NATIONAL BANK OF ROMANIA

Inflation Report

November 2025

Year XXI, No. 82

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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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National Bank of Romania
25, Lipscani St., 030031 Bucharest – Romania
Phone: 40 21/312 43 75; fax: 40 21/314 97 52

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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 12 November 2025 and the cut-off date for the data underlying the macroeconomic projection was 31 October 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 rose at a significantly faster pace in 2025 Q3 to 9.88 percent in September, from 5.66 percent in June, exceeding by 0.7 percentage points the level anticipated in the previous *Report*. This surge was driven by the overlapping of two major supply-side shocks – the removal of caps on electricity prices on 1 July, contributing by about 2.3 percentage points to the annual inflation rate, and the increases in VAT rates and excise duties on 1 August, with an impact of around 2 percentage points. These shocks were compounded by the still high unit labour cost dynamics in relevant economic sectors (food industry and services), but also by rising short-term inflation expectations in July and August. Conversely, volatile food prices and fuel prices stood below the previously projected levels, amid seasonally lower prices for the former and the incomplete pass-through of increases in the VAT rate and excise duties into the latter. At the same time, during Q3, the demand deficit widened visibly, pointing to a build-up of restrictive effects of fiscal measures on the domestic demand dynamics. The average annual CPI inflation rate, calculated based on the national methodology, went up to 6.1 percent, while that calculated in accordance with the harmonised structure (HICP) climbed to 5.9 percent, causing the differential with the EU average to grow to 3.4 percentage points in September.

The annual adjusted CORE2 inflation rate went up considerably in Q3, to 8.1 percent in September from 5.6 percent in June. The pick-up was mainly driven by higher prices for processed food items and market services, the growth rates of which saw increases of more than 2 percentage points in August, following the implementation of fiscal changes and additional pressures generated by rising costs, including the recent hikes in electricity costs. Processed food prices subsequently stabilised, with the annual rate remaining at 8.1 percent in September, while that for services continued to accelerate to 10.1 percent, i.e. the highest value in one and a half years. The behaviour of services firms reflected the larger increases they normally make; at the same time, the typically lower frequency of price changes favoured a stronger pass-through of previously built-up pressures, given the rigidity of wage costs and the relatively limited competition in this sector. Conversely, the annual dynamics of non-food prices rose more moderately, to 6.7 percent in September from 5.1 percent in June, amid a gradual pass-through of indirect tax hikes and stronger seasonal effects, especially on clothing and footwear, with the start of the cold season. At the same time, in August short-term inflation expectations reached levels similar to those seen during the 2022 energy crisis, before moderating mildly in September.

The annual dynamics of unit labour costs economy-wide went down significantly, from 8.8 percent in 2025 Q1 to 5.8 percent in Q2, amid the slower annual growth rate of compensation of employees, while labour productivity stabilised somewhat.

The annual pace of increase of unit wage costs in industry followed a similar trend, falling to 10.7 percent in Q2 and 7.7 percent in July-August. The breakdown shows mixed developments, with high annual rates of change of ULC, which exceeded 16 percent in July-August, in food industry, light industry and the manufacture of wood, on the one hand, and growth rates below the aggregate level in the automotive industry, metallurgy and the manufacture of electrical equipment, on the other.

Monetary policy since the release of the previous *Inflation Report*

In its meeting of 8 August 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 Q2, the 12-month inflation rate had gone up more than expected, under the influence of higher food prices, especially fruit prices – *inter alia* amid the unfavourable weather conditions in the region –, whereas the new advance posted during this period by the dynamics of energy prices had been more than offset by the opposite evolution in the tobacco product segment. In turn, the annual adjusted CORE2 inflation rate had stopped yet again its downward trend in 2025 Q2, rising to 5.6 percent in June from 5.2 percent in March. The upswing had been driven by the pick-up in some agri-food commodity prices and the gradual pass-through of higher wage costs to some consumer prices, as well as by the increases in short-term inflation expectations and in the EUR/RON exchange rate, the impact of which had been to a small extent mitigated by disinflationary base effects and the downward trend in import price dynamics.

Uncertainties had been further associated with the measures likely to be adopted in the future in order to continue budget consolidation in line with the *National Medium-Term Fiscal-Structural Plan* agreed with the European Commission and with the excessive deficit procedure. High uncertainties and risks to the outlook for economic activity, implicitly the medium-term inflation developments, had continued to arise from the external environment, given the war in Ukraine and the Middle East situation, but especially amid the global trade tensions, affecting the developments in the global economy and in international trade, as well as amid the potential effects generated by the US-EU trade agreement. At that juncture, the full absorption and use of EU funds, especially those under the Next Generation EU programme, were essential for partly counterbalancing 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, had also continued to be relevant.

In July 2025 the annual inflation rate had gone up to 7.84 percent from 5.66 percent in June, while in August it rose to 9.85 percent, above the forecast, given the expiry of the electricity price capping scheme and the hikes in VAT rates and excise duties as of 1 August, following the package of fiscal and budgetary measures adopted in July.

The transitory direct effects of the two successive supply-side inflationary shocks affected primarily the aggregate dynamics of the exogenous CPI components, mainly via the particularly strong pick-up in electricity prices. In turn, the annual adjusted CORE2 inflation rate posted a faster-than-anticipated increase, climbing to 7.9 percent in August from 5.6 percent in June. The evolution reflected an extensive pass-through of VAT rate hikes to consumer prices, also amid the resilience of demand in certain segments and high short-term inflation expectations. Additional moderate influences came from higher prices of some agri-food commodities and the still fast dynamics of wage costs, as well as from indirect effects of the rises in electricity and fuel prices. In turn, economic activity had witnessed a significantly swifter advance in 2025 Q2, to 1.2 percent after a slowdown to 0.1 percent in the previous three months (quarterly change), which made it likely for the aggregate demand deficit to have widened more modestly over that period compared to expectations. Annual GDP growth had halted its decrease in 2025 Q2, remaining at 0.3 percent. However, domestic demand had reported a steeper loss of momentum, given that the annual dynamics of gross fixed capital formation had slipped slightly back into negative territory after the surge in the previous quarter, while those of household consumption had declined further, albeit only marginally. By contrast, net exports had diminished considerably their contractionary impact in 2025 Q2, following the emerging divergence between the further step-up in the annual dynamics of exports of goods and services and the notable decrease in those of imports, in terms of volume. Against that background, the annual growth rates of trade deficit and current account deficit had slowed down sharply, in the latter case also due to the improvement in the secondary income balance.

At the time of the NBR Board meeting of 8 October 2025, the latest assessments indicated the prospects for the annual inflation rate to reach a plateau at the end of 2025 Q3 and decrease very slowly over the following three months, amid the above-expectations transitory effects exerted by the expiry of the electricity price capping scheme on 1 July and the increases in VAT rates and excise duties starting 1 August.

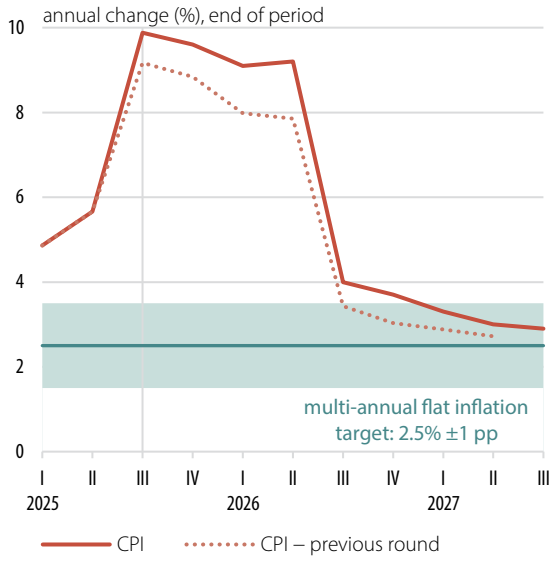
Based on the data and assessments available at that time, as well as in light of the particularly elevated uncertainty, the NBR Board decided in the meeting of 8 October 2025 to keep the monetary policy rate at 6.50 percent per annum. Moreover, it decided to leave unchanged the deposit facility rate 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 international economic environment is still surrounded by elevated uncertainty and the recovery of the world economy is slow and uneven. For 2026, recent estimates point to global economic growth of little above 3 percent, supported chiefly by the emerging economies, which will further expand at a faster pace, while many advanced economies will continue to witness subdued developments or even slight contractions. Overall, Central and East European economies remain on a positive growth path, but

in some countries – where broader structural and fiscal adjustments are needed – corrective measures temporarily weigh on the recovery, fuelling inflationary pressures and dampening the pace of economic activity.

Inflation forecast



Source: NIS, NBR projection

In the United States, the Federal Reserve has cut the federal funds rate in two successive steps amid worsening labour market signals. In the euro area, economic activity remained subdued and confidence surveys and economic sentiment indicators confirm the stagnation in manufacturing and the weak extra-EU demand, from emerging economies as well. While the European Central Bank signals a progressive easing of inflationary pressures, in the context of the gradual rate-cutting cycle, core inflation – services inflation in particular – stays high, reflecting a slow-paced convergence towards the target.

At global level, disinflation is further hampered by rather persistent shocks, namely the reshaping of trade flows in response to protectionist measures, the energy price volatility, and the impact of climate factors on agricultural output. Hence, while global inflation is expected to decline gradually, the balance of risks remains largely tilted to the upside, due mainly to food and energy prices, which are sensitive to trade, geopolitical and climate shocks and, in addition, have pronounced cross-border effects.

Domestically, in the current baseline scenario, the annual CPI inflation rate is projected on a downward path almost throughout the forecast interval, after the steep increases in 2025 Q3 coming from the electricity market liberalisation in July and the broad-based hikes in indirect taxes in August. As a result of these shocks, inflation rate climbed to 9.88 percent in September, reaching a peak of the period under review before decreasing slowly to 9.6 percent in December. High inflation levels are seen persisting until mid-2026 and, once the recent shocks drop out of the calculation, the annual rate will decline significantly, i.e. by approximately 5 percentage points in 2026 Q3. Subsequently, disinflation will be underpinned by the wider demand deficit and the progressive moderation of inflation expectations. The annual CPI inflation rate is therefore projected at 3.7 percent at end-2026, returning inside the variation band of the target in 2027 Q1 and falling to about 2.9 percent in 2027 Q3. Compared to the projection in the August 2025 *Inflation Report*, the new path shifted higher all through the forecast interval: by 0.8 percentage points at the end of this year, 0.7 percentage points in December 2026 and 0.3 percentage points in 2027 Q2, the forecast horizon of the previous *Report*. This revision mainly reflects an upward reassessment of core inflation and an underestimation of the effect of the electricity market liberalisation, only partially offset by a lower-than-expected pass-through of the VAT hike on volatile food (VFE) and fuel prices.

The annual adjusted CORE2 inflation rate grew swiftly in 2025 Q3 to 8.1 percent in September, up 2.5 percentage points from June and 1 percentage point against the prior forecast. The variable is subsequently projected on a downward path, given the cumulative disinflationary effects of fiscal consolidation, the widening of the output gap in negative territory and the gradual fading-away of inflationary shocks that occurred in the summer of 2025. Over the medium term, domestic demand remains subdued, due to developments in real income – also amid slower wage growth – and still elevated production costs. The adjusted CORE2 inflation rate is forecasted at 8.1 percent at end-2025, 3.8 percent in December 2026 and 2.3 percent in 2027 Q3. Against the previous scenario, the updated path is higher over the entire projection interval, i.e. by 1.3 percentage points for end-2025, 1.1 percentage points in December 2026 and 0.4 percentage points in 2027 Q2. The revision mirrors both the higher persistence of core inflation in view of the recent supply-side shocks and the upward reassessment of inflation expectations, short-term ones in particular.

The updated growth forecast for Romania's economy in 2025-2026 highlights the sizeable impact of successive fiscal consolidation measures, which will continue to weigh on domestic demand and slow down the pace of economic activity. By comparison, influences from external demand and real monetary conditions are set to play a secondary part, at least in the short term. Following a stronger-than-expected performance in 2025 Q2, the economy is seen facing a visible slowdown in the latter half of the year, amid the widening of the output gap in negative territory owing to a more restrictive fiscal impulse.

The breakdown by demand component shows emerging signs of a gradual shift from primarily consumption- to mainly investment-led growth. The reduction in real disposable income, caused by wage and pension freezes, as well as by indirect tax hikes and the removal of energy price caps, will squeeze household purchasing power and thus slow down consumer demand. Against this background, private consumption – the main driver of GDP growth in 2024 – is seen making only a marginally positive contribution in 2025 and 2026.

Gross fixed capital formation is foreseen to become the main driver of economic growth. Contrary to the previous-round assumptions and in line with the September budget revision figures, the volume of public investment was adjusted upwards. However, the favourable effect of this increase will be partly countered by a slower absorption of EU funds, especially those under the NRRP with an eligibility deadline in August 2026. Over the medium term, the investment outlook hinges crucially on strengthening business confidence and the authorities' capability to step up the implementation of EU-funded projects under the Multiannual Financial Framework 2021-2027.

The domestic demand correction, triggered by a moderation in consumption and investment, is expected to contribute to a gradual adjustment in external disequilibria. A weaker domestic demand will reduce dependence on imported goods, spurring improvements in the trade balance and thereby the current account deficit. Concurrently, exports are anticipated to further grow at a subdued pace, in line with the only gradual, medium-term recovery in demand from the EU's major economies. Against this backdrop, the contribution of net exports to GDP formation could turn

positive in the course of 2026. Nevertheless, persistent structural factors – such as relatively weak external competitiveness, poor transport infrastructure or the specialisation of exports in sectors with rather low value added – will further contain the scale and speed of external adjustment. Therefore, the correction of external imbalances is foreseen to follow a slow, yet sustainable path in the medium term.

The NBR's recent monetary policy stance aimed to bring the annual inflation rate back in line with the 2.5 percent ±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.

The balance of risks to the inflation projection remains tilted to the upside, even though the inflation rate in the baseline scenario has already been reassessed upwards. Given the persistence of elevated uncertainty both domestically and globally, further pressures may affect prices in the period ahead, especially via fiscal, energy- and weather-related channels. At the same time, the lasting effects of – already implemented and anticipated – fiscal consolidation and price liberalisation measures are still difficult to quantify.

Domestically, the most important risks to developments in inflation stem from administrative and fiscal decisions, in a context marked by inflation persistence. Specifically, the expiry of the natural gas price capping scheme scheduled for April 2026 is viewed as a watershed: full market liberalisation could push these prices sharply higher. The magnitude of possible increases will depend on a number of factors, in particular on the conditions prevailing in global energy markets at the time. In an environment of increasingly large price fluctuations, a rise in volatility on the energy market cannot be ruled out. This could trigger spillover effects on the functioning of the domestic market and, hence, on price stability.

Concurrently, the removal of the cap on the mark-up on basic food products, also foreseen for April 2026, could exert additional inflationary pressures, especially in cases where supply chains remain vulnerable to multiple disruptive factors. In addition to the direct effect of the price cap removal, the pass-through to final prices could be amplified by firms' possible decisions to recalibrate profit margins, after almost three years of operation under the capping scheme constraints. At the same time, the magnitude of the effect will depend on the demand conditions prevailing when these caps are lifted, implicitly on the market capacity to accommodate the ensuing price levels.

On the fiscal front, uncertainties have remained significant, being associated with the content and timing of the third fiscal adjustment package – geared towards public administration reform – as well as with potential targeted changes in VAT rates, for example in the accommodation and food services sector. If such measures are taken, their pass-through to final prices could be relatively broad-based, via mechanisms similar to those seen previously, in a context where firms adjust the structure of their costs and prices to preserve their business viability. At the same time, the high degree of uncertainty regarding the calibration, sequencing and effectiveness of fiscal measures calls for a close monitoring of their impact on economic activity and inflation rate. In this vein, a stronger contractionary effect of these measures on economic activity cannot be ruled out, especially if, as is the case for Romania's economy,

the consolidation process overlaps with an already slowing domestic demand. Such an evolution could ultimately also impact the dynamics of budgetary variables – via either lower-than-planned tax revenues or additional pressures on certain expenditure items – depending on the sensitivity of the economy to the new fiscal conditions.

Over the medium term, additional inflationary risks may stem from the energy transition and decarbonisation policies, given the gradual expansion of EU carbon taxation schemes. One of the instruments that the European authorities have recently focused on is the ETS2 scheme – applicable to the buildings and road transport sectors – which is tentatively scheduled to take effect in 2028. Even though, formally, this point in time is beyond the eight-quarter horizon of the current projection, it still includes relevant information for the central bank's forward-looking analyses, with potential implications for medium- and long-term inflation expectations. Such measures could put pressure on energy prices and, indirectly, on production costs in energy-intensive industries, with possible pass-through effects on the future inflation dynamics as well.

At the same time, the labour market may be an additional source of inflationary pressures, as structural rigidities and labour shortages persist in certain sectors. The increase in the minimum wage, together with possible wage claims in areas with skill mismatches, could exert additional pressures on firms' costs. However, materialisation of such a risk will largely hinge on developments in economic activity, which is foreseen to slow down amid the fiscal consolidation measures. In addition, firms' capacity to accommodate pay rises will be heterogeneous, depending on the financial soundness, labour productivity and the degree of competition specific to each firm/sector. Against this background, a sustainable wage adjustment should strike a balance between the need to protect employees' incomes and the need to maintain overall economic competitiveness so that cost pressures do not entail a persistent step-up in inflation rate.

On the external front, geopolitical and trade tensions still fuel the elevated uncertainty, although the recent US-China trade agreement has temporarily mitigated the risks related to an escalation of conflicts between the major economic blocs. Nevertheless, high volatility in commodity markets remains possible, also in view of the various adaptation responses from advanced economies – for example, the recent decision taken by the US to step up the purchase of critical raw materials for restocking purposes. These developments may bring about commodity price swings and may affect production costs worldwide. Concurrently, a further weakening of economic activity in the euro area, especially in Germany, Romania's main trading partner, could compress foreign demand and could dampen the pace of external imbalance correction. Conversely, a shift in Asian trade flows to the European market, also due to a strategic repositioning, could trigger temporary disinflationary effects and contribute to partial improvements in the trade deficit.

On the whole, the domestic and external environment continues to be saddled with high uncertainty. The simultaneous materialisation of several risks – of a fiscal, energy-, labour market-related or geopolitical nature – could cause inflation to veer off significantly from the path anticipated in the baseline scenario. Subsequent inflation

developments will largely be contingent on the coherence and predictability of the economic policy mix, on the authorities' capacity to reinforce the credibility of fiscal adjustment and on an adequate anchoring of medium-term inflation expectations.

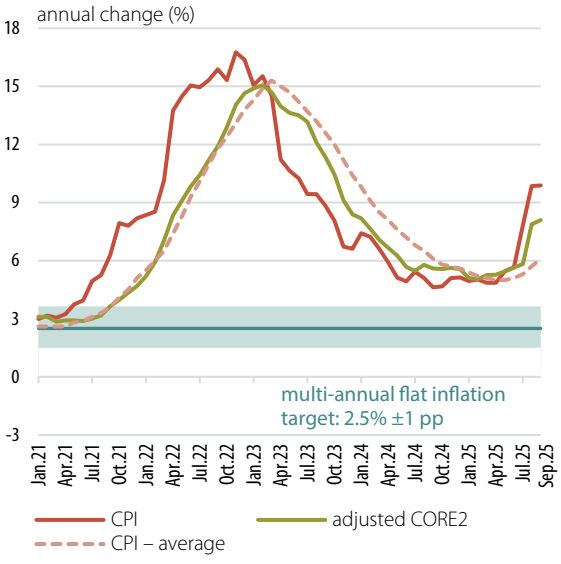
Monetary policy decision

Given the worsening of the inflation outlook, over the short term in particular, amid the above-expectations transitory direct effects exerted by the expiry of the electricity price capping scheme on 1 July and by the increases in VAT rates and excise duties starting 1 August, and considering the risks and uncertainties associated with the new projections, the NBR Board decided, in its meeting of 12 November 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

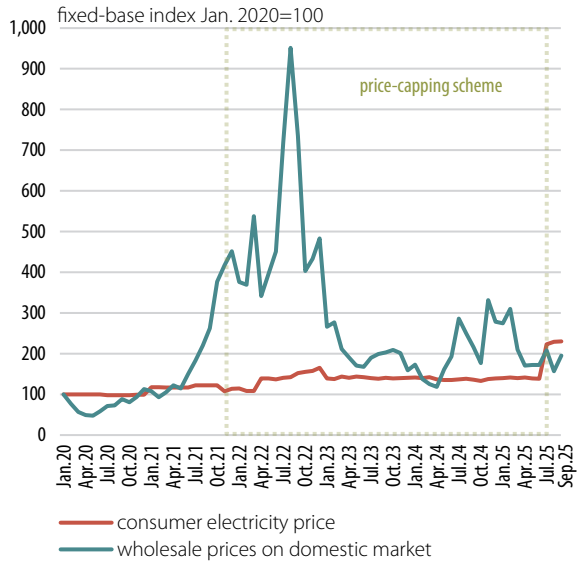
The annual CPI inflation rate posted a sizeable acceleration in 2025 Q3, reaching 9.88 percent in September (+4.22 percentage points versus June), under the joint action of two strong supply-side shocks: the removal of electricity price caps in July and the implementation of fiscal changes (increases in VAT rates and excise duties) in August. These shocks overlapped with still high unit labour cost dynamics (particularly in the food industry and private services) and the indirect effects, via production prices, of the removal of electricity price caps for non-household consumers. Short-term inflation expectations further followed an upward trend in July-August, thus supporting a faster pick-up in inflation. Against this background, the annual adjusted CORE2 inflation rate climbed to 8.1 percent in September, from 5.6 percent at end-Q2 (Chart 1.1).

Chart 1.1. Inflation developments



Source: NIS, NBR

Chart 1.2. Electricity price

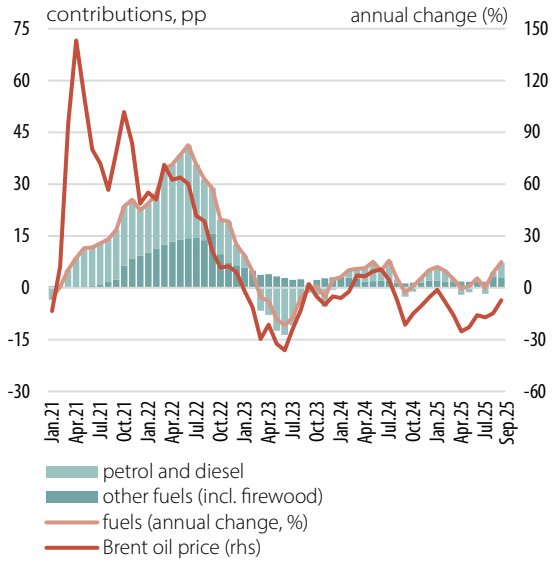


Source: NIS, OPCOM, NBR calculations

The first inflationary shock occurred on 1 July, when caps on electricity prices were removed (Chart 1.2). This change brought about a 61.6 percent increase in the average consumer electricity price in monthly terms (making a contribution of approximately 2.3 percentage points to the annual CPI inflation rate), given that most suppliers' price offers were above lei 1.5/kWh (compared to the price caps of lei 0.68/kWh, lei 0.8/kWh and lei 1.3/kWh, respectively). Non-household consumers were also faced with the removal of price caps[1] and received comparable price offers, which triggered

[1] Set previously at lei 1.3/kWh for most economic agents, and at leu 1/kWh for 85 percent of the monthly use of SMEs and food producing companies.

Chart 1.3. Crude oil and fuel prices



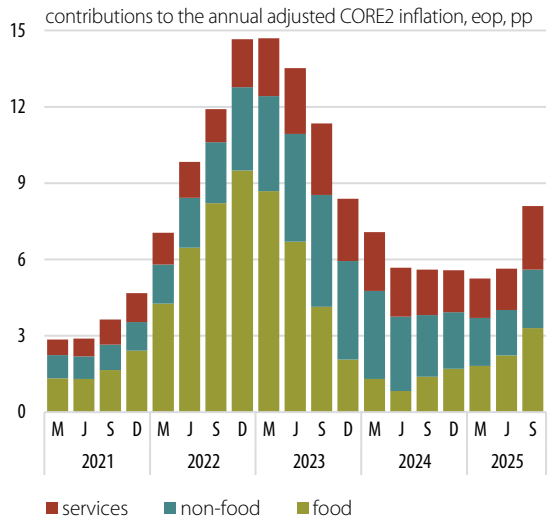
Source: NIS, Bloomberg, NBR calculations

pressures probably already passed through into final prices, given the recent build-up of inflationary shocks.

The second shock occurred in August and consisted in the incorporation of fiscal changes into prices, namely increases in VAT rates (with an aggregate pass-through coefficient estimated at about 85 percent) and in excise duties. These largely passed through into consumer prices during the same month, with an impact of approximately 2 percentage points on the annual CPI rate, but their effects were detectable in September too. The analysis by item shows that the behaviour of economic agents was heterogeneous. Thus, there are segments where the pass-through was incomplete, as is the case of fuels (Chart 1.3). While in the case of motor fuels this was probably accounted for by the risk of lower demand, given that the price shock was associated with increases in both excise duties and the VAT rate, for firewood the price is usually raised around the start of the cold season, when demand also picks up. The behaviour of sellers in these sub-sectors, alongside the benign developments in the Brent oil price, has somewhat dampened the rise in energy prices, which remain, however, the component with the largest inflationary contribution in Q3.

The pass-through coefficient for volatile food prices, especially for vegetables and fruit, also seems to have been below one, but the assessment is hampered by fiscal changes overlapping with a period of seasonally lower prices. Actually, the VFE group exerted the only disinflationary influence on the CPI during Q3, with the prices of vegetables and fruit witnessing a correction after the massive hikes recorded April through June.

Chart 1.4. Adjusted CORE2 inflation components



Note: Contributions include VAT rate changes.

Source: NIS, NBR calculations

By contrast, the pass-through to adjusted CORE2 inflation was almost full, the annual core inflation rate climbing to 8.1 percent in September (+2.5 percentage points versus June), with large contributions from the food component and market services (Chart 1.4). Across the two segments, the price increases were even higher than the mechanical calculation of the effect of the fiscal changes, amid the lower demand elasticity for certain essential goods (such as food items), the absence of external competition for most services and the seasonal demand (e.g. in tourism). In addition, the annual growth rates of unit labour costs in both food industry (20 percent in the first eight months of the year) and private services (11 percent in the first half of the year) continued to exceed the economy-wide

average (around 7 percent annual change in January-June 2025); labour market adjustment to new economic conditions is usually slower, with rigidity being fuelled by factors such as the wage-setting mechanism or labour hoarding (employee retention tendency during the downturn phase of the business cycle). At the same time, the hikes in taxes have probably generated a number of side effects, as a result of the price rounding up, with a substantial impact given the small size of the shock compared to the price increases currently made at micro level (Table 1.1). Specifically, the annual rates of change of processed food prices and market services prices rose by more than 2.5 percentage points in August, to 8.2 percent and 9.5 percent respectively. Subsequently, while the annual inflation rate of processed food items remained broadly unchanged in September (8.1 percent), that of market services continued to gather momentum to reach 10.1 percent at end-Q3. The visibly different behaviour of services companies reflects also in the specific pattern of price increases, which are made at a lower frequency than that for goods and with a larger average magnitude (above 10 percent; Table 1.1). The hike in VAT rates provided an opportunity to incorporate the built-up cost pressures into prices, with the size of the adjustment being probably similar to the usual behaviour, while the broad-based nature of the shock entailed a significant increase in frequency.

Table 1.1. Frequency and magnitude of price changes for adjusted CORE2 components

	Processed food	Non-food	Services	Services*	Adjusted CORE2
Frequency of price changes	24.9	17.6	18.4	10.7	20.3
Frequency of price increases	15.9	11.6	12.0	7.5	13.0
Frequency of price decreases	9.0	6.0	6.4	3.1	7.3
Magnitude of price increases (%)	6.2	8.9	10.1	12.4	8.3
Magnitude of price decreases (%)	-6.2	-9.8	-9.4	-11.4	-8.4

*) excluding some categories that are very sensitive to exchange rate fluctuations (e.g., telephony).

Note: The calculations were made using a monthly database provided by the NIS, covering the period January 2014 – December 2024 (excluding the months affected by changes in VAT rates). The information at the level of adjusted CORE2 and its components is an approximation obtained by removing from the CPI basket the volatile food, energy products, tobacco products and alcoholic beverages, as well as some services with administered prices, given that, in the latter case, not all categories could be precisely identified.

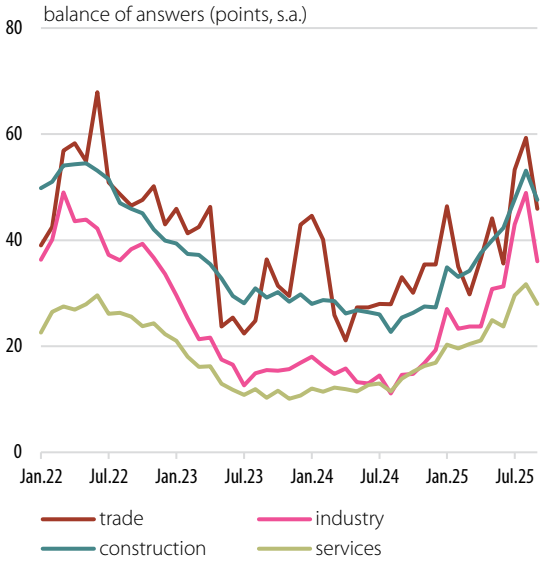
Source: NIS, Eurostat, NBR calculations

In the case of non-food items included in the adjusted CORE2 inflation, the annual rate of change of prices posted a somewhat slower rise, to 6.4 percent in August and 6.7 percent in September, from 5.1 percent at end-Q2. The tax increases in this segment fed through into prices gradually, as this market features strong competition (including from imports) and a more elastic demand, while the relevance of these factors is heightened by the overall slowing demand across the economy (see the Box). Furthermore, the seasonal price-setting behaviour for some goods – such as clothing, the prices of which are usually raised in early autumn, amid the new arrivals and the start of the school year – was probably yet another reason for the delayed pass-through of the VAT rate increase (thus giving additional impetus to the September inflation).

Against this background, short-term inflation expectations remained on an upward trend, rising in August to levels comparable to those reached in 2022 (when the effects

of the energy crisis became fully apparent). In September, these expectations were revised downwards once with the fading of the first-round effects of the shocks exerted in the first two months of Q3 (Chart 1.5). Financial analysts' medium-term inflation expectations followed a similar trend, with the annual inflation rate one-year ahead posting a surge in July, before returning in September to an even lower level than that at end-Q2 (but above the upper bound of the variation band of the target). The values for the two-year horizon went down slightly, their stay within the variation band of the target after the fading of the effects exerted by the energy market shock and the fiscal changes sending a favourable signal.

Chart 1.5. Expectations on price developments



Source: EC-DG ECFIN

The average annual inflation rate witnessed a significant advance: the indicator calculated based on the national methodology climbed to 6.1 percent and that calculated in accordance with the HICP structure went up to 5.9 percent (+1.0 percentage point and +0.6 percentage points respectively compared to the end of the previous quarter). Consequently, the gap with the EU average widened to 3.4 percentage points in September.

At end-2025 Q3, the annual CPI inflation rate stood 0.7 percentage points above the level projected in the August 2025 *Inflation Report*. The main contribution to the forecast error came from adjusted CORE2 inflation, especially from the market services segment, where price increases exceeded estimates.

Box. The price-setting behaviour for goods amid the change in VAT rates

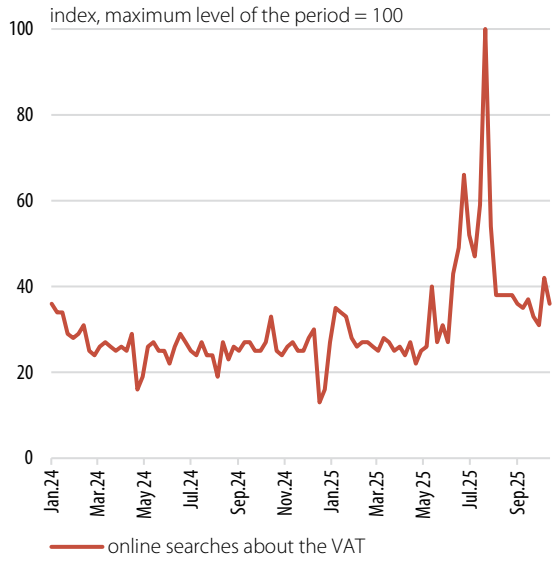
As of 1 August 2025, the VAT rates applied in Romania have been revised as part of fiscal consolidation. The changes, consisting mostly of a 2 percentage point increase, affected all goods and services in the economy. Specifically, the VAT rates were raised from 5 percent to 11 percent for books, school handbooks, newspapers and magazines, firewood and heating, from 9 percent to 11 percent for food items, medicines, food, catering and accommodation services, water and sewerage utilities, and from 19 percent to 21 percent for non-food items, alcoholic beverages, sugary foods and other services. This box aims to identify some particularities of how food and non-food prices reacted to the implementation of new VAT rates, using a database of individual item prices collected from online sources. The detailed information allows the analysis to focus on the price-setting mechanism at the microeconomic level, which ultimately arises from the optimal price-setting problem of firms: they set prices while seeking to strike a balance between unit profit and market share, in a context marked by a series of shocks and constraints related to menu and information costs[2]. Thus, the frequency

[2] See, for instance, the model described by Alvarez, Lippi and Paciello in "Optimal price setting with observation and menu costs", *The Quarterly Journal of Economics,* 126(4), 2011, pp. 1909-1960.

and size of price changes are observable variables providing information on the intensity of optimal price setting and show how firms have managed the shock of VAT rate changes.

Prices were collected on an (almost) daily basis in the period from March 2024 to September 2025 and this analysis covers the 2-month symmetric interval around the date of 1 August. The resulting database comprises daily prices from three main supermarket chains for approximately 33,000 food products (including food items with volatile prices and alcoholic beverages) and a similar number of non-food items. As for data processing, due to the fact that not all prices are available for collection on a daily basis, some missing observations were filled in only when a certain product disappeared from the database and then reappeared at the same price. If the product was reintroduced at a different price, no intervention was made in the database, as the time of the price change cannot be established. Then, calculations were made for each item to determine the percentage price change between two consecutive days when the data were collected and the daily changes outside the [-75 percent, 75 percent] range were removed, as they were considered outliers with limited economic significance (in most cases, they are the result of technical collection errors).

Chart A. Online interest in the VAT



Source: Google Trends

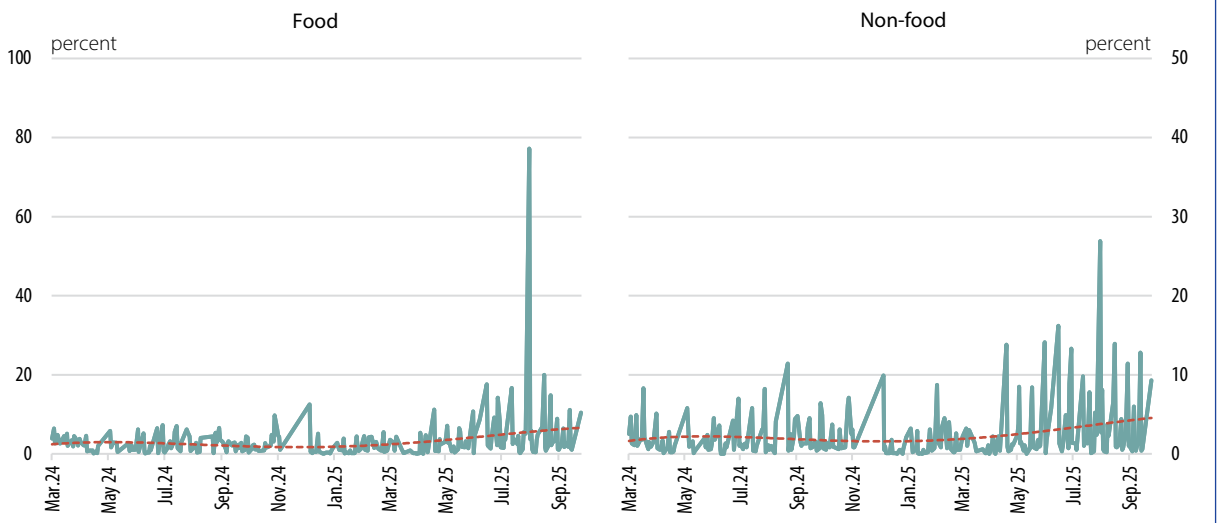
Out of almost 9 million observations, slightly over 250,000 are (non-zero) actual price changes. Otherwise put, around 2.9 percent of prices are reset during a typical day. The price change frequency is higher for food than non-food items, i.e. approximately 3.3 percent versus 2.4 percent. The result is in line with the assessments made based on monthly data collected by the NIS, where food prices are about 50 percent more flexible (Table 1.1)[3]. Looking at the recent period, worth noting is the increased number of price resets: for the June-September 2025 period, the resulting aggregate frequency is above 5 percent, namely 6 percent for food items and 4.1 percent for non-food items.

The difference cannot be solely ascribed to the developments in early August, as the VAT rate increases exerted an impact beyond mechanical calculation. On the one hand, tax hikes were anticipated to be implemented after the end of the electoral cycle, given the fiscal situation that needed to be immediately addressed, although the manner of achieving fiscal consolidation was subject to debates (Chart A). On the other hand, the surge in electricity costs as of 1 July 2025 had

3 The values of average frequency and magnitude of price changes determined on the basis of the NIS data will be different from those corresponding to the data used in this analysis, due to the structural differences of the samples (in terms of products and stores, as well as the periods taken into consideration), the series frequency (monthly versus daily) and the collection frequency (10-day or monthly versus almost daily). However, as shown above, the two sets of results illustrate the economic phenomena in a similar manner.

already affected consumer prices to some extent. Thus, the economic uncertainty and inflationary shocks in a different spectrum had produced a change in economic agents' behaviour ever since June, when the optimal price reassessment had gained momentum. This could be seen in the higher resetting frequency, hinting at successive repositioning occurrences at different price levels, as well as at reassessments of the price level in relation to competitors' practices (Chart B).

Chart B. Daily frequency of price changes



Note: Trends were computed as fourth-order polynomial approximations.

Source: web scraping of online stores, NBR calculations

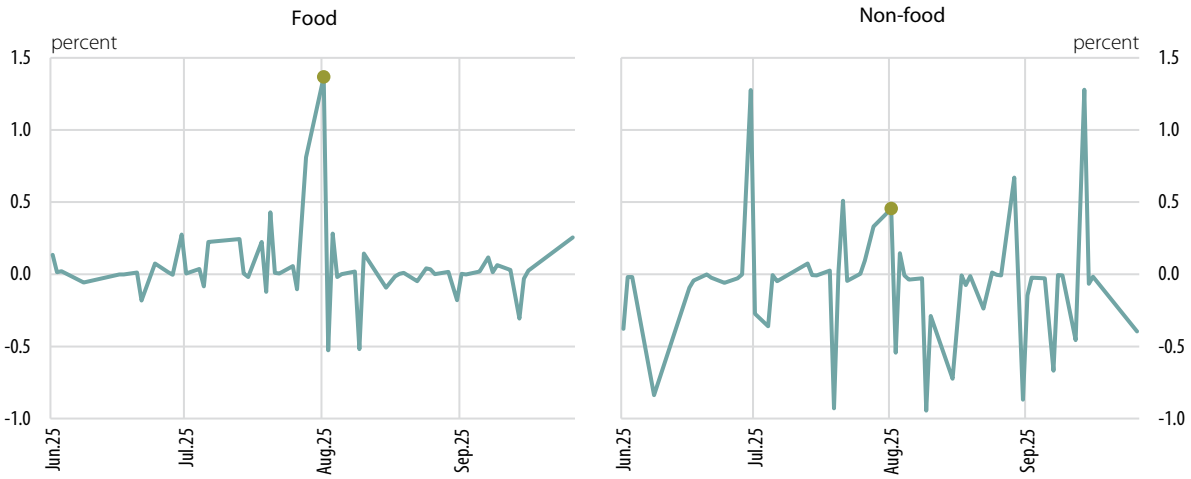
At the beginning of August, the hikes in VAT rates were mechanically incorporated into prices; this was more visible at the level of food prices. Specifically, at that time, almost 80 percent of food items witnessed price changes, with a median change of 1.77 percent. Of these, over 75 percent saw their prices go up in a range from 1.5 percent to 2 percent, in line with VAT rate increases[4]. The size of the price changes was smaller than that warranted by the VAT rate rise for approximately 8 percent of the goods with higher prices, and larger for about 13 percent of these products. By contrast, only slightly over a quarter of non-food items recorded price revisions at the beginning of August. In this case, almost 30 percent of price increases exceeded 2 percent, whereas only 55 percent of them were in the range corresponding to VAT rate hikes.

The frequency of price changes has also remained above average in the period following the implementation of new VAT rates. For food items, the shock had, however, a more concentrated impact: the pass-through was more sudden, while the re-setting of prices seems to have lost momentum after August. Non-food prices continued to show increased volatility until the end of the period under

4 The VAT rate rises from 9 percent to 11 percent and from 19 percent to 21 percent translate, *ceteris paribus*, in price increases of 1.68 percent and 1.83 percent respectively.

review (the market analyses of firms probably resulting in the implementation of promotional campaigns), suggesting a gradual pass-through of the impact of fiscal changes (Chart C).

Chart C. Daily change in prices (proxy)



Note: The indicator is the product of the frequency of price changes and the median of non-zero changes (in order to limit the indicator volatility, the median was used instead of the mean, with both returning largely similar results). The highlighted value corresponds to the implementation of VAT rate changes.

Source: web scraping of online stores, NBR calculations

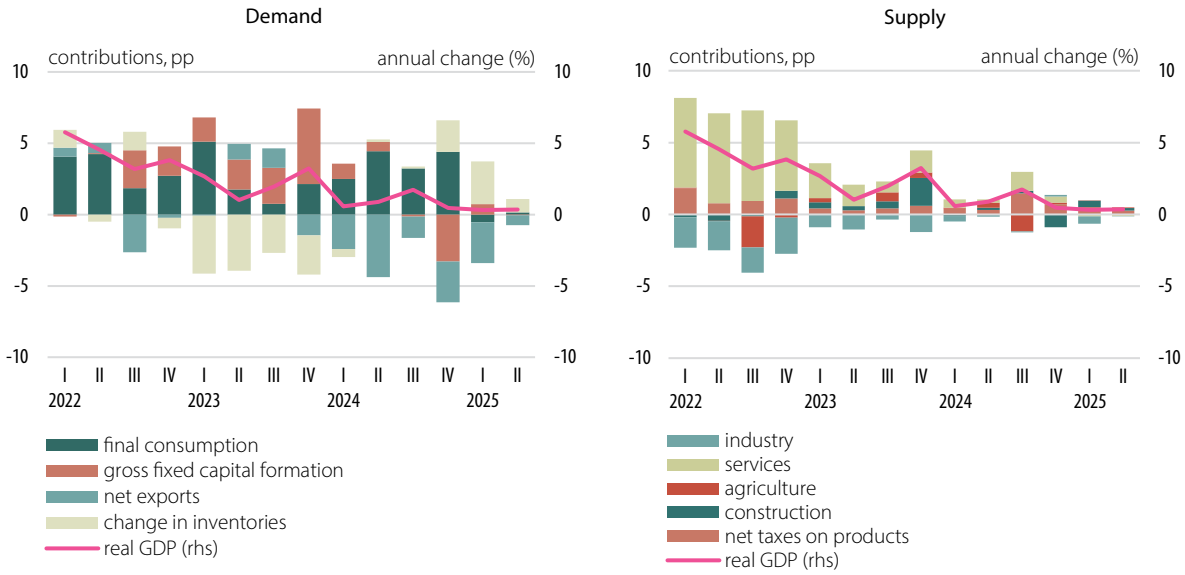
The developments are consistent with the dynamics of aggregate indicators. In terms of core inflation, food prices went up by 2.5 percent in August compared to July, standing marginally higher than the result of adding the effect of the VAT rate increases to the usual food price inflation in the recent period. In other words, the transmission of fiscal changes was complete, with a slight overreaction in isolated cases. On the other hand, non-food prices included in core inflation posted a monthly change of 1.6 percent in August, which is lower than the dynamics that would have resulted exclusively from VAT rate hikes. By their nature, the latter goods are less exposed to a fast pass-through of exogenous supply-side shocks, as they are subject to a more complex manufacturing process and have greater technological intensity. In theory however, these features should not count in this case, as the VAT rate rises affect all goods in a similar manner. Why is this change in behaviour still manifest? An explanation could be that September and October are traditionally the months when non-food prices record the highest seasonal changes, which could have prompted firms to wait for this particular time to transfer recent pressures, including those resulting from fiscal changes. Another explanation could refer to the practice of larger increases in non-food prices (the median of price rises for the entire data sample was 5.5 percent for food items and 15.0 percent for non-food items; the NIS data confirm this trend, as shown in Table 1.1). Therefore, for numerous goods in this category, the increase in prices resulting from the VAT rate shock is too small to justify, by itself, the menu costs.

2. Economic developments

1. Demand and supply

Romania's economic performance remained weak in 2025 Q2, with an annual pace of 0.3 percent[5], similar to the first three months of the year (Chart 2.1).

Chart 2.1. Contributions to economic growth



Source: NIS

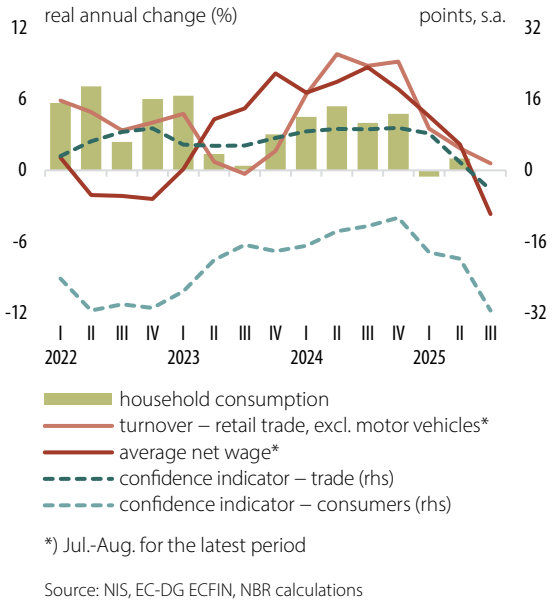
On the supply side, GVA in the economy as a whole rose marginally, on account of further positive dynamics in agriculture and construction, while the sectors that are the main contributors to GDP continued to record declines (by 0.1-0.2 percent). In industry, however, the negative change shrank compared to Q1, once with a rebound in production in the current period, following the frontloading of EU exports to the US in Q1, driven by the US administration's announcement on trade tariff increases starting April. Domestic absorption saw a slower annual growth, with a favourable effect from import perspective, which, together with a faster pick-up in exports, led to a considerable narrowing of the negative contribution of net external demand to GDP dynamics compared to Q1 (from -2.9 percentage points to -0.7 percentage points).

Household consumption rose moderately (1 percent in annual terms), which reflected the continued weak developments in household real income, as well as a deterioration in consumer confidence amid uncertainty surrounding the changed electoral

5 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.

calendar and the imminent start of fiscal consolidation. Against this background, the annual growth rate of trade decelerated to approximately 2 percent in Q2, due to sales of non-food items and the automotive trade. In the latter case, aside from the downward adjustment of demand as a result of consumers' more cautious behaviour, associated with a worsening of the cyclical position of the economy, the volume of sales was also affected by the deferral until September of the launch of the car fleet renewal programme (Chart 2.2).

Chart 2.2. Household consumption



*) Jul.-Aug. for the latest period

Source: NIS, EC-DG ECFIN, NBR calculations

Looking forward, consumer demand will probably remain subdued, amid the erosion of household purchasing power (determined by the pick-up in the annual inflation rate) and a possible decline in the number of employees in 2025 H2. In this context, the households' confidence indicator went down to -31.5 points in Q3 (a two and a half year low), mainly on the account of components regarding consumers' economic and financial position for the next 12 months. A similar trend is also noticeable for economic agents, with a worsening of expectations for retailers, automotive trade, accommodation and food services, and recreational activities.

In 2025 Q2, the general government budget execution saw a halt to its deterioration trend[6], ending in a smaller deficit than in the same year-ago period, i.e. lei 26.1 billion (1.4 percent of GDP) versus lei 27.8 billion (1.6 percent of GDP) in 2024. At the same time, the budget deficit declined considerably against the previous three months, and more steeply than in the past years, as the rise in total budget revenues[7] – chiefly on account of receipts from tax revenues[8], particularly from the corporate income tax[9,10] – exceeded that in budget expenditure[11], mainly following the increase in spending for projects financed from non-repayable external funds[12], yet with a low impact on budget balance[13].

6 In 2025 Q1, the general government budget execution ended in 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 (2.0 percent of GDP).

7 These displayed a faster real annual growth rate, i.e. up to 12.1 percent from 1.9 percent in 2025 Q1.

8 The increase in receipts from social security contributions acted in the same direction.

9 Their real annual rate of change re-entered positive territory, standing however further below those recorded throughout 2024.

10 VAT receipts also rose against the previous quarter, resuming at the same time growth in real annual terms.

11 In turn, its real annual dynamics stepped up as well, albeit at a significantly slower pace than those of total budget revenues (to 8.4 percent from 4.9 percent in 2025 Q1).

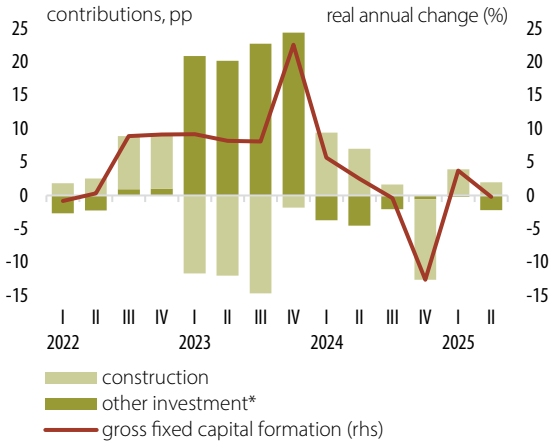
12 Additional, yet minor contributions came from spending on other transfers, compensation of employees, whose real annual pace of increase decelerated, becoming virtually zero, and spending on goods and services, which recorded a faster rate of decline in real annual terms. The decreases in other expenses, social security spending – whose annual dynamics picked up nevertheless, also amid the financial support granted to low-income pensioners in April (GEO No. 12/2025) and on account of the calendar effect associated with payments made to compensate electricity and natural gas bills –, as well as in spending for projects financed from the loan component of the NRRP acted slightly in the opposite direction.

13 Given the relatively similar evolution of disbursements from the EU

In 2025 Q3, budget execution further improved as compared to the same year-earlier period, leading to a deficit of lei 32.7 billion (1.7 percent of GDP) versus lei 32.6 billion in 2024 Q3 (1.9 percent of GDP).

At the end of the January-September 2025 period, the general government deficit thus stood at lei 102.5 billion (5.4 percent of GDP), slightly above that recorded in the first nine months of 2024, i.e. lei 96.2 billion (yet 5.5 percent of GDP).

Chart 2.3. Investment



*) machinery and equipment, including the transport equipment bought by companies and public institutions, expenditure on biological assets in agriculture, IT software, R&D, geological works, service costs associated with the transfer of ownership of existing fixed assets, etc.

Source: Eurostat, NIS, NBR calculations

The annual dynamics of gross fixed capital formation became slightly negative (-0.2 percent), driven by both the slower growth of investment in construction (4.1 percent) and a new decline in purchases of other asset classes[14] (-4.3 percent), Chart 2.3. The outlook in the short run remains subdued, as the sluggish economic activity will continue to erode firms' profitability and, thus, own funds for investment financing, while national public investment funds are constrained by fiscal adjustment measures. It is therefore crucial to reap the benefits of non-repayable external resources by increasing the absorption of funds allocated under the NRRP and the MFF 2021-2027 (in the latter case, on 30 September 2025, the absorption rate was merely 18 percent of total fund allocations under the cohesion policy), as well as by shifting financing towards viable projects. The main challenge in the short run is complying with the NRRP timetable for this autumn, i.e. unlock the remaining EUR 869 million under the third payment request (suspended until 25 November) and submit the fourth payment request, after the European Commission's assessment of the revised NRRP. Last but not least, authorities' consistency with regard to fiscal consolidation and a continuous investment flow from EU funds are likely to improve foreign investors' confidence, thus helping increase FDI flows. For the time being, in the first eight months, net inflows in the form of equity and reinvestment of earnings rose by about 10 percent in annual terms, due to capital increases of nearly EUR 1 billion (net).

Energy is a sector that has attracted significant investment during 2025, with projects in this field being mainly aimed at harnessing the potential of green energy, increasing the storage capacity for electricity from renewable sources, as well as reducing reliance on imports by expanding the local production of storage batteries.

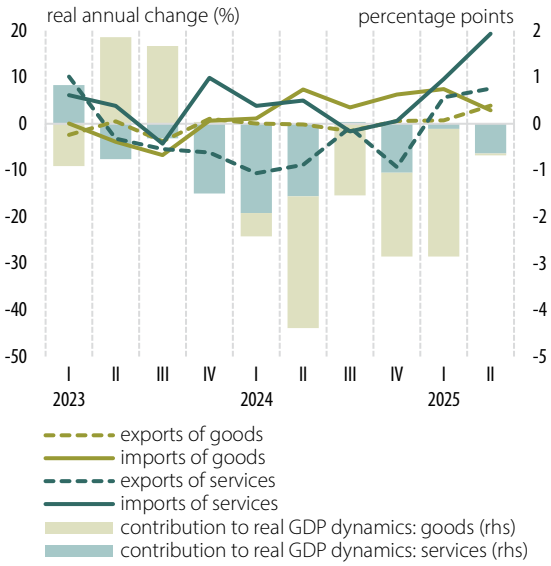
Short-term positive signals emerge in the construction sector as well. Thus, as regards infrastructure projects, works for motorways and express roads are expected to step up in 2025 H2 compared to 2025 H1, the unlocking of substantial investment funds

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

(from national and European sources) in May-June[15] providing financial space to contractors for pursuing works over the summer. Nevertheless, the outcome for the entire year will be at most equal to that recorded in 2024, the initial forecast being revised considerably during the summer, amid the uncertainty related to project financing after NRRP renegotiation and budget revision.

In Q2, the erosion effect of net external demand on the annual dynamics of real GDP waned due to the trade in goods, the divergent evolution of the changes in exports and imports, in terms of volume (pick-up to 3.9 percent and slowdown to 2.9 percent, respectively) leading to a nil contribution of net exports of goods (Chart 2.4). In 2025 H2, the weak European economy will probably lead only to modest growth rates of local exports, while slower domestic absorption will ease pressure on imports.

Chart 2.4. Foreign trade



Source: NIS

The improvement in the trade deficit was mainly due to the balances on trade in agri-food commodities and energy. In the former case, the volume of imports declined by about 19 percent, possibly owing to the logistical need to ensure storage facilities for local production (also for exports), given the favourable prospects for the autumn crops (straw cereals and rapeseed). In the latter case, the development was largely attributed to a base effect in the petroleum sector (overhauls at some major refineries in March-May 2024); at the same time, the further decline in the activity of metallurgy led to lower imports of higher rank coal and coke.

Faster annual growth rates of exports were also recorded for final goods. Apart from a favourable base effect (low external demand in the year before, amid the problems faced by the European industrial sector), the current period marked a rebound in final goods exports, especially in the case of capital goods – machinery and equipment, and motor vehicles and motor parts (the two groups saw quarterly increases of 5.6 percent and 9.2 percent, respectively, in the turnover volume for the external market; in the latter case, the expansion of the range of cars, including by hybrid models, has also played an important role).

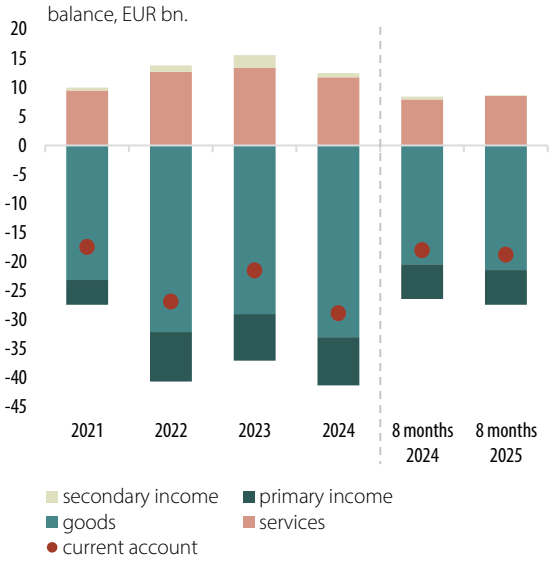
As regards imports, all main groups of goods saw losses of momentum – the annual rates of change for intermediate and capital goods were still positive (1.3 percent and 2.3 percent, respectively), while that for consumer goods turned negative (-1.1 percent)[16].

In 2025 H1, the volume of imports of goods grew faster than that of exports of goods (+2 percent against +1 percent, annual changes, according to BEC), to which added a deterioration in the terms of trade, following a slower growth of the unit value of

15 Data on budget execution indicate the five times acceleration of the annual growth of investment spending (up to about 20 percent, nominal change) in May-June compared to the first four months of the year.

16 According to international trade data – classification by broad economic categories (BEC)

Chart 2.5. Current account



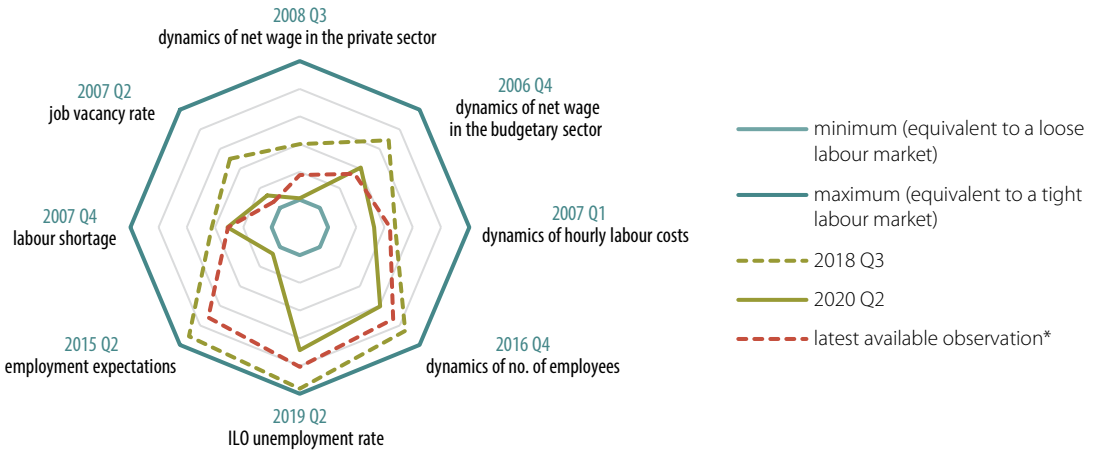
Source: NBR

exports compared to that of imports (2.1 percent against 3.1 percent). Therefore, the trade deficit in goods widened further, a trend that was also recorded in the first eight months (4.7 percent, according to the balance-of-payments data). A deterioration of a similar magnitude was also seen in the current account balance, with an additional influence from the secondary income account, the surplus of which declined five times, mainly on account of lower transfers from non-residents. Conversely, the services surplus increased (by 7.5 percent), especially as a result of developments in ICT and freight transport, which were, however, dampened by the larger shortfall of travel (Chart 2.5).

Labour market

Amid the persistence of sluggish economic activity (0.9 percent in 2024, 0.3 percent in the first half of the current year), the labour market witnessed a visible easing trend in 2025. The unemployment rate rose to levels above those recorded over the past four years, while the job vacancy rate reached its lowest value in the last decade. The number of employees decreased in quarterly terms, while the likelihood of a near-term recovery remains low, as hiring intentions fell close to zero in Q3. The annual growth rate of wages is adjusting relatively rapidly downwards, and this trend is most likely to continue at least in the short term. The erosion of purchasing power (stemming from the fiscal consolidation measures and the liberalisation of electricity prices) might trigger employees' demands for higher wages; however, the scope for accommodating such demands is limited, given that firms are already facing cost increases and have an uncertain outlook on the volume of sales (Chart 2.6).

Chart 2.6. Overview of labour market developments

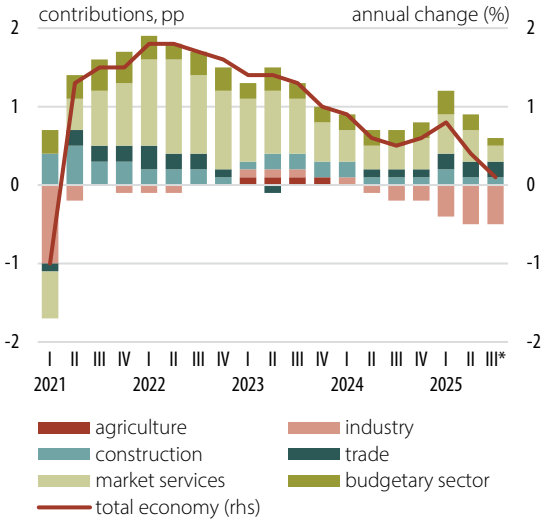


*) 2025 Q3 for employment expectations and labour shortage; July-August 2025 for dynamics of net wage in private and budgetary sectors, dynamics of no. of employees and ILO unemployment rate (monthly data); 2025 Q2 for job vacancy rate and dynamics of hourly labour costs.

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

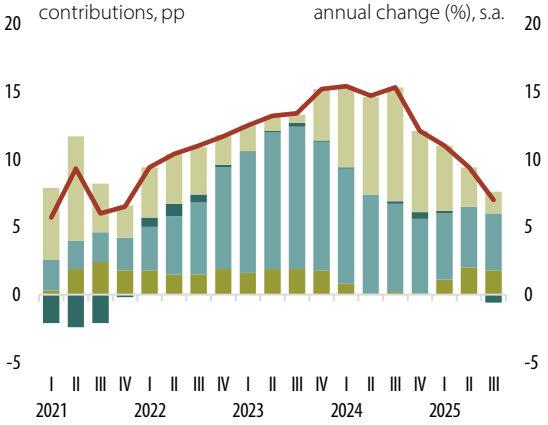
Chart 2.7. Number of employees economy-wide



*) Jul.-Aug.

Source: NIS, NBR calculations

Chart 2.8. 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).

Source: NIS, Eurostat, NBR estimates and forecasts

In Q2, labour market tightness remained at the low level seen during the previous three months – the lowest in the post-COVID period. The job vacancy rate stayed unchanged at 0.6 percent, which is below average, and also the minimum recorded over the past decade. At the same time, the ILO unemployment rate continues to stand significantly above the 2024 average (5.4 percent), coming in at 6.1 percent in Q2. Moreover, the latest DG ECFIN survey indicates that the problem of labour shortage faced by firms persisted in Q3 at roughly the same intensity as in the previous quarter, and below the level recorded in Q1.

Labour demand is declining and many companies have resorted to layoffs, partly as a result of automation and digitalisation of production processes (Chart 2.7). According to data gathered by territorial labour inspectorates, the number of notifications regarding collective dismissals rose markedly in January-July 2025 compared to the same year-earlier period. Although the number of employees further posted positive annual growth rates (0.4 percent in Q2 and 0.1 percent in July-August), successive decreases of 0.2 percent each were recorded in quarterly terms. Trade proved to be the most resilient sector, showing robust annual growth in the number of employees (1.5 percent over this year). The construction sector reported a similar trend between April and July, albeit on the wane. A slower pace of hiring was noticeable in the services sector, particularly for the accommodation and food service activities and for the administrative and support services. The number of employees in manufacturing continued to drop, largely due to the automotive industry, which has resorted to downsizing in the context of automation and robotisation. The IT sector also returned to negative territory in terms of annual change (-0.6 percent), as investments in automation and internal efficiency improvements through artificial intelligence have contributed to reshaping activities. The survey conducted by the Employers' Association of the Software and Services Industry (ANIS) in July-August 2025 highlighted, in particular, the companies' interest in staffing roles that require advanced skills (44 percent), reorganising teams based on competencies (36 percent), and reducing the intake of entry-level employees (31 percent). Public sector hiring decelerated from 1.4 percent in Q1 to 0.5 percent in July-August, and this trend will strengthen if the draft law on public administration reform is adopted.

The recruitment environment has continued to be marked by uncertainty, with sector-specific surveys sending mixed signals. In the near term, the DG ECFIN survey suggests restructuring in most sectors, except for trade, so that the aggregate result is unchanged (possibly for a limited period). According to the ManpowerGroup Employment Outlook Survey for 2025 Q4, the net employment outlook remains positive (even on a slight increase compared to the preceding three months), though still below the level recorded in the same year-ago period.

The annual dynamics of gross wage earnings economy-wide followed a downward trend, falling to 9.8 percent in Q2 and 6.9 percent in July-August. These developments were mainly influenced by the authorities' decision to freeze wages in the budgetary sector, where the annual growth rate stood at 0.4 percent in July-August. In the private sector, the indicator declined to 8.8 percent over the same period (from 12.4 percent in Q1). According to the in-house specification of the wage Phillips curve, the downward trend is expected to persist, with fundamentals accounting for most of the annual change in wages (Chart 2.8). In addition, this trend is also reinforced by the fading demonstration effect coming from the public sector, due to the freeze of wages this year[17]. However, the worsening in inflation expectations could amplify its adverse impact on wage growth, given the recent pick-up in the annual inflation rate.

2. Import prices and producer prices on the domestic market

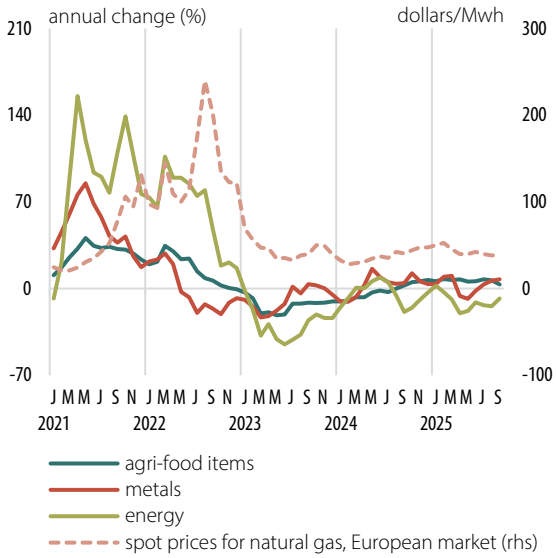
> In 2025 Q2, the annual dynamics of both import prices and industrial producer prices on the domestic market lost momentum amid generally benign developments in commodity markets. In July, however, the liberalisation of the electricity market led to a pick-up in the annual growth rate of industrial producer prices on the domestic market. As for agricultural producer prices, the pessimistic prospects regarding the spring crops and the persistence of some tensions in the meat market translated into a slightly faster pace of increase.

2.1. Import prices

In 2025 Q2, against the backdrop of lower industrial demand and improved supply, particularly for energy, but also for some metals and agri-food products, the aggregate commodity price index calculated by the World Bank declined by 8 percent in quarterly terms. Subsequently, it edged up by 0.6 percent in Q3 (with annual changes remaining, however, negative), reflecting episodes of price rises early in the period, especially in the metals group (Chart 2.9).

17 The demonstration effect exerted by the public sector on the private sector is assessed by means of a co-integration model, with private sector wages following the trajectory of those in the public sector, as indicated by the long-term relationship between the two and the short-term adjustment of the former in order to narrow the gap). The quarterly impact of the developments in public sector wages on the dynamics of private sector wages turned negative this year, resulting in a lower contribution to the annual growth rate of the latter (4-quarter moving sum).

Chart 2.9. International commodity prices



Source: World Bank, FAO, Bloomberg, NBR calculations

Energy prices contracted year on year in the two aforementioned quarters. Given the high OPEC+ output and weaker global demand, the Brent oil price generally followed a decelerating trend, with short-lived spikes especially in June amid the escalation of the conflict between Israel and Iran, before stabilising in 2025 Q3 at USD 65-70 per barrel, below the level recorded in the summer of 2024. In the case of natural gas traded on the European market, once the cold season had ended, the market eased, supported by an adequate supply of liquefied natural gas, owing to the expansion of US exports and lower imports by Asian economies. June saw slight price increases, driven by the tensions between Israel and Iran. Moreover, downward pressures stemmed from the replacement of the fixed deadline for achieving the 90 percent storage target (initially set for 1 November) with a time interval (1 October – 1 December), as well as from the possibility to deviate by up to 10 percentage points, or even 15 percentage points, from this target in the event of difficulties in stockpiling.

In a context of still weak industrial demand and persistent trade tensions, the metals index posted an annual contraction of 5 percent in 2025 Q2. Nevertheless, in July-September, its dynamics turned positive amid an improved outlook for global demand, as the market anticipated the cut in the federal funds rate and internalised China's decision to build a massive hydropower dam in Tibet.

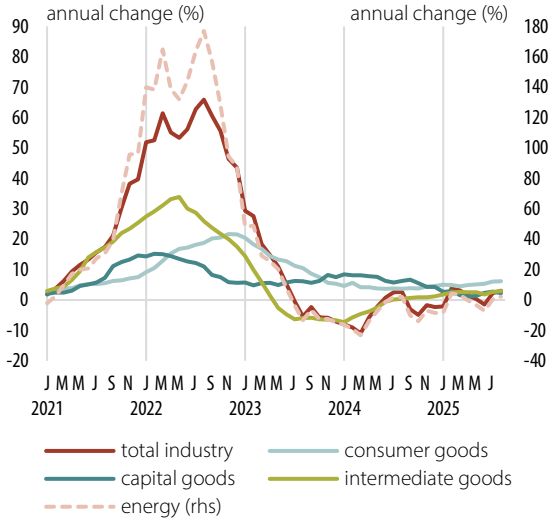
As for agri-food commodities, the FAO index remained in positive territory in 2025 Q2 and Q3. Meat prices increased throughout the period under review, particularly for beef, reflecting robust demand from the US (given the subdued local supply, following the significant number of slaughters caused by the 2022 drought and the ban on imports from Mexico). Due to good crops, the grain and sugar prices declined.

In 2025 Q2, the annual unit value index of imports remained above one (100.8 percent), albeit easing from the previous quarter's average (102.3 percent), with its favourable impact on domestic prices being enhanced by the depreciation of the US dollar, the main settlement currency for imported commodities. Specifically, fuels saw the sharpest declines, as their UVI fell by more than 18 percentage points below the Q1 level, to 90.4 percent. The UVIs for base metals and motor vehicles also decelerated to below one. In the food segment, developments were mixed, with most categories – particularly vegetable products – posting higher unit value indices of imports compared with the previous quarter. In this regard, fruit stood out, with its UVI jumping by almost 15 percentage points to 123.8 percent, owing to adverse weather conditions (snowfall in April, heavy rain in May and drought in June), which had a negative impact on production across Europe. Favourable developments were seen in the fats and oils segment.

2.2. Producer prices on the domestic market

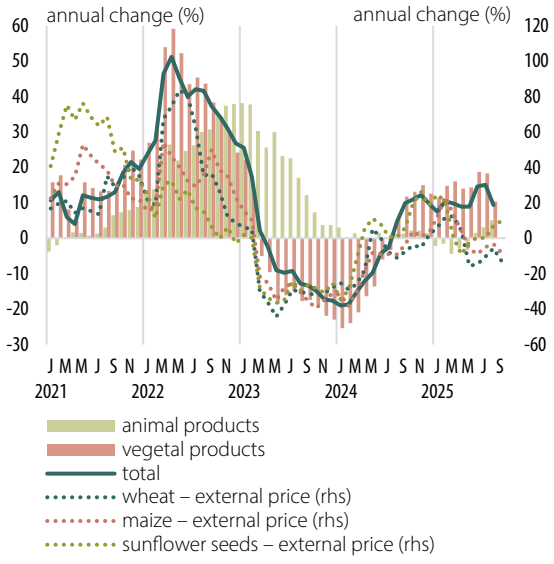
In July-August 2025, the annual growth rate of industrial producer prices on the domestic market rose to 2.7 percent (+2.6 percentage points versus the Q2 average), mainly on the back of the energy segment, reflecting the impact of the electricity market liberalisation (Chart 2.10). In monthly terms, the advance was much stronger (5.7 percent), while the lower annual rate was accounted for by the negative monthly dynamics recorded over most of the past 12 months, given the fluctuations in the energy market. The rates of change of producer prices for other categories of goods also increased, yet at a more moderate pace, as companies likely internalised the prospect of higher electricity bills following the removal of electricity price caps[18]. In the period ahead, pressures are expected to ease somewhat, according to the September NIS/DG ECFIN survey, with the balance of answers on future producer price developments remaining high (36 percent), but on a decline relative to the July-August level (46 percent).

Chart 2.10. Industrial producer prices on the domestic market



Source: NIS, Eurostat, NBR calculations

Chart 2.11. Agricultural producer prices



Source: NIS, Bloomberg, NBR calculations

In the energy sector, the growth rate of prices accelerated by 4.9 percentage points, to 1.2 percent, mainly on account of electricity, gas, steam and air conditioning supply (its annual rate of change rose to 2.5 percent from -2.6 percent in Q2). This owed primarily to the removal of electricity price caps, but also to the hike in spot prices on the domestic wholesale electricity market in July, driven by higher consumption amid elevated temperatures and by the lower share of renewable energy (as a result of drought, but also of repair works). Furthermore, the Romanian Energy Regulatory Authority decided to raise the contribution for cogeneration starting in July.

From a structural perspective, the market continues to face the impossible challenge of meeting consumption from renewable sources during peak hours (which has a significant impact on prices), due, *inter alia*, to the insufficient storage capacity for photovoltaic energy. Investors' interest in this field has nevertheless increased, with the installed capacity of storage units rising from 16 MW in the first months of 2024 to 256 MW in October 2025.

18 Set at a maximum of lei 1.3/kWh for most economic agents and leu 1/kWh for 85 percent of the monthly consumption of SMEs and food producers, while the offers available immediately after the removal of the price cap stood at around lei 1.4/kWh.

The annual dynamics of producer prices for intermediate and capital goods picked up slightly (by less than one percentage point), reaching 2.8 percent and 2.5 percent respectively, in line with the upward adjustments in international metal prices and energy costs. However, in metallurgy, the competitive pressure from cheap imports has limited the pass-through of these factors into prices, with some companies halting production permanently[19].

Chart 2.12. Unit labour costs



Source: NIS, NBR calculations

Chart 2.13. Capacity utilisation rate in industry



Source: CE-DG ECFIN

Moreover, the growth rate of producer prices for consumer goods continued its rising trend (+1 percentage point, to 6.1 percent). In the food industry, producer prices went up by 5.3 percent year on year, with their annual change remaining on the upward path observed over the past year. In this case, beyond the prospect of higher utility costs, pressures continued to stem from unit wage costs (which have increased by almost 20 percent in 2025). Higher meat prices, driven by the hike in feed costs, especially for corn, also acted in this direction.

In July-August 2025, agricultural producer prices rose at a faster annual pace (+1.4 percentage points from Q2), reaching 12.2 percent, solely on account of the animal segment (Chart 2.11), where faster growth rates were reported particularly for meat, amid higher production costs (animal feed, utilities). Moreover, the pigmeat segment was additionally affected by the African swine fever outbreak[20]. The annual dynamics of vegetal products decelerated to 14.3 percent, as the favourable influences associated with the bountiful domestic autumn crops (wheat, barley, oat, and rapeseed) offset the pessimistic prospects for spring crops, especially maize, which were hit by a lack of rainfall and excessive heat.

Unit labour costs

The annual dynamics of unit labour costs economy-wide decelerated to 5.8 percent in 2025 Q2, down by 3 percentage points from the previous quarter (Chart 2.12). Behind this stood the decline in the annual change of compensation per employee to 11.1 percent, from 14.2 percent in Q1, while the annual growth rate of labour productivity stabilised somewhat at 4.9 percent.

19 ArcelorMittal Hunedoara, at the beginning of September

20 From 2017 to 2025, Romania recorded the highest number of African swine fever outbreaks in the EU – over 7,000 out of a total of around 12,700.

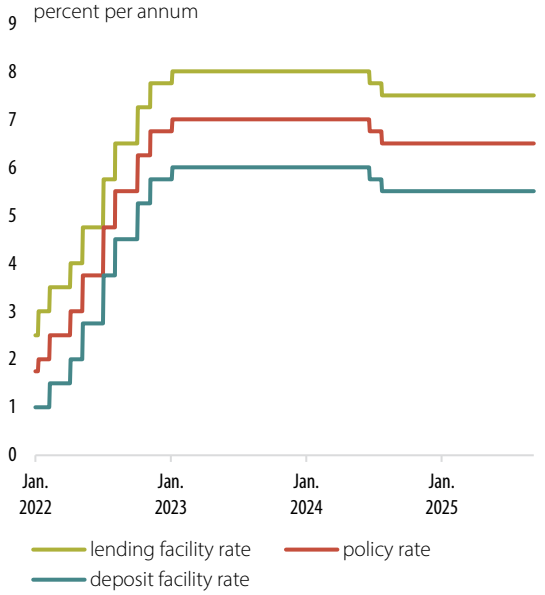
The annual pace of increase of unit wage costs in industry followed a similar trend, falling to 10.7 percent in Q2 and 7.7 percent in July-August; this reflected the cumulative effect of the slower annual rate of change of wages and the rise in labour productivity in annual terms. The decelerating trend is likely to persist throughout Q3, given the outlook for moderating wage growth, lower recruitment expectations and slightly improved capacity utilisation rate in domestic industry (Chart 2.13). The breakdown shows mixed developments, with high annual rates of change of ULC, which exceeded 16 percent in July-August, in food, textile and wearing apparel industries and the manufacture of wood, on the one hand, and growth rates below the aggregate level in the automotive industry, metallurgy and the manufacture of electrical equipment, on the other.

3. Monetary policy and financial developments

1. Monetary policy

In August and October 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 August were warranted by a new worsening of the inflation performance compared to forecasts, as well as by the considerable deterioration of its short-term outlook, yet under the transitory impact anticipated to be exerted by the expiry of the electricity price capping scheme in July and the increases in VAT rates and excise duties starting 1 August[21].

Specifically, the annual inflation rate resumed the upward course in May and came to exceed expectations for 2025 Q2 as a whole, up to 5.66 percent in June from 4.86 percent in March. The advance was driven primarily by higher food prices, especially fruit prices, *inter alia* amid the unfavourable weather conditions in the region, whereas the new rise posted during this period by the dynamics of energy prices was more than offset by the opposite evolution in the tobacco product segment. In turn, the annual adjusted CORE2 inflation rate saw yet again a halt in its downward trend, going up to 5.6 percent in June, from 5.2 percent in March[22], given that the further acceleration in the dynamics of processed food prices was accompanied in 2025 Q2 by the

21 Corresponding to the fiscal and budgetary package adopted in July 2025

22 The step-up in core inflation came from the hike in some agri-food commodity prices and the gradual pass-through of higher wage costs to some consumer prices, as well as from the increases in short-term inflation expectations and in the EUR/RON exchange rate, the impact of which exceeded by far that exerted by disinflationary base effects and the downward trend in import price dynamics.

step-up in the growth rate of services prices – after a six-quarter decrease – and by the markedly slower disinflation in the non-food segment.

At the same time, the updated medium-term forecast revealed a worsening of the inflation outlook in the first half of the projection horizon, also when compared to the previous forecasts, following the expiry of the electricity price capping scheme on 1 July and amid the hikes in VAT rates and excise duties as from 1 August, consistent with the fiscal and budgetary package adopted in July. Against this background, the annual inflation rate was expected to rise markedly in 2025 Q3, before coming down relatively slowly over the next three quarters, on a fluctuating path considerably higher than that in the previous projection[23] and well above the upper bound of the variation band of the target. However, the indicator would witness a steep downward correction in 2026 Q3 and thereafter it would decrease gradually, re-entering and falling deeper into the variation band of the target towards the end of the projection horizon. Specifically, the annual inflation rate was seen peaking at 9.2 percent in September 2025 and standing at 8.8 percent in December 2025, well above the previous forecast of 4.6 percent, but it would drop to 3.0 percent in December 2026, slightly below the 3.2 percent value anticipated previously, and to 2.7 percent in June 2027.

The direct inflationary effects of the two successive supply-side shocks would strongly affect the developments in exogenous CPI components and to a significant extent the dynamics of core inflation, yet only over the short term, given their transitory nature.

Underlying pressures were expected to remain inflationary over the near term, especially given the persistence of wage cost pressures in the private sector, but would then become more visibly disinflationary than previously anticipated, amid their gradual intensification. The major argument for these developments was the prospect for the aggregate demand deficit to record a relatively fast-paced widening in the next six quarters, and considerably more pronounced than previously forecasted, amid the packages of corrective fiscal and budgetary measures implemented as of August this year[24]. Additional influences were expected to come from the temporary decline in household purchasing power under the impact of the annual inflation rate rising to and remaining at high levels for four quarters, as well as from the likely significant improvement in the composition of aggregate demand over the projection horizon relative to 2024 through a greater contribution of investment to the detriment of private consumption, with implications for potential GDP dynamics as well.

Such a context was likely to significantly mitigate the risk that the inflation flare-up sparked by the supply-side shocks in 2025 Q3 would affect medium-term inflation expectations and thus trigger second-round effects, yet it called for the close monitoring of all developments.

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23 The May 2025 *Inflation Report*

24 According to the new data and assessments, economic growth would remain subdued in 2025-2026, given the implementation of the fiscal consolidation packages and the sizeable short-term rise in the annual inflation rate – likely to weigh on household real disposable income –, but also amid the gradual recovery of external demand and the use of Next Generation EU funds. The prospects made likely a relatively swift widening of the aggregate demand deficit until the end of next year, and much more pronounced than envisaged in May, followed only by a mild narrowing in 2027 H1.

Uncertainties were further associated with the 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.

Additionally, 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 the global trade tensions, affecting the developments in the global economy and in international trade, as well as amid the effects potentially generated by the US-EU trade agreement.

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 partly counterbalancing the contractionary effects of budget consolidation and of geopolitical and trade conflicts worldwide, as well as for carrying out the necessary structural reforms, energy transition included, but also for enhancing the growth potential and strengthening the resilience of the Romanian economy.

According to subsequently released statistical data, the annual inflation rate recorded substantial increases in the first two months of 2025 Q3, thus climbing to 9.85 percent in August, above the forecast, given the expiry of the electricity price capping scheme on 1 July and the hikes in VAT rates and excise duties as of 1 August. The transitory direct effects of the two successive supply-side inflationary shocks affected primarily the aggregate dynamics of the exogenous CPI components, mainly via the particularly strong pick-up in electricity prices. In turn, the annual adjusted CORE2 inflation rate climbed faster than anticipated, reaching 7.9 percent in August, amid the significant increases over this period in the dynamics of all three sub-components of core inflation, markedly more pronounced for processed food and services[25].

Economic activity witnessed a significantly swifter advance in 2025 Q2, to 1.2 percent, after a slowdown to 0.1 percent in the previous three months, which made likely a more modest widening of the aggregate demand deficit over the period compared to that anticipated in August. Moreover, annual GDP growth halted its decrease in 2025 Q2, remaining at 0.3 percent, although domestic demand reported a steeper loss of momentum, given that the annual dynamics of gross fixed capital formation slipped slightly back into negative territory after the surge in the previous quarter, while those of household consumption declined further, albeit only marginally. By contrast, net exports diminished considerably their contractionary impact in 2025 Q2, due to the emerging divergence between the further step-up in the annual dynamics of exports of goods and services and the notable decrease in those of imports, in terms of volume. This led to a sharp slowdown in the annual growth rates of trade deficit and current account deficit, fuelled in the latter case also by an improvement in the secondary income balance.

[25] The developments reflected the extensive pass-through of VAT rate hikes to consumer prices, also amid the resilience of demand in certain segments and high short-term inflation expectations. Additional influences further stemmed from the rise in some agri-food commodity prices and the still fast dynamics of wage costs, alongside those, visible during this period, from the indirect effects of higher electricity and fuel prices.

Looking at the labour market, recent data confirmed a halt in the market easing trend in 2025 Q2 – given also the steady job vacancy rate –, sending out, alongside surveys, mixed signals on the probable developments in 2025 Q3 and in the near future. Thus, according to incoming data, the number of employees economy-wide continued to decline in June and July, while the ILO unemployment rate dropped mildly in July-August, after rising and sticking to an average of 6.0 percent in 2025 Q1 and Q2. Furthermore, employment intentions over the very short horizon recovered somewhat in September after plunging in July-August, but solely on account of developments in trade, while the labour shortage reported by companies recorded an increase in Q3 as a whole, yet much smaller than the drop seen in the previous three months. The annual growth rates of average nominal gross wage economy-wide and in the private sector, as well as that of the nominal unit labour cost in industry continued to decline in July, relatively slowly in the former case, and more markedly in the latter, but remained relatively elevated.

The main interbank money market rates went down further August through September overall, yet at a slower pace, staying visibly above the April 2025 levels, while long-term yields on government securities witnessed a small upward adjustment in mid-Q3 and then tended to stick to the new readings. During the same period, the EUR/RON exchange rate followed a relatively fluctuating course, amid the successive revisions of investor expectations on the outlook for the Fed's policy rate, but also reflecting the steps taken domestically in the setup and adoption of the second package of corrective fiscal measures. In relation to the US dollar, the leu weakened somewhat in August, but strengthened afterwards, given the resumption of the former's overall depreciation trend in the international financial market.

The annual growth rate of credit to the private sector remained on a downward path in the first two months of 2025 Q3[26], primarily under the influence of the further slower increase in loans to non-financial corporations, exclusively on the back of the leu-denominated component. At the same time, the dynamics of credit to households halted its advance, posting a decline during the two months overall, although the flow of leu-denominated consumer credit and that of housing loans in domestic currency hit all-time highs in July. The share of the leu component in credit to the private sector narrowed in this period as well, to 69.3 percent in August from 69.7 percent in June.

The updated assessments in this context showed that the annual inflation rate would reach a plateau at end-Q3 and decrease very slowly in the closing three months of the year, on a higher path than in the August medium-term forecast, amid the above-expectations effects exerted by the expiry of the electricity price capping scheme on 1 July and the increases in VAT rates and excise duties starting 1 August.

The direct inflationary effects of the two supply-side shocks had, however, a transitory nature and would entail, with their fading, an abrupt downward correction of the annual inflation rate path in 2026 Q3. At the same time, the implementation of the package of fiscal and budgetary measures adopted in July 2025 was, overall, likely to generate

26 Reaching 8.0 percent in August from 9.1 percent in June

increasingly stronger underlying disinflationary pressures over the longer horizon, especially from aggregate demand, mainly via the fiscal adjustment initiated in 2025 and continued probably more visibly next year. To these would add, over the short term, the effects of the temporary decline in household purchasing power, under the impact of the annual inflation rate rising and sticking to high values, with implications for consumer demand in particular. In this context, the risk for the inflation bout to affect medium-term inflation expectations and to thus generate second-round effects was significantly diminished.

Underlying inflationary pressures were expected to persist over the near-term horizon, albeit moderating. This would reflect, on one hand, the prospects for the negative output gap to widen relatively quickly in 2025 H2, although to somewhat more modest values than previously forecasted[27], and on the other hand the time lag necessary for the disinflationary effects thus generated to become manifest, as well as the recent months' still solid growth – albeit visibly decelerating – of unit wage costs in the private sector.

Uncertainties were further associated with the measures likely to be adopted in the future in order to continue budget consolidation in line with the *National Medium-Term Fiscal-Structural Plan* agreed with the European Commission and with the excessive deficit procedure.

At the same time, 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 global trade tensions, as well as the war in Ukraine and the Middle East situation, but also the plans to increase defence and infrastructure investment spending in EU countries. In addition, 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 October 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. Moreover, the NBR Board kept the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions.

[27] The new assessments pointed to a near-stagnation of economic activity for 2025 H2 overall, amid the already implemented fiscal and budgetary measures and the high level of the annual inflation rate.

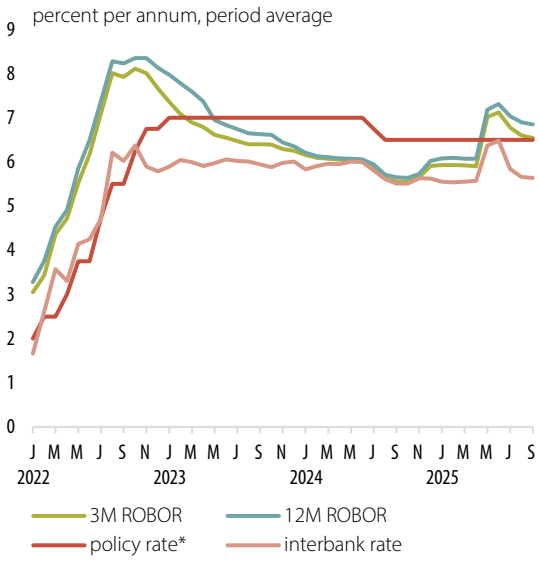
2. Financial markets and monetary developments

The daily average interest rate in the interbank money market[28] returned in July and tended to consolidate afterwards near the deposit facility rate, while longer-term rates witnessed downward adjustments during Q3, remaining however visibly above the April 2025 levels at the end of the quarter. The EUR/RON exchange rate continued to fluctuate, yet within a relatively narrower range that stood above the values prevailing in the second half of the previous quarter. Liquidity in the economy saw its annual growth re-accelerate slightly July through August, whereas the annual dynamics of credit to the private sector halted the upward trend, posting a decline during the period overall.

2.1. Interest rates

The daily average interest rate on interbank transactions steepened at the beginning of Q3 the downward course it had embarked on in the closing month of the previous quarter, dropping in mid-July and then tending to consolidate near the lower bound of the interest rate corridor. The quarterly average of the indicator thus largely corrected the increase seen during the prior three months overall, shedding 0.59 percentage points to 5.73 percent[29].

Chart 3.2. Policy rate and ROBOR rates



*) end of period

Developments reflected primarily the behaviour of ON rates, given the re-emergence and widening of a liquidity surplus in the money market, which the central bank mopped up via the deposit facility[30].

In turn, 3M-12M ROBOR rates accelerated their downward adjustment in July, but slowed it afterwards, staying at the end of the quarter visibly above the April 2025 levels (Chart 3.2). Their quarterly averages thus went down marginally for the 3M rate (-0.04 percentage points, to 6.64 percent), while adding up to 0.07 percentage points for the 6- and 12-month maturities, to 6.78 percent and 6.93 percent respectively.

Medium- and long-term reference rates on the secondary market for government securities[31] extended their downtrend into the first part of July. Specifically, rates on

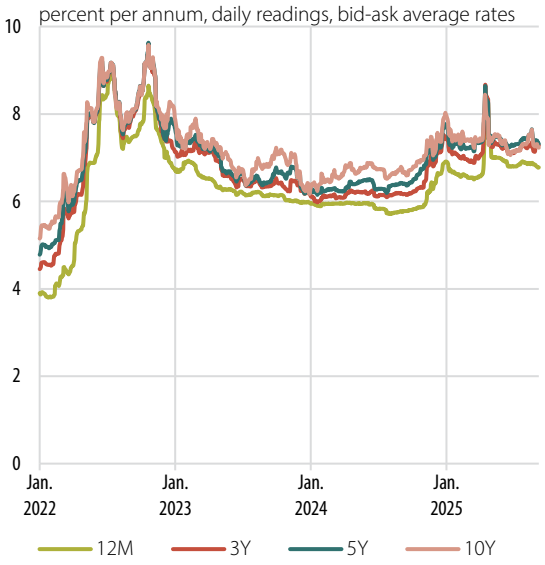
28 The average interest rate on transactions in deposits on the interbank money market, weighted by the volume of transactions

29 Average weighted by the volume of transactions

30 The daily average stock of these deposits went up to lei 15.2 billion in Q3, from lei 12.6 billion in the previous quarter, when the NBR had conducted repos as well in order to provide liquidity to credit institutions.

31 Bid-ask averages

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



10-year securities dropped to the lowest readings for the year so far, amid the completion and adoption of the first package of corrective fiscal measures, before increasing slightly in mid-quarter and then tending to stay at the new levels[32,33] (Chart 3.3). The rates on 6- and 12-month Treasury certificates followed a slowly downward path, given the closer correlation with developments in the monetary segment.

In terms of monthly averages, the rates on 6- and 12-month Treasury certificates shed 0.15 percentage points in September versus the last month of Q2 (to 6.77 percent and 6.84 percent respectively), whereas those over the longer maturities witnessed two-way changes, albeit marginal – downward for the 3- and 10-year securities (to 7.25 percent and 7.38 percent respectively) and upward for the 5-year maturity (to 7.44 percent). Hence, the positive slope of the yield curve steepened, with the spread between the rates on 10- and 1-year securities hitting a six-month high.

Developments in the average accepted rates on the primary market[34] partly reflected the distribution across time of the auctions during the period. Specifically, compared with the levels recorded in the closing month of Q2, in September they advanced markedly for 3-year securities (+0.29 percentage points, to 7.60 percent) and marginally for the 5-year maturity (+0.05 percentage points, to 7.57 percent), whereas the rate on 10-year securities edged down 0.08 percentage points (to 7.29 percent).

32 Amid moderate fluctuations, given *inter alia* the steps taken domestically in the setup and adoption of the second package of corrective fiscal measures

33 The long-term (10-year) government security yields in advanced economies and in the region saw mixed developments in Q3. Thus, in the US it witnessed declines in the period from August to September, reflecting the trade agreement with the EU, as well as the weaker-than-anticipated labour market performance shown by data released during this period, which fuelled expectations that the Fed would resume the policy rate cut in September, subsequently validated by the central bank's decision. Conversely, the similar yield in the euro area stuck to an upward, albeit fluctuating course in August and then tended to stay at the levels reached, also amid the ECB leaving key rates unchanged in September. In the region, long-term government security yields posted large fluctuations in Hungary, shrinking considerably in September, but rose markedly in Czechia and more modestly in Poland in the closing month of the quarter, partly under the influence of domestic factors.

34 During 2025 Q3, the MF's "Tezaur" programme saw the monthly issuance of government securities with 1-, 3- and 5-year maturities, at rates of: (i) 7.00 percent, 7.50 percent and 7.90 percent respectively in July, totalling about lei 2 billion, (ii) 6.90 percent, 7.50 percent and 7.85 percent respectively in August, worth lei 1.9 billion, and (iii) 6.90 percent, 7.50 percent and 7.85 percent respectively in September, in total amount of lei 2.2 billion. Moreover, under the "Fidelis" programme, the MF issued government securities for households as follows: (i) in July, securities both in domestic currency, with 2-, 4- and 6-year maturities, at rates of 7.25 percent, 7.70 percent and 7.95 percent respectively, worth lei 681 million, and in euro, with 2-, 5- and 7-year maturities, at rates of 3.40 percent, 5.50 percent and 6.30 percent respectively, totalling EUR 192 million; (ii) in August, government securities in lei, with 2-, 4- and 6-year maturities, at rates of 7.20 percent, 7.65 percent and 7.90 percent respectively, worth lei 552 million, and in euro, with 2-, 5- and 7-year maturities, at rates of 3.10 percent, 5.25 percent and 6.5 percent respectively, totalling EUR 195 million; (iii) in September, government securities in lei, with 2-, 4- and 6-year maturities, at rates of 7.20 percent, 7.60 percent and 7.90 percent respectively, worth lei 813 million, and in euro, with 2-, 5- and 10-year maturities, at rates of 3.10 percent, 5.25 percent and 6.5 percent respectively, totalling EUR 267 million. In addition, the MF issued in July Eurobonds denominated both in euro, with a 14-year maturity, at a 6.53 percent rate, worth EUR 1.5 billion, and in US dollars, with 5- and 10-year maturities, at rates of 5.77 percent and 6.64 percent respectively, totalling USD 3.75 billion. Moreover, the MF issued in August EUR-denominated government securities on the domestic market, with a 2-year maturity, at an average rate of 2.95 percent, worth EUR 231 million.

In Q3, the total value of securities issued rose by lei 5.2 billion against the previous three months (to lei 26.1 billion), while the value of net issues decreased by lei 1.4 billion, given the hefty increase in the volume of securities maturing in this quarter (lei 14.3 billion versus lei 7.8 billion). Investor appetite for this type of investments strengthened in Q3 overall, after the previous three months' weakening, yet amid uneven developments during the period[35].

Chart 3.4. Bank rates

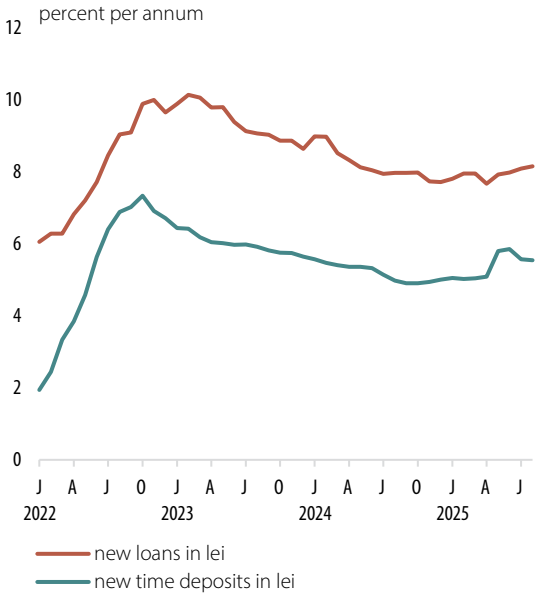
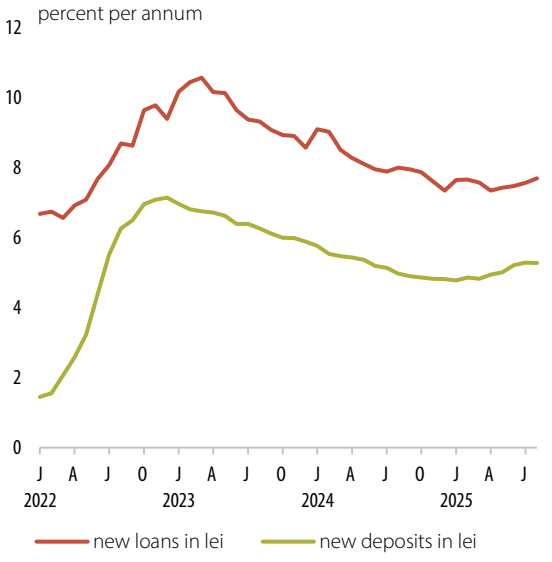


Chart 3.5. Interest rates for households*



*) households and non-profit institutions serving households

The average interest rate applicable to non-bank clients' new loans went up in the period from July to August overall (+0.26 percentage points, to 8.12 percent), after the previous quarter's mild decline, whereas the average remuneration of new time deposits halted its advance, staying almost steady at 5.55 percent (Chart 3.4).

From a sectoral perspective, interest rates recorded same-way changes in the case of new loans and mixed ones for new time deposits. Specifically, the average interest rate on new loans to households added 0.22 percentage points, to 7.64 percent, thus fully reversing the previous three months' decline (Chart 3.5). Behind the increase stood the interest rate on new consumer credit, whose average witnessed a significant upward adjustment (+0.61 percentage points, to 9.64 percent), almost equal to the prior quarter's drop, mainly on the back of fixed-rate loans, which prevail under this category. At the same time, the average interest rate on new housing loans almost halted its downward path (-0.03 percentage points on average during this period, coming in at 5.79 percent), *inter alia* amid the benchmark index for loans to consumers (IRCC) remaining unchanged.

The average interest rate on new loans to non-financial corporations moderated its advance versus the previous quarter (+0.14 percentage points), reaching 9.10 percent (Chart 3.6). This reflected mixed developments in the main types of loans. Specifically, the average interest rate on low-value loans (below EUR 1 million equivalent) accelerated significantly its increase against the prior quarter (+0.61 percentage points, to 9.71 percent), whereas that on high-value loans, i.e. above the said

35 In Q3 overall, the ratio of the amounts of bids submitted to the announced volume at auctions increased significantly, to 2.26 from 1.69 in the prior three months, while the ratio of the volume of issues to the announced volume went up to 1.27 against 1.17.

Chart 3.6. Interest rates for non-financial corporations

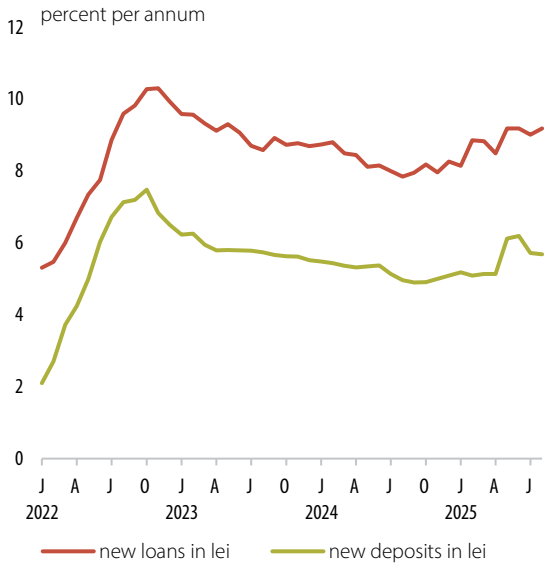
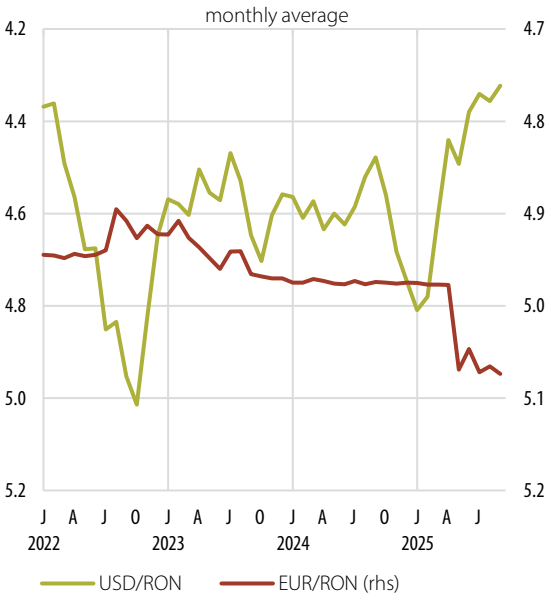


Chart 3.7. Nominal exchange rate



threshold, partly corrected the rise seen April through June, shedding 0.23 percentage points, to 8.39 percent.

The average remuneration of new time deposits from households stayed on the upward course followed in the previous quarter (+0.23 percentage points), averaging out at 5.29 percent, whereas that on similar deposits from non-financial corporations – more closely correlated with the movement of relevant interbank money market rates – declined mildly in the period from July to August overall, reaching 5.70 percent.

2.2. Exchange rate and capital flows

The EUR/RON exchange rate continued to fluctuate in 2025 Q3, but in a relatively narrower range that stood above the values prevailing in the second half of the previous quarter (Chart 3.7).

The EUR/RON halted its rise at the beginning of July and, after a small fluctuation, tended to stabilise at the new levels, amid the finalisation and adoption of the first package of corrective fiscal measures, conducive to the improvement of investor risk perception of the local economy and financial market[36]. Behind the stabilisation of the currency pair also stood the favourable sentiment prevailing in the international financial market, but also the action of some seasonal domestic factors (Table 3.1).

Moreover, in the first 10-day period of August, the EUR/RON exchange rate embarked and then stayed on a downward path, amid the influences from the strengthening of the favourable sentiment in the international financial market, due to investors reconsidering the near-term outlook for the Fed's interest rate[37], resulting *inter alia* in the resumption of the depreciation trend of the US dollar against the euro. Additional influences stemmed from the improvement in the risk perception towards financial markets in the region, due also to the performance above expectations of some economic indicators, as shown by the statistical data published in

36 On 23 July, S&P reconfirmed Romania's sovereign rating (BBB), with a negative outlook.

37 Investor expectations for the Fed to cut the interest rate in September were higher in this period, owing to the underperformance of the labour market, and were subsequently consolidated by the central bank's signals.

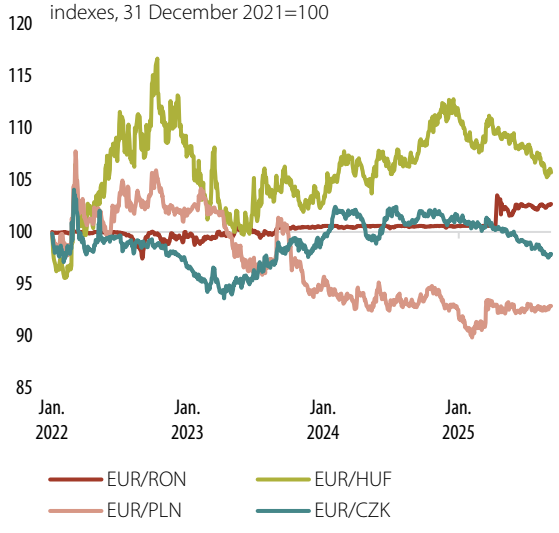
Table 3.1. Key financial account items

EUR million

	8 mos. 2024			8 mos. 2025		
	Net acquisition of financial assets*	Net incurrence of liabilities*	Net	Net acquisition of financial assets*	Net incurrence of liabilities*	Net
Financial account	5,494	18,862	-13,368	9,543	24,258	-14,715
Direct investment	1,650	5,139	-3,489	1,125	5,395	-4,270
Portfolio investment	1,183	9,953	-8,770	224	11,910	-11,685
Financial derivatives	28	0	28	-51	0	-51
Other investment	-413	3,771	-4,184	3,236	6,953	-3,718
– currency and deposits	-1,477	-413	-1,064	1,701	-101	1,802
– loans	36	1,179	-1,142	480	5,547	-5,067
– other	1,028	3,006	-1,978	1,054	1,507	-453
NBR's reserve assets, net	3,047	0	3,047	5,010	0	5,010

*) "+" increase/"-" decrease

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



Source: ECB, NBR

this period[38,39]. In the last days of August however, the EUR/RON exchange rate reverted abruptly to the levels recorded at the beginning of the month, a movement that was only partly correlated with the evolution of exchange rates of major currencies in the region[40].

The EUR/RON exchange rate saw a new decline in the first part of September, which was however fully offset afterwards, due to the steps taken domestically in the setup and adoption of the second package of corrective fiscal measures, but also amid the change in investor expectations on the pace/size of prospective interest rate cuts by the Fed[41], likely to affect the global risk appetite and lead to a downward adjustment in the EUR/USD exchange rate.

The exchange rates of major currencies in the region versus the euro posted mixed developments in Q3 too, reflecting *inter alia* the action of some domestic factors[42]. Specifically, the Hungarian forint and the Czech koruna stuck to a general appreciation trend versus the euro, their exchange rates dropping to lows of the past approximately one-two years, whereas the EUR/PLN halted its decline, remaining in the fluctuation interval seen in the previous quarter (Chart 3.8).

In relation to the US dollar, the leu discontinued its appreciation trend in July and weakened somewhat in August, but strengthened afterwards, given the resumption of the former's overall depreciation trend in the international financial market.

The interbank forex market turnover fell in Q3 as compared to the peak reached in the previous quarter, but remained historically high, whereas

38 According to statistical data, Romania's economy recorded higher-than-expected growth in 2025 Q2. At regional level, the economic activity posted a somewhat faster quarterly increase in Poland in the same period, resumed an upward path in Hungary after the contraction seen in the previous three months, but slowed down its advance relatively more than anticipated in Czechia.

39 On 15 August, Fitch reconfirmed Romania's sovereign rating (BBB), with a negative outlook.

40 They witnessed relatively strong increases at the beginning of the last 10-day period of the month, due to a short-lived episode of appreciation of the US dollar, after the release of the minutes of the Fed's monetary policy meeting of 29-30 July, when the majority of participants judged the upside risks to inflation as higher than the downside risks to employment.

41 Given the resilience of the US economy and labour market, as shown by the new statistical data, as well as the signals sent by the Fed Chair in a speech held on 23 September 2025

42 Relevant from this perspective were, in Czechia and Hungary, the expectations with regard to central banks keeping unchanged the policy rates, and in Poland the further key rate cuts by Narodowy Bank Polski, but also the concerns about the fiscal situation.

the balance of transactions improved considerably, after the record high negative value in Q2.

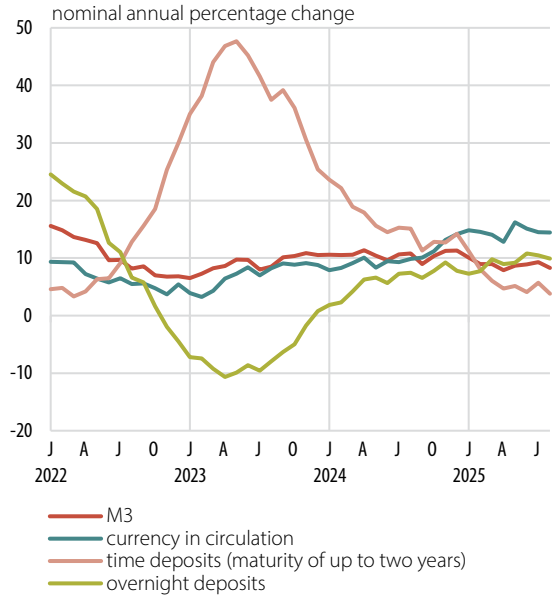
In relation to the euro, the domestic currency depreciated in Q3 overall by 0.8 percent in nominal terms[43,44] and appreciated by 3.9 percent in real terms. In relation to the US dollar, the domestic currency appreciated by 2.2 percent in nominal terms and 7.1 percent in real terms. Looking at the annual exchange rate dynamics in 2025 Q3, the leu saw a sharper depreciation versus the euro and a further quasi-steady appreciation against the US dollar.

Table 3.2. Annual growth rates of M3 and its components

nominal percentage change

	2024		2025			
	III	IV	I	II	Jul.	Aug.
	quarterly average growth					
M3	10.1	11.0	9.3	8.5	9.3	8.3
M1	7.8	9.5	10.0	11.1	11.6	11.2
Currency in circulation	9.7	12.8	14.5	14.7	14.5	14.4
Overnight deposits	7.1	8.3	8.3	9.6	10.5	9.9
Time deposits (maturity of up to two years)	13.9	13.2	8.4	4.7	5.7	3.8

Chart 3.9. Main broad money components



2.3. Money and credit

Money

The annual dynamics of broad money (M3) slightly re-accelerated in July-August 2025, i.e. to an average of 8.8 percent[45] from 8.5 percent in Q2, in correlation with the characteristics of funding budget expenditure and the improvement in the trade balance (Table 3.2).

Looking at M3 components, the stronger momentum of broad money was driven by a new advance posted by the double-digit annual pace of increase of its most liquid component (M1), attributable this time almost solely to households' forex overnight deposits (expressed in EUR)[46], which continued to follow a steeper upward path in annual terms, although their balance remained quasi-steady in July-August (Chart 3.9). At the same time, the annual dynamics of leu-denominated overnight deposits visibly slowed their downtrend – as the impact of the further deceleration of household deposits was almost fully offset by the acceleration of corporate and non-MFI deposits –, while the double-digit rate of change of currency in circulation contracted very mildly.

In turn, the annual dynamics of time deposits with a maturity of up to two years halted the steep drop seen over the past eight quarters, marginally increasing in July-August as a whole. The evolution owed to the further swifter growth of the foreign currency component (expressed in EUR), primarily

43 Versus the previous quarter, based on the quarterly exchange rate averages

44 In the same period, the forint, the Czech koruna and the zloty strengthened by 2.1 percent, 1.7 percent and 0.1 percent respectively against the single currency.

45 In real terms, the M3 annual growth fell to nil (after having decelerated to 3.0 percent in Q2), given the swifter annual inflation rate.

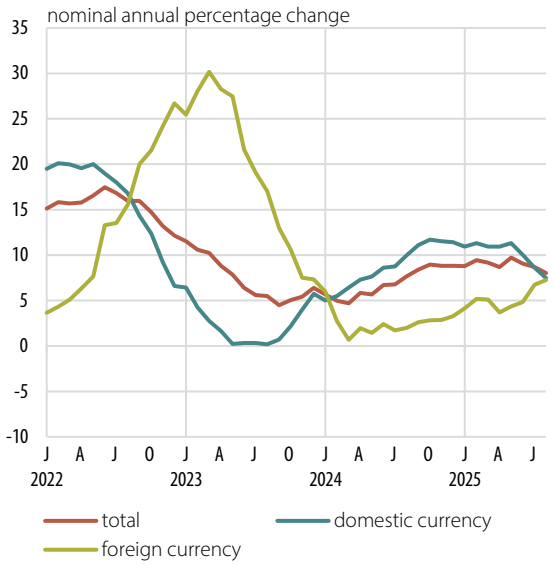
46 Non-MFIs' forex overnight deposits (expressed in EUR) also exerted a small influence.

household deposits, associated with a markedly slower decline in the pace of the domestic currency component, on the back of the rate of change of corporate deposits. However, the share of M1 in M3 narrowed marginally to 62.1 percent in August from the two-year high of 62.2 percent in June.

The breakdown by holder shows that the advance in M3 dynamics was driven by the re-acceleration of the growth rate of non-financial corporations' deposits in this period, *inter alia* in correlation with the improvement in the trade balance. At the same time, the annual pace of increase of household deposits witnessed a slower decline versus the previous quarter, given that the slacker dynamics of disposable income was associated with a near-stagnation of purchases of goods and services during this period.

From the perspective of M3 counterparts, the annual growth rate of net foreign assets of the banking system stepped up significantly[47], whereas the dynamics of net credit to the central government fell notably faster compared to the previous quarter's average – given the rise in the sector's foreign currency-denominated deposits – and the annual pace of increase of credit to the private sector slowed down visibly.

Chart 3.10. Credit to the private sector by currency



Credit to the private sector

The annual rate of change of credit to the private sector stopped its upward path, moderating to 8.4 percent[48] in July-August as a whole, from 9.2 percent in 2025 Q2[49], on account of the steeper drop in the dynamics of the domestic currency component (to one-digit levels); this was only partly offset in terms of impact by the re-acceleration of growth in foreign currency-denominated credit (expressed in EUR). Against this backdrop, the share of leu-denominated loans in total credit narrowed at a slightly faster pace, reaching 69.3 percent in August from 69.7 percent in June (Chart 3.10).

From a sectoral perspective, behind the loss of momentum of credit to the private sector mainly stood loans to non-financial corporations[50], whose annual dynamics went down in July-August, after a steady rise over the previous four quarters (Chart 3.11). The turning point occurred in the context of the notably steeper decrease in the rate

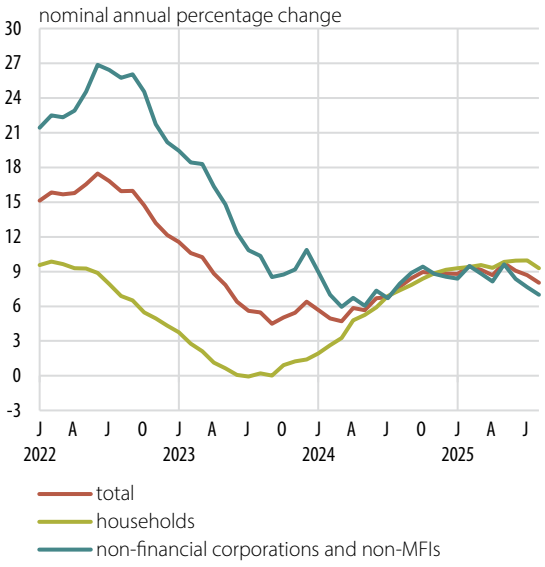
47 In July 2025, the Ministry of Finance issued Eurobonds worth approximately EUR 4.7 billion.

48 The real annual growth rate of credit to the private sector witnessed a sharper decline, *inter alia* amid the higher inflation rate, i.e. to -0.4 percent in July-August from 3.6 percent in Q2.

49 A 9-quarter high

50 A notable influence also came from loans granted by non-MFIs, whose annual dynamics continued to slow down from the previous quarter's average, amid the evolution of foreign currency-denominated credit (expressed in EUR).

Chart 3.11. Credit to the private sector by institutional sector



of change of the leu-denominated component – despite an all-time high of new loans in July[51], even without the contribution of government programmes –, whose impact surpassed by far the significantly swifter growth of foreign currency-denominated loans (expressed in EUR), primarily due to the developments in medium- and long-term loans.

The annual growth rate of household credit halted its sluggish uptrend from the previous seven quarters, slowing down marginally during the first two months of Q3, given that the fast pace of leu-denominated loans further decelerated – although the flow of domestic currency consumer credit[52] and housing loans[53] posted historical highs in July –, while the foreign currency component (expressed in EUR) slightly moderated its sizeable contraction in annual terms.

51 Excluding renegotiated loans

52 The volume of new consumer loans recorded, nevertheless, a decline in the period overall compared to the Q2 average, while the dynamics of the stock of consumer credit further decreased.

53 The annual growth rate of housing loans inched up over the period as a whole.

4. Inflation outlook

The updated forecast anticipates the annual CPI inflation rate to stay on a downward path almost throughout the projection interval, with its trajectory being shaped mainly by the recent supply-side shocks and the influences associated with the fiscal consolidation process. Specifically, under the impact of higher electricity prices in July and the increases in indirect taxes (VAT rates and excise duties) in August 2025, the inflation rate will remain at elevated levels, albeit on a relative downtrend, until mid-2026. The impact of the above-mentioned shocks will drop out of the calculation of the annual inflation rate and will prompt a plunge in the indicator in 2026 Q3, also underpinned by the persistence, and even the deepening, of the negative output gap. Over the medium term, CPI dynamics are expected to recede gradually, amid stronger disinflationary influences transmitted through the aggregate demand channel as a result of restrictive fiscal measures. Against this background, the annual inflation rate is projected to reach 9.6 percent at end-2025, 3.7 percent at end-2026 and 2.9 percent at the forecast horizon, i.e. 2027 Q3.

Compared to the projection in the August 2025 *Inflation Report,* the annual CPI inflation rate will run at higher levels over the entire forecast interval: by 0.8 percentage points at the end of this year, 0.7 percentage points in December 2026, and 0.3 percentage points in 2027 Q2, i.e. the previous forecast horizon. The upward revision is mainly ascribable to that of core inflation. The latter reflects persistent cost pressures, the fast pass-through of the recent increases in indirect taxes in certain segments, and the restoration of profit margins by some economic agents, amid the adjustment to the new fiscal conditions and to the changes in the fundamentals shaping the dynamics of the variable. In the first part of the projection interval, additional contributions to the rise in inflation also came from electricity prices, partly offset by a downward revision in the growth rates of fuel and VFE prices.

The balance of risks to CPI inflation remains tilted to the upside, suggesting possible upside deviations from the path projected in the baseline scenario. In this context, the impact of the natural gas market liberalisation and, to a lesser extent, the removal of the cap on the mark-up on basic food products are of particular relevance. Similarly to the previous forecasting round, a disinflationary traction is attributed to a potential further weakening of economic activity.

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 revised upwards in 2025 to 1.3 percent, from 1.1 percent, and downwards to 1.2 percent in 2026, from 1.3 percent (Table 4.1).

Table 4.1. Expected developments in external variables

	annual averages	
	2025	2026
EU effective GDP growth (%)	1.3	1.2
Euro area annual inflation (%)	2.1	1.7
Euro area annual inflation excluding energy (%)	2.5	2.1
Annual CPI inflation rate in the USA (%)	2.8	3.3
3M EURIBOR (% p.a.)	2.2	1.9
USD/EUR exchange rate	1.13	1.19
Brent oil price (USD/barrel)	69.3	64.0

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

Over the short run, after the fading-out of the favourable effect generated by the frontloading of exports in the first part of this year and against the backdrop of the actual implementation of US protectionist policies, the forecast anticipates a moderation in economic growth, although economic activity in the EU is expected to remain relatively resilient. Over the medium term, the dynamics of EU effective GDP will be supported by higher disposable income, easing uncertainty and the gradual recovery in extra-EU demand. A favourable contribution to stronger growth is also expected to stem from the fiscal impulse associated with higher defence and infrastructure spending. In this context, the effective external output gap is projected to remain in negative territory throughout the forecast interval, similarly to the previous assessment.

The average annual inflation rate in the euro area was revised slightly upwards for 2025 and marginally for 2026, compared to the previous *Inflation Report*. The revision mainly reflects the influence of the energy and food components, amid the persistent effects of past increases in international commodity prices. In 2026, the revision also factors in a reduced magnitude of the favourable effect previously estimated as a result of administrative measures to lower electricity prices in Germany. The annual headline inflation rate is expected to fall from 2.1 percent in 2025 Q3 to 2 percent in Q4. Subsequently, headline inflation is foreseen to run below 2 percent until the forecast horizon, bottoming out at 1.6 percent in 2026 Q1 and Q3, before returning to 2 percent at the projection horizon.

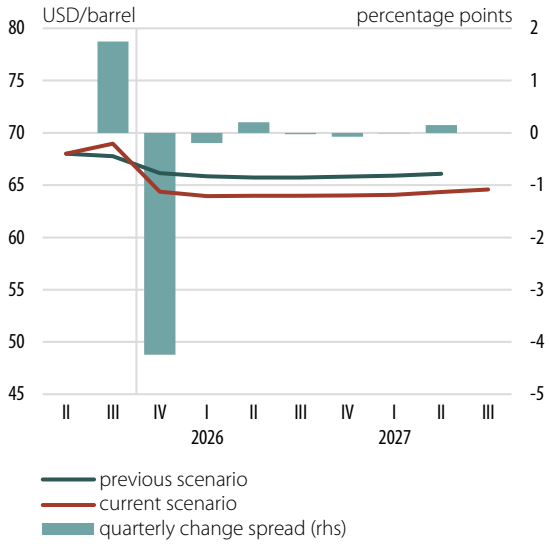
The forecast of the euro area HICP inflation excluding energy[54] was revised upwards compared to the previous *Inflation Report* for both 2025 and 2026 on account of the food component. On a quarterly basis, the annual HICP inflation excluding energy is expected to move broadly in line with headline inflation, yet it will be higher than the latter in the short term. Among the factors influencing the developments in this indicator are the expected drop in services inflation, partly reflecting softer wage pressures, and the moderation in goods inflation driven by the appreciation of the euro. At the projection horizon, i.e. 2027 Q3, the HICP inflation rate excluding energy is forecasted to stand slightly below headline inflation, i.e. 1.9 percent.

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

The nominal 3M EURIBOR continued to decline and is expected to edge down in the near term as well, reaching around 1.9 percent in 2026 Q1. Over the longer term, this rate is anticipated to revert to around 2.1 percent in 2027 Q3. The real 3M EURIBOR relative to its estimated equilibrium level suggests a stimulative stance of the ECB's monetary policy in the short run. Thereafter, it is projected to stabilise around the neutral level until the forecast horizon.

In 2025 Q3, the US dollar continued to weaken against the euro. The trend was temporarily reversed in early October, but afterwards the dollar returned to a depreciating path, interspersed with short-lived episodes of appreciation. Expectations of a looser monetary policy stance by the Federal Reserve have recently exerted additional downward pressure on the US currency. These two-way fluctuations point to the recently heightened volatility of the euro-US dollar exchange rate. The depreciation of the US dollar during 2025 occurred against the backdrop of a shift of capital flows away from the US, due to the weakening US economic fundamentals, *inter alia* as a result of protectionist policies, and to an improved outlook for the euro area economy. The latter was supported by the EU's commitments to ramp up defence spending and by advanced discussions on making fiscal rules more flexible in Germany, with the potential to stimulate private investment. Over the projection interval, the pace of depreciation of the US dollar against the euro is expected to moderate significantly, although the likelihood of renewed episodes of volatility, on a monthly or quarterly basis, remains elevated.

Chart 4.1. Brent oil price scenario



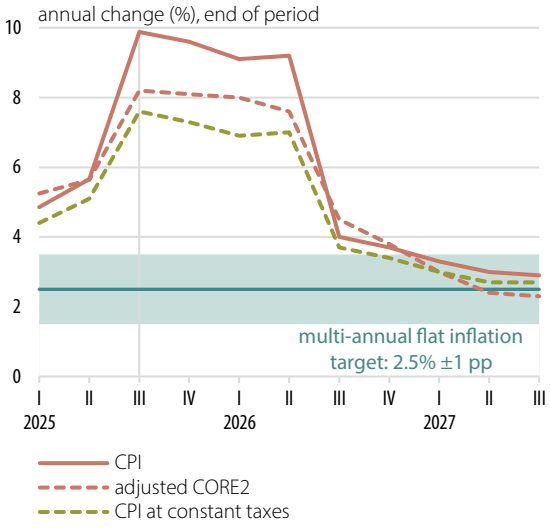
Source: U.S. Energy Information Administration, NBR assumptions based on Bloomberg data

The scenario for the Brent oil price is based on futures prices and foresees a slightly downward path over the medium term, given both the prospect of peace in the Middle East and robust supply. Specifically, at the forecast horizon, the Brent oil price is projected at around USD 64.6/barrel (Chart 4.1). On the demand side, in the short and medium term, a potential escalation of trade tensions between the US and China could exert additional pressure on oil prices by dampening expectations for global economic growth. On the supply side, oil-exporting countries are expected to increase output, fostered by a relative geopolitical stabilisation in the Middle East. In this context, in early October OPEC+ announced a 137,000-barrel-per-day hike in production starting in November, signalling a more balanced stance between supporting prices and strengthening global supply.

1.2. Inflation outlook

The annual CPI inflation rate surged in 2025 Q3, climbing to 9.88 percent in September, i.e. 4.2 percentage points above the level in June and 0.7 percentage points above the projection in the August 2025 *Inflation Report*. Behind this stood primarily the

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		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Target (mid-point)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
CPI projection	9.6	9.1	9.2	4.0	3.7	3.3	3.0	2.9
CPI projection*	7.3	6.9	7.0	3.7	3.4	3.0	2.7	2.7
Adjusted CORE2 projection	8.1	8.0	7.6	4.5	3.8	3.0	2.4	2.3

*) calculated at constant taxes

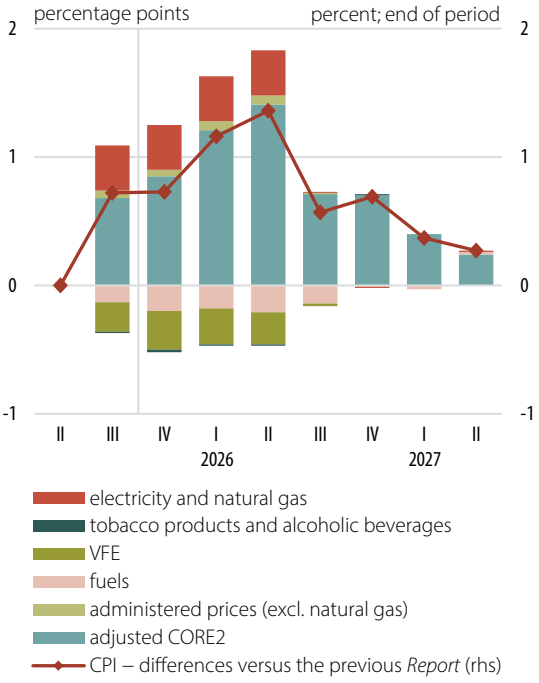
increases in electricity prices in July and in indirect taxes in August[55]. Looking ahead, the inflation rate is forecasted on a downward path almost throughout the projection interval, with its trajectory being shaped by the recent supply-side shocks and the effects of the fiscal consolidation process. Under the impact of the above-mentioned price hikes, the annual inflation rate will remain high, albeit on a downtrend, until mid-2026 (Chart 4.2). Subsequently, these effects will drop out of the calculation and will prompt a plunge in headline inflation of approximately 5.2 percentage points in 2026 Q3, also underpinned by the more negative output gap. In the medium run, fiscal consolidation will exert disinflationary pressures by lowering aggregate demand, which will result in a gradual decline in CPI dynamics, reflecting, *inter alia*, the adjustment of inflation expectations. Against this background, the annual inflation rate is foreseen to reach 9.6 percent at end-2025 and 3.7 percent at end-2026, before re-entering the variation band of the target in 2027 Q1 and going down to 2.9 percent at the forecast horizon, i.e. 2027 Q3 (Chart 4.2, Table 4.2).

Compared to the projection in the August 2025 *Inflation Report*, the annual CPI inflation rate will run at higher levels over the entire forecast interval: by 0.8 percentage points at the end of this year, 0.7 percentage points in December 2026, and 0.3 percentage points in 2027 Q2, i.e. the previous forecast horizon (Chart 4.3). The upward revision is mainly ascribable to that of core inflation, amid persistent cost pressures, the fast pass-through of the recent increases in indirect taxes, and the restoration of profit margins. In the first part of the projection interval, additional contributions also came from the electricity segment, as a result of the underestimation of the price increase at the time of market liberalisation. Conversely, the dynamics of fuel prices and those of volatile food prices (VFE) were revised downwards. Moreover, the pass-through of the VAT rate hikes was reassessed at approximately 85 percent[56], which means a slightly higher direct impact on the aggregate index.

55 The direct impact on the annual CPI inflation rate is estimated at 2.3 percentage points in the case of electricity prices and at 2 percentage points for the hike in indirect taxes.

56 In the previous round, the assumption was 78 percent.

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



Source: NBR projection

In turn, the annual adjusted CORE2 inflation rate grew swiftly in 2025 Q3 to 8.1 percent in September, up 2.5 percentage points from June and 1 percentage point against the prior forecast. In the future, core inflation will embark on a continuously downward path, with a sharper decline in 2026 Q3, once the impact of the increase in indirect taxes drops out of the calculation. This reflects the influence of fiscal consolidation on the output gap, which is forecasted to deepen into negative territory until the end of next year. At the same time, after the steep rise in 2025 Q3, inflation expectations are also envisaged to follow a downward path over the forecast interval. In addition, the projection shows a gradual fading out of the inflationary shocks that mainly affected the food and services sub-components, where price increases exceeded expectations in August, following the VAT rate hikes[57]. Furthermore, pressures from imported goods prices will abate gradually, in line with the deceleration of HICP inflation excluding energy in the euro area. Against this backdrop, the updated forecast sees the annual adjusted CORE2 inflation rate at 8.1 percent at end-2025, 3.8 percent in December 2026, and 2.3 percent in 2027 Q3 (Chart 4.2). In 2026 H2, the values projected for the annual adjusted CORE2 inflation rate will temporarily exceed the levels of headline inflation, which is an effect of the stronger persistence of the component.

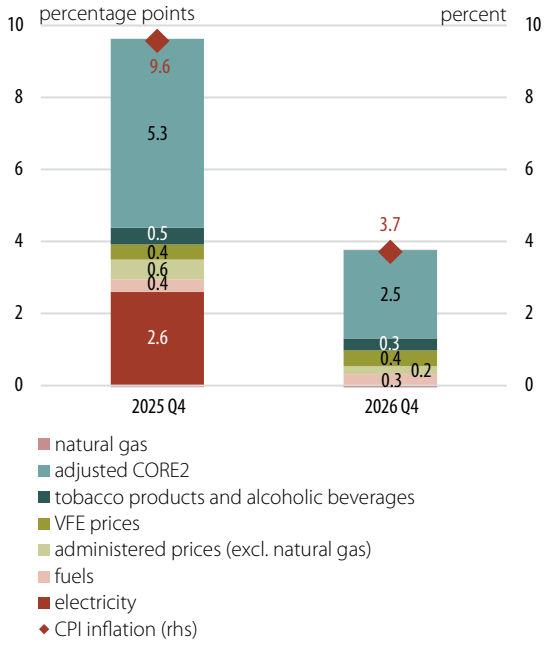
Compared to the previous forecast, the annual core inflation rate is on a higher path throughout the entire projection interval. Specifically, the updated projection is higher by 1.3 percentage points for end-2025, by 1.1 percentage points in December 2026, and by 0.4 percentage points in 2027 Q2. The revision is broader in the first part of the forecast interval, due to underestimating the direct impact of the increases in VAT rates[58] and the recent inflationary shocks at the level of the non-food and services sub-components. Inflation expectations were revised upwards over almost the entire projection interval, more visibly in the short term, whereas the output gap was re-assessed upwards in the first part and downwards in the second part of the forecast period.

The cumulative contribution of the exogenous components of the consumer basket to the annual CPI inflation rate is seen similar to the August *Inflation Report*, i.e. 4.4 percentage points at end-2025 and 1.3 percentage points in December 2026.

57 The price increases occurred in the context of the built-up wage and energy cost pressures and of the suddenly higher inflation expectations and were aimed at protecting profit margins. Removing the caps on electricity prices affected more strongly producers in the food industry and SMEs, including in the services sector, which had lower caps than the other economic agents. In addition, the VAT rate hikes also exerted indirect effects via the rounding up of prices.

58 The pass-through was re-assessed from 70 percent to approximately 90 percent.

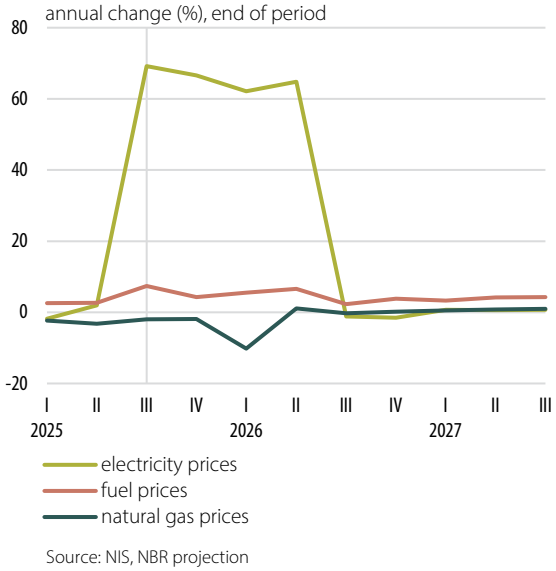
Chart 4.4. Contributions of components to annual inflation rate*



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

Source: NIS, NBR projection

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



Source: NIS, NBR projection

At the projection horizon (September 2027), it is anticipated at 1.5 percentage points (Chart 4.4). The breakdown shows that there have been certain reconfigurations of the components' contributions for December 2025. Specifically, the underestimation of electricity price dynamics, mainly on account of a higher-than-expected impact of the electricity market liberalisation in July 2025, was counterbalanced by more favourable developments in VFE and fuel prices.

The annual growth rate of fuel prices is driven in the first part of the forecast interval primarily by the inflationary impact of the rises in indirect taxes – VAT and excise duties – in August 2025 (with effects lasting 12 months). The pass-through of these fiscal measures into prices was lower than anticipated in the August 2025 *Inflation Report*[59], also in the context of the more favourable crude oil price movements[60]. Specifically, the dynamics estimated for end-2025 were revised downwards. Subsequently, in the second part of the projection interval, amid the relative stabilisation in oil futures prices, the annual rate of change of fuel prices is forecasted to remain near the upper bound of the variation band of the central target, close to the levels projected in the previous *Report* (Chart 4.5, Table 4.3).

The annual growth rate of electricity prices is shaped until 2026 Q2 by the impact of the electricity market liberalisation in July 2025, the projected values standing at around 60 percent (Chart 4.5, Table 4.3). The forecasted trajectory for this interval is higher than that in the previous *Inflation Report*, due to the larger-than-anticipated impact of the liberalisation. Over the remainder of the projection interval, in the absence of additional information about suppliers' offers, the baseline scenario incorporates, similarly to the previous round, minor changes in electricity prices. These primarily reflect the NIS updating suppliers' weights used in computing the average electricity price as of the beginning of 2026.

59 The impact of the increases in indirect taxes in August 2025 (raising the standard VAT rate from 19 percent to 21 percent and hiking the excise duty on petrol and diesel prices by 10 percent) on the annual CPI inflation rate is estimated at approximately 0.3 percentage points compared to 0.5 percentage points in the August 2025 Inflation Report. However, a gradual pass-through is not ruled out, in order to avoid discouraging demand for motor fuels and amid growing demand for firewood at the beginning of the cold season.

60 For further details, see Section 1.1. External assumptions.

Table 4.3. Inflation of CPI exogenous components

annual change (%), end of period

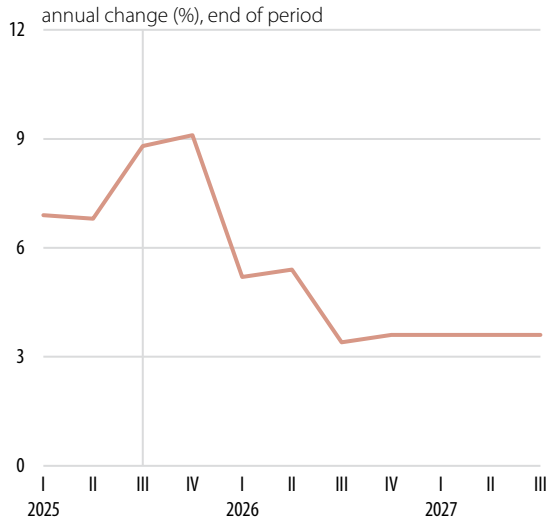
	Dec. 2025	Dec. 2026	Sep. 2027
Energy prices	18.8	1.7	2.7
Fuel prices	4.3	3.8	4.3
Electricity prices	66.6	-1.5	0.7
Natural gas prices	-1.9	0.2	1.0
VFE prices	7.3	7.3	8.6
Administered prices (excl. natural gas)	9.1	3.6	3.6
Tobacco products and alcoholic beverages prices	6.7	4.7	4.4

Source: NIS, NBR projection

The dynamics of natural gas prices in 2025 Q4 and 2026 Q1 are solely attributable to the effects of the price capping scheme for household consumers, posting negative values (Chart 4.5, Table 4.3). Following the expiry of the price capping scheme in April 2026 and in the absence of reliable information on the measures to be taken by the competent authorities, the baseline scenario incorporates marginal adjustments in natural gas prices. The forecasted values are in line with those published in the previous *Report*.

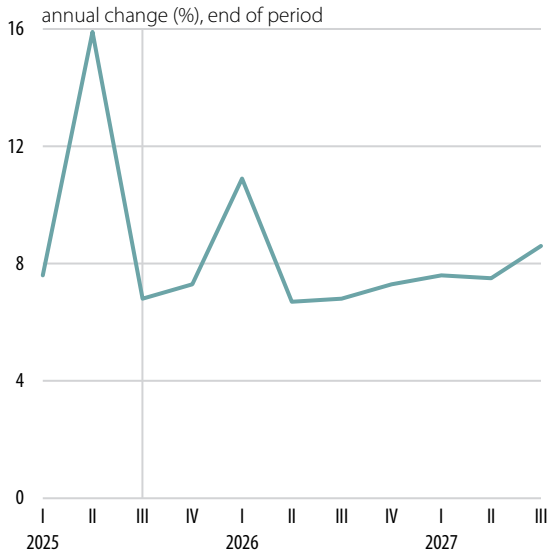
The annual growth rate of administered prices – excluding natural gas – is expected to be significantly above the variation band of the central target by 2026 Q3, due to the VAT rate increases for all sub-components of the group[61] starting August 2025 (Chart 4.6, Table 4.3). The level projected for end-2025 was revised upwards, amid a larger-than-expected hike in prices, owing to the change in VAT rates. Over the remainder of the projection interval, the annual growth rate of administered prices is anticipated to remain broadly in line with the previous forecast, as it is based on the historical pattern of changes to the prices of this group's main items.

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



Source: NIS, NBR projection

Chart 4.7. VFE price inflation



Source: NIS, NBR projection

The annual growth rate of volatile food (VFE) prices is forecasted to remain high, above the upper bound of the variation band of the target (Chart 4.7, Table 4.3). The level expected for end-2025 reflects the VAT rate increase, as well as the more favourable recent developments, amid the corrections following the sizeable price hikes in

[61] The sub-components subject to the reduced VAT rates (such as heating, water supply, sewerage and sanitation services, etc.) were the most affected, given the increase in these rates from 5 percent or 9 percent to 11 percent.

April-June, and it was therefore revised downwards from the August 2025 *Inflation Report*. For December 2026, the dynamics forecasted are in line with the previous projection, relying on the assumption of a normal harvest for next year.

The path of the annual growth rate of tobacco product and alcoholic beverage prices is shaped in the first part of the projection interval by the impact of the August 2025 hikes in indirect taxes – VAT rate and excise duties applicable to these goods. Subsequently, the dynamics of this group are expected to moderate (Table 4.3). The developments in this component are forecasted based primarily on the higher excise duties provided for in the legislation, but also on the behaviour of companies in the field as regards the changes in final prices. The projected path is relatively similar to that in the August 2025 *Inflation Report*.

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

The output gap

In 2025 Q2, real GDP posted a strong increase in quarterly terms[62], significantly above the moderate dynamics anticipated in the preceding *Inflation Report*. The breakdown shows that gross fixed capital formation fared considerably below previous expectations, whereas household actual consumption and exports performed slightly better and imports moved in line with the projection. Against this background, the higher-than-forecasted real GDP growth largely mirrored the high contribution of the residual component – i.e. statistical discrepancy and the change in inventories –, with an extremely low economic content.

After a better-than-expected performance in 2025 Q2, the economy is foreseen to decelerate visibly in the latter half of the year. The forecasted path is chiefly ascribable to the effects of fiscal consolidation measures, which affect domestic consumption primarily. The decrease in households' real disposable income, driven by the increases in indirect taxes and the removal of electricity price caps, already mirrored in a lower turnover of trade and services. This trend is also confirmed by the confidence indicators in the DG ECFIN survey, which reached multiannual lows in Q3, particularly for consumers[63]. Even though the deterioration in economic sentiment in 2025 Q3 was broad-based[64], the impact on hard indicators was lower in motor vehicle trade and especially in construction. Nevertheless, the markedly divergent developments seen in July and August are suggestive of a frontloading effect on demand, which is expected to fade out in the coming period. Last but not least, international trade is dampened by poor industrial performance, overlapping with a still weak external demand. Compared to the previous *Report*, short-term real GDP growth was revised downwards, following the lower-than-expected outcomes recorded by a number of relevant sectoral indicators.

62 NIS Press Release No. 259 of 10 October 2025 regarding second provisional data on GDP

63 The balance of answers (-31.5 points) is identical to that reached in 2022 Q2, being a post-2012 Q1 record low in both cases.

64 The Economic Sentiment Indicator further followed a downward trend in October 2025 as well, dropping to a five-year low. The breakdown shows that the consumer confidence indicator improved marginally, whereas the remaining confidence indicators continued to worsen.

In annual terms, moderate real GDP growth is anticipated for 2025, before decelerating markedly in 2026. The projected path reflects, on the one hand, the further relatively robust dynamics of potential GDP and the assumed favourable and increasing impact of EU funds from multiple sources[65]. On the other hand, it captures the widening of the output gap in negative territory, given the contractionary effects of fiscal consolidation, which are envisaged to peak in 2026. Compared to the previous *Inflation Report*, real GDP forecast was revised upwards for 2025 – reflecting solely the actual, higher-than-expected growth in Q2 – and slightly downwards for 2026 – primarily as a result of the downward revision of potential GDP dynamics. On the expenditure side, gross fixed capital formation is foreseen to become the main driver of economic growth throughout the forecast interval, similarly to the preceding assessment[66]. By contrast, fiscal consolidation measures, which impact households' disposable income directly, are expected to significantly mitigate the positive contribution of final consumption to GDP dynamics. The contribution of net exports is estimated to remain slightly negative in 2025, before turning positive in 2026, once with the slowdown in domestic demand and the gradual adjustment of the external deficit. Over the medium term, the projection continues to be surrounded by a high degree of uncertainty, determined by the cyclical economic slowdown overlapping with the contractionary effects of fiscal consolidation. This combination may amplify the vulnerabilities of domestic economic activity by affecting aggregate demand and business confidence at the same time. Moreover, the unpredictable developments in protectionist trade and industrial policies worldwide add a supplementary source of risk, with possible implications for trade flows, investments and commodity prices.

The average annual growth rate of potential GDP was revised slightly upwards for the current year compared to the previous *Report*, against the background of the stronger-than-expected economic activity in Q2. At the same time, the assumption of a weaker impact of funding under the Next Generation EU programme, following the modest pace of project implementation and the low funds absorption rate, exerted a higher influence. In the medium run, the path of potential GDP was revised downwards, mirroring the persistent effects of investment deterioration and unfavourable labour market trends – especially the shrinking labour supply and stagnant productivity in certain sectors. However, the average annual growth rate of potential GDP is projected to remain relatively robust throughout the forecast interval, bolstered by the contribution of EU-funded public investment and possible stimulative effects on private investment.

The key driver of potential GDP dynamics continues to be capital accumulation, although at a slightly slower pace. Over the medium term, the outlook is strictly conditional on the capacity of the economy to absorb and efficiently use both FDI and EU funds. On the one hand, the investment path could temporarily benefit from more favourable financial conditions, amid the adjustment of inflation expectations and the gradual resumption of capital flows. On the other hand, the trajectory of investment is affected by the uncertainty surrounding the fiscal changes implemented

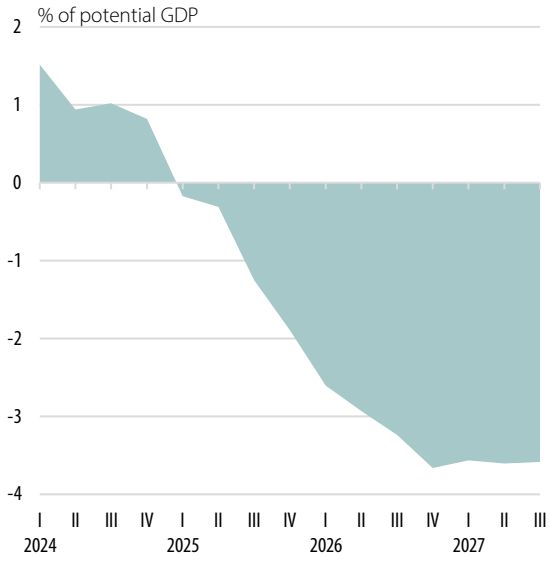
65 Particularly under the 2021-2027 multiannual financial framework, but also the Next Generation EU programme (2021-2026), even though in the latter case the cumulative impact on real GDP was revised slightly downwards.

66 Nevertheless, the contribution of gross fixed capital formation during this year was revised significantly downwards, amid the strong and unexpected decline in this component in 2025 Q2.

by the authorities, which may prompt private investors to be more cautious. At the same time, the potential reforms of the local government might trigger delays in processing documents, issuing permits and obtaining the necessary approvals, with an impact on the carrying-out of projects, especially EU-funded ones. The contribution of total factor productivity (TFP) remains modest, being contained by the slow-paced innovation and take-up of new technologies, the gaps in technology integration and energy efficiency, as well as by the insufficient integration of digital solutions in companies' operations. In this context, the step-up in accessing EU funds and the efficient implementation of the programmes supported by the European Commission may play a pivotal role in the modernisation of infrastructure, the strengthening of digital skills and the increase in the competitiveness of Romania's economy[67]. The contribution of labour is envisaged to decline markedly and even turn marginally negative in the following year, amid the continuation of demographic trends, particularly the decrease in active population. In the medium run, the path of potential GDP remains clouded by uncertainties related to the coordinates and effects of fiscal consolidation, which might increase the structural deficiencies of the labour market. At the same time, geopolitical tensions and the persistent armed conflicts maintain an elevated level of risks, with possible implications for investment, international trade and overall economic confidence.

Similarly to the previous *Inflation Report*, the output gap is estimated to have entered negative territory in early 2025, being projected to further widen until 2026 Q4, before recording a slight correction until the forecast horizon (Chart 4.8). Compared to the previous forecasting round, the negative output gap was lowered slightly in the period from 2025 Q2 to 2026 Q3, mirroring the impact of higher-than-expected growth in 2025 Q2 and the influence of less restrictive real broad monetary conditions, driven by the decline in real interest rates. Conversely, as of 2026 Q4 and until the end of the projection, the output gap was revised downwards, against the backdrop of the stronger restrictive effect of fiscal consolidation and the gradual decline in economic impulse.

Chart 4.8. Output gap



Source: NBR assessments based on data provided by the NIS

Looking at the components of the output gap, its downward path is mainly driven by the developments in the gap of households' actual individual consumption. The new fiscal measures significantly influence the real disposable income

67 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. According to "HR Insights 2025", a study conducted by the Association of Human Resources Service Providers, digital transformation has become a strategic priority, so that 53 percent of the 155 surveyed companies aim at integrating artificial intelligence and digitalising processes, while 58 percent put adaptation to the new economic environment at the core of their strategy. At the same time, on 10 October 2025, The European High Performance Computing Joint Undertaking (EuroHPC JU) announced six new sites in six EU Member States, including Romania, that will host AI Factories with a view to ensuring faster use of such technologies across Europe, our country thus becoming an active member of the EuroHPC AI Factories network.

via both nominal adjustments and the higher inflation rate. Consequently, the gap of household consumption is foreseen to enter negative territory as of 2025 Q3 – similarly to the previous round – and continue to widen until 2026 Q4, followed by a slight correction until the projection horizon. In turn, the negative GFCF gap is envisaged to reach a low in 2025 Q4, before recovering gradually and re-entering positive territory at 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 entire projection interval. In correlation with the trajectory of the gap of households' actual individual consumption, the positive gap of imports will gradually close, turning negative in 2025 Q4 and then remaining in negative territory until the projection horizon.

In terms of fundamentals, the output gap path reflects: (i) the pro-cyclical fiscal impulse, which exerts a significant restrictive effect on economic activity, as a result of fiscal consolidation measures; this impact is only partly mitigated by favourable factors such as the anticipated, though slower absorption of Next Generation EU funds, and (ii) the deepening and subsequent persistence of the negative gap of external demand, which will recover slowly only towards the end of the projection horizon. Moreover, real broad monetary conditions are assessed to remain restrictive for the economic activity throughout the projection interval, reflecting the keeping in place of a prudent monetary policy in a still volatile inflationary environment.

Aggregate demand components

The dynamics of household final consumption are expected to decelerate markedly during the current year and to be subdued over the medium term. These developments reflect the lower household purchasing power, amid measures such as freezing wages in the public sector and pensions, raising electricity prices and increasing indirect taxes. Specifically, the real disposable income will see its growth rate slow down sharply, and may even decline in 2026. In addition, the final configuration of the fiscal consolidation measures could undergo adjustments as new packages announced by the authorities are implemented, which could amplify the downward pressures on private consumption.

Over the forecast interval, gross fixed capital formation is envisaged to post moderate growth rates, revised downwards for 2025, given the lower-than-expected absorption of EU funds. However, the volume of public investment was adjusted upwards following the budget revision in September. The developments remain strictly conditional on the pace of planning and execution of public capital expenditure, as well as on the ability to attract and make efficient use of European funds. Given the approaching eligibility deadline for the Next Generation EU programme (August 2026), the timeframe for mobilising significant private investment is shrinking considerably. Although the perception by credit rating agencies remained relatively stable, the uncertainties surrounding the full economic impact of the fiscal package, alongside the risks related to complying with the deadlines and commitments under the National Recovery and Resilience Plan, continue to be elevated. At the same time, companies' investment plans could be revised in the event of further fiscal consolidation measures that could affect financing costs and the investment appetite over the medium term.

This year, the average annual dynamics of exports of goods and services are assessed to return to positive values, supported also by the above-expectations performance recorded in the first part of 2025, although external demand prospects are further modest. Over the medium term, the growth rate of exports is projected to moderate compared to 2025, amid high uncertainties stemming from geopolitical tensions, potential changes in international trade policies and the ongoing reconfiguration of global value chains, with a predominant impact on manufacturing. The real effective exchange rate, deflated by the CPIs of Romania and its trading partners, is envisaged to remain slightly overvalued until the forecast horizon, thus affecting the price competitiveness of Romanian exports, although the associated pressures will gradually ease.

Imports of goods and services are foreseen to display swift dynamics in 2025, mainly on account of the developments in the early part of the year, followed by a significant slowdown in the latter half against the backdrop of weakening consumption. This moderation trend is expected to extend into 2026 as well, as the increasingly strong effects of fiscal consolidation will dampen domestic demand and consequently reduce the volume of imports – via both lower consumption and, to some extent, a deceleration in investment. Under these circumstances, the negative contribution of net exports to economic growth is envisaged to narrow and even turn temporarily positive in 2026.

The current account deficit is estimated to see a correction in 2025, compared to the 8.2 percent of GDP posted in 2024. In fact, improvements in the external balance started to be visible as early as June 2025, partially mitigating the sizeable deterioration in the first part of the year. Subsequently, the deficit is projected to continue its downward path, driven primarily by the fiscal consolidation packages that reduce disposable income and, hence, the demand for imported goods. Nevertheless, persistent structural factors – such as relatively weak external competitiveness, poor transport infrastructure, the specialisation of exports in low value-added sectors and high dependence on imported intermediate goods – will further contain the scale and speed of external adjustment. Against this background, the correction of external imbalances is foreseen to follow a slow, yet sustainable path in the medium term. This correction could be amplified by price effects in the event of a shift of trade flows from Asia to Europe due to trade restrictions imposed by the US. Conversely, upward risks to the projected deficit are associated with a more severe contraction in external demand, amid geopolitical uncertainties and heightened global protectionism.

The gradual correction of the current account deficit is also expected to translate into an enhanced coverage from stable, non-debt-creating sources, although the latter is seen remaining at relatively modest levels over the medium term. In 2025, delays in the revision of the NRRP may constrain capital transfers, but the impact is partly counterbalanced by the accelerated absorption under the 2021-2027 MFF. In 2026, as the focus shifts to the grants' component of the NRRP until its completion, a rebound in capital transfers is expected. Direct investment is projected to continue to be relatively constant over the medium term. The combination of external factors – namely persistent geopolitical tensions and rising protectionist tendencies – and domestic factors – the subdued growth outlook stemming from fiscal consolidation – will likely

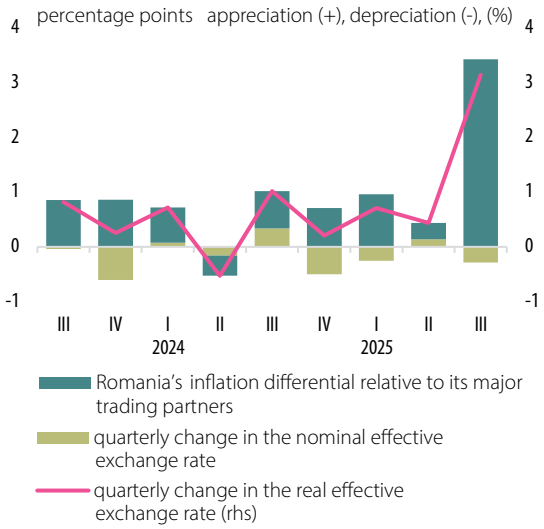
lead investors to further exhibit a prudent behaviour. These influences could nevertheless be partly offset by the gradual recovery of market credibility and confidence, as progress is made in reducing the excessive budget deficit and preserving macroeconomic stability.

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 loans and deposits of non-bank clients, and by the real effective exchange rate of the leu. The latter 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 anticipates that real broad monetary conditions will continue to be restrictive over the entire forecast interval. This will occur amid the further transmission into the economy of the NBR Board's monetary policy decisions, which aim to ensure price stability over the medium term, in an environment compatible with a sustainable economic growth. Unlike in the previous *Report*, real monetary conditions are assessed to be less restrictive in the former part of the projection horizon, owing to the upward revision of inflation expectations, which is reflected in the declining real interest rates on both new loans and new time deposits.

Chart 4.9. Quarterly change in the real effective exchange rate



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

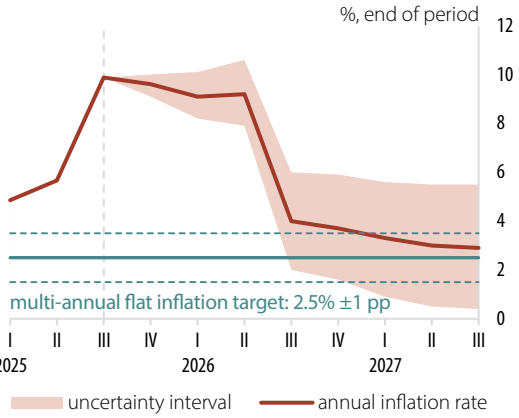
Looking by component, the real effective exchange rate (Chart 4.9) will continue to exert restrictive effects on the price competitiveness of Romanian products, mainly via the net export channel. This contribution mirrors the past appreciation of the domestic currency in real terms, determined by the further higher domestic inflation rate compared to those of Romania's trading partners, and by the appreciation in nominal terms of the leu against the US dollar. This effect is partly counterbalanced by a slight nominal depreciation of the leu versus the euro observed in the recent period. Conversely, real interest rates on both new loans and new time deposits in lei are anticipated to continue to have stimulative influences, more pronounced until mid-2026 amid rising inflation expectations.

The wealth and balance sheet effect is foreseen to further post restrictive values, albeit of a low magnitude, throughout the projection interval. The breakdown shows that its dynamics mirror the stimulative effect 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. By contrast, the sovereign risk premium for Romania is projected to exert a restrictive yet gradually diminishing impact, mainly reflecting the imbalances associated with the twin deficits in the economy. The dynamics of the leu's real effective exchange rate gap will exert a quasi-neutral cumulative impact via the wealth and balance sheet effect until the projection horizon.

2. Risks associated with the projection

The balance of risks to CPI inflation (Chart 4.10) continues to be tilted to the upside, despite some upward revisions to the indicator in the current round as well. The domestic and international environment is further rife with uncertainty and the simultaneous materialisation of fiscal, energy, climate, labour-market or geopolitical risks could cause inflation to veer off significantly from the path described 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

Domestically, the most relevant uncertainty sources are associated with the expiry of some administrative decisions of the authorities. The natural gas market liberalisation, once with the end of the capping scheme scheduled for April 2026, could exert notable inflationary pressures, whose magnitude will depend on the conditions on the international energy markets at that time. Concurrently, at the same time horizon, the removal of the cap on the mark-up on basic food products, as provided for in the current legislation, is another upside risk factor for inflation, the direct effects of which may be amplified by potential adjustments in firms' profit margins.

Turning to the fiscal and income stance, the adoption of the two major consolidation packages in the course of 2025 mitigated risks to inflation, but uncertainties linger over the content and speed of implementation of the third package that focuses on public administration reform. At the same time, potential targeted changes in VAT rates (e.g. in accommodation and food service activities) or a partial easing of fiscal discipline – by boosting current expenditure or public investment, including under the NRRP and the SAFE (Security Action for Europe) – could diminish the disinflationary effect associated with aggregate demand. Conversely, possible new fiscal adjustment measures aimed at further consolidation, in line with the EU requirements, could produce divergent effects: either inflationary, if they are aimed at raising indirect taxes, or disinflationary, if they involve increasing direct taxes or compressing some budget expenditure items.

The labour market continues to be a relevant channel for the pass-through of upside risks to inflation. A possible worsening of inflation expectations could reactivate wage adjustment mechanisms, fuelling pressures on unit labour costs and core inflation. Moreover, an additional impact could be associated with the implementation of the Directive on Adequate Minimum Wages and possible wage claims, especially in areas with skill mismatches. Against this background, firms' capacity to accommodate such potential raises will be heterogeneous, depending on their sector-specific nature, competitive position and financial soundness. Therefore, the impact on the inflation rate could also be unequal and even wavering in this case.

On the external front, additional risks stem from possible renewed increases in commodity prices in the event of disruptions in global value chains amid heightened geopolitical and trade tensions. While the recent US-China trade agreement has mitigated the risks associated with an escalation of conflicts between the major economic blocs, uncertainties remain over a high volatility in commodity markets, *inter alia* in the context of adaptation responses from advanced economies. For instance, price swings could hit global production costs due to stepping up purchases of critical raw materials to build up strategic reserves. Conversely, a potential shift in Asian trade flows to Europe, driven by trade tensions between the US and China, could trigger temporary disinflationary effects.

Future oil prices are still a source of uncertainty. While a larger global supply, as a result of OPEC+ output hikes, might drive prices down, upside risks stem from the possible intensification of conflicts in the Middle East and the effects of the recent round of US sanctions against Russia. At the same time, restrictions introduced by the European Union on imports of liquefied natural gas could entail further supply disruptions, with a potential to fuel inflation as well.

Overall, renewed tensions in global production and supply chains combined with the economic vulnerability of Germany, Romania's main trading partner, may add to the risks of weaker-than-expected developments in economic activity across Europe. Concurrently, geopolitical conflicts and larger military spending in EU Member States, *inter alia* via programmes such as SAFE, may bring about structural shifts in aggregate demand, with effects on both inflation and economic activity.

Similarly to previous rounds, inherent uncertainties are attributed to weather conditions. Increased frequency of extreme weather events can affect agricultural crops both in Romania and elsewhere, affecting food prices. Moreover, the transition to a green economy generates additional cost-push risks. For example, the introduction of the Emissions Trading System (ETS2) for buildings and road transport – which is tentatively expected to enter into force in 2028 – could exert inflationary pressures. Their impact will depend on the future level of carbon price, the architecture of the allowance allocation scheme and the degree of cost pass-through to final consumers, especially in energy-intensive sectors. Even though, formally, this point in time is beyond the eight-quarter horizon of the current projection, it still includes relevant information for the central bank's forward-looking analyses, with potential implications for medium- and long-term inflation expectations.

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
OPCOM	Romanian gas and electricity market operator
OPEC	Organization of the Petroleum Exporting Countries
ROBOR	Romanian Interbank Offer Rate
SMEs	small- and medium-sized enterprises
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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