that weaken some US economic fundamentals, spurring a shift of capital flows to other regions, Europe in particular. Compared to the previous assessment, the present scenario anticipates a more substantial depreciation of the US dollar against

the euro, implying, *ceteris paribus*, a significantly stronger leu versus the former currency over the projection interval.

Chart 4.1. Brent oil price scenario



Source: U.S. Energy Information Administration, NBR assumptions based on Bloomberg data

The scenario for the Brent oil price is based on futures prices and foresees a downward course over the medium term amid soft global demand, yet robust supply. Specifically, at the forecast horizon, the Brent oil price is projected at around USD 66/barrel (Chart 4.1). On the demand side, concerns about the weakening global economic activity, with a downward impact also on oil demand, prevail over the short and medium term. On the supply side, the increase in production by OPEC+ Member States, boosting crude oil stocks, puts additional downward pressure on the oil price path. Nevertheless, the heightening of geopolitical conflicts in the Middle East could push up the price of this raw material during the forecast interval.

1.2. Inflation outlook

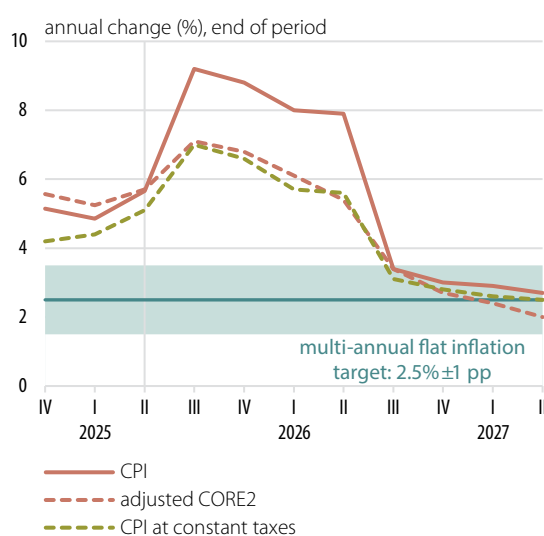
The annual CPI inflation rate went up to 5.66 percent in June 2025, from 4.86 percent in March. The indicator will undergo substantial changes in its path over the projection interval, given the expiry of the electricity price capping scheme⁷⁵ and the implementation of the fiscal consolidation package. In the first part of the interval, the path of inflation incorporates the strong impact of the increase in electricity prices in July 2025 and in indirect taxes⁷⁶ – VAT rates and excise duties – one month later, both shocks having first-round effects assessed at 2 percentage points each, which

⁷⁵ The information on the electricity companies' price offers available at the time of finalising the projection pointed to an increase of around 55 percent in the average price. This is significantly higher than the 15 percent hike assumed in the previous forecasting round, which was based on the assumption that market prices would align with the most advantageous offer available at that time. Large-scale price increases were also recorded in 2022, when the annual inflation rate for electricity reached approximately 45 percent at year-end.

⁷⁶ In the case of VAT, the adopted measures include: (i) an increase in the reduced VAT rate from 9 percent to 11 percent, applicable to products such as food – except those with added sugar –, medicines, accommodation and food services, water supply and sewerage; (ii) an increase in the reduced VAT rate from 5 percent to 11 percent, applicable to goods such as heating, firewood and books; (iii) an increase in the standard VAT rate from 19 percent to 21 percent, applicable to products such as sugary foods, non-food items, motor fuels, electricity and natural gas, tobacco, alcohol, other services than those already mentioned. The pass-through of VAT rate changes to final consumer prices was assessed based on working assumptions drawn from past episodes and the characteristics of CPI items, such as the frequency of price changes and the price elasticity of demand. This resulted in an average pass-through rate of around 78 percent for the entire consumption basket. As regards excise duties, the increases are 10 percent for motor fuels, alcoholic and sugary non-alcoholic beverages, and 2.25 percent for tobacco products.

will affect the annual CPI inflation rate for four quarters. Specifically, the inflation rate is expected to surge in 2025 Q3, reaching a peak of 9.2 percent in September (Chart 4.2.), and thereafter to fall slightly to 8.8 percent in December 2025. Subsequently, in 2026 Q3, the indicator is seen declining markedly and re-entering the variation band of the target, as a result of both statistical base effects⁷⁷ and the persistence or even the significant widening of the negative output gap until end-2026.

Chart 4.2. CPI and adjusted CORE2 inflation forecasts



Source: NIS, NBR projection

Table 4.2. CPI and adjusted CORE2 inflation in the baseline scenario

	annual change (%), end of period							
	2025		2026				2027	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Target (mid-point)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
CPI projection	9.2	8.8	8.0	7.9	3.4	3.0	2.9	2.7
CPI projection*	7.0	6.6	5.7	5.6	3.1	2.8	2.6	2.5
Adjusted CORE2 projection	7.1	6.8	6.1	5.4	3.4	2.7	2.4	2.0

*) calculated at constant taxes

Against this backdrop, the annual inflation rate is projected to follow a downward path in 2026 H2 and in 2027 H1. Specifically, the forecasted values for the end of 2026 and 2027 Q2, i.e. the projection horizon, stand at 3 percent and 2.7 percent, respectively.

Looking at the distribution of inflationary pressures across the CPI basket, the annual adjusted CORE2 inflation, which outpaced the growth rate of the exogenous components in 2023-2024, is expected to fall below it starting in 2025 Q3 (Table 4.2).

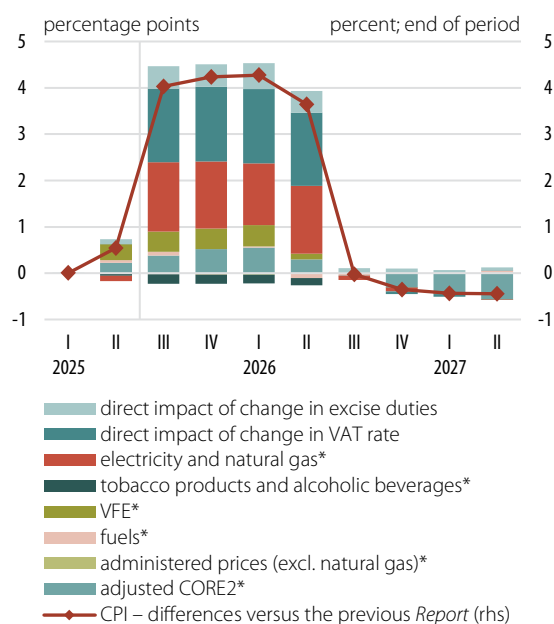
Compared to the previous forecast published in the May 2025 *Inflation Report*, the annual CPI inflation rate was revised upwards by 4.2 percentage points for end-2025 (Chart 4.3). The revision mainly reflects the previous underestimation of the increase in electricity prices in July, with an additional contribution of 1.5 percentage points, the higher VAT rates, with a contribution estimated at 1.6 percentage points, and the hike in excise duties, with an impact of 0.4 percentage points. Moreover, stronger inflationary pressures from core inflation and VFE inflation at constant taxes make additional contributions to revision of 0.4 percentage points each, while the contribution of tobacco product inflation is slightly lower, i.e. by 0.2 percentage points. By contrast, in the latter part of the projection interval, the annual inflation rate is foreseen to be lower than previously expected, by 0.4 percentage points at end-2026, but also in 2027 Q1, reflecting

the downward revision of core inflation amid weak aggregate demand, which exerts a disinflationary effect.

The annual adjusted CORE2 inflation rate picked up slightly in 2025 Q2, from 5.2 percent in March 2025 to 5.7 percent in June. Over the short term, the anticipated path is significantly influenced by the hike in indirect taxes in August 2025, compounded by

⁷⁷ The one-year temporary nature of the first-round effects of one-off shocks was also observed, for example, in 2010-2011, when the annual inflation rate surged following the hike in VAT rate in July 2010, before falling sharply 12 months later.

Chart 4.3. Decomposition of the annual CPI inflation rate, differences versus the previous Report



Source: NBR projection

persistent pressures from agri-food commodity costs, labour costs and inflation expectations. After soaring in 2025 Q3 and peaking at 7.1 percent in September, the annual core inflation rate will embark on a continuously downward path, with a more pronounced decline expected once the first-round impact of the increase in indirect taxes drops out of the calculation in 2026 Q3. This downtrend will also be driven by weaker aggregate demand, which will lead to the build-up and gradual intensification of disinflationary pressures, amid a slowdown in economic activity, particularly as a result of fiscal consolidation. Both nominal and real incomes will be affected by factors such as the freezing of public sector wages and pensions, slower wage growth in the private sector, and the temporary pick-up in inflation. Following a steep increase and a peak anticipated in 2025 Q3, inflation expectations are projected to follow a downward path over the entire forecast interval. Additional disinflationary pressures will also come from import prices, in line with the envisaged slow decline in HICP inflation excluding energy in the euro area. Against this backdrop, the annual adjusted CORE2 inflation rate

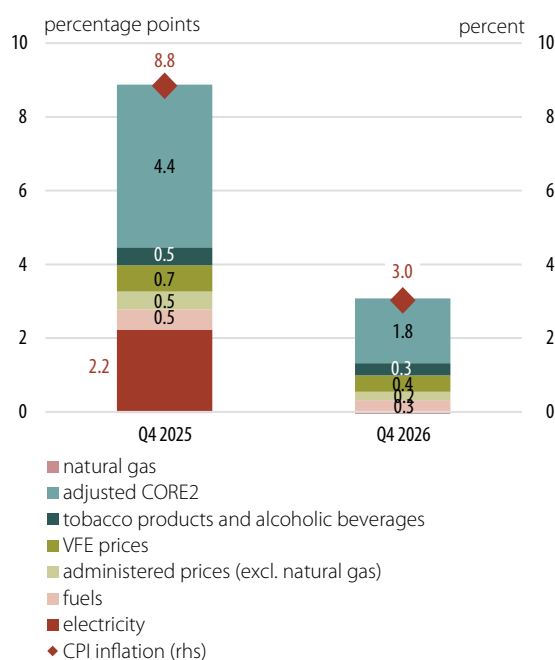
is projected at 6.8 percent at end-2025, 2.7 percent in December 2026 and 2 percent in 2027 Q2 (Chart 4.2).

Compared to the previous forecast, the path of the annual core inflation rate was revised upwards until 2026 Q3 and subsequently downwards. Specifically, the updated projection is 2.3 percentage points higher for end-2025, and lower by 0.5 percentage points in December 2026 and by 0.6 percentage points in 2027 Q1. In the first part of the projection interval, in addition to the impact of the new fiscal measures, estimated at around 1.4 percentage points, the revision also reflects the persistence of inflationary pressures stemming from agri-food commodity and labour costs, affecting the final prices of processed food items and services. Over the medium term, the revision of core inflation is mainly attributable to that of the output gap.

The cumulative contribution of the exogenous components of the consumer basket to the annual CPI inflation rate is foreseen at 4.4 percentage points at end-2025, 1.3 percentage points in December 2026 and 1.4 percentage points at the projection horizon, i.e. June 2027 (Chart 4.4). For December 2025, the significant upward revision of 2.8 percentage points compared to the May 2025 *Inflation Report* reflects the previous underestimation of the electricity price increase in July (1.5 percentage points), on the one hand, and the hikes in VAT rates and excise duties in August 2025 (1.1 percentage points), on the other hand.

As for fuel prices, the favourable path recorded in 2025 H1 is expected to be followed, over the first part of the projection interval (2025 Q3 – 2026 Q2), by growth rates

Chart 4.4. Contributions of components to annual inflation rate*



*) end of period; values have been rounded off to one decimal place

Source: NIS, NBR projection

Table 4.3. Inflation of CPI exogenous components

	annual change (%), end of period		
	Dec. 2025	Dec. 2026	Jun. 2027
Energy prices	17.7	1.8	2.5
Fuel prices	6.4	3.8	4.0
Electricity prices	56.6	-1.1	0.8
Natural gas prices	-1.1	-0.1	0.4
VFE prices	11.7	7.4	7.6
Administered prices (excl. natural gas)	7.9	3.6	3.6
Tobacco products and alcoholic beverages prices	6.9	4.6	4.5

Source: NIS, NBR projection

significantly exceeding the central target (Chart 4.5, Table 4.3). The anticipated developments in this component are attributable to the unfavourable impact of the increase in indirect taxes – VAT rate and excise duties – in August⁷⁸ (with effects lasting four quarters). The recent moderation in crude oil price dynamics⁷⁹ acted in the opposite direction, albeit to a much lesser extent. Hence, the trajectory of fuel prices was revised significantly upwards over this period. For the remainder of the forecast interval, the annual pace of increase of fuel prices is projected to slow down markedly, reaching levels close to the upper bound of the variation band of the central target, amid the fading-out of the inflationary effects caused by the hike in indirect taxes and the relative stabilisation in oil futures prices. The revision for 2026 Q4 was also upwards, yet of a lower magnitude.

Following the expiry of the electricity price capping scheme⁸⁰ for household consumers on 30 June, the annual growth rate of electricity prices is expected to pick up significantly in the first part of the projection interval (Chart 4.5, Table 4.3). Compared to the prior *Report*, the value for end-2025 was revised strongly upwards, owing to the new market prices charged by suppliers after the removal of the price cap. Over the remainder of the projection interval, the baseline scenario incorporates only minor changes in electricity prices, as in the previous round.

The dynamics of natural gas prices in 2025 H2 and 2026 Q1 are solely attributable to the effects of the price capping scheme for household consumers, posting slightly negative values (Chart 4.5, Table 4.3). For 2025, the path was revised downwards, amid more pronounced seasonal corrections in wholesale prices in Q2. Following the expiry of the price capping

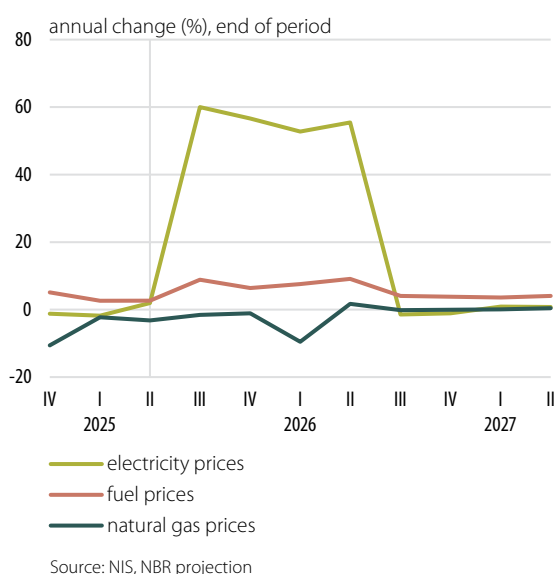
scheme on 31 March 2026 and in the absence of firm information on the measures to be taken by the competent authorities, the baseline scenario continues to incorporate only marginal adjustments in natural gas prices, similarly to the previous round.

⁷⁸ The impact of these fiscal measures is estimated at around 0.5 percentage points on the annual CPI inflation rate.

⁷⁹ For further details, see Section 1.1 External assumptions.

⁸⁰ According to NIS Press Release No. 37/14 February 2023, electricity and natural gas were re-included in the group of administered price items of the CPI basket, following the changes made to the energy price capping and compensation schemes as of 1 January 2023. As of July 2025, following the expiry of the capping scheme for electricity prices, these are set in line with free market mechanisms.

Chart 4.5. Inflation of fuel prices and of electricity and natural gas prices



The annual growth rate of administered prices – excluding natural gas – is expected to stay above the variation band of the target in the first part of the projection interval, being revised upwards from the previous round, due to the VAT rate increase for all sub-components of the group⁸¹ starting August 2025 (Chart 4.6, Table 4.3). Over the remainder of the projection interval, the annual dynamics of administered prices are expected to remain broadly in line with the previous forecast, based on the historical pattern of changes to the prices of this group's main items.

The unfavourable weather conditions in 2025 Q2, namely low temperatures and heavy rainfall, generated significant inflationary pressures on volatile food prices (VFE). Against this background, and amid the adverse effects stemming from the fiscal measures, the annual growth rate of VFE prices

accelerated markedly and is expected to remain in double-digit territory in the first half of the projection interval (Chart 4.7, Table 4.3). As a result, the forecast for end-2025 was revised significantly upwards from the previous round. Subsequently, assuming a normal harvest in 2026-2027, the forecast stands at levels broadly in line with those previously envisaged.

Chart 4.6. Administered price inflation (excl. natural gas)

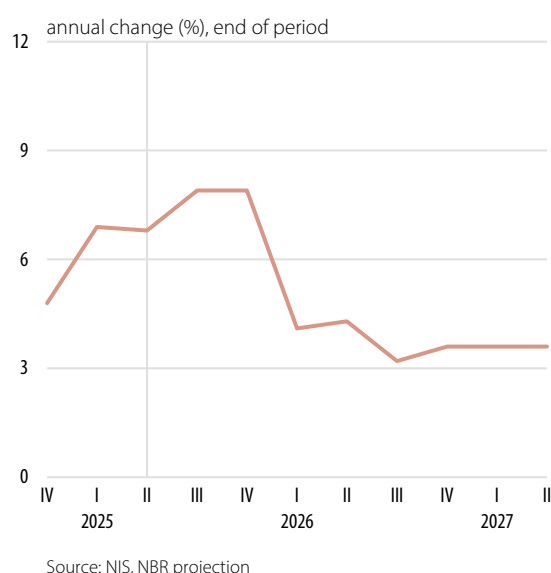


Chart 4.7. VFE price inflation



⁸¹ The sub-components subject to the reduced VAT rates (such as heating, water supply, sewerage and sanitation services, etc.) will be more strongly affected, given the increase in these rates from 5 percent or 9 percent to 11 percent.

In the first part of the projection interval, the path of the annual growth rate of tobacco product and alcoholic beverage prices is shaped by the impact of the August 2025 hike in indirect taxes – VAT rate and excise duties applicable to these products⁸². Accordingly, the path for this year was revised upwards compared to the May 2025 *Inflation Report*. Subsequently, the dynamics of this group are expected to moderate, in line with the previous projection. The developments in this component are forecasted based primarily on higher excise duties provided for in the legislation, but also on the behaviour of companies in the field as regards the final price adjustment.

1.3. Demand pressures in the current period and over the projection interval

The output gap

In 2025 Q1, real GDP stagnated in quarterly terms⁸³, this outcome standing slightly below the modest advance forecasted in the previous *Report*. However, on the demand side, the deviations from the prior projection were notable. Household actual consumption witnessed a decline in quarterly terms, whereas the forecast had envisaged only a more substantial deceleration, and gross fixed capital formation moved significantly above expectations, posting an exceptional increase⁸⁴. Net exports also contributed favourably, in the context of exports of goods and services rising faster than anticipated and at a faster pace than imports. Given that the contributions to economic growth from domestic absorption and net exports amount to about 4 percentage points, the zero dynamics of real GDP in 2025 Q1 entail an equally large, but negative contribution coming from the residual component – statistical discrepancy and the change in inventories –, with an extremely low economic content.

For 2025 Q2, a merely moderate growth of real GDP is anticipated. In the first two months of 2025 Q2 against the previous quarter, retail trade recorded a contraction, while services to households increased. In industry and construction, favourable developments in hard indicators overlapped with the worsening prospects captured by surveys. Thus, the DG ECFIN confidence indicator and all its components deteriorated, amid the effects of the high uncertainty stemming from both the political instability associated with the electoral process and the trade policies adopted by the US administration.

For 2025 Q3, economic activity is projected to lose considerable momentum, primarily due to fiscal consolidation. Compared to the previous *Report*, this quarter's GDP dynamics have been substantially revised downwards. Private consumption is anticipated to slow down significantly, amid the fiscal consolidation measures adopted by the Government at the beginning of July, which are affecting the real disposable income

⁸² Estimated at around 3.3 percentage points.

⁸³ NIS Press Release No. 175 of 10 July 2025 regarding second provisional data on GDP

⁸⁴ The quarterly dynamics of gross fixed capital formation stood at 20.3 percent in 2025 Q1, following a 10.7 percent contraction in the previous quarter. This marks the strongest increase in the past 18 years, during the quarter after the cancellation of the presidential elections and overlapping the entry into force of the fiscal consolidation measures under GEO No. 156/2024. Nevertheless, given the data's provisional nature, a subsequent revision cannot be ruled out.

of a broad range of consumers. The slowdown in consumption in 2025 Q3 is also shown by the July DG ECFIN survey, according to which the outlook for services and trade is at the most pessimistic levels in the past two to three years, while consumer expectations are even lower than during the pandemic. Conversely, the end of the electoral process, followed by the formation of the new ruling coalition and the configuration of the package of corrective fiscal measures, could translate into a certain normalisation of the investment appetite of economic agents. In this vein, July saw a broad-based improvement in financial indicators⁸⁵, yet investment is expected to remain burdened by the effects of fiscal consolidation measures.

Looking at annual rates, forecasts for 2025 and 2026 point to modest dynamics of real GDP, in contrast with the gradual recovery of economic growth envisaged in the previous *Report*. This projection reflects, on the one hand, the relatively robust annual growth rates of potential GDP and the assumed favourable and slightly increasing contribution of EU funds from multiple sources⁸⁶. On the other hand, the following are seen to act in the opposite direction: (i) the strong restrictive fiscal impulse, revised significantly downwards over most of the forecast interval, (ii) the effective external output gap that will shrink only gradually towards the projection horizon, and (iii) the restrictiveness of real broad monetary conditions. The downward revision of the forecasts for 2025 and, more visibly, for 2026, mirrors four main factors: (i) the broad-based measures included in the first fiscal consolidation package, (ii) the less favourable outlook for external partners' economic activity, (iii) the weaker-than-expected developments in real GDP during 2025 Q1, and (iv) the statistical carry-over effects in the case of GDP growth. On the expenditure side, medium-term economic growth is foreseen to further be mainly driven by domestic demand, albeit with notable changes in both the strength of its contribution and the composition of aggregate demand. The new fiscal consolidation package will exert its effects primarily on final consumption, whose contribution to economic growth is projected to be modest throughout 2025 and 2026. Thus, gross fixed capital formation is expected to take over the leading role in supporting economic activity, especially amid the exceptionally swift advance in 2025 Q1, but also due to the favourable – albeit revised downwards – contribution of EU funds, including in the context of the NRRP renegotiation which, according to official public communications, has had a rather substantial impact on the loan component. The contribution of net exports is envisaged to remain slightly negative in 2025, yet to improve significantly compared to 2024, before turning positive again in 2026. Medium-term forecasts continue to be marked by high uncertainty, particularly on the domestic front. This broad package of measures with a contractionary effect is being implemented in an economic environment already marked by a visible cyclical slowdown, rendering fiscal policy strongly pro-cyclical. Under these circumstances, it is difficult to foresee the extent to which economic growth will be affected, even when compared to relatively similar episodes in the past.

⁸⁵ In the former half of July compared to 2025 Q2, the following developments stood out: the sovereign risk premium proxied by Credit Default Swap (CDS) quotes declined by around 50 basis points, the BET index rose by approximately 7 percent, and the 10-year government bond yields decreased by about 34 basis points.

⁸⁶ The Multiannual Financial Framework 2021–2027 and the Next Generation EU programme (2021–2026)

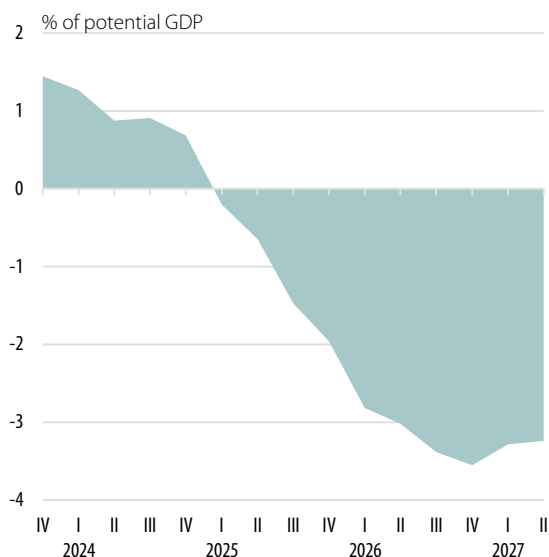
The average annual growth rate of potential GDP was revised slightly downwards against the previous *Report*, given the assumption of a lower impact from investments financed via the Next Generation EU programme. This reassessment reflects the subdued performance in project implementation, as well as the pronounced risk of losing considerable amounts under the National Recovery and Resilience Plan, due to the persistent delays in achieving the committed targets and milestones. However, the average annual dynamics of the indicator are projected to be relatively high during the forecast interval, supported *inter alia* by the rebound in investment since the beginning of the year.

The key driver of potential GDP dynamics will thus continue to be capital accumulation. Nevertheless, over the medium term, the seemingly favourable outlook is strictly conditional on the absorption and efficient use of inflows of foreign direct investment and EU funds. In both cases, the recent performance points to a slowdown in net inflows of such funds into Romania's economy, which are essential for sustaining the investment pace required to maintain growth potential. The contribution of the TFP trend is affected by the companies' relatively modest performance in identifying innovative solutions, in aligning with the technology integration and energy efficiency trends, as well as in integrating and capitalising on digitalisation in their operations⁸⁷. In this context, enhancing the access to financing sources supported by the European Commission programmes could expedite the modernisation and digitalisation of infrastructure, and also the strengthening of digital skills, thereby contributing to the increase in the competitiveness of Romania's economy. The contribution of labour is

anticipated to remain moderately positive, gradually shrinking over the longer term due to adverse demographic developments in Romania, in particular the decline in the working-age population, as well as to social factors, e.g. the low youth employment rate⁸⁸. The impact of fiscal consolidation is a significant source of medium-term uncertainty for the potential GDP trajectory. The implementation of adjustment measures during a phase of cyclical slowdown may adversely affect investment, employment and productivity, with downside risks to the future path of potential GDP.

The output gap path was revised markedly downwards throughout the projection interval. In the first three quarters of 2025, this revision reflects the stagnation of economic activity in Q1 against the slight advance previously anticipated, but also, more notably, the severe worsening of the 2025 Q3

Chart 4.8. Output gap



Source: NBR assessments based on data provided by the NIS

⁸⁷ According to the EC's *Romania 2025 Digital Decade Country Report*, there are initiatives and efforts to increase digitalisation, especially in the public sector; however, in 2024 Romania stood significantly below the EU average.

⁸⁸ The share of young people aged 16-29 neither in employment, nor in education and training (NEET) posted one of the highest values across the EU in 2024, i.e. 19.4 percent, compared to the 11 percent EU average.

outlook. Subsequently, over the forecast interval, the output gap is estimated to be significantly more negative than in the prior *Report*, mainly as a result of the more restrictive pro-cyclical fiscal impulse associated with the new fiscal consolidation measures. According to its new path, the output gap will widen further and then reach a low in 2026 Q4, before witnessing a slow correction until the projection horizon (Chart 4.8).

Looking at the components of the output gap, the main driver of its downward path is the gap of households' actual individual consumption, with fiscal consolidation having a considerable impact on this component via the large reduction in household real disposable income. The consumption gap is envisaged to enter negative territory as early as 2025 Q3 and then continue to widen at a fast pace until 2026 Q4, followed by a slight correction until the forecast horizon. In turn, the positive gap of GFCF is assessed to narrow in 2025 Q2 and Q3. Subsequently, it is expected to remain in positive territory and increase slightly until the forecast horizon. Mirroring the position of effective external demand, the gap of exports of goods and services is estimated to stay negative, with a slight deepening over the projection interval. In line with the consumption gap path, the positive gap of imports will gradually close, turning negative at the beginning of next year and then widening in negative territory until the projection horizon.

In terms of fundamentals, the output gap path reflects: (i) the pro-cyclical fiscal impulse, which is assessed to exert a large restrictive impact generated by the fiscal consolidation measures; this effect is only partly mitigated by favourable factors such as the anticipated, though slightly slower absorption of Next Generation EU funds, and (ii) the deepening and subsequent persistence of the negative external demand gap. Moreover, real broad monetary conditions are assessed to remain restrictive for the economic activity throughout the projection interval, but their impact on the output gap path is secondary to the prevailing influences from domestic demand affected by fiscal consolidation.

Aggregate demand components

The growth rate of household final consumption is projected to decelerate markedly over the projection interval, standing at values revised downwards compared to the previous *Report*. The consumption path reflects the decline in household purchasing power, amid measures such as freezing wages in the public sector and pensions, raising electricity prices and increasing indirect taxes, which will contribute to slower growth in real disposable income, which may even decline during 2026.

Over the forecast interval, gross fixed capital formation is envisaged to see modest growth rates, substantially revised downwards versus the prior *Report*. This revision mirrors the planned cut in public capital expenditure and a lower-than-expected absorption of EU funds, as the approaching eligibility deadline for the Next Generation EU programme, i.e. August 2026, considerably narrows the time window available for mobilising significant private investment. Despite a relatively stable perception by credit rating agencies⁸⁹, uncertainties persist over the medium term

⁸⁹ Standard & Poor's confirmed Romania's sovereign rating at BBB-/A-3 on 23 July and maintained the negative outlook.

regarding the actual pace of budget consolidation, the magnitude of the economic impact of the fiscal package, the final design of the National Recovery and Resilience Plan as well as, most importantly, the authorities' capacity to absorb the related funds. At the same time, companies' investment plans could be significantly reassessed in the event of further fiscal consolidation measures aimed, for instance, at additional taxation changes.

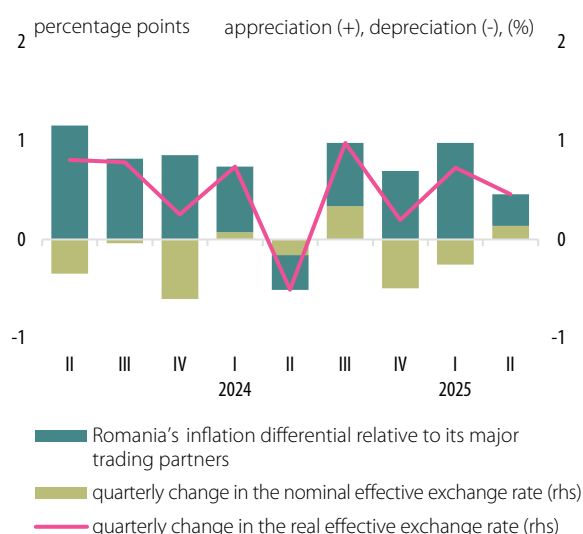
Against the background of subdued growth in external demand, exports of goods and services are expected to post moderate dynamics throughout the projection interval. The real effective exchange rate, deflated by the CPIs of Romania and its trading partners, is envisaged to remain overvalued until the forecast horizon, thus affecting the price competitiveness of Romanian products, although the associated pressures will gradually ease. The projected path of exports of goods and services remains exposed to significant risks. Even though the recent agreement in principle between the US and the EU has reduced some of the trade uncertainty, the new tariff rates are higher than those in force a few months ago and may speed up the reshaping of global value chains via reshoring and friend-shoring. These shifts affect the direction and volume of international trade flows, impacting exports. The dynamics of imports of goods and services are expected to decelerate noticeably over the projection interval, mainly reflecting their close correlation with consumption, in the context of fiscal consolidation measures that will affect the real disposable income of a wide range of consumers. Under these circumstances, the contribution of net exports to economic growth remains slightly negative in 2025, though significantly improved compared to 2024, before turning positive again in 2026.

The fiscal consolidation package is seen to also impact external imbalance, with the dynamics of imports of goods and services decelerating to levels significantly below the historical average and thus leading to the correction of the current account deficit in both 2025 and 2026. Given the historical structural correlation between the developments in the budget deficit and those in the current account deficit, the adjustment of the latter is expected to be of a smaller magnitude than the anticipated budget deficit correction. Under these circumstances, the coverage of current account deficit by stable, non-debt-creating inflows is envisaged to also benefit from the correction of the current account deficit. However, the coverage is assessed to record relatively low values, although gradually rising over the projection interval. The economic picture outlined in the current round points to a declining share of direct investment in GDP in 2025, also amid a presumed dampening effect of the fiscal measures on such investment, compounded by the persistence of regional geopolitical tensions that may influence investors' risk perception. In addition, the expected modest economic performance in the main EU economies, which are also major sources of FDI inflows to Romania, contributes to shaping a less favourable environment for attracting this type of investment flows. For 2026, this share is envisaged to remain at a level similar to that in the previous year.

Broad monetary conditions

According to the transmission mechanism, broad monetary conditions capture the cumulative impact exerted on future developments in aggregate demand by the real interest rates applied by credit institutions on leu- and foreign currency-denominated

Chart 4.9. Quarterly change in the effective exchange rate



Source: Eurostat, U.S. Bureau of Labor Statistics, NBR, NBR calculations

loans and deposits of non-bank clients, and by the real effective exchange rate of the leu. The exchange rate exerts its influence via the net export channel, as well as via the companies' wealth and balance sheet effect.

The baseline scenario of the projection shows that real broad monetary conditions will further be restrictive over the entire forecast interval. Looking by component, the real effective exchange rate (Chart 4.9) will continue to exert still large, yet gradually waning restrictive effects on the price competitiveness of Romanian products⁹⁰ via the net export channel. In the recent period, the degree of leu's overvaluation has been amplified by an atypical depreciation of the US dollar against the euro in international markets, which has been reflected in a significant appreciation of the leu against the dollar. These exogenous developments, over which the national

authorities inherently have limited room for manoeuvre, affected the assessment of the real exchange rate gap at the starting point of the projection, a repositioning that influences the entire trajectory of the indicator in the medium term. In turn, real interest rates on both new loans and new time deposits in lei are assessed to exert slightly stimulative effects on real broad monetary conditions, gradually weakening over the projection interval. This is projected against the background of an upward revision of the inflation expectations' path, partly offset by the recent increase in nominal interest rates.

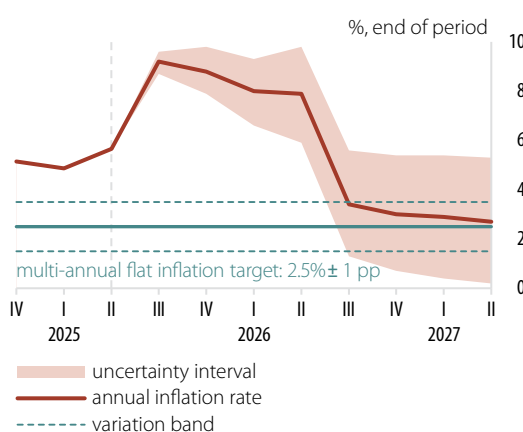
The wealth and balance sheet effect is foreseen to further post restrictive values, albeit gradually on the wane, throughout the projection interval. The breakdown shows that its dynamics mirror the downward path of the real foreign interest rate (3M EURIBOR), given the gradual decline of the nominal rate, the impact of which is partly offset by the falling inflation expectations in the euro area. Romania's sovereign risk premium has recently witnessed a downward correction, following the announcement of a first set of fiscal consolidation measures. Consequently, the risk premium is projected to exert a mildly restrictive, yet gradually diminishing effect, reflecting expectations of an incremental adjustment of both the budget and current account deficits. The dynamics of the leu's real effective exchange rate gap are seen to exert a quasi-neutral impact via the wealth and balance sheet effect.

⁹⁰ The changes in VAT rates and in the level of excise duties do not affect the price competitiveness of Romanian products, as exports are exempt from these taxes, while imports are subject to the same rates/duties as domestic products.

2. Risks associated with the projection

Some of the risks pointed out in the previous *Report* materialised, which led to extensive revisions to the annual CPI inflation rate forecast. However, the balance of risks to the annual inflation rate projection (Chart 4.10) is assessed as remaining tilted to the upside compared to its path in the baseline scenario.

Chart 4.10. Uncertainty interval associated with inflation projection in the baseline scenario



Note: The uncertainty interval was calculated based on the annual CPI inflation forecast errors in the NBR projections during 2005-2024. The magnitude of forecast errors is positively correlated with the time horizon they refer to.

Source: NIS, NBR calculations and projections

A major item in the set of risks described in the May 2025 *Inflation Report* has materialised once with the adoption of a first substantial package of fiscal consolidation measures. The economic context already marked by a visible cyclical slowdown renders fiscal policy highly pro-cyclical, amplifying the uncertainties about the magnitude of the impact exerted by this package on the economic growth rate. At the same time, the hikes in indirect taxes are likely to fuel additional inflationary pressures via the expectations channel, but, as in the case of similar historical episodes, the magnitude and probability of these effects are diminished by companies' prudent behaviour in the face of an aggregate demand strongly affected by fiscal measures and little likely to absorb further price increases. The uncertainty about the net effect of these opposite influences is compounded by the risks associated with the future fiscal policy stance. On the one hand,

further adjustments in some indirect taxes are not ruled out; on the other hand, the scenario of higher expenditures following pension and/or wage indexations in the second half of 2026 also remains plausible. Such measures could reduce the restrictiveness of fiscal policy and, implicitly, the disinflationary effects exerted through the aggregate demand channel in the second half of the forecast interval, compared to the assessments in the baseline scenario.

Uncertainties further surround the capacity to attract European funds in the amounts and by the deadlines initially set, all the more so considering the absence of formally approved coordinates of the National Recovery and Resilience Plan. Actually, as per the recent communications from the authorities, Romania is in the position to have lost access to around EUR 7 billion in loans under the NRRP. At the same time, the recently adopted measures are expected to help restore Romania's credibility and improve the perception of investors and rating agencies; however, it all depends on the further consistent implementation of the reforms necessary to put deficits on a sustainable adjustment course.

In the present global context, the risk of a potential slowdown in economic activity worldwide, possibly fuelled by heightened geopolitical tensions, including trade-related tensions, also remains relevant. However, the recent agreement in principle between the US and the EU contributes to alleviating some of the uncertainty brought about by the escalation of trade protectionism; moreover, it does not veer off significantly

from the working assumptions already included in the baseline scenario of the projection.

An additional deterioration of foreign demand could also stem from increased risk aversion, as geopolitical conflicts in Romania's proximity tend to become permanent and the prospects for sustainable diplomatic solutions remain fragile. Conversely, a possible rebound in economic activity could be supported by public investment programmes in infrastructure and defence capabilities. At European level, uncertainties are associated with covering the financing needs for the implementation of the Readiness 2030 plan, given that the fiscal consolidation effort necessary to maintain fiscal and public debt sustainability remains high.

Another risk channel refers to the escalation of geopolitical tensions, especially in the Middle East, potentially disrupting international trade flows. These dysfunctionalities could lead to new price hikes, particularly for energy products. In the case of oil prices, upside risks are also posed by the recently adopted sanctions against Russia. The further increase in production by OPEC+ members could have an opposite impact.

In parallel, additional sanctions also targeted transactions in natural gas carried through the "Nord Stream" pipelines. They could entail further price increases, especially in the event of difficulties in meeting higher demand amid new episodes of low temperatures in the latter part of the year. For Romania, the future of the natural gas price capping scheme, currently in place until the end of March 2026, is uncertain. The configuration of this scheme could be revised as early as 2025 in order to meet the EU requirements for lifting the restrictions on domestic producers.

Additional supply-side risks are also associated with the developments in agri-food commodity prices, in the context of increasingly frequent extreme weather events in recent years. These conditions may affect agricultural output and prompt new price increases. Over the medium term, additional inflationary pressures could also come from the ever-rising costs of the transition to a green economy.

Last but not least, the future labour market coordinates reconfirm their importance. Additional wage claims could arise from both recent price increases, with a view to restoring households' purchasing power, and the persistent structural features of the labour market which remains relatively tight. However, the impact of possible wage hikes could be mitigated, at least temporarily, by the weaker domestic demand.

Abbreviations

CPI	consumer price index
DG ECFIN	Directorate General for Economic and Financial Affairs
EC	European Commission
ECB	European Central Bank
EU	European Union
Eurostat	Statistical Office of the European Union
FAO	Food and Agricultural Organization of the United Nations
FDI	Foreign Direct Investment
Fed	Federal Reserve System
GDP	gross domestic product
GFCF	gross fixed capital formation
GVA	gross value added
HICP	Harmonised Index of Consumer Prices
ILO	International Labour Office
MF	Ministry of Finance
MFF	Multiannual Financial Framework
NBR	National Bank of Romania
NIS	National Institute of Statistics
NRRP	National Recovery and Resilience Plan
OPEC	Organization of the Petroleum Exporting Countries
ROBOR	Romanian Interbank Offer Rate
TFP	total factor productivity
UVI	unit value index
VAT	value added tax
VFE	vegetables, fruit, eggs
WB	World Bank
3M	3 months
12M	12 months
3Y	3 years
5Y	5 years
10Y	10 years

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