Inflation Report
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Summary

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Developments in inflation and its determinants

After declining slightly in the first two months of 2026, in March the annual CPI inflation rate jumped to 9.87 percent (+0.18 percentage points from December), i.e. 0.7 percentage points higher than anticipated in the previous *Report*. Both the slowing trend and the subsequent bounceback were driven by the energy component of the consumer basket, with the disinflationary impact exerted by the drop in the average electricity and natural gas prices throughout the quarter being offset in March amid the outbreak of the Middle East conflict. The first effects of the warfare were quickly visible in motor fuel prices, but they will gradually pass through into other CPI components as well. In 2026 Q1, volatile food prices also made an inflationary contribution, albeit small, amid the hikes in vegetable prices, after the significant decreases in the latter part of the previous year. Conversely, the annual adjusted CORE2 inflation rate edged down to 8.2 percent in March 2026, the disinflationary developments being supported by both demand factors, via lower consumption, and supply factors, namely the deceleration in the annual dynamics of labour costs. The average annual inflation rate continued to rise in Q1 too, with the indicator calculated based on the national methodology climbing to 8.5 percent in March and that calculated in accordance with the HICP structure going up to 7.6 percent (+1.2 percentage points and +0.8 percentage points respectively compared to the end of the previous quarter). Given that the EU average narrowed mildly, Romania's gap with it widened to 5.2 percentage points.

The annual adjusted CORE2 inflation rate saw a halt in its upward trend in 2026 Q1, falling slightly to 8.2 percent in March (-0.3 percentage points versus December 2025). The evolution was mainly supported by the slowdown in processed food prices, while services price dynamics posted only a marginal adjustment, remaining at high levels (10.4 percent). The downward path of core inflation reflects the cumulative influence of the contraction in consumer demand and of a favourable commodity price environment in the first two months of the year, to which added the deceleration in unit labour costs in the relevant sectors. By contrast, the dynamics of non-food commodity prices stayed relatively stable at around 6.9 percent, with demand-side disinflationary pressures being partly offset by higher import prices. At the same time, short-term inflation expectations rose again in March-April in response to the Persian Gulf war, while medium-term inflation expectations remained relatively anchored.

In 2025 Q4, the growth rate of unit labour costs economy-wide decelerated from the previous quarter to 0.3 percent (compared to 0.7 percent in Q3), amid the slower advance in the compensation per employee, which offset the decline in the growth rate of labour productivity. In industry, the downward trend in unit wage costs came to a temporary halt in Q4, when the annual dynamics climbed to 7.8 percent, mainly influenced by lower productivity, with wage costs remaining relatively stable.

However, the beginning of this year was marked by a new moderation in unit wage costs in industry to 4.6 percent in January-February, driven, *inter alia*, by food industry and metallurgy. Although slightly improving, in early 2026 capacity utilisation rate continued to post historically low levels.

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

In its meeting of 17 February 2026, 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. The annual inflation rate had entered a mildly downward path at the beginning of 2025 Q4, falling to 9.69 percent in December from 9.88 percent in September, under the impact of the significant declines in the dynamics of fuel and VFE prices during that period. The annual adjusted CORE2 inflation rate had continued, however, to pick up during 2025 Q4, climbing to 8.5 percent in December from 8.1 percent in September, amid the persistent influences stemming from the dynamics of wage costs and the high level of short-term inflation expectations, alongside those coming from the indirect effects of electricity price hikes, as well as from the rises in some agri-food commodity prices and the EUR/RON exchange rate.

Uncertainties were still associated with the measures likely to be adopted in the future in order to continue budget consolidation beyond the current year, in line with the National Medium-Term Fiscal-Structural Plan agreed with the European Commission and with the excessive deficit procedure. Significant uncertainties and risks to the outlook for economic activity, implicitly the medium-term inflation developments, continued to arise from the external environment, given on the one hand the geopolitical conflicts and the global trade tensions, and on the other hand the plans to increase defence and infrastructure investment spending in EU countries. At that juncture, the absorption and use to a great extent of EU funds, especially those under the NRRP, 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 continued to decrease slowly in the first two months of 2026 to reach 9.31 percent in February from 9.69 percent in December 2025. The drop was mainly driven by significant declines in the dynamics of electricity and natural gas prices, which were partly offset, in terms of impact, by the opposite developments in the growth rates of VFE prices, administered prices, and the prices of tobacco products and fuels. In parallel, the annual adjusted CORE2 inflation rate halted its rise at the beginning of the year, posting a small drop in the first two months as a whole – to 8.3 percent in February 2026 from 8.5 percent in December 2025 –, under the impact of disinflationary base effects and the decrease in the prices of some agri-food commodities and in the dynamics of import prices, but also amid weaker consumer demand. In turn, economic activity had contracted by 1.9 percent

in 2025 Q4, after shedding 0.1 percent in the previous quarter (quarterly change), which made it likely for the aggregate demand deficit to have widened more visibly over that period compared to expectations. Annual GDP growth had slowed to 0.2 percent in 2025 Q4 from 1.7 percent in Q3, mainly due to the steep fall into negative territory of the contribution made by the change in inventories, but also as a result of the moderate contraction, in annual terms, of household consumption during that period. By contrast, gross fixed capital formation had continued to see a faster robust increase in annual terms and the impact of net exports had become expansionary again, given that the annual growth rate of exports of goods and services had outpaced again that of imports in terms of volume, posting a relatively more modest drop as against the previous quarter. Consequently, the trade deficit had seen an even stronger contraction in annual terms in 2025 Q4, while the current account deficit had continued to shrink mildly, the pronounced worsening of income balances notwithstanding.

At the time of the NBR Board meeting of 7 April 2026, the assessments indicated the prospects for the annual inflation rate to step up in the period from March to June 2026 to higher-than-previously-anticipated levels, mainly following the influences expected to stem from costlier fuels, amid the considerable rises in oil and natural gas prices in the context of the Middle East war. They were to overlap the unfavourable base effects becoming manifest in 2026 Q2 in the energy segment, as well as the transitory direct effects exerted since 2025 H2 by the expiry of the electricity price capping scheme and by the increases in VAT rates and excise duties, which were to dissipate in 2026 Q3 and thus entail an abrupt downward correction of the annual inflation rate.

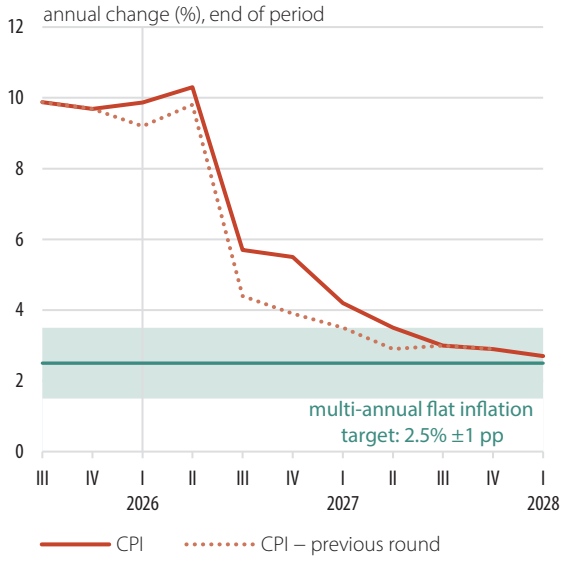
Based on the data and assessments available at that time, as well as in light of the very high uncertainty, the NBR Board decided in the meeting of 7 April 2026 to keep the monetary policy rate at 6.50 percent per annum. Moreover, it decided to leave unchanged the deposit facility rate at 5.50 percent 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 positive, yet more fragile, amid the recently heightened geopolitical uncertainty and volatile energy prices. The energy crisis has an asymmetric impact: European and some Asian economies, more dependent on such imports, are more affected, while the US is in a relatively better position thanks to substantial domestically-produced energy. Recent IMF and OECD forecasts point to a moderate world growth in 2026-2027, accompanied by downside risks, especially if the effects of the Middle East conflict linger on. In Central and Eastern Europe, economic activity remains uneven amid weak foreign demand, tight financial conditions and fiscal adjustments. For economies such as Romania, saddled with wide domestic imbalances and dependence on external flows, the international environment is further an important source of risks to growth and disinflation.

In the United States, economic activity is relatively more resilient than in other advanced economies, upheld by investment in technology and a still significant fiscal stimulus. This resilience is amplified by the country's being a net energy exporter, which mitigates the impact of recent price shocks. However, financial conditions remain tight and inflation still limits the room for monetary easing. In the euro area, growth prospects were adjusted downwards amid weakness in the industrial sector, fragile foreign demand and the fallout from the new energy shock. At the same time, inflation projections were revised upwards, mirroring the contribution of energy and the persistent pressures in the services sector. Overall, recent assessments suggest a stagflation shock, with upside risks to inflation and downside risks to economic activity.

Inflation forecast



Source: NIS, NBR projection

As for Romania, the economic environment is affected also by escalating internal political tensions, which contribute to heightening the uncertainty and worsening the investor sentiment. Under the current circumstances, already marked by external pressures and domestic imbalances, these developments can prolong the existing risks and can weigh on financing conditions and economic activity dynamics.

According to the updated baseline scenario, the annual CPI inflation rate is foreseen to stay over the medium term on a downward path, which is however temporarily discontinued in the short term by the energy shock associated with the developments in the Middle East. Costlier oil and natural gas have already pushed up fuel prices – the main direct transmission channel –, with the effects already visible in the March inflation figure seen persisting in the near term. Concurrently, the shock indirectly feeds through into consumer prices via rising production costs, along value added chains, with a heftier impact on food and other energy-intensive goods.

After moderating in the first two months of the year – from 9.69 percent in December 2025 to 9.31 percent in February 2026 –, the annual CPI inflation rate picked up to 9.87 percent in March amid increases in fuel prices. Inflationary pressures are expected to carry on in 2026 Q2 as well, so the annual rate is foreseen to reach around 10.3 percent in June. At this horizon, the direct residual effects of the energy shock start to be compounded by the first influences passed through indirect channels, visible especially in the adjusted CORE2 inflation. At the same time, the projection reiterates, similarly to the previous round, the occurrence of unfavourable base effects during Q2, driven mainly by natural gas price movements. In 2026 Q3, the annual inflation rate is envisaged to fall markedly, due to the dropping out of the calculation of the price hikes recorded in July-August 2025, yet starting from a higher level anticipated for 2026 Q2. Later on, the persistence of a wide aggregate demand deficit – boosted also by the adverse effects of the Middle East conflict – will support the further downward path of inflation over the remainder

of the forecast interval as well. Against this background, the annual CPI inflation rate is projected at 5.5 percent for end-2026 and at 2.9 percent for end-2027, before dropping to 2.7 percent in March 2028. Compared to the February 2026 *Inflation Report*, the projected values are revised upwards until mid-2027, most notably between 2026 Q2 and 2027 Q2, with a revision peak of around 1.6 percentage points estimated for December 2026, while the forecast for end-2027 was left unchanged.

The path of the annual adjusted CORE2 inflation rate is, in turn, revised upwards over the entire projection interval compared to the previous *Report*. As far as this component is concerned, the energy shock mainly feeds through via indirect channels, associated with higher production costs, passed through also via external channels. In this vein, pressures on import prices – stemming from the global nature of the shock and its pass-through to major trading partners – are foreseen to rise steeply. At the same time, economic agents' short-term inflation expectations have adjusted upwards, favouring, *ceteris paribus*, the faster pass-through of costs into final prices. Concurrently, rising costs in energy- and transport-intensive sectors, such as food processing, spread along value chains, putting additional pressures on the adjusted CORE2 index subcomponents. The pressures are amplified by the persistence of rigidities in the price-setting mechanism, *inter alia* via the delayed pass-through of previous sizeable wage increases. These pressures notwithstanding, core inflation remains headed downwards. The indicator is projected to reach 8.1 percent in June, to adjust downwards as of August, under the impact of base effects, and to fall to 4.8 percent in December 2026. The indirect effects of the energy shock continue to build up, with a contribution assessed at around 1 percentage point on a one-year horizon. Subsequently, amid the persistence of the negative output gap and the correction of inflation expectations, the annual adjusted CORE2 inflation rate is forecasted to decline to 2.5 percent in December 2027 and 2.2 percent in March 2028. Compared to the previous *Inflation Report*, the revised values are up by approximately 0.8 percentage points for December 2026 and 0.4 percentage points for December 2027.

For this year, the forecast shows the persistence of a significant restrictive impact exerted by successive fiscal consolidation measures on domestic demand, thus weighing on the economic activity dynamics. At the same time, the Middle East shock, which occurred after the cut-off date for the February 2026 *Inflation Report*, has a pronounced stagflation nature, fuelling inflationary pressures and, at the same time, heightening the risks of worsening economic activity. The extent and duration of these influences hinge on the persistence and magnitude of the energy shock, as well as on the speed and intensity of its pass-through to aggregate demand and financial conditions. For Romania, the updated assessments point to a moderately contractionary impact on economic activity, estimated at around 0.3 percentage points of GDP, with effects building up mainly in Q2 and Q3 2026. Against this background, amid the stronger-than-expected decline in GDP in 2025 Q4, the weakness of the business cycle is projected to become more pronounced in the first part of this year, implying a wider negative output gap than that in the previous forecasting round and a low sequential contribution from the cyclical component to the annual GDP dynamics in 2026. The main transmission channel is that of household consumption, via the additional decrease in real disposable income, weighing more heavily on economic activity in trade and services. In parallel, industrial production dynamics remain extremely subdued, as foreign

demand is affected by the new geopolitical context. Moreover, the deterioration of confidence indicators, amid lingering uncertainties – both domestic, linked also to the political tensions, and external –, is likely to fuel downside pressures on economic activity over the short term.

Under these conditions, after the slowing of economic growth to 0.7 percent in 2025, the outlook for this year suggests further very low dynamics of economic activity. Much less favourable developments cannot be ruled out either, especially if the internal political stress persists, taking a toll on confidence, financial conditions and investment decisions. Given an even more pronounced slowdown in household consumption, gross fixed capital formation is seen remaining the key driver of domestic demand this year as well, an assumption strictly conditional, however, on a high absorption of NRRP funds allocated to Romania. For 2027, growth is projected to strengthen, underpinned by the ongoing effects of the investment stimulus and the gradual recovery of household consumption. Hence, GDP growth is expected to near potential GDP growth, reflecting a more balanced domestic demand composition.

At the current juncture, the correction of the external imbalance in 2026 continues to be supported by the adjustment of domestic demand, particularly by the contraction in household consumption, with direct downward effects on import growth.
At the same time, the recent Middle East crisis sends energy import prices higher amid rising international prices, which entails a deterioration in terms of trade and is likely to slow down the pace of the current account deficit correction this year, compared to the previously anticipated trajectory. Specifically, the contribution of real net exports is expected to turn slightly positive in 2026, before returning marginally into negative territory in 2027, amid the progressive normalisation of domestic demand and an only gradual recovery in external demand. During the forecast interval, both the investment dynamics and the current account deficit financing from non-debt-creating sources depend on the consistent implementation of the reforms that the authorities have committed to, in line with the existing agreements. This process is essential for enhancing investor confidence and mobilising external resources, *inter alia* EU funds, which help make economic activity more resilient to shocks and provide sources for external deficit financing.

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.

While in the previous round the balance of risks associated with the inflation path was assessed to have regained equilibrium somewhat, it is presently seen mostly to the upside. This shift reflects the overlapping of shocks of a different nature, whose evolution and persistence are difficult to anticipate – the continuation of fiscal consolidation, the energy shock associated with the Middle East conflict and domestic political uncertainties – in a context where the baseline scenario already incorporates an upward reassessment of the inflation projection.

The risks to inflation and economic activity associated with the Middle East conflict are significant and asymmetric, depending on the magnitude and persistence of disruptions in global energy markets. As for inflation rate, the balance of risks is tilted to the upside. A first risk stems from energy prices that could stay high for longer or from possible additional volatility episodes associated with these prices. At the same time, the indirect effects of such developments would tend to build up over time, via rises in production costs and imported goods prices, especially in economies that are open and dependent on energy imports, such as Romania. Against this background, there is a risk of a broader pass-through to core inflation, *inter alia* via the reshaping of short-term inflation expectations, a phenomenon already observed recently. With inflation running above target in previous years – also driven mainly by supply-side shocks –, the sensitivity of price and wage setting mechanisms has increased, fuelling the likelihood of a faster and stronger pass-through of new shocks to the inflation rate.

The overlapping of the external shock with recently heightened domestic uncertainties – especially on the political scene – may add to the adverse impact on economic activity via both direct channels – such as higher funding costs and weaker investment – and indirect channels, *inter alia* influences on the exchange rate and other relevant financial variables. The experience of past episodes of political tensions shows that they reflect swiftly into government security yields and investor sentiment, triggering volatility in financial markets and determining the postponement of investment decisions, with potential effects also on investment portfolio flows. On the macroeconomic front, these adjustments were previously associated with pressures on the exchange rate and tighter lending conditions, depressing domestic demand. In parallel, higher financing costs in private markets for the public sector tend to curb the fiscal space even further and render the correction of imbalances in the economy more challenging.

In this context, one cannot rule out the risk of delays or of slower progress in fiscal consolidation, with possible deviations from the trajectory agreed with the European institutions. Moreover, uncertainties continue to surround the absorption of funds under the NRRP, given that the fulfilment of targets and milestones is conditional on compliance with a strict timetable by the end of August 2026. The materialisation of these risks could diminish the availability of non-repayable external resources and enhance the reliance on more volatile financing sources, with implications for macroeconomic stability.

Over the medium term, uncertainties persist on the evolution of natural gas prices after the expiry, on 31 March 2027, of the new protection scheme for household consumers. Although the authorities expect an increase in domestic supply – mainly following the onset of gas extraction in the 'Neptun Deep' area in the Black Sea –, carrying the potential to favourably influence prices, the uncertainties about the duration and intensity of the current energy crisis – also reflected in the evolution of international gas prices – do not exclude more pronounced adjustments at the time of liberalisation, compared to the assumptions in the baseline scenario. At the same time, based on the international experience, after price capping schemes expire, companies try to recover part of the costs borne or losses incurred, which may amplify pressures once these measures have been lifted. The very recent experience of the

electricity market liberalisation in July 2025 points out the risk of high price volatility episodes, with mostly an upward tendency in the dynamics of electricity prices.

In addition to the risks that materialised after the release of the previous *Report*, the risks already identified persist, counting further among the relevant sources of vulnerability for the macroeconomic environment. Thus, in the medium term, risks emerge in connection with the energy and climate transition, *inter alia* with the possible introduction, as of 1 January 2028, of the ETS2 (emissions trading system), which could bring about hikes in companies' production costs, especially related to the energy component. Meanwhile, the labour market remains a potential source of pressure on production costs, both in the short and medium term, given structural rigidities and the persistent labour shortage, especially in highly specialised sectors.

The intensity of the transmission of these effects depends, *inter alia*, on the macroeconomic context. A more pronounced weakening of aggregate demand and the first signs of labour market easing could, in principle, limit firms' ability to put up prices and employees' capacity to obtain sizeable wage raises, contributing to the relative mitigation of second-round effects. However, the overlapping of multiple risks – fiscal, energy, geopolitical or labour market risks – may cause inflation rate to deviate significantly from its path in the baseline scenario. In this context, inflation developments will be first and foremost contingent on the coherence of the economic policy mix, on the credibility of fiscal consolidation, a stable and predictable governance framework included, as well as on the continued solid anchoring of medium-term inflation expectations.

Monetary policy decision

Given the recent evolution 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 15 May 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 current levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions.