



Press Conference

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# Inflation Report

August 2025

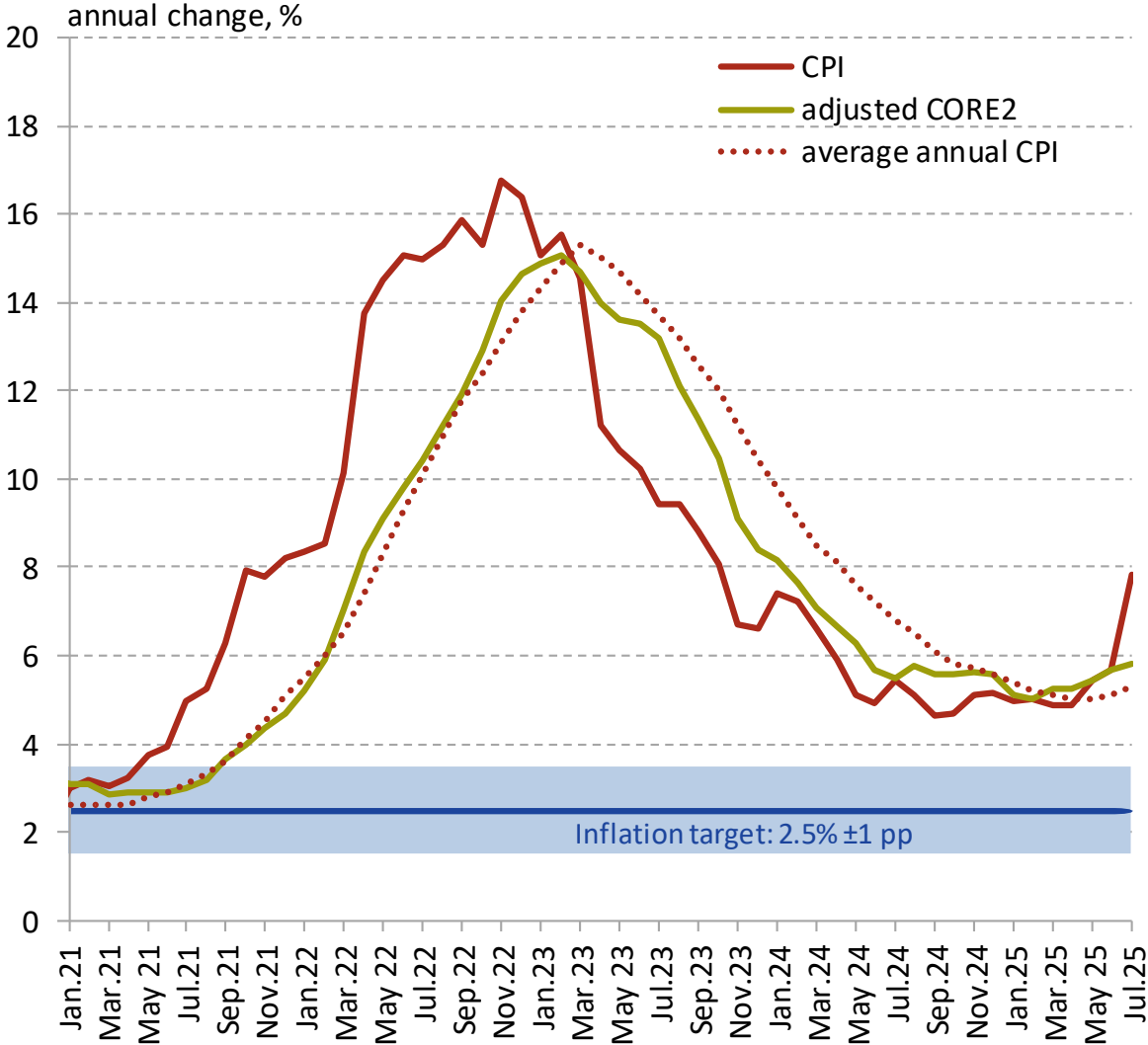
Mugur Isărescu  
Governor

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Bucharest, 12 August 2025

# The annual CPI inflation rate increased in 2025 Q2

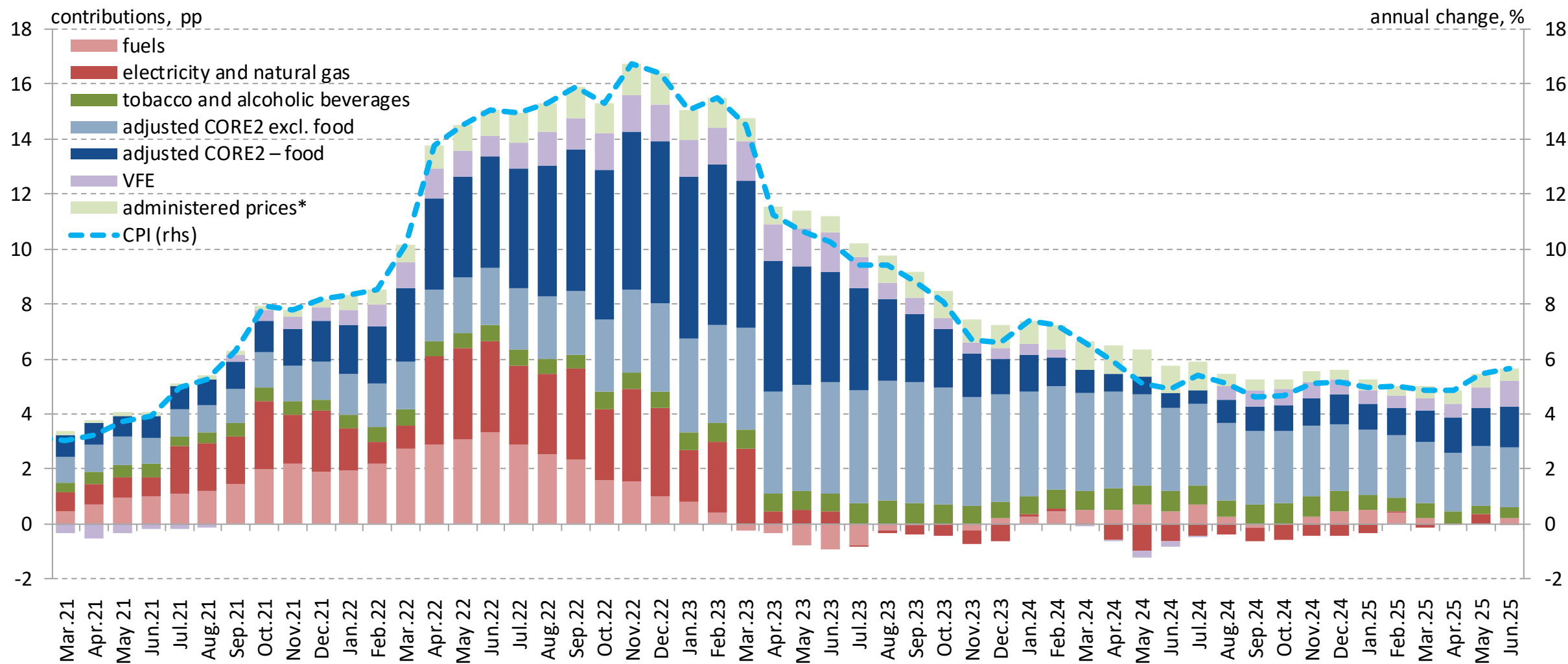
## Inflation determinants in 2025 Q2



- ↑ Extreme weather events
- ↑ Still high dynamics of unit labour costs, gradually passing through to prices of goods and services
- ↑ Further upward trend in short-term inflation expectations
- ↑ Rises in prices of some agri-food commodities
- ↑ Increase in the EUR/RON exchange rate
- ↓ Consumer demand weakening
- ↓ Benign developments in energy commodity markets
- ↓ Relatively favourable conditions in terms of imports of non-food items
- ↓ Depreciation of the US dollar versus the euro

Source: NIS, NBR

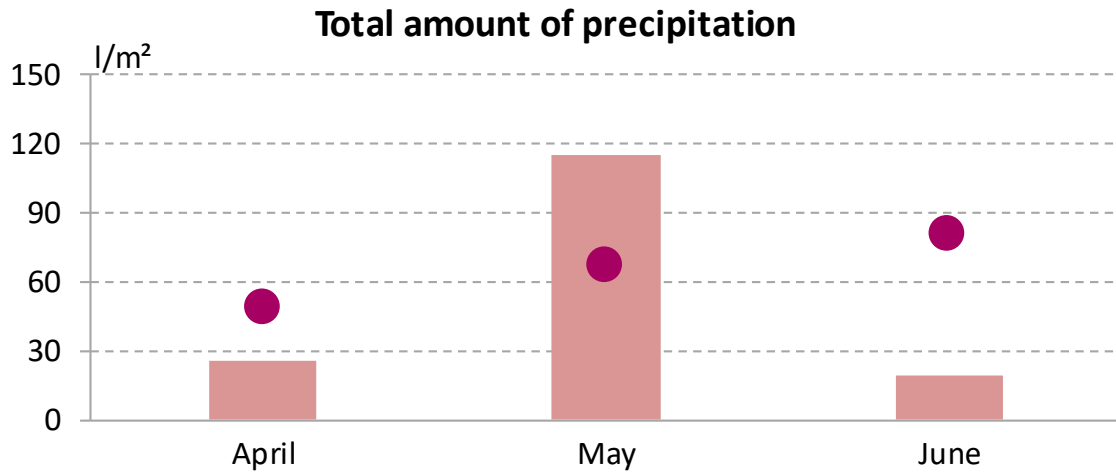
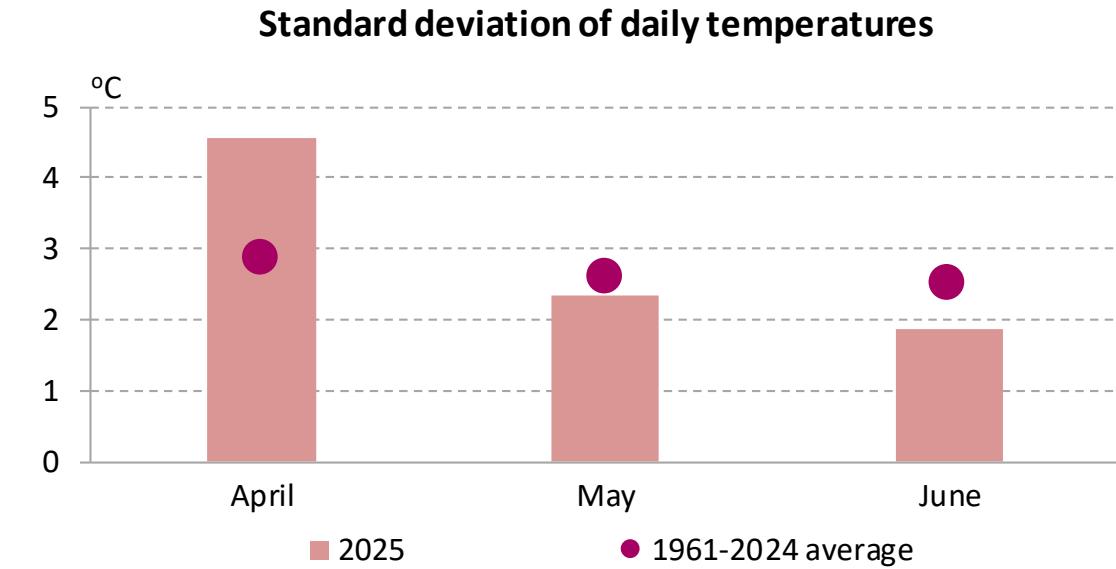
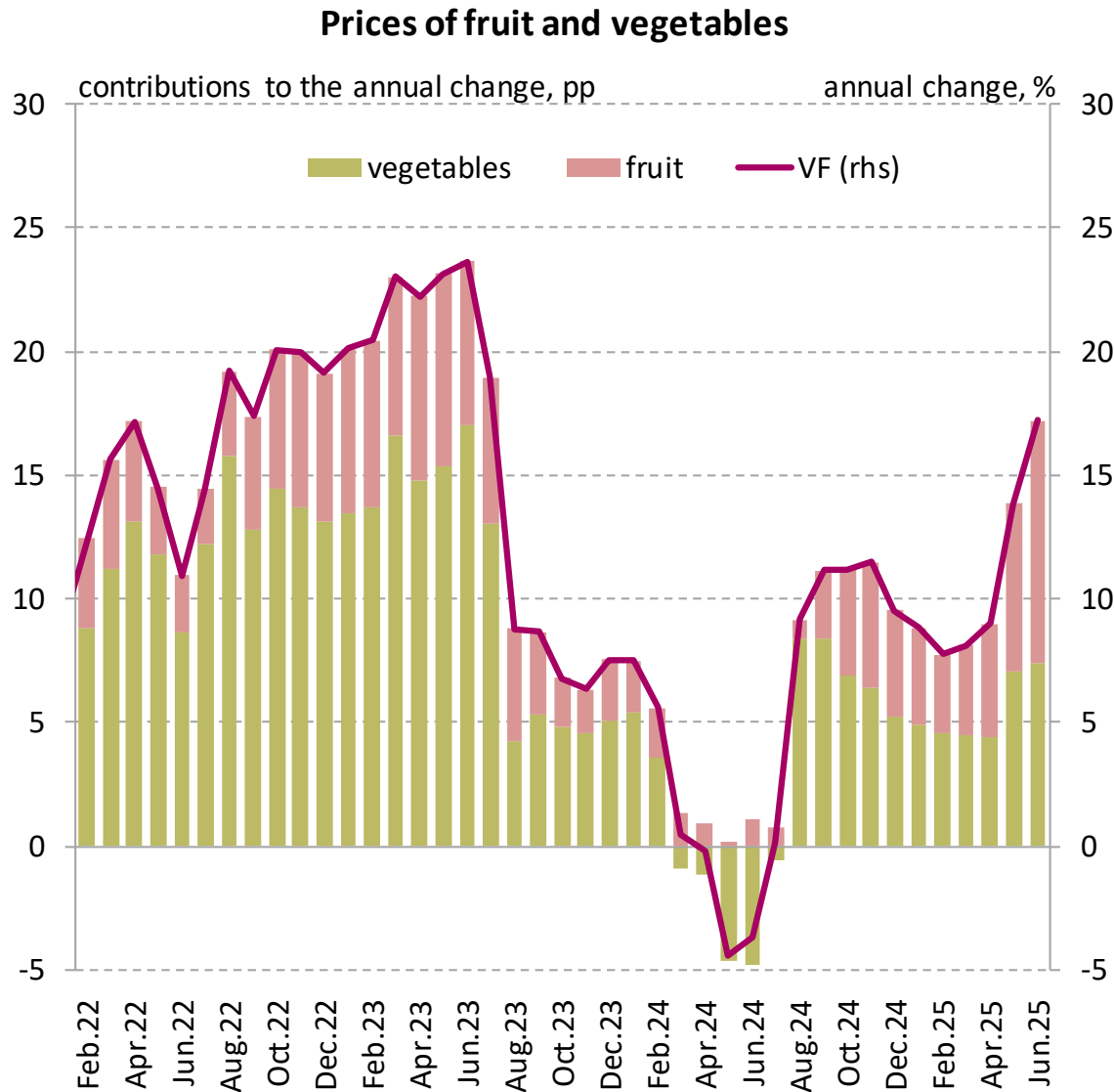
## The rise in CPI inflation is largely ascribed to food items, particularly fruit and vegetables



\*) excl. electricity and natural gas

Source: NIS, NBR calculations

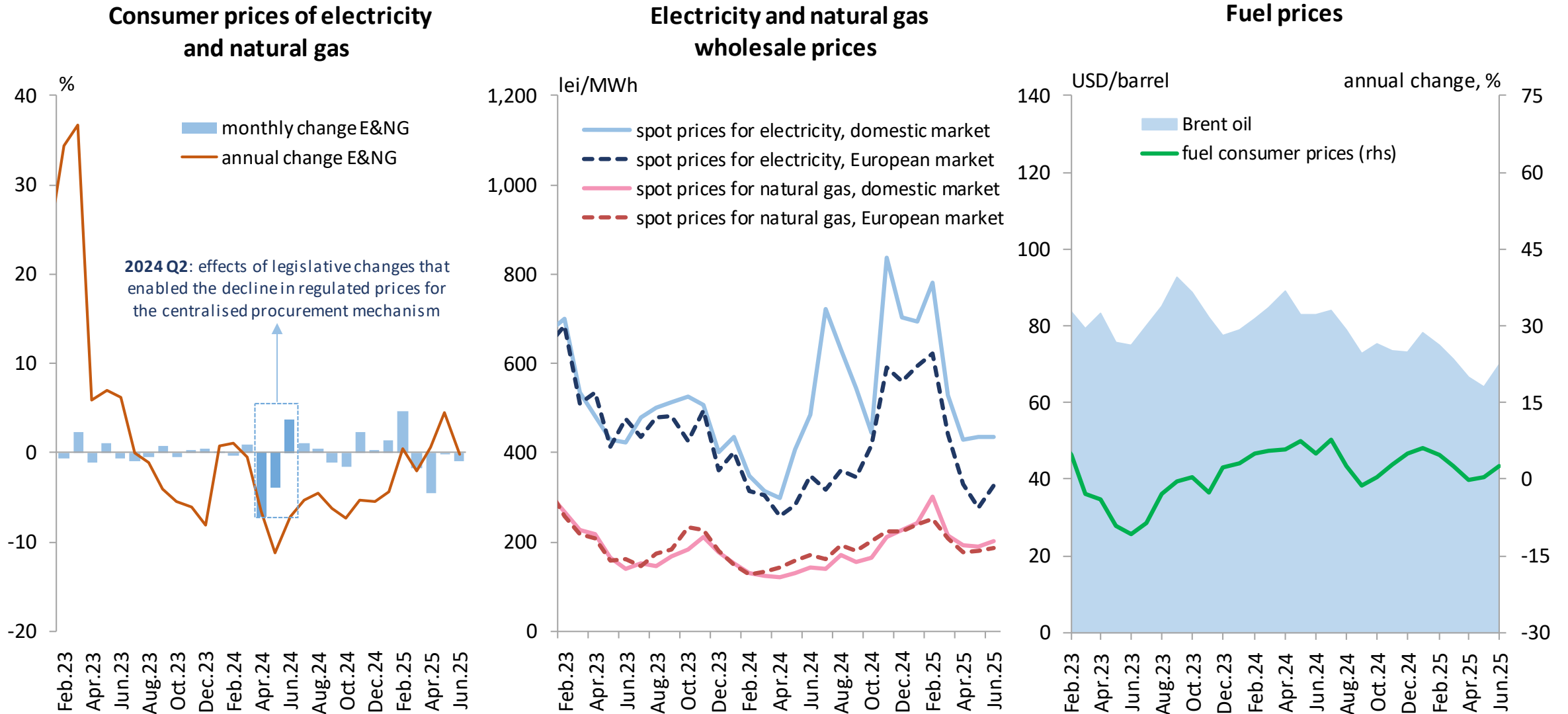
# Adverse weather conditions were the main driver of the increase in prices of fresh fruit and vegetables



Note: The total amount of precipitation in a month is determined as the sum of average daily precipitation amounts countrywide.

Source: NIS, European Climate Assessment & Dataset, NBR calculations

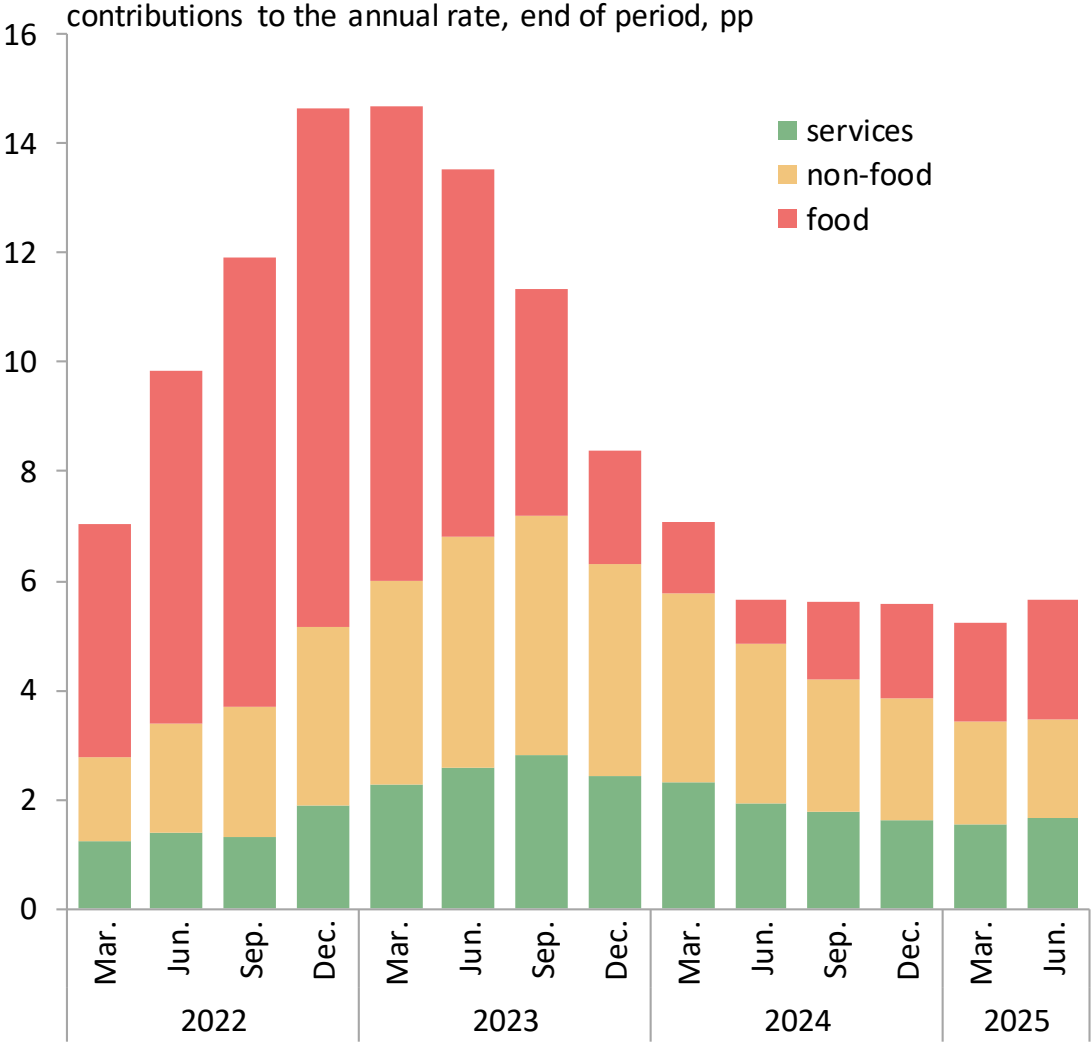
## Energy market developments were broadly benign, the inflationary contribution of this segment owing to a base effect from utilities



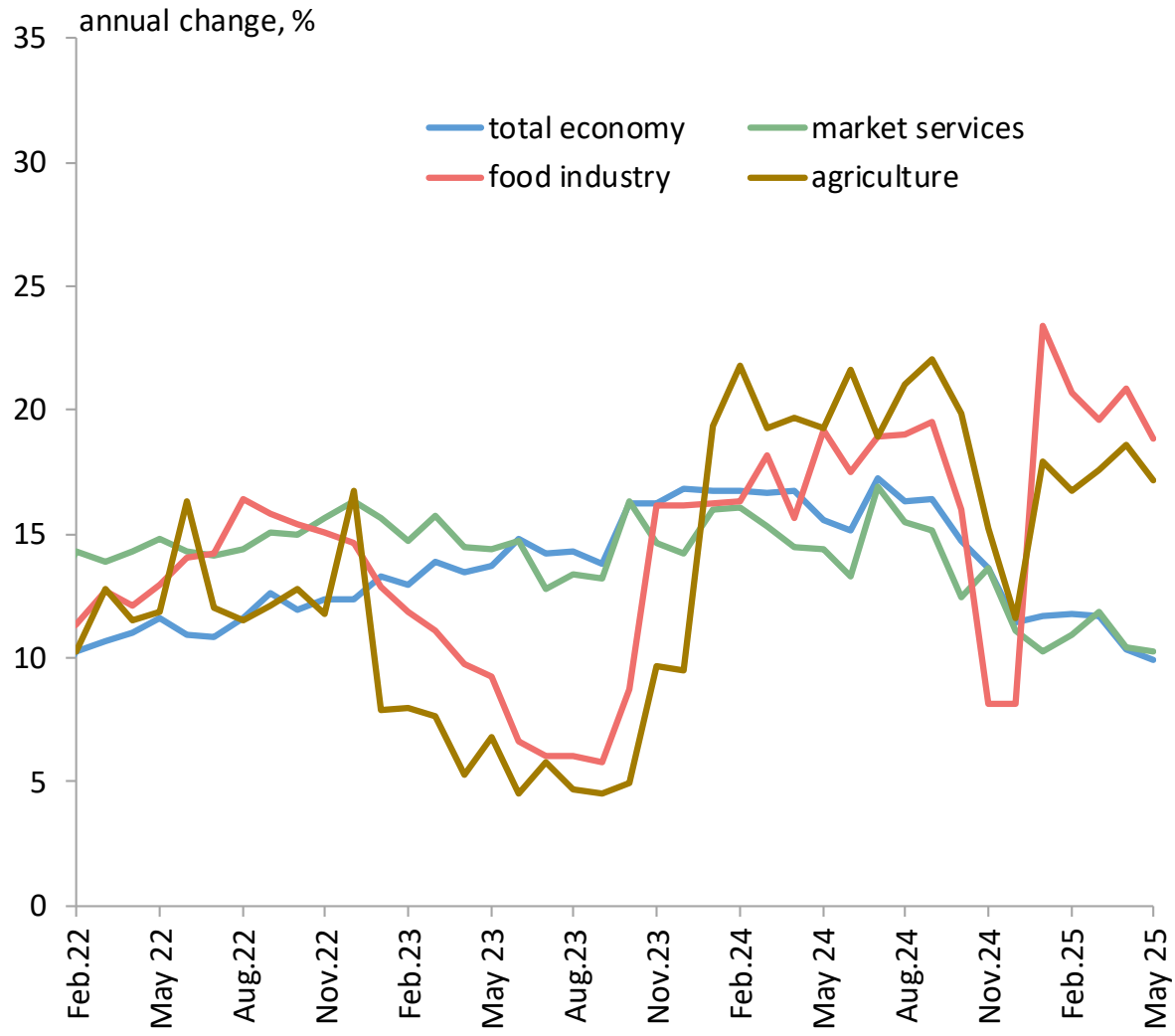
Source: NIS, Bloomberg, OPCOM, Romanian Commodities Exchange, NBR calculations

# The annual adjusted CORE2 inflation rate went up in 2025 Q2, with labour costs being one of the pressure factors

**Adjusted CORE2 inflation components**



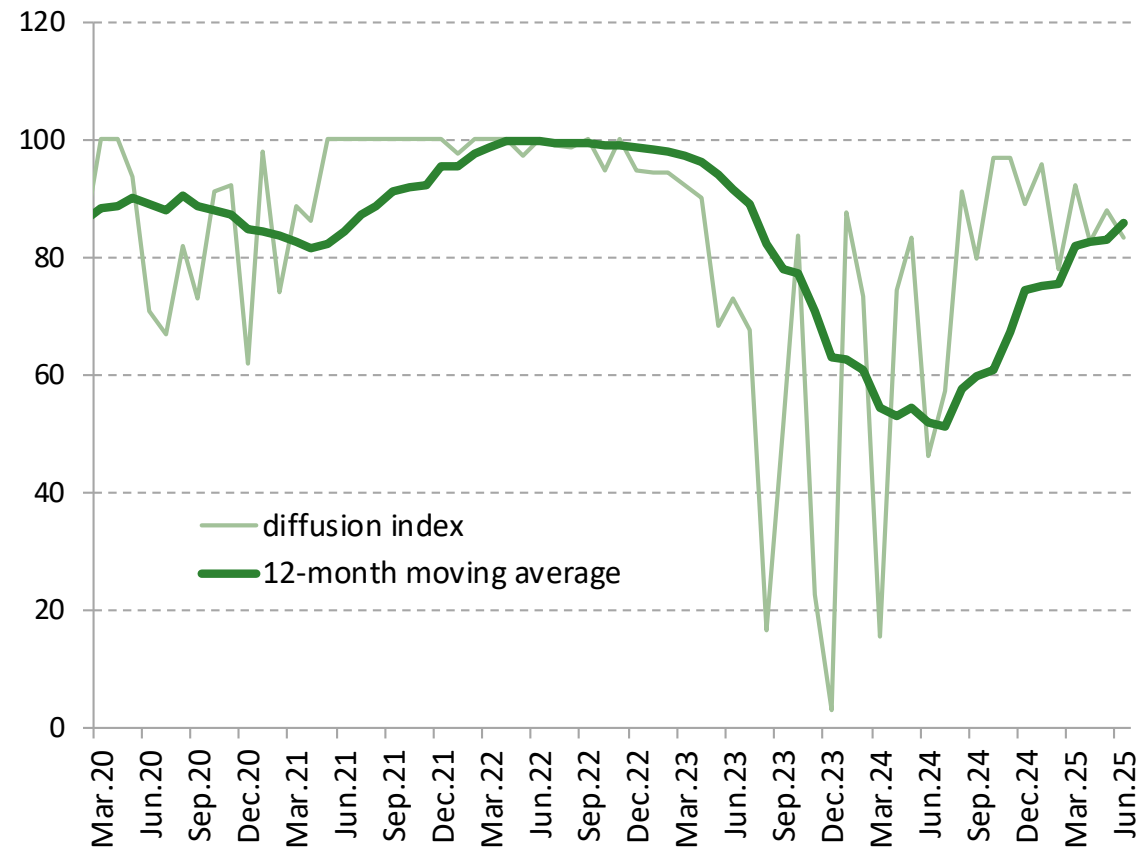
**Gross wages**



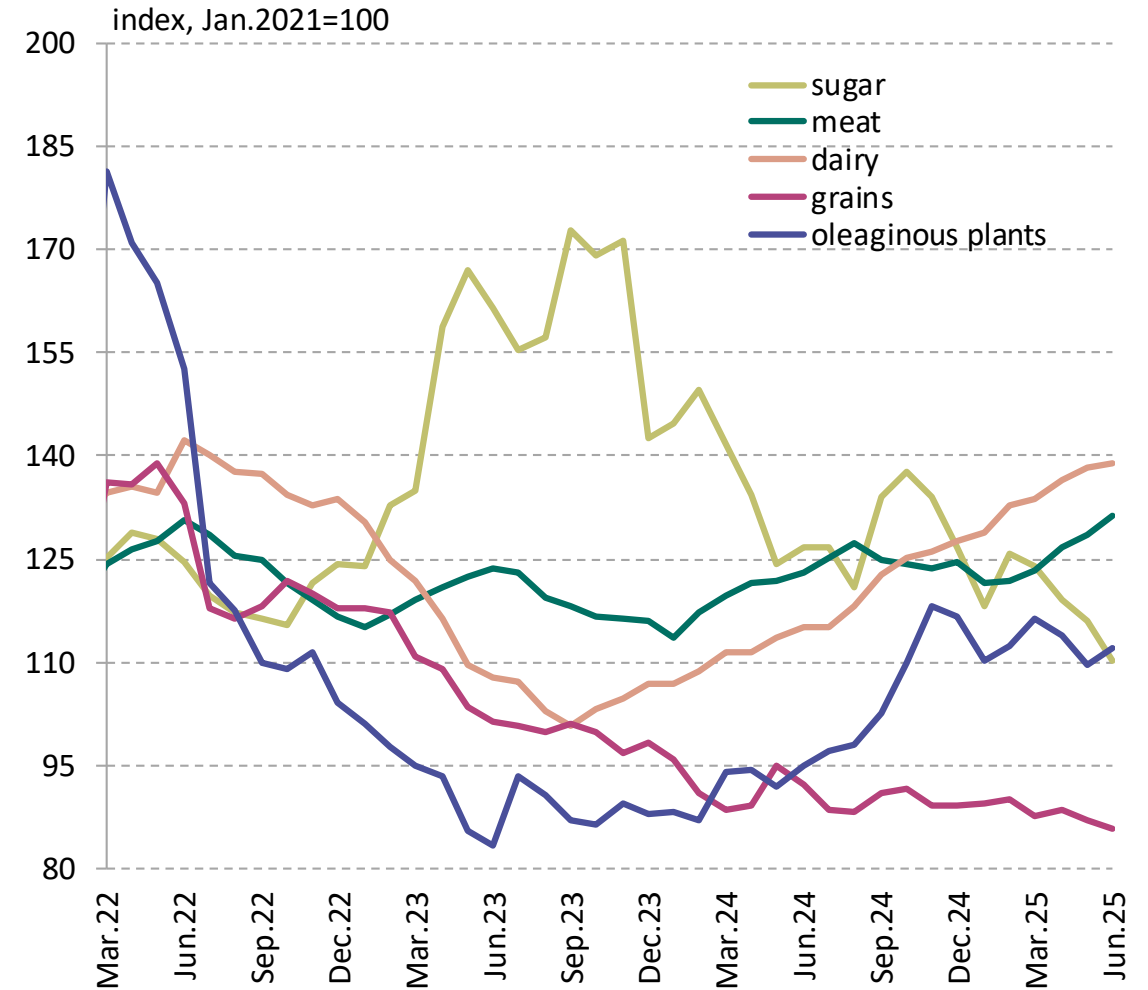
Source: NIS, NBR calculations and estimates

A substantial contribution to the advance in core inflation came from the food component, also on account of the rise in some commodity prices

**Diffusion index of processed food inflation**



**Prices of agri-food commodities**

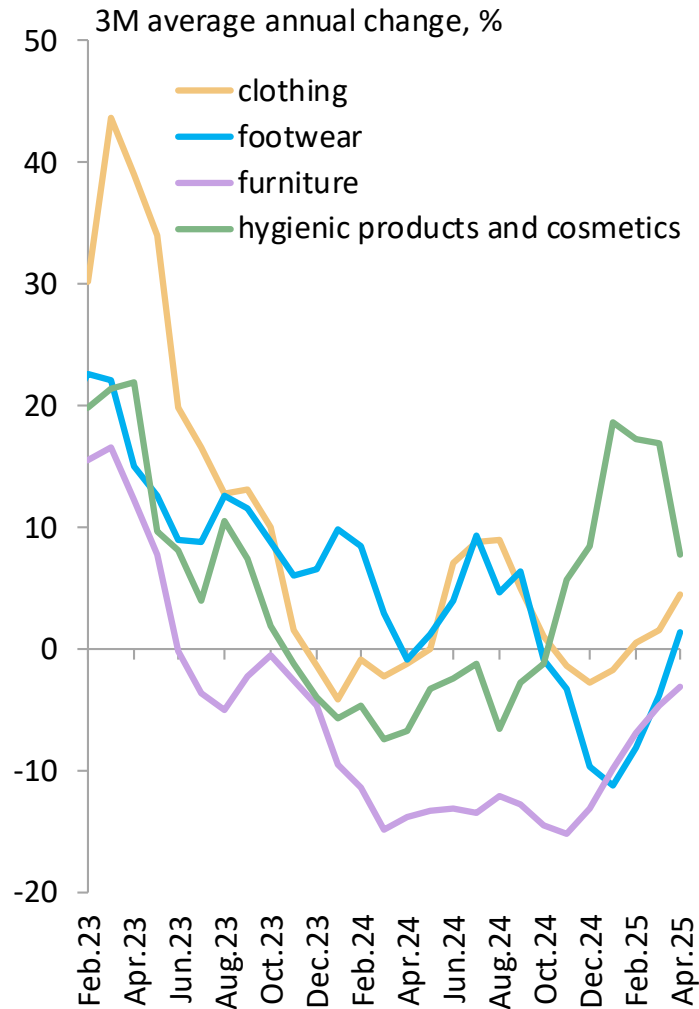


Note: The diffusion index is calculated as the difference between the shares of food items included in the adjusted CORE2 index with positive monthly inflation rates and those with negative rates (100% coverage of the food segment of core inflation); the difference is normalised to take values between -100% and +100%. Changes do not exclude the effects of taxation measures.

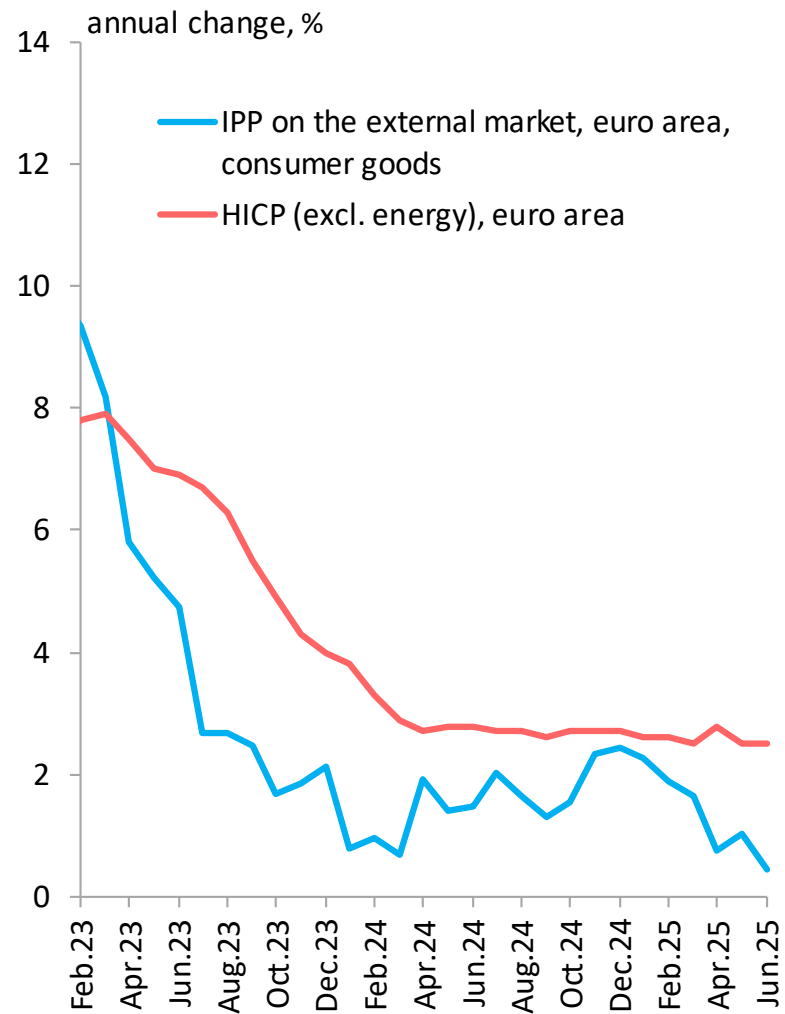
Source: NIS, FAO, NBR calculations and estimates

## Non-food items benefited from relatively benign conditions in terms of imports, but this sub-index appears to resume an upward trend

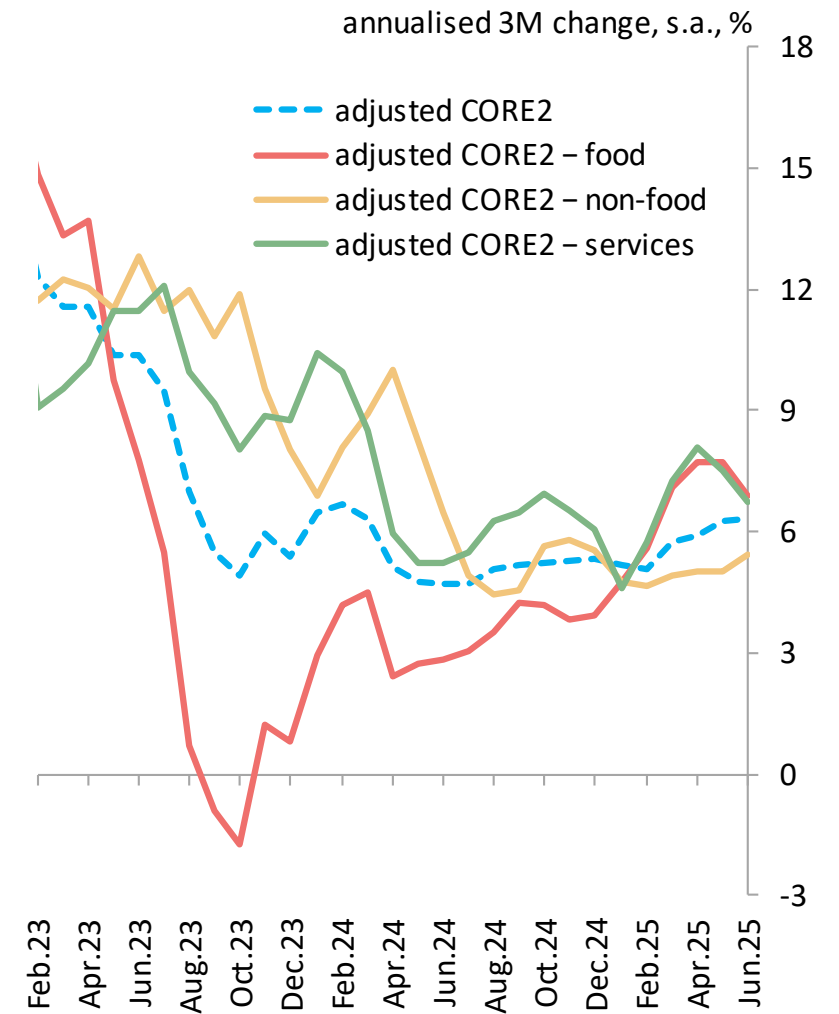
### Import unit value indices



### Other proxy measures for import prices



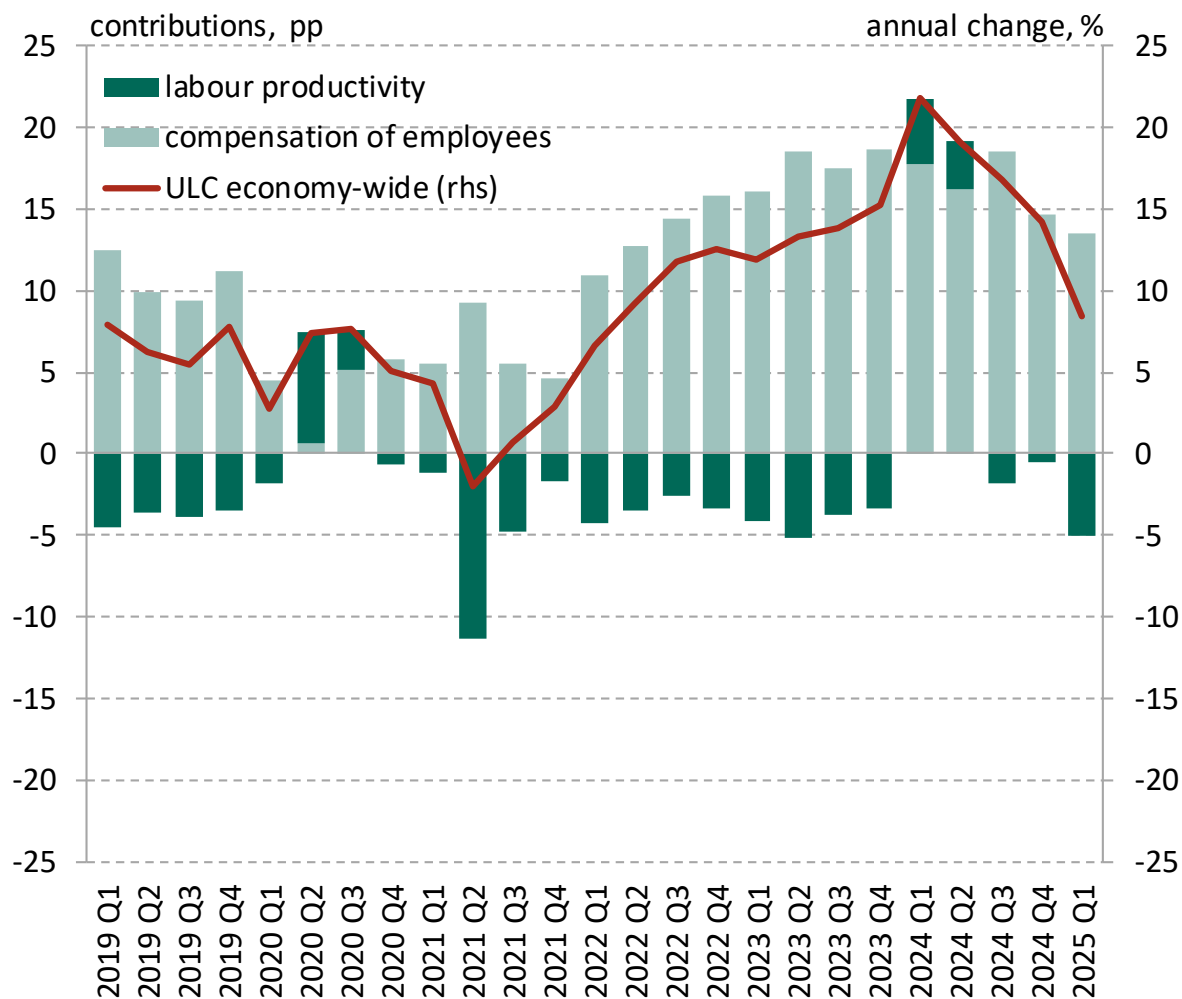
### Core momentum



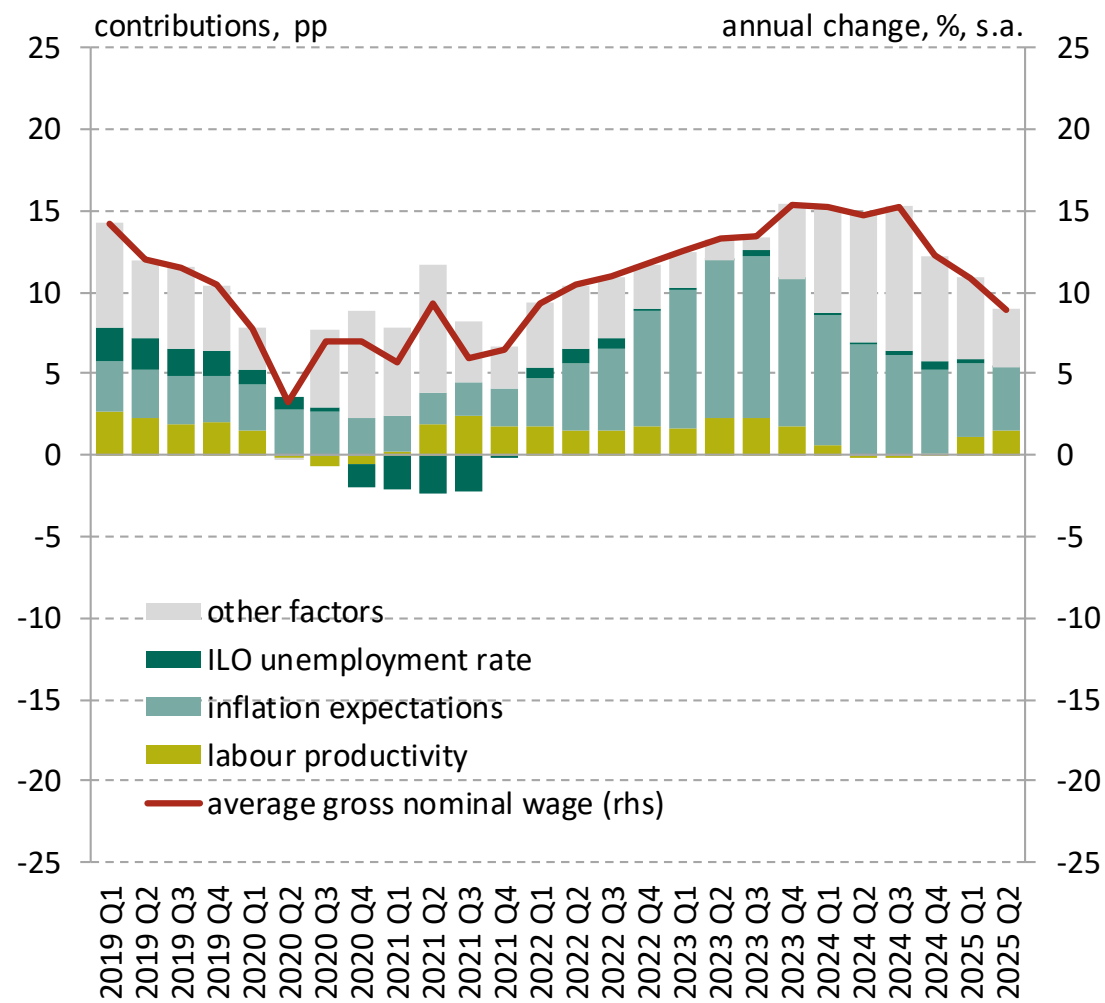
Source: Eurostat, NIS, NBR calculations

## The annual dynamics of unit labour costs have declined to single-digit levels and the downward trend has strengthened

### Unit labour costs



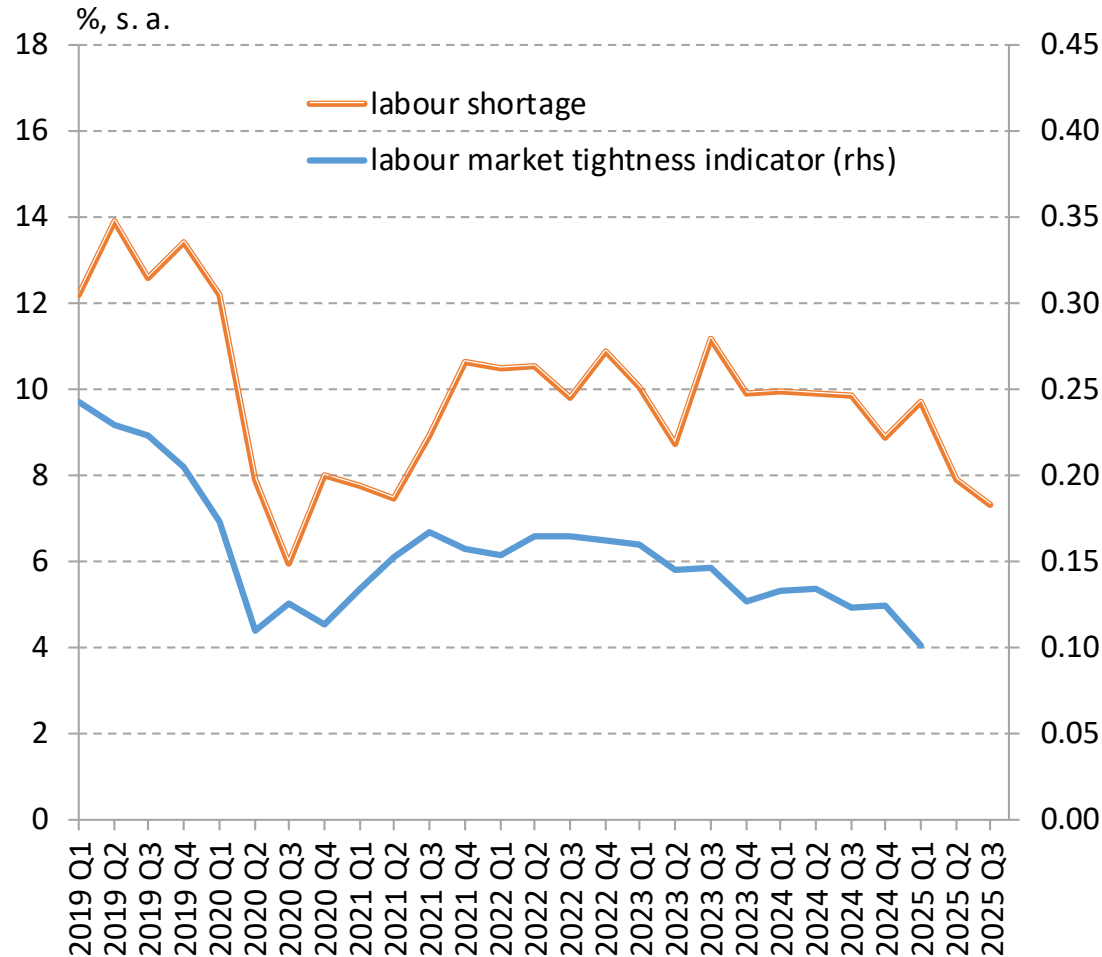
### Determinants of average gross wage growth



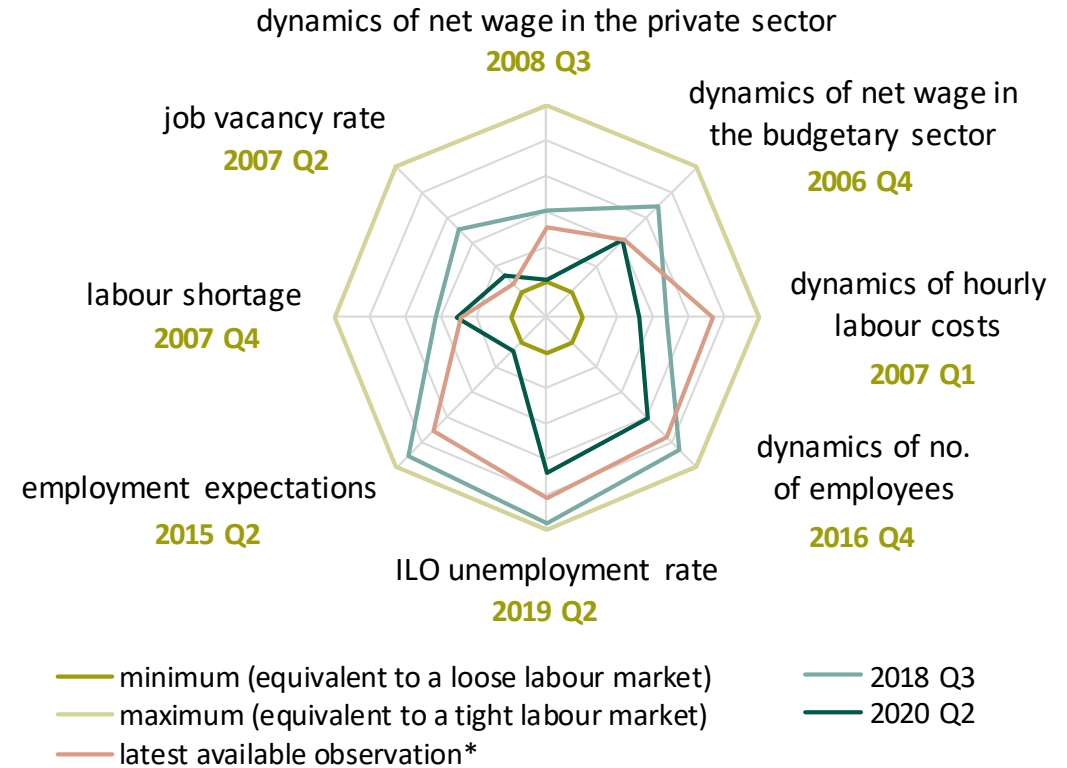
Source: NIS, Eurostat, NBR calculations, estimates and forecasts

# Labour market conditions are easing as economic activity slows down, but a certain tightness threshold persists, ...

**Labour force**



**Overview of labour market developments**



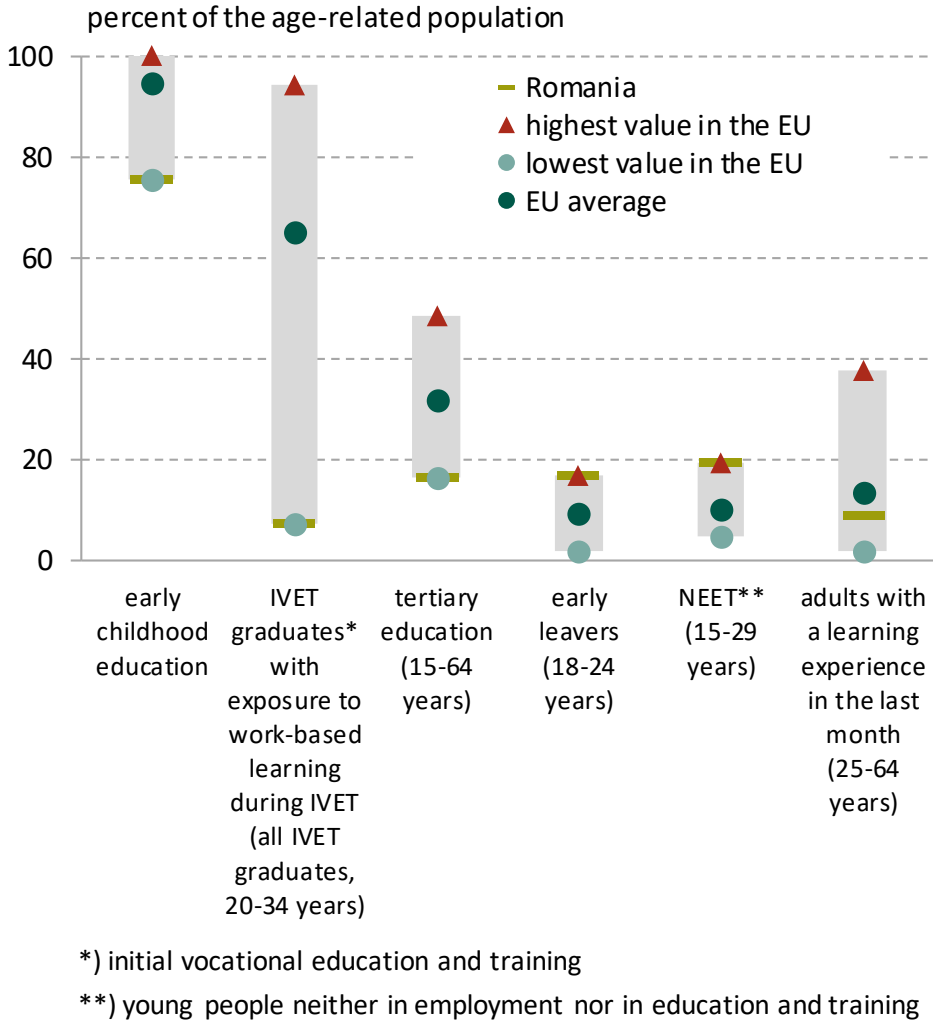
\*) The latest available observation differs among indicators; it varies depending on the time and frequency of data releases (monthly or quarterly) in 2025 Q1-Q3.

Note: The sample used covers the period from 2006 Q1 to 2025 Q3 and values were normalised for each variable. Maximum is defined as the lowest level of the unemployment rate since 2006 Q1 and the highest level for the other indicators, respectively.

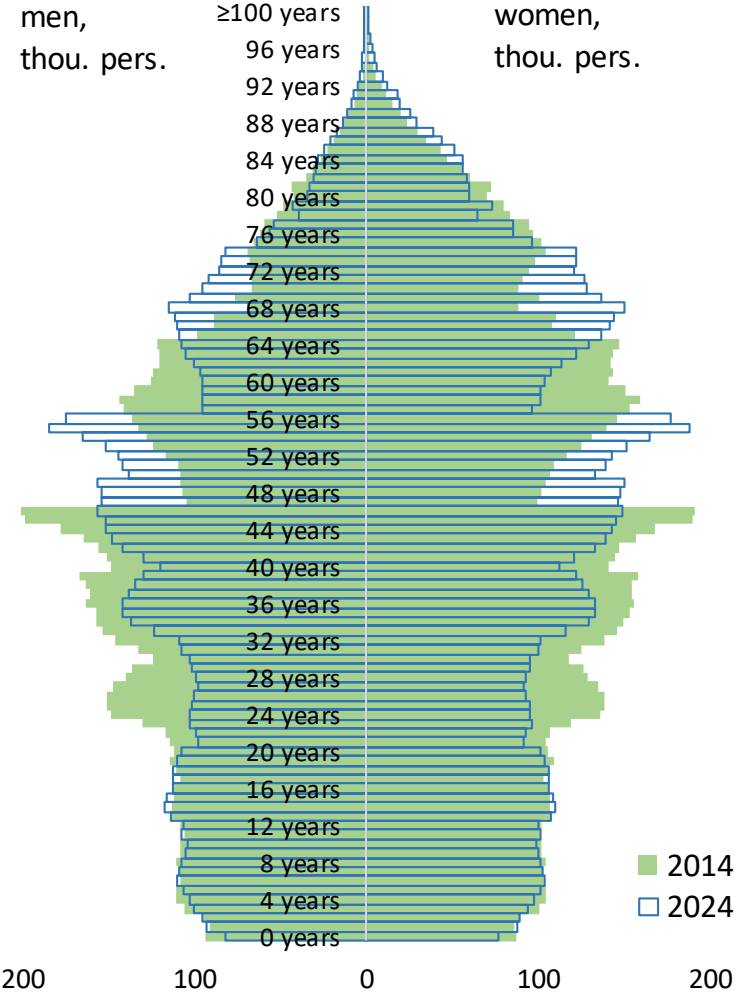
Source: Eurostat

... amid the entrenched structural problems of labour market,  
the solving of which requires the implementation of active social policies in the medium and long run

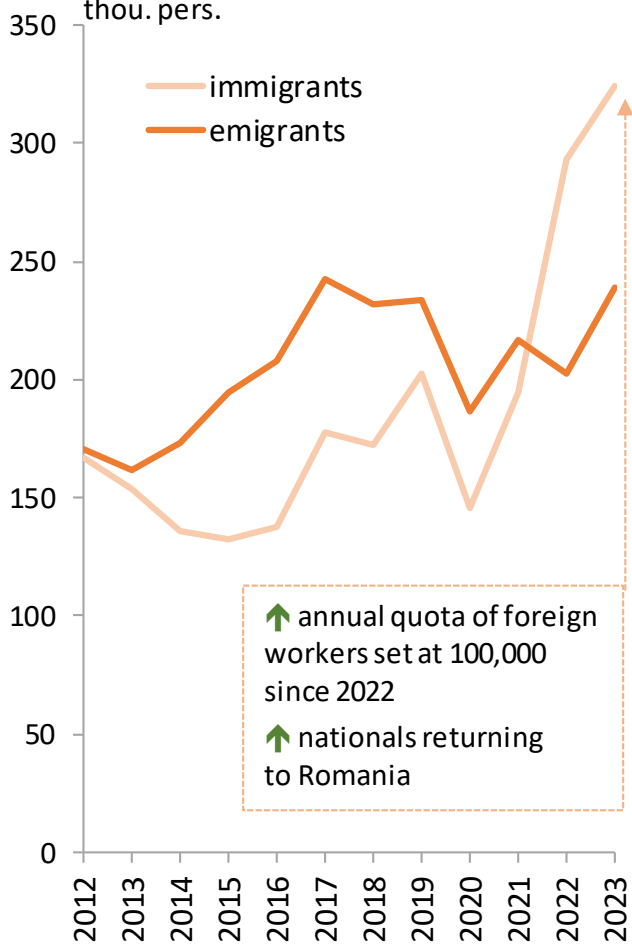
**Relevant lifelong learning indicators**



**Population pyramid in Romania**



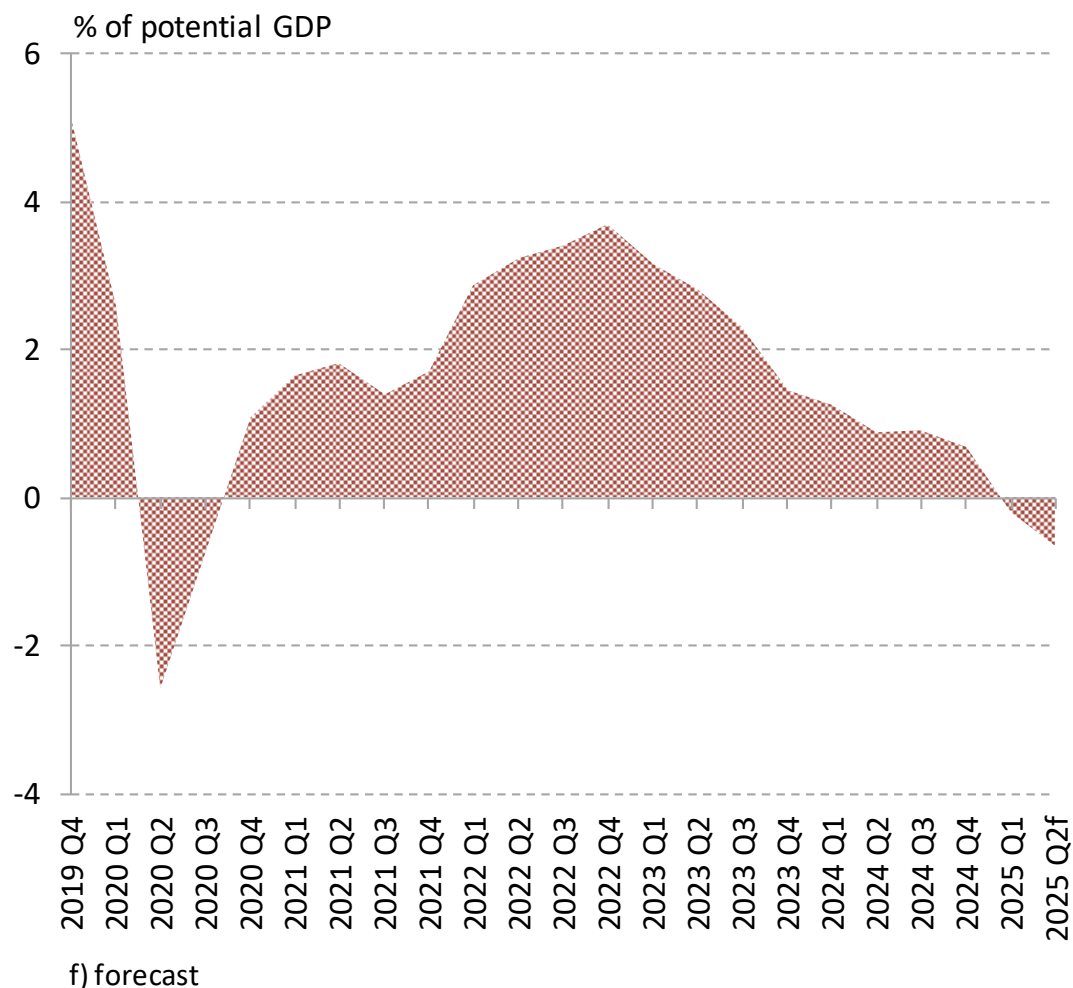
**Migrant flows**



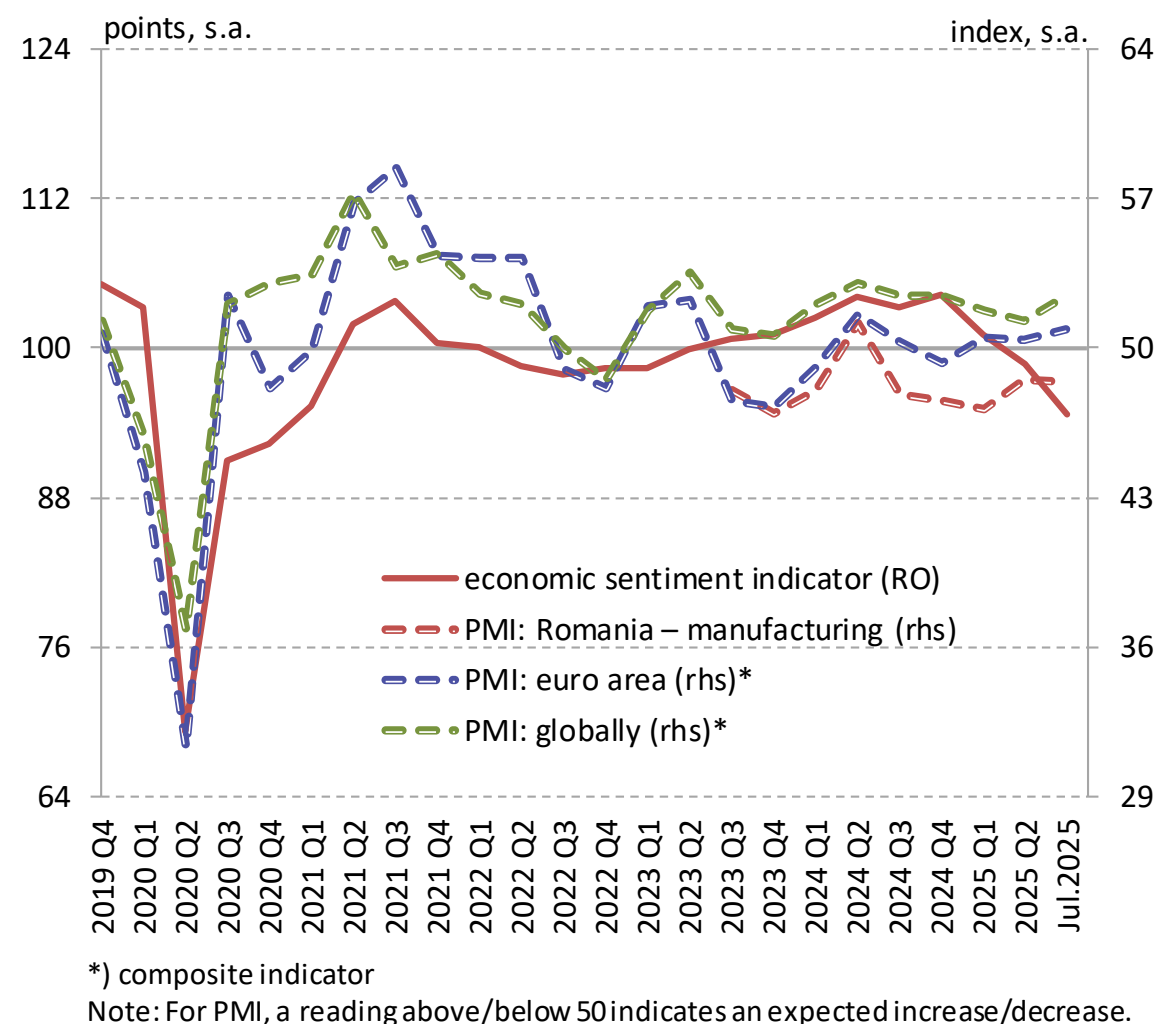
Source: Eurostat

## Increase in the aggregate demand deficit in 2025 Q2; expectations on short-term economic growth are subdued

### Output gap



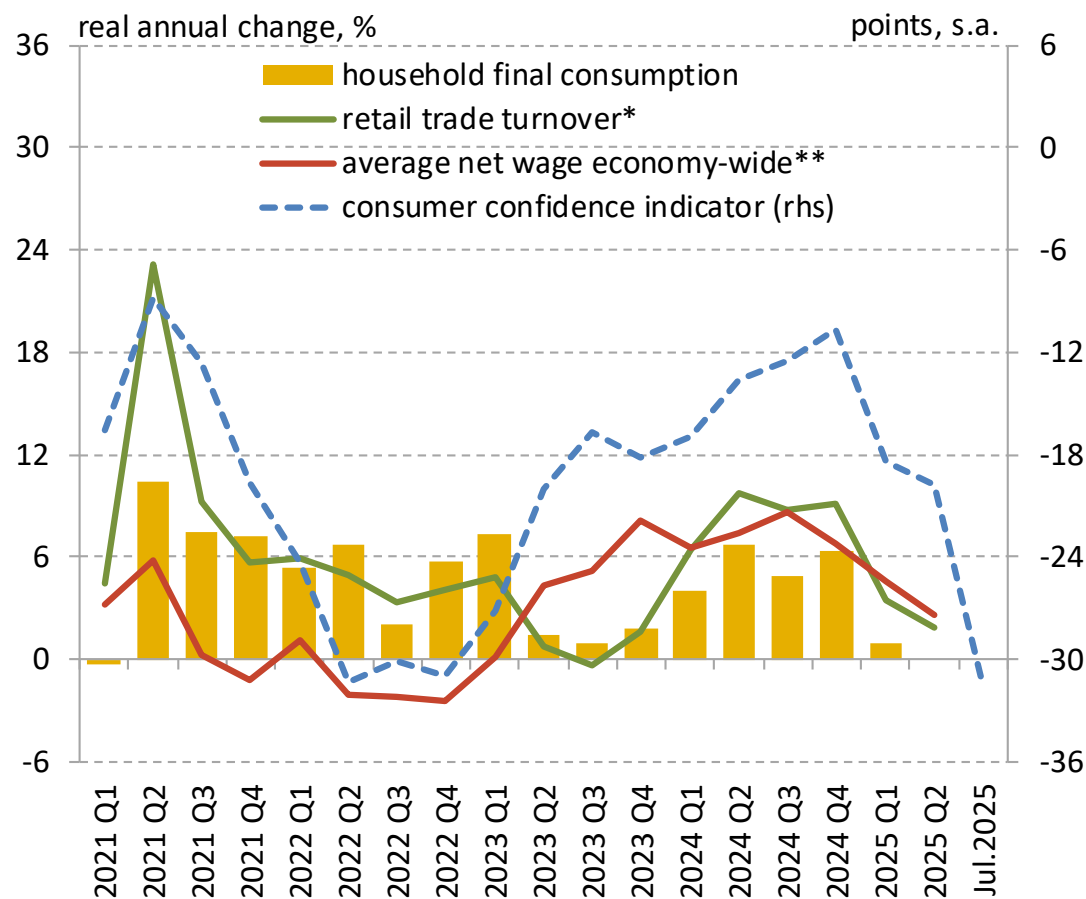
### Expectations on economic developments



Source: NIS, EC-DG ECFIN, S&P Global, BCR Research, Bloomberg, NBR estimates and forecasts

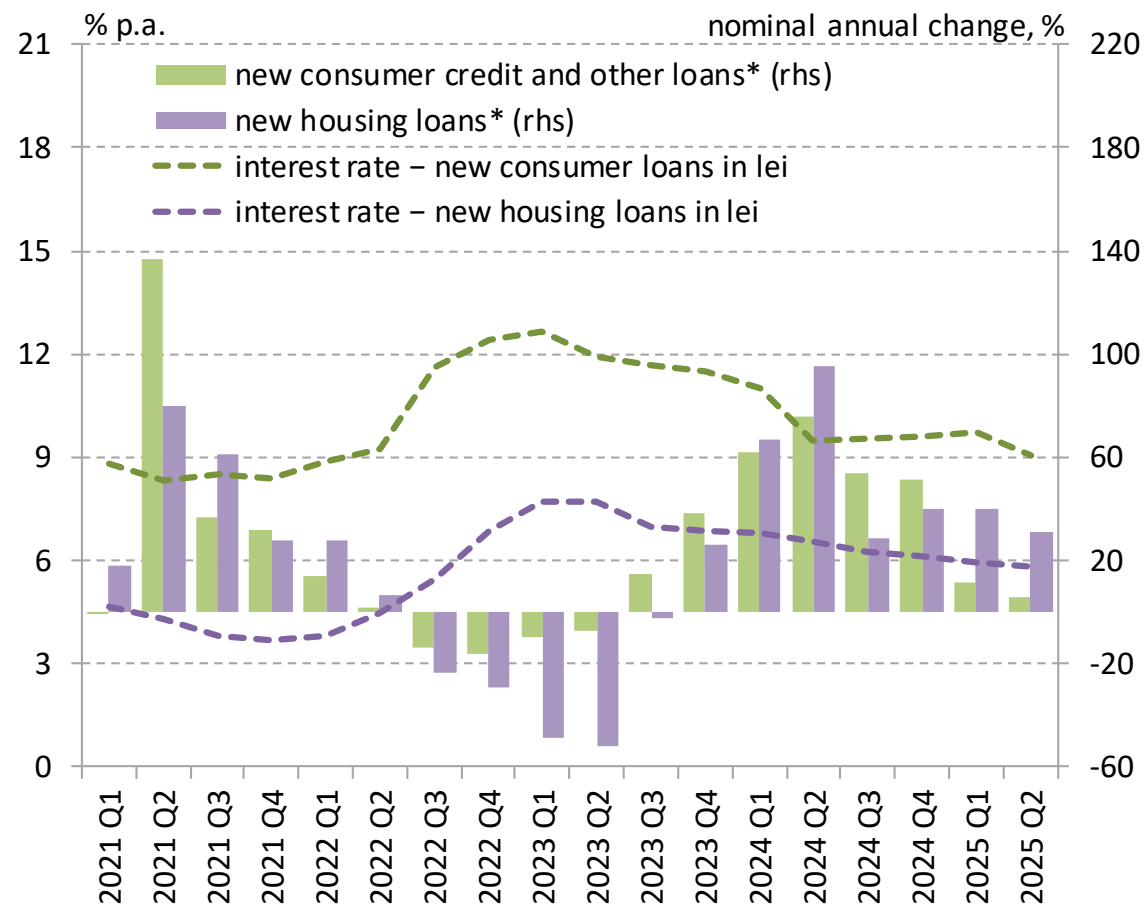
# Decline in consumer demand dynamics, amid the significant worsening of consumer confidence and the slowing growth of wages and borrowed funds

### Household consumption



\*) excl. motor vehicles  
 \*\*) Apr.-May for the latest observation

### New loans

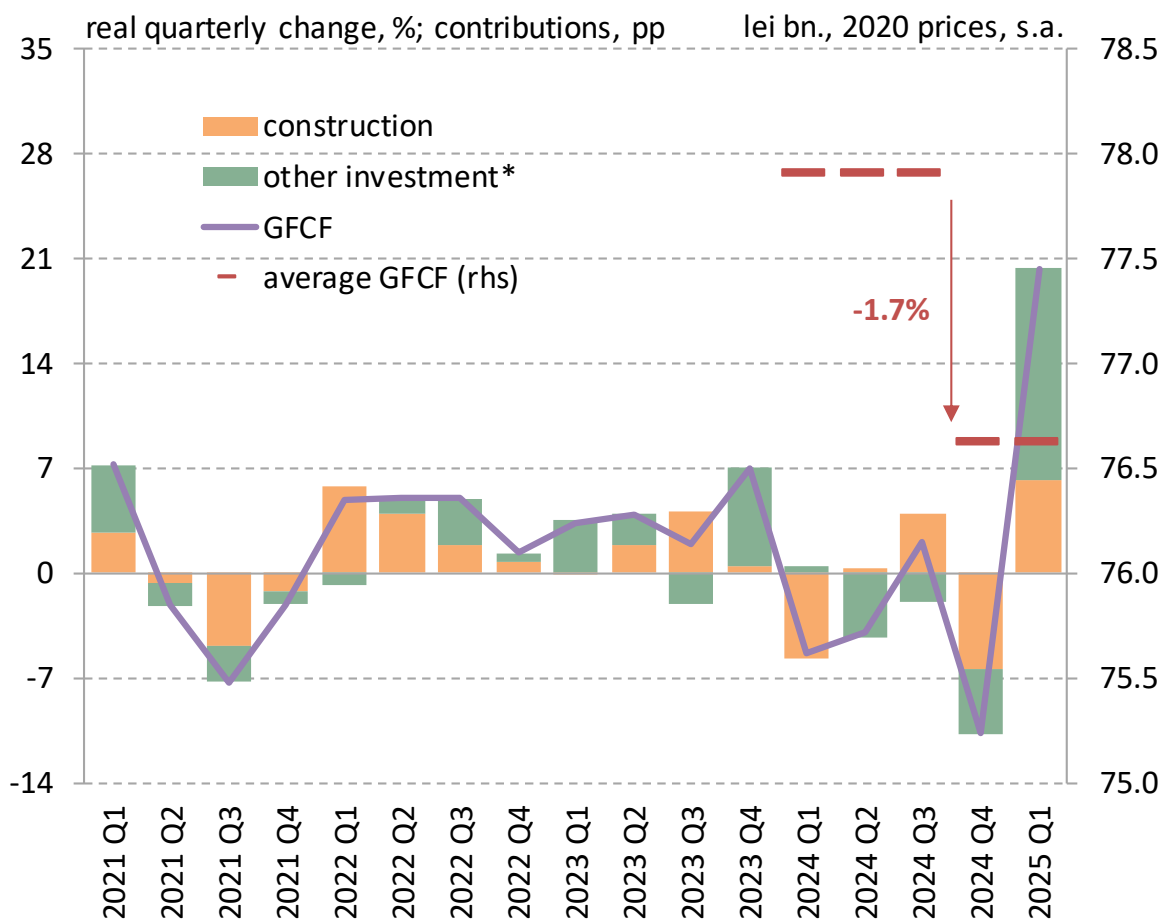


\*) excl. renegotiated loans

Source: NIS, EC-DG ECFIN, NBR

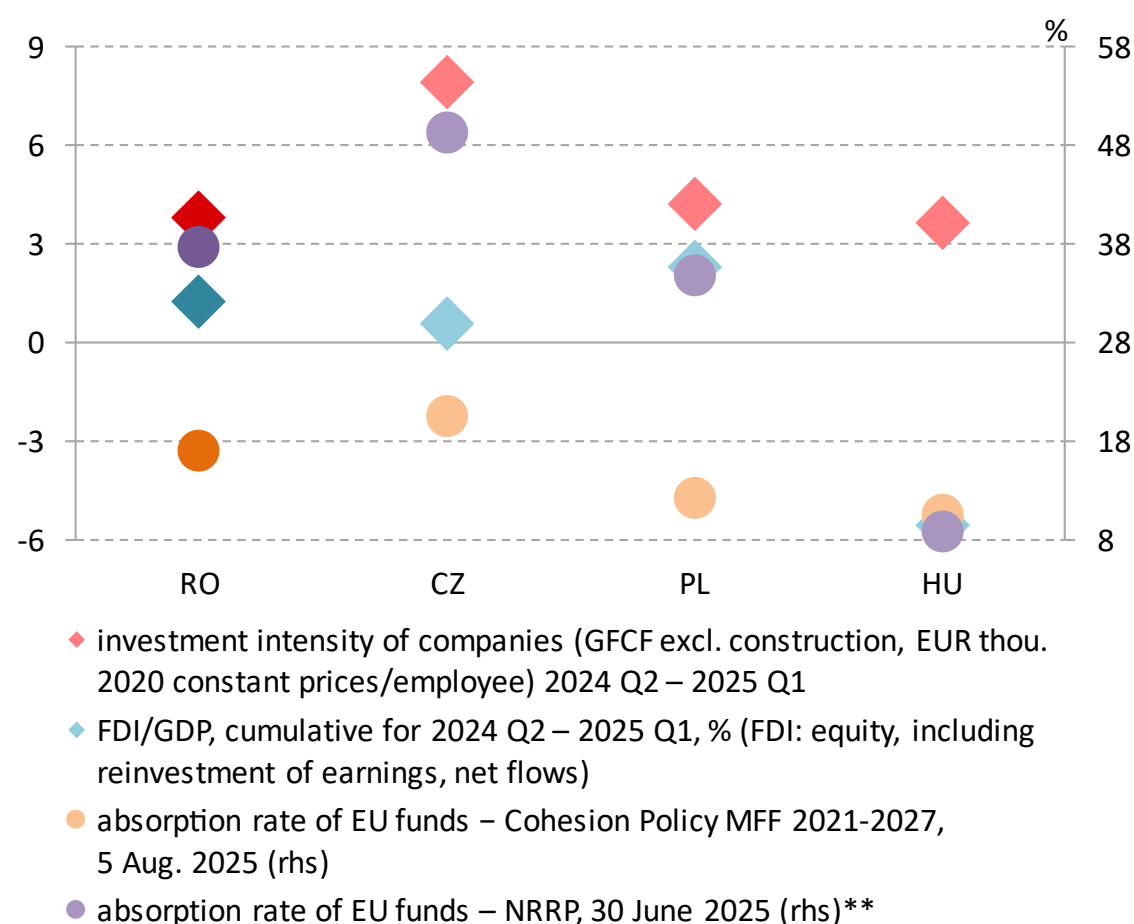
# Recovery of investment in 2025 Q1, after the abrupt contraction at end-2024; creating conditions for the faster absorption of EU funds is of the essence

### Gross fixed capital formation



\*) machinery and equipment, biological assets in agriculture, IT software, R&D, geological works, etc.

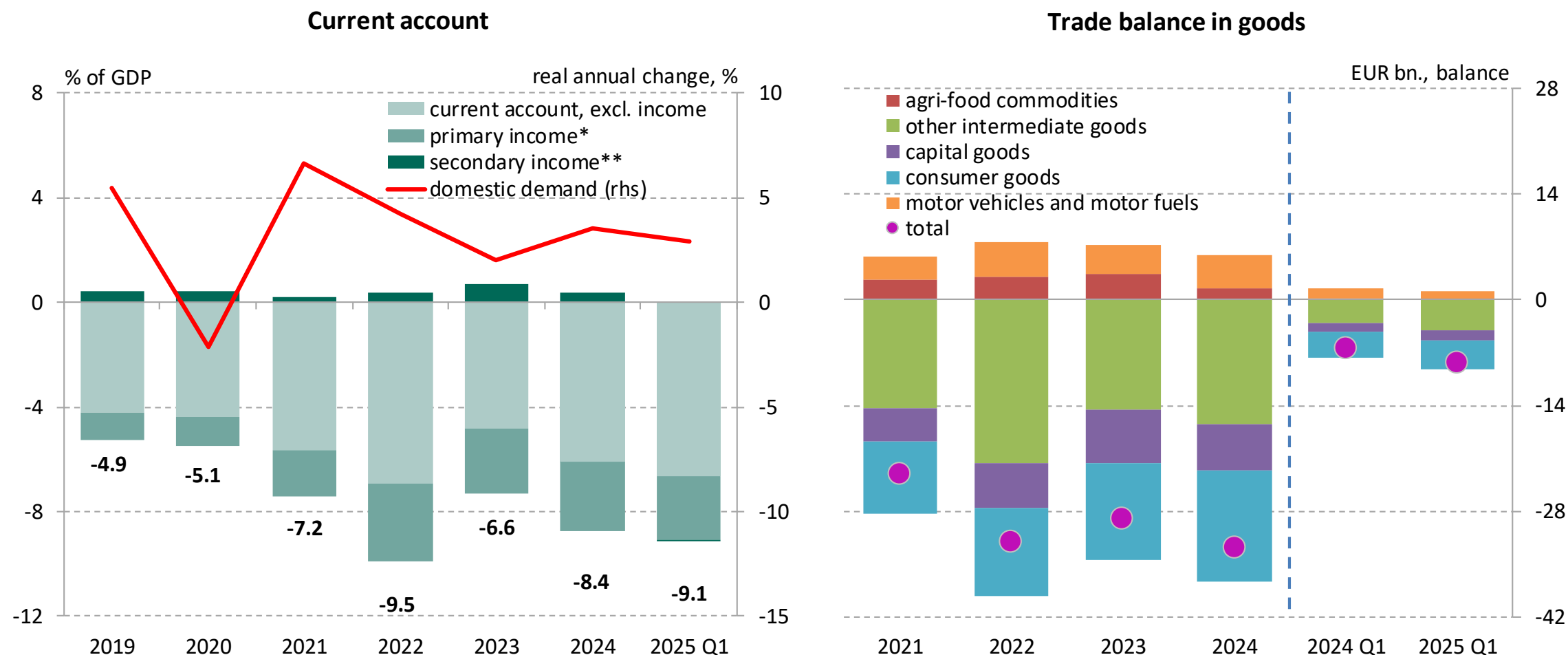
### Regional context – recent developments



\*\*) In Poland and Hungary, amounts from EU funds were cashed in first in December 2023, two years later than in Romania's case.

Source: EC, Eurostat, NBR calculations

Current account deficit widened further, due *inter alia* to the worsening of the secondary income balance; the deficit on trade in goods increased in 2025 Q1, owing to contributions from most components



\*) dividend payments and reinvested earnings of FDI enterprises, interest on intercompany loans and securities issued in the international market, compensation of Romanian employees abroad

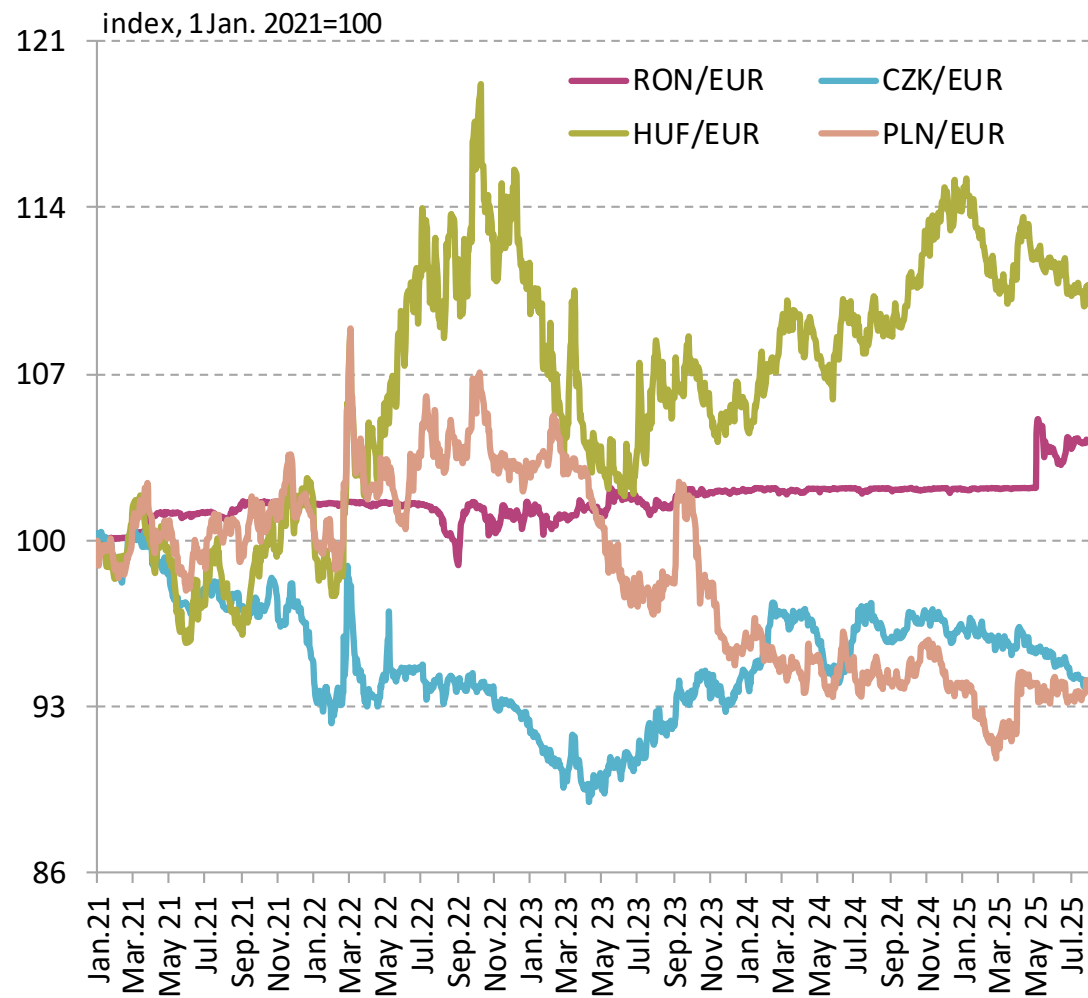
\*\*\*) absorption of non-repayable EU funds for social projects, remittances of workers from abroad, contribution to the EU budget

Note: The specified values show the current account balance as percent of GDP.

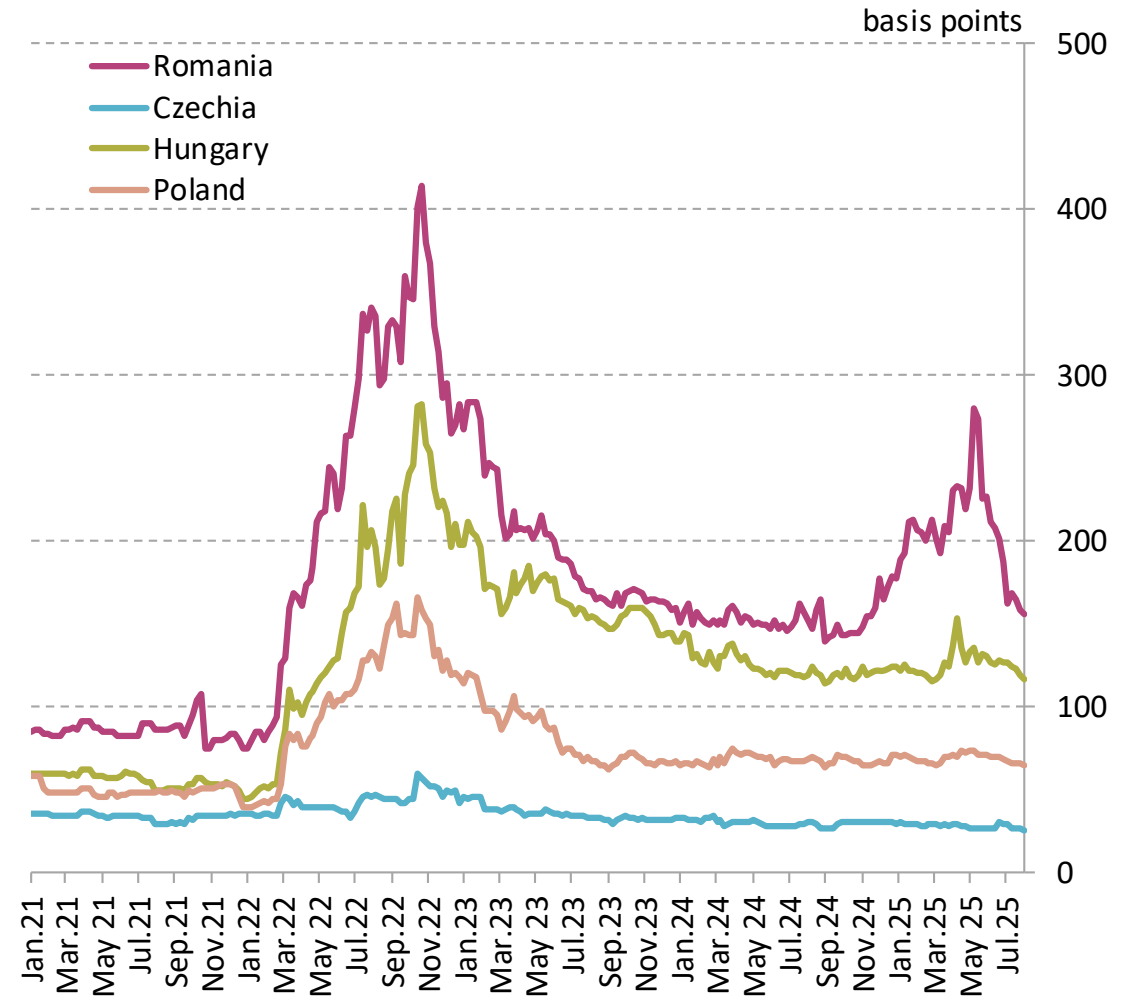
Source: NIS, Eurostat, NBR calculations

## Exchange rates versus the euro and the risk premia in the region

### Exchange rates



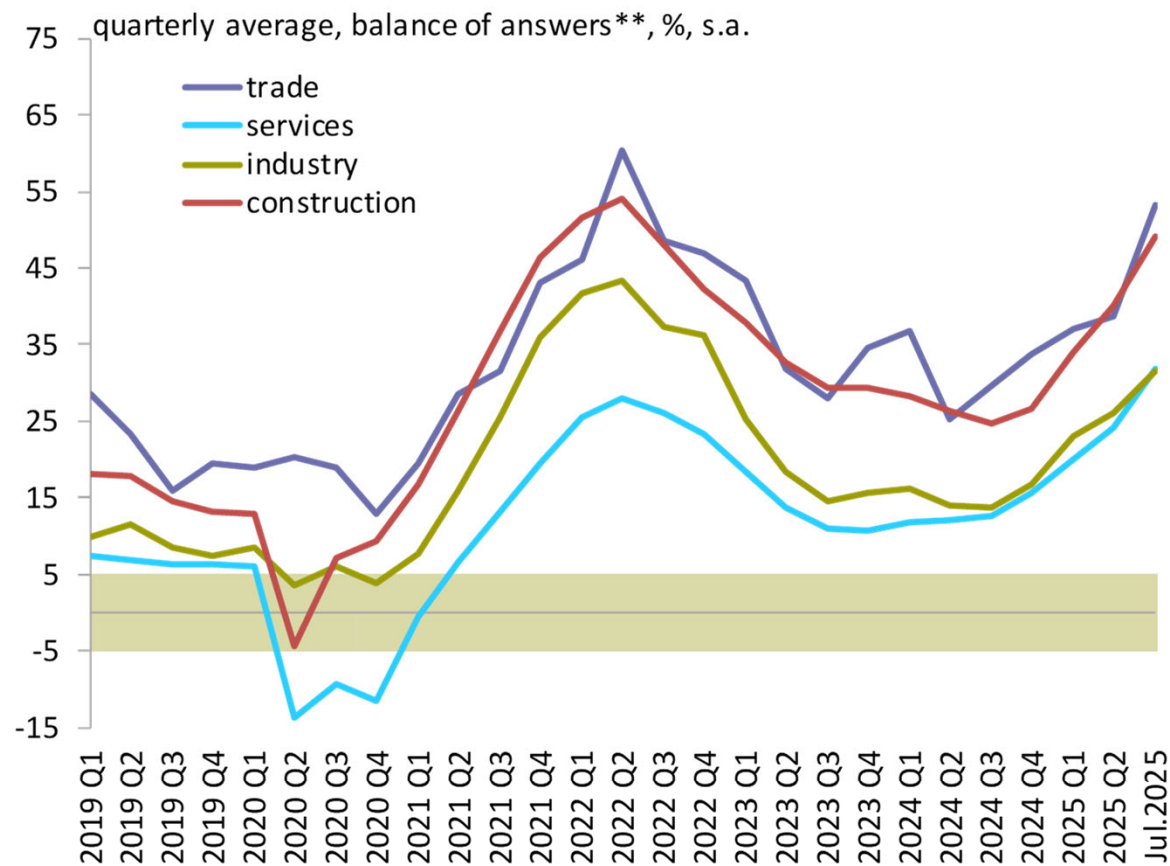
### Risk premia (5Y CDS)



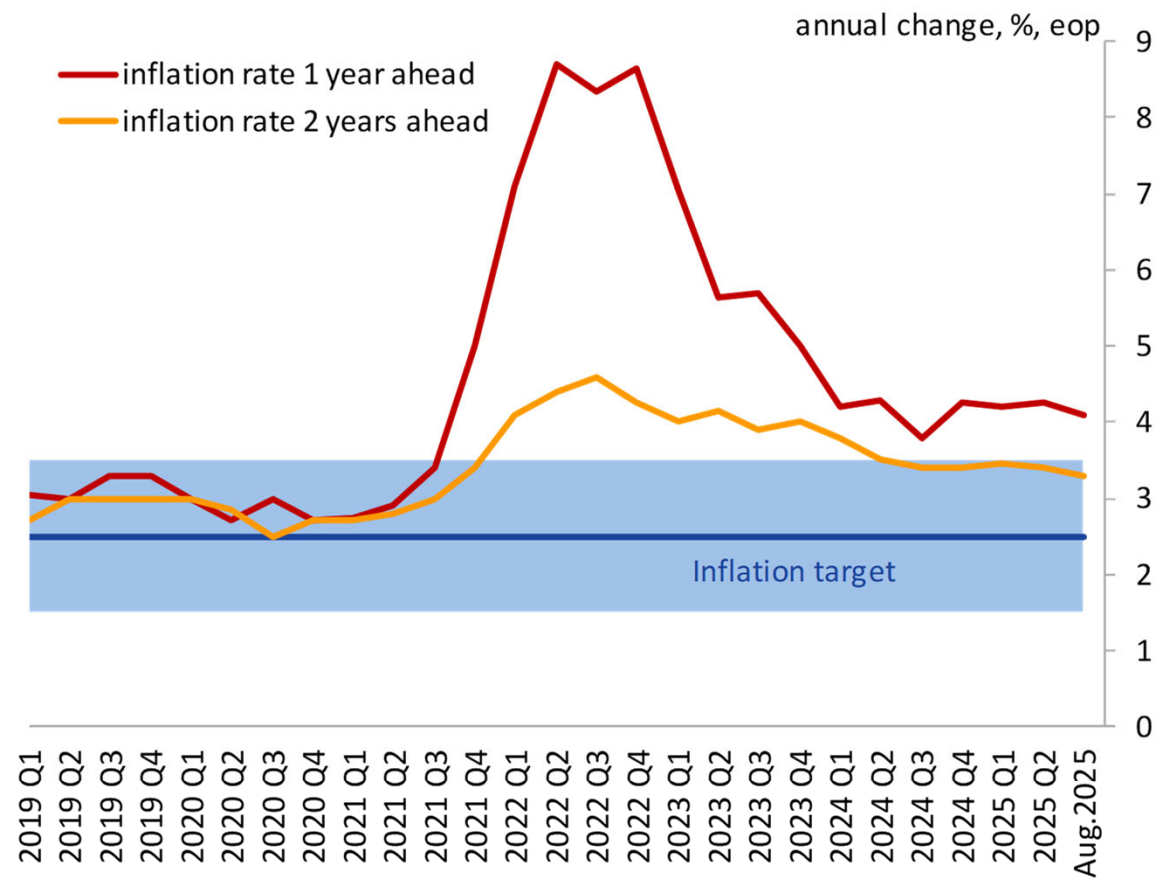
Source: ECB, Bloomberg

Short-term inflation expectations followed a steeper upward path;  
in the longer run, inflation expectations remain close to the upper bound of the variation band of the target

**Expectations of companies\***



**Expectations of financial analysts**



\*) 3-month horizon

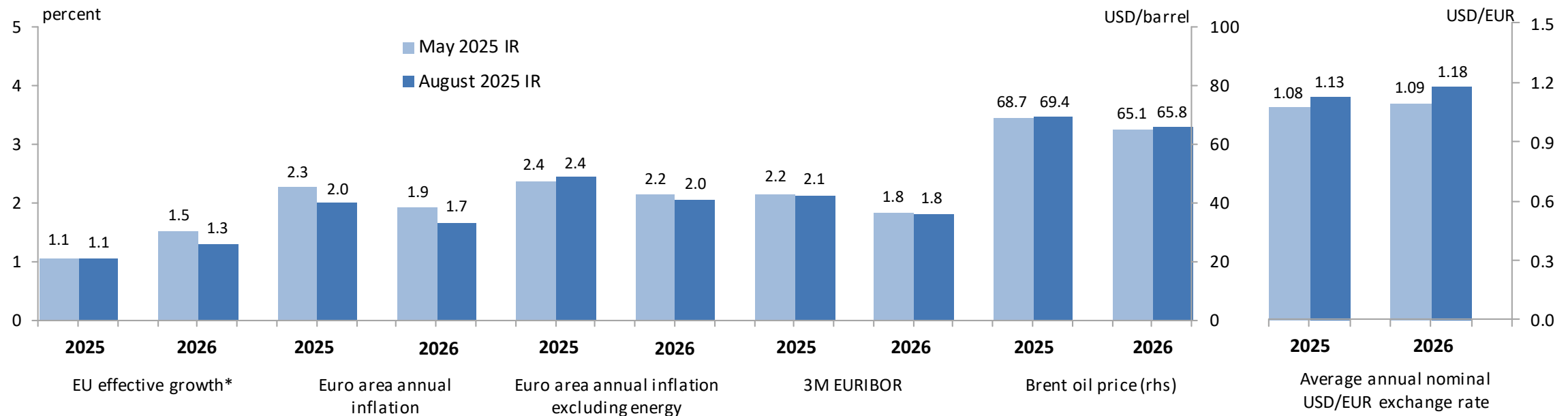
\*\*) difference between the percentage of answers showing higher prices and that of answers pointing to lower prices; values inside the  $\pm 5$  percent band indicate price stability

Source: EC-DG ECFIN survey, NBR Survey among financial analysts, NBR calculations

# Macroeconomic forecast

## External coordinates

- More unfavourable prospects for **EU effective growth**
- Euro area annual headline inflation** reached the ECB's 2 percent benchmark already in 2025 Q2, while the **HICP inflation excluding energy** (a proxy for Romania's imported inflation) will converge towards the target within a year
- 3M EURIBOR** declined significantly over the past year, running considerably below the federal funds rate in the United States (4.25-4.5 percent), and it is expected to follow an only moderately downward path in the period ahead
- The **US dollar** further records a significant depreciation against the euro
- High uncertainties surrounding the **developments in the international oil price**, with potentially both-ways influences: geopolitical conflicts, OPEC+ decisions, weakness in global economic activity



\*) effective indicator calculated by using the breakdown of Romania's intra-EU exports by country of destination

Source: NBR assumptions based on data provided by the European Commission, ECB, Consensus Economics and Bloomberg (futures prices)

In 2025 Q3, CPI is hit by supply-side shocks of a large magnitude, with a direct impact on the annual inflation rate that persists for a year

		Direct/accounting impact on the annual CPI inflation rate	Direct/accounting impact on the annual adjusted CORE2 inflation rate
<b>Electricity market liberalisation on 1 July 2025</b>			
▪ +55 percent average increase in electricity price		2.0 pp	
<b>Indirect tax hikes on 1 August 2025</b>	<b>Main CPI categories</b>		
<b>Higher VAT rates</b>			
▪ 5 percent → 11 percent	▪ books, school textbooks, newspapers and magazines, firewood, heating	1.6 pp	1.3 pp
▪ 9 percent → 11 percent	▪ food items – except those with added sugar –, medicines, accommodation and food services, water supply and sewerage		
▪ 19 percent → 21 percent	▪ food items with added sugar, non-food items, motor fuels, electricity and natural gas, tobacco and alcohol, other services		
<b>Higher excise duties</b>			
▪ +10 percent	▪ motor fuels, alcoholic beverages and non-alcoholic beverages with added sugar	0.4 pp	0.1 pp
▪ +2.25 percent	▪ tobacco		
<b>TOTAL</b>		<b>4.0 pp</b>	<b>1.4 pp</b>

Source: NBR assessments

## Annual CPI inflation rate: revised significantly upwards in the first half of the projection interval, amid supply-side shocks in 2025 Q3

### □ The projected annual CPI inflation rate:

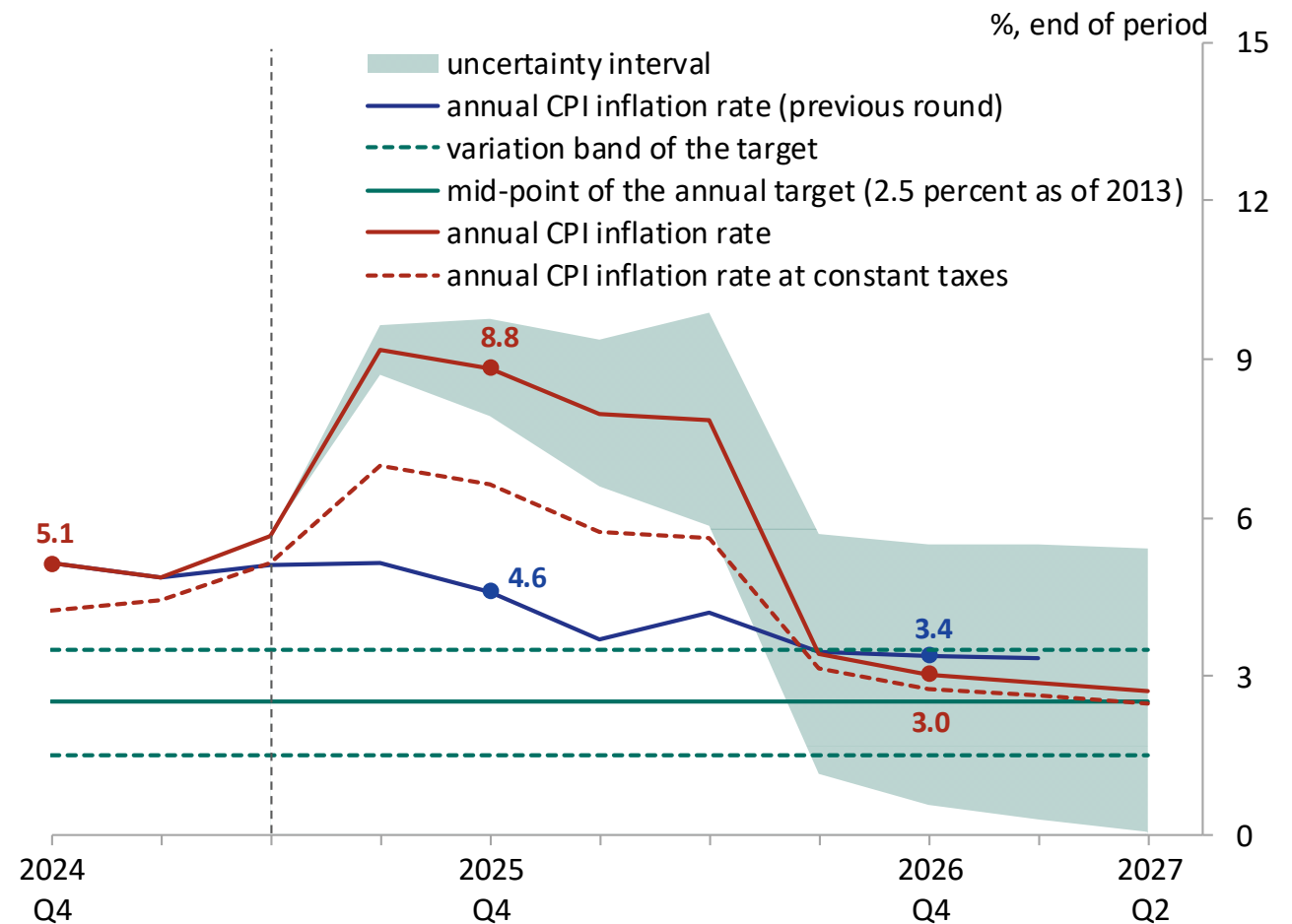
- ✓ 9.2 percent in September 2025 (peak of the forecast interval)
- ✓ 8.8 percent in December 2025 (up 4.2 pp vs the previous *Report*, of which 2.8 pp is the impact of exogenous components)
- ✓ 3 percent in December 2026 (down 0.4 pp vs the previous *Report*)

### □ The projected annual CPI inflation rate at constant taxes, calculated by removing the first-round impact of changes in the VAT rates and excise duties, also runs significantly above the variation band of the target until 2026 Q3

### □ Over the short term, inflationary pressures adding to the above-mentioned supply-side shocks:

- ✓ *fruit and vegetables* – due to unfavourable weather
- ✓ core inflation (especially *processed food and services*) – because of higher agri-food commodity and labour costs, inflation expectations and the recent depreciation of the leu

### □ The CPI path is almost entirely shaped over the short and medium term by domestic developments

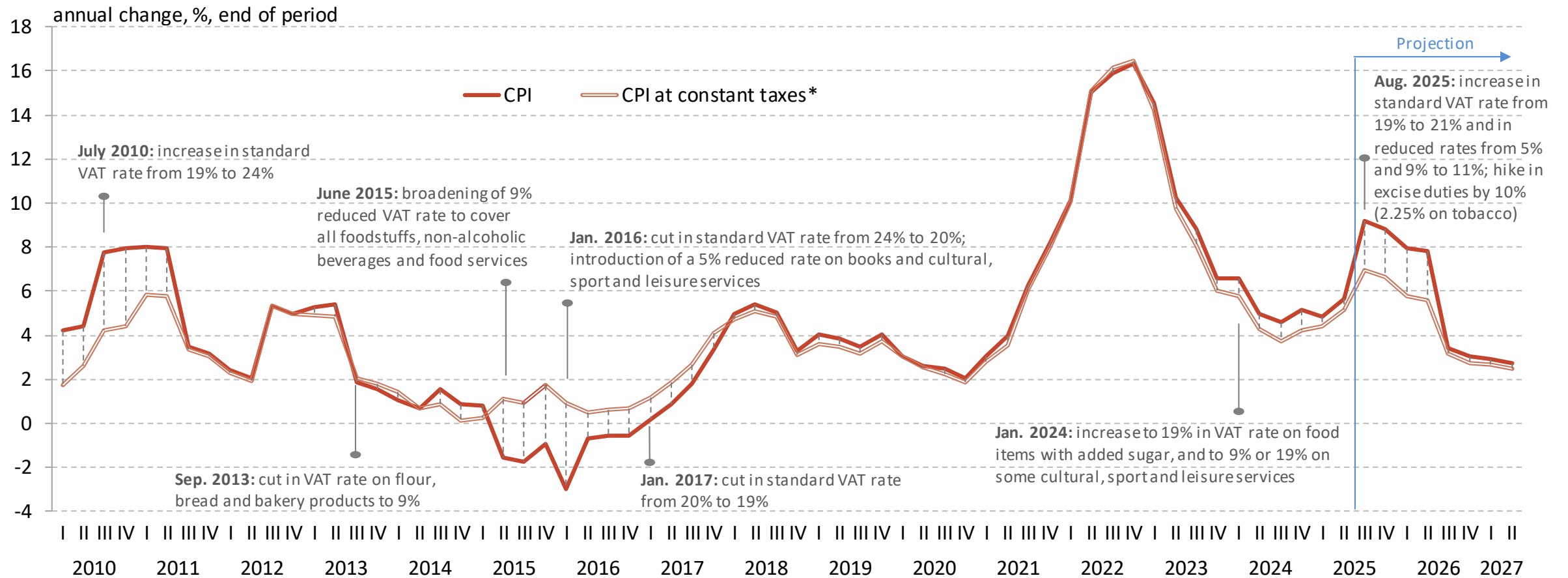


Note: The uncertainty interval is calculated based on the forecast errors of the annual CPI inflation rate in the NBR projections from 2005 to 2024.

Source: NIS, NBR calculations and projections

# The direct effect of fiscal measures on the annual CPI change fades out four quarters after their implementation

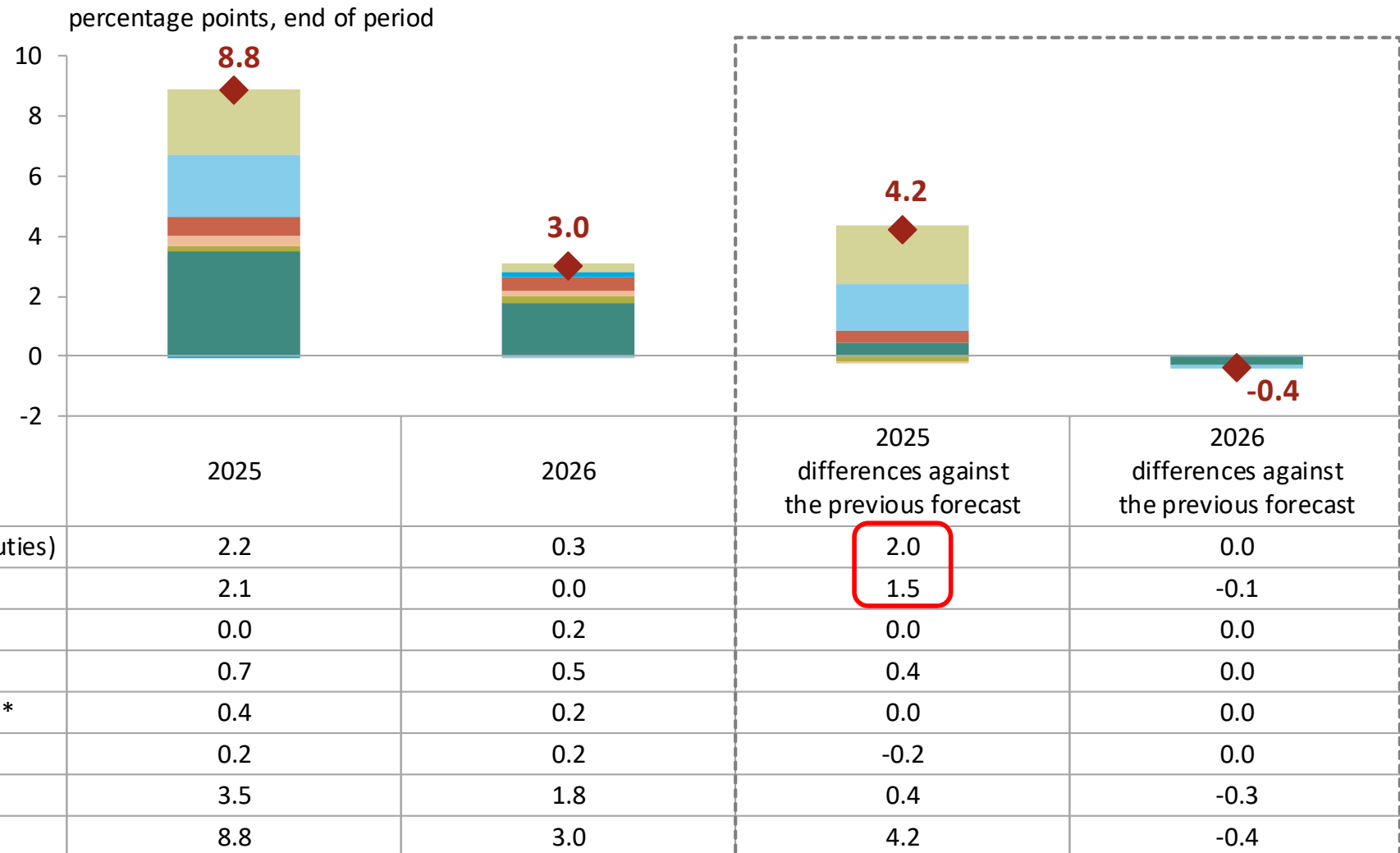
- ... causing an abrupt fall of the annual inflation rate in 2026 Q3, when the already built-up disinflationary influences from aggregate demand induced by the fiscal package are seen prevailing



\*) CPI excl. the first-round impact of changes in VAT rates and excise duties

Source: NIS, NBR calculations and estimates

The main reassessments were driven by the significantly higher-than-previously-anticipated rise in the electricity price, as well as by the hikes in VAT rates and excise duties – accounting for +3.5 pp of +4.2 pp in December 2025

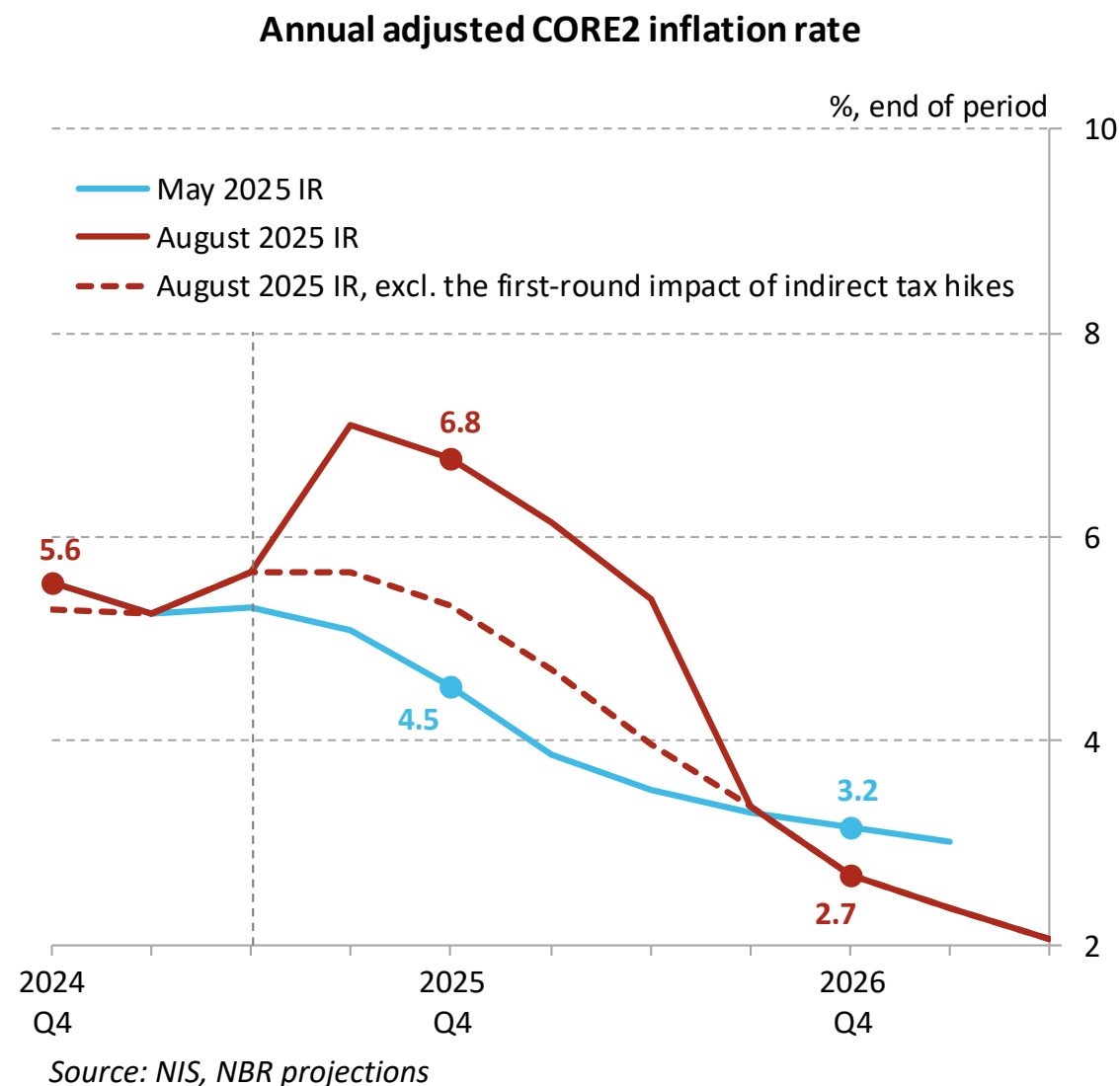


\*) excl. the first-round impact of indirect tax hikes

Source: NIS, NBR projections and calculations. Values have been rounded off to one decimal place.

## Annual adjusted CORE2 inflation rate: after peaking in 2025 Q3 due to the indirect tax hikes, it will re-embark on a downward path, falling more notably in 2026 Q3

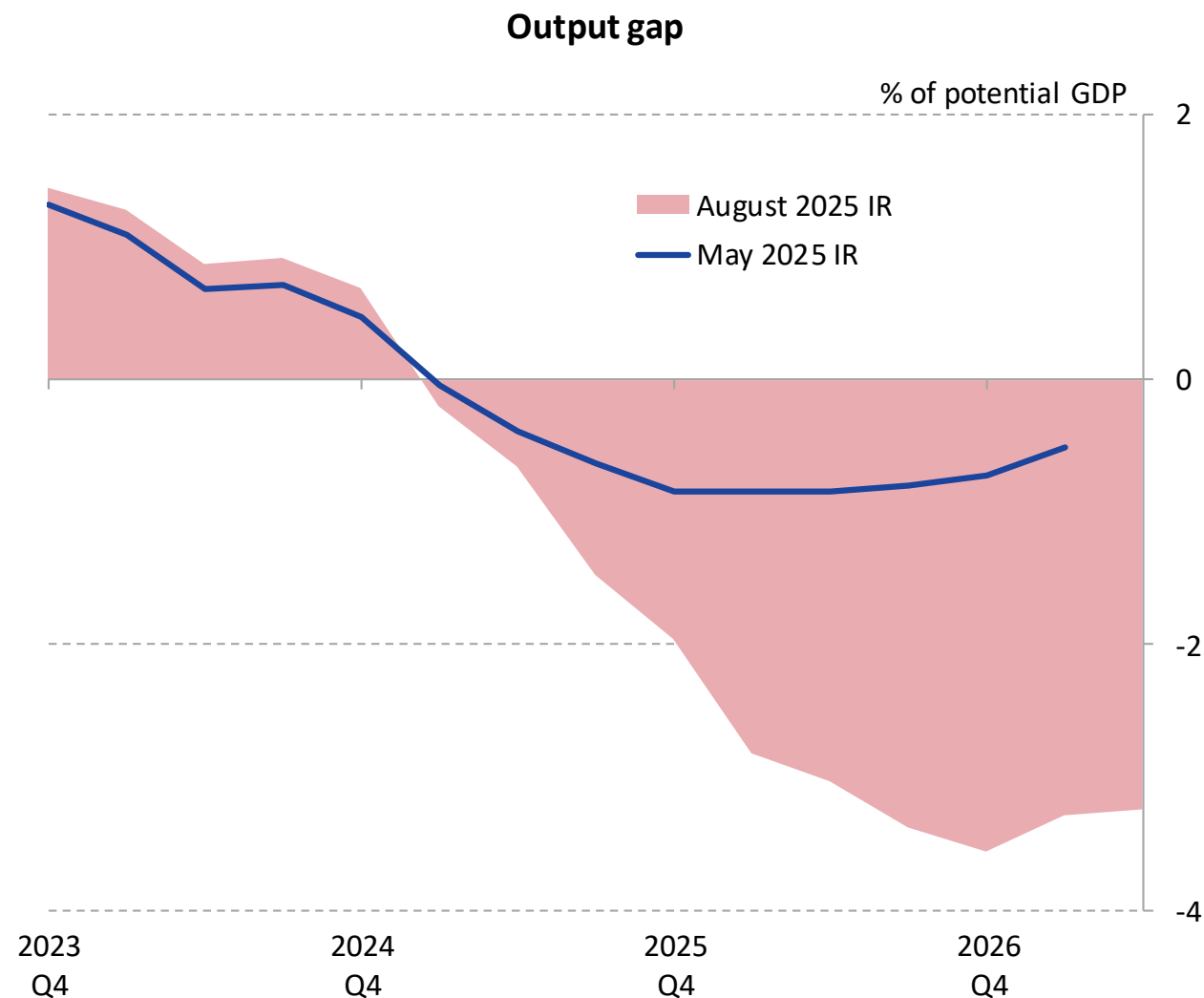
- ❑ **Over the short term, the anticipated trajectory is largely affected by the increases in VAT rates and the excise duty on non-alcoholic beverages with added sugar in August 2025, ...**
- ❑ ... to which add, however, persistent pressures from production costs related to agri-food commodities and labour, inflation expectations and the recent episode of leu depreciation
- ❑ **The medium-term correction is chiefly driven by fiscal consolidation effects** on consumer demand, amid lower real disposable income of a wide range of consumers
- ❑ Overall, **the path of core inflation is mainly shaped by domestic developments**, with the relative importance of external factors receding markedly to the background





The output gap is estimated at significantly more negative levels than in the previous *Report*, mainly due to the more restrictive pro-cyclical fiscal impulse associated with the new consolidation measures ...

- ❑ ... the negative impact of which is very little mitigated by favourable factors, such as the anticipated absorption, albeit at a slightly slower pace, of “Next Generation EU” funds
- ❑ At the same time, restrictive effects, albeit of a much smaller magnitude, will also stem from foreign demand, which remains deficient, ...
- ❑ ... and from the real broad monetary conditions
- ❑ The downward path of the output gap is shaped by that of the household consumption gap, the main variable affected by fiscal measures, ...
- ❑ ... while the contribution of net exports will see a sizeable correction, also determining the external deficit adjustment



Source: NBR estimates and projections

## Risks to the projected path of the inflation rate



### Fiscal and income policies:

- the implementation of the first fiscal consolidation package has mitigated some of the risks associated with these policies compared to the previous *Report*, but uncertainties linger over the measures that the authorities will adopt in the period ahead
- adjustment of economic agents' behaviour to the implemented fiscal measures
- incomplete or delayed absorption of EU funds, also relevant amid the recent significant decrease in the allocation for the loan component; the risks of incomplete absorption for the grant component have lowered following the NRRP renegotiation, but are still relevant



### External developments:

- geopolitical conflicts with no signs of lasting abatement
- possible deceleration or even stagnation of economic activity
- increase in risk aversion worldwide
- support programmes aimed at the development of infrastructure and defence capabilities



### Prices of commodities, particularly energy components and food:

- time of expiry of the capping scheme for natural gas prices and their subsequent level
- future developments in global trade disputes, even if the US-EU agreement in principle is assessed to have alleviated the degree of uncertainty
- volatility of oil prices
- costs associated with the transition to a green economy



### Labour market:

- pressures to increase wages given the inflationary environment, but the pass-through is likely to be dampened by the aggregate demand deficit, similarly to the 2010-2011 episode
- persistence and potential deepening of structural imbalances



## Decisions of the NBR Board\*

- ❑ To keep the monetary policy rate at 6.50 percent per annum
- ❑ To leave unchanged the lending (Lombard) facility rate at 7.50 percent per annum and the deposit facility rate at 5.50 percent per annum
- ❑ To maintain the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions

\*) meeting of 8 August 2025

## Calendar of monetary policy meetings of the NBR Board

8 October 2025

12 November 2025\*

19 January 2026

17 February 2026\*

\*) review and approval of the quarterly *Inflation Report*

At the end of the press conference, the following will be available on the NBR's website ([www.bnr.ro](http://www.bnr.ro)):

- ❑ *Inflation Report* – August 2025, full version (in Romanian)
- ❑ Summary of the *Inflation Report* – August 2025 (in English)
- ❑ Presentation delivered by the NBR Governor (also available as a video at [www.youtube.com/bnrro](http://www.youtube.com/bnrro))