Inflation Report
February 2026

Summary

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Summary

Developments in inflation and its determinants

The annual CPI inflation rate moderated slightly during 2025 Q4 to 9.69 percent in December, from 9.88 percent in September, exceeding by only 0.1 percentage points the forecast in the previous *Report*. This evolution was mainly supported by the volatile price items of the consumer basket, amid favourable supply-side conditions. In contrast, the annual adjusted CORE2 inflation rate made no contribution to disinflation over this period, being marked by a number of atypical, specific shocks detected for a limited number of categories. Looking at the exogenous components of the CPI basket, the main disinflationary contribution came from fuel price developments amid the decline in the Brent oil price, alongside a slowdown in the annual dynamics of electricity prices. At the same time, the bumper vegetable crops domestically and the good fruit crops across the region resulted in a lower contribution from VFE prices to the annual CPI inflation rate. The average annual inflation rate continued to rise in Q4 too, with the indicator calculated based on the national methodology climbing to 7.3 percent in December and that calculated in accordance with the HICP structure going up to 6.8 percent (+1.2 percentage points and +0.9 percentage points respectively compared to the end of the previous quarter). Given that the EU average came to a standstill, Romania's gap with it widened to 4.3 percentage points.

The annual adjusted CORE2 inflation rate went up further in 2025 Q4, to reach 8.5 percent in December from 8.1 percent at end-Q3. Looking beyond the impact of some one-off shocks, the developments in most core inflation items indicated rather a stagnation or a mild slowdown, under the influence of a contraction in consumer demand and a relative easing of short-term inflation expectations, following the large shocks in Q3. The strongest acceleration was seen in the services sector, where the annual rate climbed to 10.6 percent in December. Towards quarter-end, however, some sub-components started to show the first signs of moderation, reflecting a relatively higher elasticity of demand in the market services segment. The processed food segment also recorded significant increases, on account of the unfavourable developments in the international prices of some commodities, while for non-food items the advance remained modest, illustrating the overall environment marked by weaker aggregate demand.

Inflationary pressures from labour costs eased in 2025 Q3. Thus, the annual dynamics of unit labour costs slowed down significantly to 0.8 percent (from 5.8 percent in the prior quarter). The trend was supported by the moderation of wage increases, but also by the personnel adjustments in the context of a contraction in activity and/or the streamlining of processes through automation/robotisation/digitalisation. Under the influence of the same factors, the annual pace of increase of unit wage costs in industry followed a similar trend, declining from 10.7 percent to 6.2 percent.

Behind this deceleration stood especially the developments in the manufacture of motor vehicles, metallurgy, the light industry and the manufacture of wood. However, notable pressures remain in the food industry, where the annual growth rate of unit wage costs continues to hover around 20 percent.

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

In its meeting of 12 November 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 Q3 overall, the annual inflation rate had risen to 9.88 percent, from 5.66 percent in June, amid the expiry of the electricity price capping scheme on 1 July and the hikes in the VAT rates and excise duties starting 1 August. The transitory direct effects of the two successive supply-side inflationary shocks had affected primarily the aggregate dynamics of exogenous CPI components, owing largely to the hefty rise in electricity prices and the more modest advance in fuel prices, the impact of which had been mitigated to a small extent by the significant deceleration of VFE price growth, on the back of the decline in the prices of fruit and vegetables. In turn, the annual adjusted CORE2 inflation rate had posted a faster increase in 2025 Q3, climbing to 8.1 percent in September, from 5.6 percent in June. The pick-up had reflected an almost full 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 had come from the still fast dynamics of wage costs and the indirect effects of the rises in electricity and fuel prices, as well as from higher prices of some agri-food commodities and the increase in the EUR/RON exchange rate.

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. 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, on one hand, and the plans to increase defence and infrastructure investment spending in EU countries, on the other. 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, also continued to be relevant.

Subsequently, the annual inflation rate dropped slightly over the last three months of 2025 to stand at 9.69 percent in December, from 9.88 percent in September, given that the significant declines posted during this period by the fuel and VFE price dynamics were largely offset by the increase in annual core inflation rate. At the same time, the annual adjusted CORE2 inflation rate continued to pick up during 2025 Q4, climbing to 8.5 percent in December from 8.1 percent in September. This reflected the persistent influences stemming from the dynamics of wage costs and the high level of short-term inflation expectations, alongside those coming from the rises in some agri-food commodity prices and the EUR/RON exchange rate, as well as from indirect effects of electricity price hikes. In turn, economic activity had contracted by 0.2 percent in 2025 Q3, after expanding by 1.1 percent in the previous quarter (quarterly change), so that the aggregate demand deficit was likely to have widened further over that period, relatively in line with forecasts. Annual GDP growth had stepped up to 1.7 percent in 2025 Q3 from 0.3 percent in Q2, mainly due to gross fixed capital formation, the annual dynamics of which had climbed significantly into positive territory after a fall to a marginally negative value in the previous quarter. Moreover, private consumption had advanced at a somewhat faster rate year on year and the impact of net exports had become expansionary again in 2025 Q3, given that the rising annual rate of change of exports of goods and services, in terms of volume, had exceeded visibly that of imports, which had continued to decline. Consequently, the trade deficit had seen a steeper contraction in annual terms in 2025 Q3 and the current account deficit had continued to shrink versus the same year-earlier period, albeit at a slower pace than in Q2, owing to the worsening of the primary income balance.

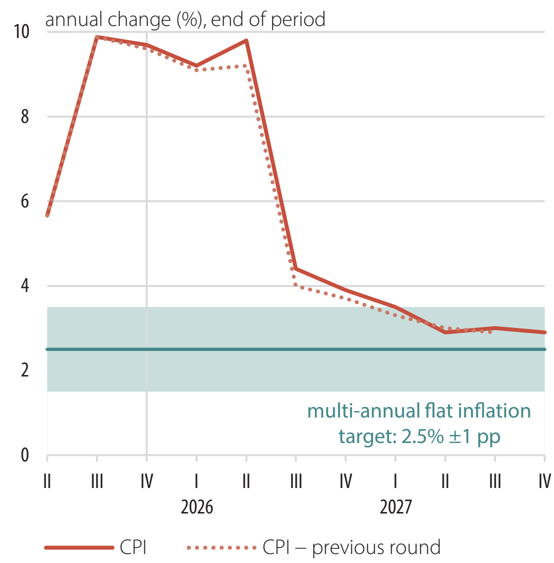
At the time of the NBR Board meeting of 19 January 2026, the latest assessments indicated the prospects for the annual inflation rate to decrease slowly in the first three months of 2026, amid the influences stemming from developments in some commodity prices, agri-food included, and from base effects, overlapping the above-expectations transitory direct effects exerted by the expiry of the electricity price capping scheme and by the increases in VAT rates and excise duties in 2025 Q3, which would dissipate in the second part of 2026.

Based on the data and assessments available at that time, as well as in light of the elevated uncertainty, the NBR Board decided in the meeting of 19 January 2026 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

Global economic growth is expected to remain relatively robust, yet in an international environment characterised by high uncertainty and increasing divergences among economies. In Central and Eastern Europe, real GDP growth has further recorded positive readings, but in those economies where fiscal consolidation is ongoing, Romania included, the short-term outlook is affected by the cooling domestic demand, which slows the pace of economic recovery. At the same time, the completion of the Next Generation EU programme this year marks the end of an exceptional cycle of fiscal and investment support, pointing to the transition to a framework where the path of economic growth will rely to a greater extent on national policies, private investment and the use to the maximum of funds under the Multiannual Financial Framework 2021-2027. Against this background, for the economies with high external

Inflation forecast



Source: NIS, NBR projection

deficits and a significant reliance on financing and demand from the euro area, such as Romania, the global environment remains a relevant source of risks to the growth outlook and the disinflation process.

In the United States, the pace of economic activity runs further above that of other advanced economies, supported by investment in technology and a still favourable fiscal impulse, while the Federal Reserve embarked on a gradual monetary policy easing in the latter part of the previous year, amid softening labour market conditions. Turning to the euro area, growth remains relatively subdued, reflecting stagnant manufacturing and weak extra-EU demand, while disinflation progresses at a satisfactory pace overall, yet with some divergences between sub-components, particularly in the case of services. At global level, the curbing of inflation is hampered by structural and one-off factors, such as the reshaping of supply chains, energy price volatility and climate shocks, so that the balance of risks remains tilted predominantly upwards, the downward path of forecasted inflation notwithstanding.

Domestically, according to the updated baseline scenario, the annual CPI inflation rate is projected to follow a downward path for most of the forecast interval, interrupted by a temporary episode of short-term volatility associated with developments in some exogenous components of the consumer basket. Following the end-2025 moderation to 9.69 percent in December, inflation is expected to fall in 2026 Q1 to about 9.2 percent in March, before witnessing a transitory rise to 9.8 percent in Q2, mainly driven by base effects from the significant fall in natural gas prices in April 2025. In 2026 Q3, the annual inflation rate is expected to decline substantially, following last year's hikes in energy prices and indirect taxes dropping out of the calculation, a correction compounded by the persistence and even widening of the demand deficit during this period. This factor, together with the gradual adjustment of inflation expectations, will support the downward course of CPI inflation over the remainder of the forecast interval as well. Under the circumstances, the annual inflation rate is projected at 3.9 percent for end-2026 and at 2.9 percent for December 2027, after reaching the upper bound of the variation band of the target in 2027 Q1 and reverting within the band in 2027 Q2. Compared to the November 2025 *Inflation Report*, the path of CPI inflation is revised slightly upwards over almost the entire forecast interval, more visibly in 2026 Q2-Q3, because of larger contributions from core inflation as well as, to some extent, from natural gas, tobacco products and administered prices in the first part of the interval.

The annual adjusted CORE2 inflation rate is projected to stay high in the first part of this year, yet below the December 2025 reading, i.e. to post a slight decline in Q1 to 8.2 percent and remain almost unchanged in Q2, standing at 8.1 percent in June. These dynamics reflect, on the one hand, the materialisation of unforeseen shocks since the November 2025 *Inflation Report* and, on the other hand, the persistence of rigidities in the price-setting mechanism, mainly associated with the delayed pass-through of previous wage increases, still high energy cost pressures – *inter alia* as a result of the July 2025 liberalisation of the electricity market, also impacting firms –, and a slight upward revision of short-term inflation expectations. An additional contribution, of a moderate magnitude, stems from the lifting of the cap on the mark-ups on basic food products as of 1 April 2026. Starting 2026 Q3, core inflation is envisaged to embark on a sharper downward track, amid the impact of last year's indirect tax hikes dropping out of the calculation and the build-up of disinflationary effects of fiscal consolidation, as mirrored in the wider demand deficit and the adjustment of inflation expectations. Against this backdrop, the updated forecast sees the annual adjusted CORE2 inflation rate at 4.0 percent for end-2026 and at 2.1 percent for end-2027, with the upward revisions against the prior round reflecting higher persistence of services inflation and the upward revision of short-term inflation expectations.

The updated forecast for 2025-2026 points to a significant restrictive impact of the successive fiscal consolidation measures on domestic demand and, hence, on the economic activity dynamics. After the third-quarter economic contraction, the business cycle is projected to weaken further in 2025 Q4, before economic activity comes to a halt early this year. This points to a stronger restrictive fiscal impulse, which also caused the negative output gap to widen. The erosion of real disposable income continues to weigh on consumption – as reflected especially by trade and services –, while industrial output remains subdued, amid still recovering external demand; the worsening of confidence indicators reinforces this unfavourable cyclical picture.

In annual terms, economic growth in 2025 was revised downwards and more moderate dynamics are envisaged for 2026, amid the overlapping fiscal adjustment packages, which still fuel inflationary pressures in the first part of the year and squeeze households' real disposable income. The composition of growth is shifting, as in the previous *Report*, from consumption to investment. In the context of an expected steep slowdown in household consumption, gross fixed capital formation becomes, as early as 2025, the main driver of growth, an assumption supported by the prospects of a high absorption of funds under the revised NRRP. This investment drive is seen generating stimulative effects also in 2027, when GDP growth is projected to return close to potential and household consumption to gradually enhance its contribution to economic expansion.

The correction of domestic demand remains the prime mechanism to adjust the external imbalance by containing imports. According to the baseline scenario, the contribution of net exports is forecasted to become marginally positive in 2026, before reverting slightly to negative territory in 2027, amid the easing of fiscal measures supporting household income and a further recovery in external demand. Over the medium term, both investment dynamics and the capacity to finance the current account deficit from stable sources will crucially depend on strengthening business and foreign investor confidence and on speeding up the absorption and use of funds available under the Multiannual Financial Framework 2021-2027. Even in a favourable scenario, international experience suggests that, in the presence of persistent structural constraints linked to imports' structure and exports' competitiveness, the adjustment of external imbalances is typically slow, albeit sustainable.

The NBR's recent monetary policy stance has 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 associated with the projected path of inflation is assessed to be relatively in equilibrium over the short term, but with an increasing likelihood of upward deviations on longer horizons. This asymmetry reflects the persistence of domestic and external uncertainties, given that the baseline scenario already incorporates an upward revision of the inflation rate.

Domestically, risks mainly stem from fiscal and administrative decisions, in an environment where inflation is further marked by certain rigidities. Liberalisation of the natural gas market remains a key uncertainty element: while for household consumers it has been delayed to 31 March 2027, for non-household consumers it is scheduled for April 2026 and will overlap with recent episodes of energy shocks, *inter alia* the electricity price increases in July 2025. This is likely to preserve persistent pressures on firms' production costs, with a potential for indirect pass-through to final prices and for delay in disinflation. Concurrently, the removal of the cap on the mark-up on basic food products, also foreseen for April 2026, may temporarily fuel inflationary pressures insofar as firms choose to increase their prices beyond the strict impact of the said measure.

At the same time, uncertainties still linger about the possible introduction of fiscal support or stimulus measures at a stage where the correction of deficits is still insufficiently strengthened. Such sequencing could amplify risks to macroeconomic stability and weaken the anchoring of inflation expectations. In addition, investment initiatives at European level, such as the SAFE defence programme, which is based on extending loans to member countries, could also influence the paths of the budget deficit and public debt. Assuming an additive nature of the funds taken under this mechanism, the financing of new investment projects could give aggregate demand an additional boost, with favourable effects on economic activity, but also carrying the risks of rekindling inflationary pressures and worsening the fiscal position, in the absence of credible offsetting measures.

Over the medium term, additional risks are associated with the energy and climate transition, including the implementation of the ETS2 carbon pricing system scheduled for 2028, which might send firms' energy costs higher. In parallel, the labour market could still put pressures on inflation in both short and medium term, given the structural rigidities and the labour shortages in certain sectors, although the materialisation of these pressures will depend on the firms' capacity to absorb wage increases, amid weak aggregate demand.

On the external front, geopolitical and trade tensions continue to fuel the volatility of commodity markets, in particular the energy market, with spillover effects on production costs. Movements in the EUR/USD parity stand out as a recently heightened risk, influencing domestic inflation via import price and external competitiveness channels. A possible further appreciation of the euro versus the US dollar would have, *ceteris paribus*, a disinflationary impact on Romania's economy.

Overall, 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. In this vein, future inflation developments will largely be contingent on the coherence of the economic policy mix, on the credibility of fiscal consolidation and on an adequate anchoring of medium-term inflation expectations.

Monetary policy decision

Given the recent developments and the outlook of inflation, as well as the risks and uncertainties associated with the new forecasts, the NBR Board decided in its meeting of 17 February 2026 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.