

NATIONAL
BANK OF
ROMANIA

Inflation Report

May 2026

Year XXII, No. 84

Inflation Report

May 2026

NOTES

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

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

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Foreword

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

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

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

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

The *Inflation Report* was approved by the NBR Board in its meeting of 15 May 2026 and the cut-off date for the data underlying the macroeconomic projection was 30 April 2026.

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

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 fell 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.

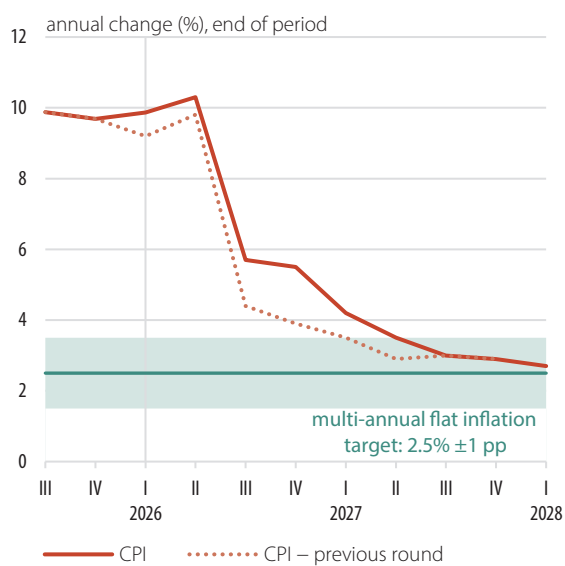
Inflation outlook

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.

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.

Inflation forecast



Source: NIS, NBR projection

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.

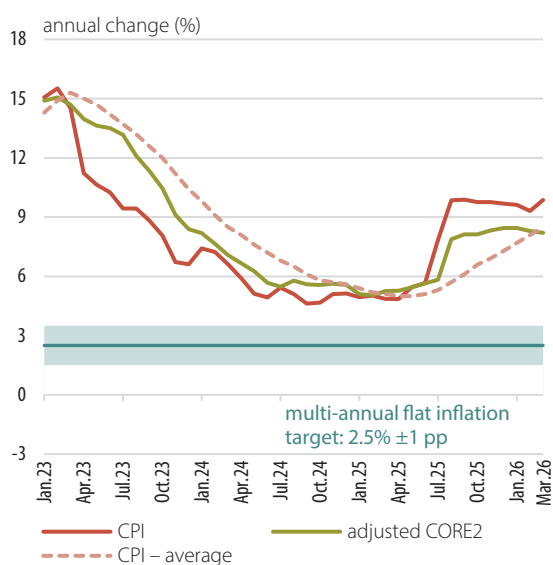
Monetary policy decision

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.

1. Inflation developments

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). 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. The annual adjusted CORE2 inflation rate edged down to 8.2 percent in March 2026, the disinflationary developments being supported by both demand factors (lower consumption) and supply factors (the deceleration in the annual dynamics of labour costs) – Chart 1.1.

Chart 1.1. Inflation developments



Source: NIS, NBR

In the case of electricity prices, following the two major shocks in 2025 Q3 (the liberalisation of the electricity market and the increase in indirect taxes), average prices have constantly posted negative monthly changes since October, as the market has been open, after liberalisation, to supplier competition for market share. This trend also continued in the first part of 2026, as mirrored in the new contracts for universal service, which were reset at lower prices. Furthermore, the yearly update in supplier share had a positive effect on average prices, reflecting the consumers' previous switch to cheaper electricity providers¹. Looking at natural gas prices, aside from some lower transport and storage prices, the purchase prices for one of the main suppliers witnessed a significant drop in March. This change would be an early effect of the new legislation that regulates natural gas prices for household consumers starting 1 April 2026. The new

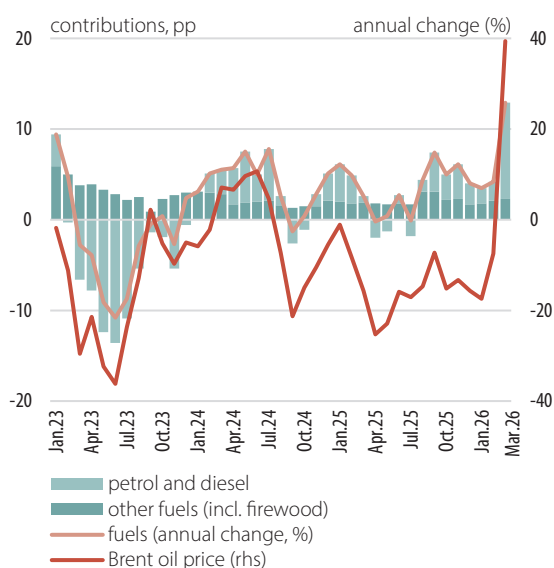
regulatory framework sets a lower cap than the previous one on the producer price and paves the way for ensuring that household consumption is covered mostly from domestic resources.

Fuel prices exerted a strong inflationary impact, the outbreak of military conflict in the Middle East at end-February and the blockage of the Strait of Hormuz² triggering a sizeable shock in the oil market. Specifically, the Brent oil price soared from

¹ These developments dampened the effect of the hike in some administered electricity prices (such as transmission and distribution tariffs, the amount of green certificates) as of 1 January 2026.

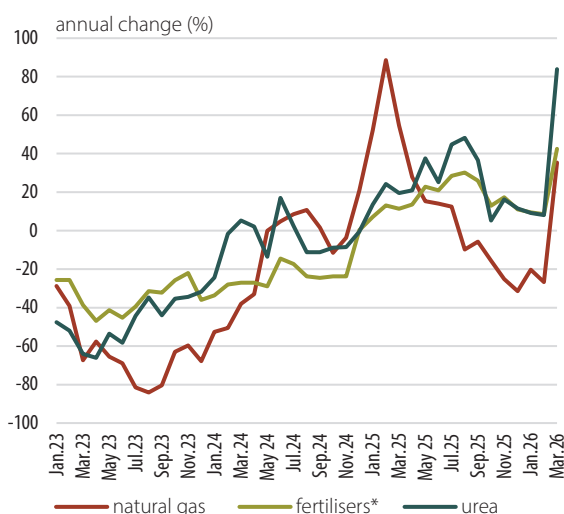
² An essential global oil shipping route, with a daily flow of about a quarter of all seaborne traded oil before the start of the conflict

Chart 1.2. Crude oil and fuel prices



Source: NIS, Bloomberg, NBR calculations

Chart 1.3. Other commodity prices



*) phosphate rock, phosphorous, potassium, nitrogen fertilisers

Source: Bloomberg, World Bank, NBR calculations

approximately USD 60/barrel in December and USD 70/barrel in February to more than USD 100/barrel in the latter half of March³ (exceeding even USD 110/barrel in some days). The immediate effect of this surge was the quick response from motor fuel prices, but it will pass through gradually to other components of the consumer basket. In March, the average price of petrol recorded a monthly change of 11 percent, while that of diesel climbed 15 percent, the annual inflation rate in the fuel segment going up to 12.9 percent (from 4.0 percent in December 2025) – Chart 1.2.

The war in the Persian Gulf affected not only the international oil market, but also the natural gas market, the Strait of Hormuz blockage and the severe damage to natural gas production and processing facilities (South Pars, Iran; Ras Laffan, Qatar) leading to a price hike of approximately 60 percent in March versus February 2026 and of almost 90 percent compared to December 2025. The predictable consequence was the emergence of similar movements in the case of prices of fertilisers and related raw materials (Chart 1.3). Even if the direct impact of the evolution of natural gas prices on CPI will be considerably mitigated by the new scheme to shield households, the indirect effects will be felt over the course of the year, amid the liberalisation of the market for non-household consumers starting April and the largest domestic fertiliser producer ceasing its activity.

In 2026 Q1, an inflationary contribution, albeit of a much lower magnitude, also came from volatile food prices, following the hike in vegetable prices, after a number of significant price cuts in 2025 H2.

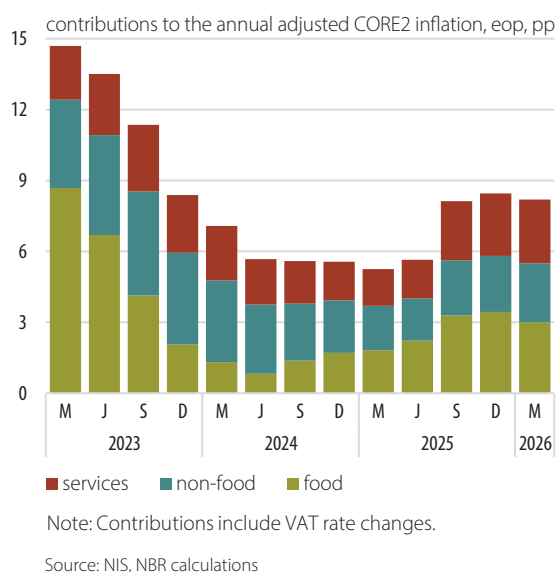
However, it should be mentioned that the size of the

monthly increases is in line with seasonal averages.

The annual adjusted CORE2 inflation rate saw its upward path come to a halt in 2026 Q1, moving slightly down to 8.2 percent in March 2026 (-0.3 percentage points versus December 2025), primarily driven by food items (where the annual change of prices decelerated to 7.9 percent in March compared to 8.5 percent three months

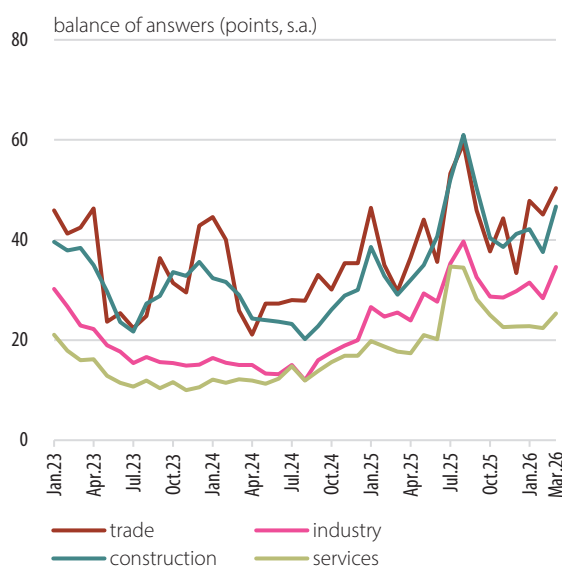
³ The last time the Brent oil price exceeded USD 100/barrel was in 2022 H1, following the outbreak of the war in Ukraine (the values are based on the futures prices with the earliest maturity). The current supply-side shock is assessed to be even stronger, yet it did not lead to a sharper increase in the Brent oil price as there was an abundant supply in the market when it occurred; at the same time, the initial expectations leaned rather towards a fast resolution of the conflict.

Chart 1.4. Adjusted CORE2 inflation components



earlier); the growth rate of market services prices also witnessed a downward correction, albeit much more modest (to 10.4 percent, -0.2 percentage points from end-2025), remaining nevertheless above headline inflation (Chart 1.4). The downward trend of core inflation was underpinned by the decrease in consumer demand as well as by the generally benign conditions on the commodities markets in January-February 2026 (the outlook changed suddenly once with the outbreak of the war in the Middle East, the turmoil on oil and natural gas markets being expected to influence the prices for goods and services included in the core inflation basket starting with Q2). Moreover, the decline in the annual change in unit labour costs became visible in relevant sectors (mostly in the food industry, but also in market services). The annual growth rate of prices for non-food items in core inflation came to a near standstill in 2026 Q1 (6.9 percent in March versus 6.8 percent in December 2025), as the disinflationary influences on the demand side were offset, at the level of this subgroup, by upward pressures from imports for some goods (detergents, footwear).

Chart 1.5. Expectations on price developments



The short-term expectations on price developments eased in the first two months of Q1; however, in March they increased significantly, amid the effects generated by the war in the Middle East (Chart 1.5). Financial analysts' expectations on the inflation rate one year ahead also responded to this shock, going up in April after following a downward path in Q1. Their expectations at the two-year horizon remained broadly similar to those at end-2025.

The average annual inflation rate continued to rise in 2026 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). Thus, Romania's gap with the EU average widened to 5.2 percentage points, also on account of the latter falling mildly.

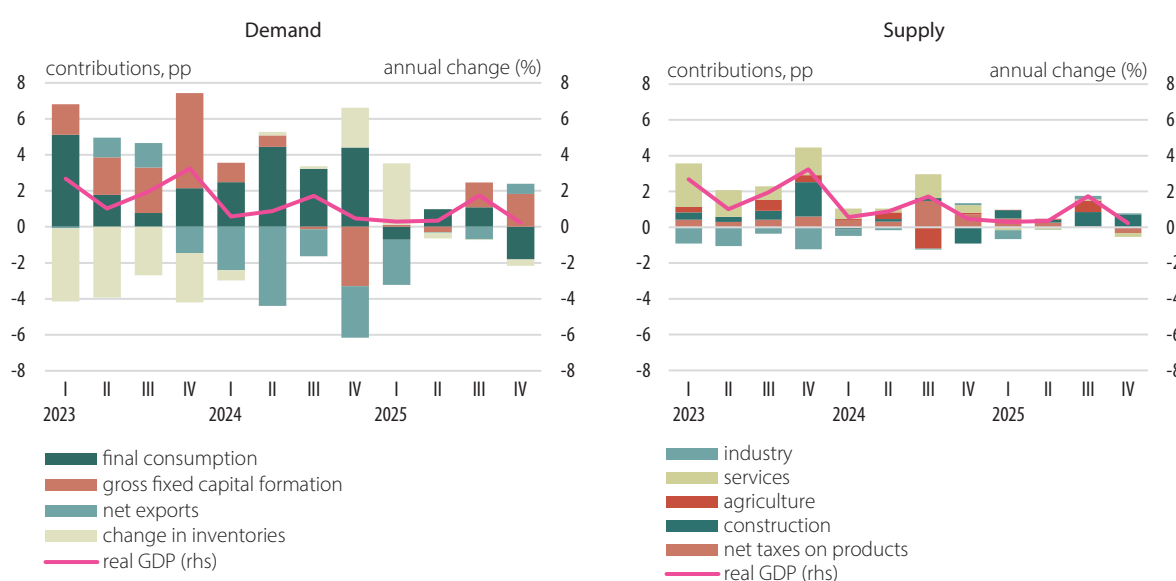
At end-2026 Q1, the annual CPI inflation rate stood 0.7 percentage points above the forecast in the February 2026 *Inflation Report*. This difference occurred amid higher-than-expected motor fuel prices, due to the outbreak of the military conflict between Israel, the US and Iran.

2. Economic developments

1. Demand and supply

In 2025 Q4, economic growth slowed down to 0.2 percent⁴, so that, in 2025 overall, real GDP advanced by 0.7 percent (Chart 2.1).

Chart 2.1. Contributions to economic growth



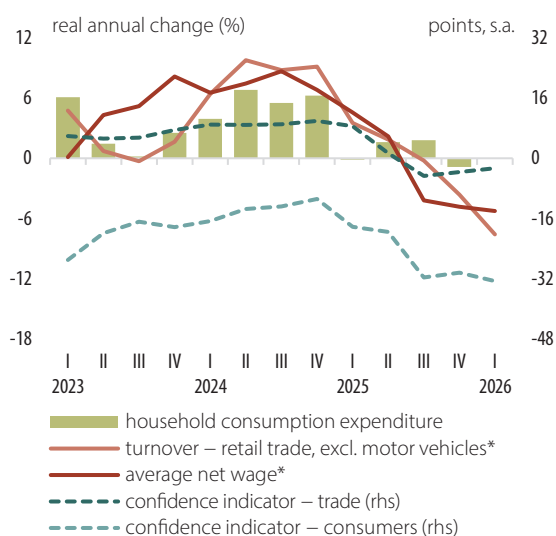
Source: NIS

Construction was the only sector with a more visible positive contribution (0.7 percentage points) in Q4, whereas the modest GVA increases in industry and agriculture (0.4 percent in both cases) made close to zero contributions to GDP dynamics, while services posted a 0.4 percent contraction. In the latter case, looking at sub-sectors (according to the breakdown of national accounts data), only the GVA of ICT and real estate transactions recorded positive rates of change. On the demand side, economic growth was largely supported by investment, to which added the contribution of net exports returning to positive territory, given that the external sales of goods further displayed fast dynamics, while imports of goods saw a marginal rise.

Household consumption contracted by 0.7 percent, amid the further unfavourable trend in household real income, given that the weakening economic activity resulted in layoffs and the deceleration in private sector wage dynamics, the fiscal consolidation measures included wage freezes and dismissals in the budgetary sector, as well as the freezing of the pension reference point value, while the electricity

⁴ 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.

Chart 2.2. Household consumption



Source: NIS, EC-DG ECFIN, NBR calculations

market liberalisation (in July 2025) and the hikes in indirect taxes (VAT rates and excise duties) in August pushed inflation rate significantly higher. The volume of sales decreased in most groups of goods, as well as in market services to households, which followed a steeper downward trend (-5.5 percent). The accommodation and food service activities made a large contribution thereof, as this sub-sector was – and continues to be – affected by the change in household consumption preferences owing to the worsening of households' financial situation, on account of the above-mentioned factors. Conversely, trade in motor vehicles expanded by 4.8 percent (annual change), mainly ahead of the amendment of the vehicle emission standards starting 1 January 2026 and of a higher tax burden for polluting vehicles. In fact, according to the General Directorate for Driving Licenses and Vehicles Registration's data, in January-February 2026,

the number of new motor vehicle registrations fell by approximately 30 percent in annual terms (Chart 2.2).

In the first part of 2026, household consumption will remain weak, the constraints already affecting personal budgets being compounded by the surge in property taxes as of 1 January 2026. At the same time, the consumer confidence indicator worsened by approximately 2.3 points in 2026 Q1 as compared to the 2025 Q4 average. In this context, trade data for the January-February period point to a sharper contraction (to -7.6 percent), special mention deserving the decrease by over 13 percent in sales of do-it-yourself products and furnishings, which were affected, on the one hand, by the decline in residential real estate transactions and, on the other hand, by the lower propensity for consumption (a characteristic trend for the downward phase of the business cycle). Trade in food items also recorded contractions (-2.3 percent, annual change), albeit slower than those seen in 2025 Q4, the market information highlighting consumers' increased preference for products in promotional campaigns or own brand products. Moreover, retailers continue to show interest in expanding store chains, especially in large urban and rural localities.

In 2025 Q4, the budget execution improved more visibly, resulting in a deficit of lei 43.6 billion (2.3 percent of GDP), well below that posted in 2024 Q4, i.e. lei 56.3 billion (3.2 percent of GDP). At the same time, the widening of the budget deficit against the previous quarter⁵ was much smaller in size compared to the developments in 2024⁶,

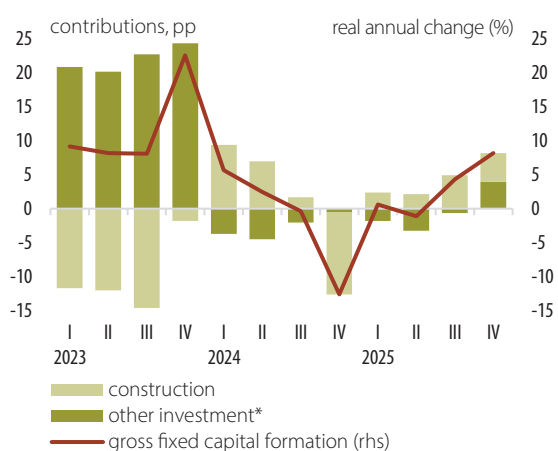
⁵ In 2025 Q3, the general government deficit stood at lei 32.7 billion (1.7 percent of GDP) as compared with lei 32.6 billion (1.9 percent of GDP) in 2024 Q3.

⁶ The increase in the budget deficit in 2025 Q4 against 2025 Q3 (as a share of GDP) posted the lowest value since the global financial crisis.

given that the increase in total budget expenditure⁷ – mainly on the back of spending on projects financed from non-repayable external funds and capital expenditure – was to a larger extent offset in terms of effect by the advance in budget revenues⁸. In turn, the latter was ascribable primarily to the significantly higher disbursements from the EU, including NRRP grants⁹, as well as to the rise in receipts from VAT¹⁰, from corporate income tax, and from wage and income taxes¹¹.

Under the circumstances, in 2025 as a whole, the general government deficit reached lei 146.0 billion (7.6 percent of GDP), well below the year-earlier deficit of lei 152.5 billion, i.e. 8.7 percent of GDP¹².

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

In 2026 Q1, the budget execution further improved, the deficit generated in this period, i.e. lei 21.1 billion (1.0 percent of GDP), contracting to somewhat less than half of that recorded in the same year-ago period (lei 43.7 billion or 2.3 percent of GDP).

Gross fixed capital formation was the main driver of real GDP growth (1.8 percentage points), the 8.2 percent advance in annual terms being the result of positive developments in both construction (+9.3 percent) and equipment purchases, including transport equipment bought by companies and institutions (+8.4 percent), Chart 2.3. In the period ahead, fixed capital investment will probably follow a moderately upward path, largely on the back of public investment targeting primarily infrastructure projects (road transport, rail and utility networks). In terms of financing sources, domestic public funds will make a lower contribution, given the

ongoing fiscal consolidation process, so that the EU funds will play a decisive role in increasing public investments. In this respect, the main catalyst is the approaching deadline for completing the NRRP milestones and targets (August 2026), Romania still having allocations of more than EUR 10 billion. Moreover, 2026 is estimated to see the disbursement of about EUR 5 billion for the cohesion policy under the MFF 2021-2027

- ⁷ The real annual growth rate of expenses picked up only to a small extent (to 1.5 percent from 0.1 percent in the previous quarter), thus remaining considerably slower than in 2025 H1; behind this stood mainly the entering or falling deeper into negative territory of the real annual dynamics of interest expenses, spending on goods and services, compensation of employees, social security spending, and other expenditure.
- ⁸ The step-up in the real annual growth rate of budget revenues was substantially higher than in the case of budget expenditure (to 12.5 percent from 2.0 percent in 2025 Q3), which primarily reflected the swifter increase in disbursements from the EU.
- ⁹ As a result of some projects initially funded from NRRP loans being moved to this component in accordance with the revised Recovery and Resilience Plan.
- ¹⁰ The real annual dynamics of VAT receipts also gained momentum, even amid the step-up in tax refunds.
- ¹¹ Small opposite influences came from the lower receipts from excise duties and other taxes on personal income, corporate income, and capital gains.
- ¹² The budget deficit in 2025 was also below the lei 159.8 billion ceiling approved via the two budget revisions in 2025 Q4, yet exceeded the level provided in the initial budget programme, i.e. lei 134.6 billion.

and the receipt of first pre-financings (loans) under the Security Action for Europe (SAFE) initiative.

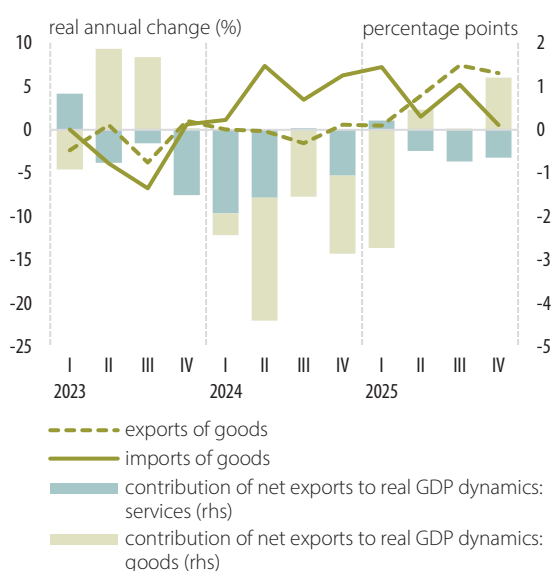
As regards private investment, expectations are subdued for both companies and households (in the latter case, demand is further affected by the reduction of real income and the uncertainty surrounding their financial standing in the immediately following period). Firms appear to be marked by declining optimism about the outlook of their own activity and investment in 2026, given the rather unfavourable coordinates of the local economy (modest GDP growth, restrictive fiscal framework, instability of the legislative framework, difficult access to finance) and the volatile international environment. Furthermore, local companies are becoming relatively more mature, as shown by managers' stronger interest in cost efficiency, prudent choice of new investments (with a preference for those with predictable cash flow and lower risks), interest in product diversification, rise in market share, increase in digitalisation and technology integration in their businesses. These signals of reshaping the corporate sector are likely to materialise, in the longer run, in efficiency and competitiveness gains, but inevitably entail a reduction in the number of firms. Thus, at the beginning of 2026, the number of wound-up or suspended firms increased fast (annual changes of approximately 38 percent and 16 percent respectively in January-February, which are much higher than those seen in 2025)¹³.

Energy is another sector that remains in the spotlight, with large investments being announced for 2026. Specifically, the construction of solar and wind energy facilities is planned to start in H1, cumulating more than 4,000 MW (nearly a quarter of the gross installed power in the national power grid in 2025), while a large gas-fired thermal

power plant is expected to be connected to the national power grid in the second half of the year. In addition, large-scale projects to build solar and wind electricity storage systems are underway, some of them being scheduled to become operational in 2026.

Net external demand made a positive contribution to the annual GDP growth in Q4 (0.6 percentage points), given that the dynamics of exports of goods (6.5 percent) widened its positive gap with those of imports, the volume of which went up by 0.5 percent (Chart 2.4). In the short run, exports of goods will probably grow slightly, spurred mainly by sales of vegetal commodities (following the 2025 plentiful crops of cereals and oleaginous plants). However, the contribution of industrial goods will remain modest, given that the European economy is still facing difficulties and the external price

Chart 2.4. Foreign trade



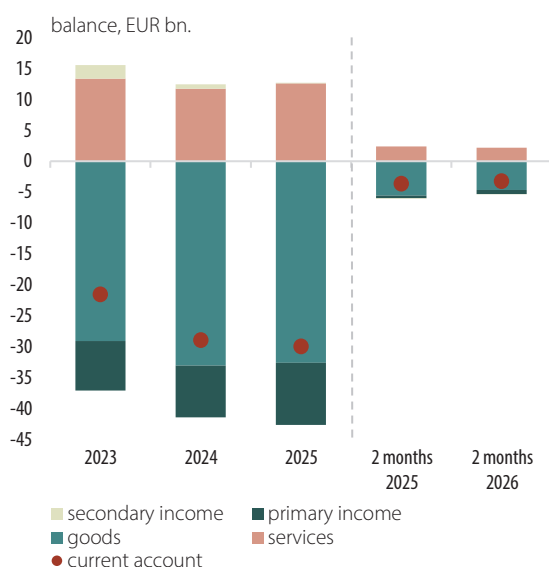
Source: NIS

¹³ According to the National Trade Register Office

competitiveness is largely affected by energy costs, while labour costs are undergoing adjustment. As regards the external demand, the effects that the outbreak of the war in Iran has on energy prices and supply chains will pose challenges to most economies.

Apart from exports of agri-food commodities, external sales of building materials, vegetable oil and meat products exerted stimulative influences. Moreover, sales of motor vehicles expanded further (by approximately 3 percent), as a result of the changes made in the car model range in the course of 2025, including the launch of some electric vehicle models. The developments in imports were shaped by both cyclical and incidental factors. Specifically, imports were slowed down by the weaker consumer demand (translating into decreases of 8-9 percent in imports of non-durables and durables), the plentiful local supply of agri-food commodities (resulting in an 18 percent reduction in imports thereof) and the halt in operations at the Petrotel refinery¹⁴ (which contributed to a contraction of about 24 percent in imports of crude oil). These influences were offset by the doubling of natural gas imports (following the start of a technical overhaul at an important local gas field), as well as by the swift rises in imports of some products, such as chemical fertilisers, nitrogen compounds, plastics (49 percent), cement, lime and plaster (99 percent), steel products (17 percent). Possible contributions in this respect were made by the entry into force, as at 1 January 2026, of the Carbon Border Adjustment Mechanism – a European regulation that spurred the frontloading of imports – and by some local influences, such as the halt in the activity of Azomureş plant in November 2025 and the step-up in construction works.

Chart 2.5. Current account



In 2025, the deficit on trade in goods narrowed slightly (by 1.4 percent), solely on account of the volume component (annual pace of 2.8 percent for exports and of merely 0.7 percent for imports), the terms of trade making an unfavourable contribution. In this context, the current account deficit widened more slowly (by 3.4 percent, as compared to 34.4 percent in 2024), yet it remained at a high level (7.9 percent of GDP). The deficit on trade in goods continued to decrease in January-February 2026 (by 16.8 percent), which also entailed a contraction by 12.3 percent (annual change) in the current account deficit, despite the unfavourable developments in the other major accounts. Specifically, the services surplus declined (the rising receipts from ICT and freight transport being eroded by the widening shortfall of travel and air transport); the primary income deficit deepened (mainly due to the increases in payments

of dividends and interest on intercompany loans of FDI enterprises, as well as in interest payments on the bonds issued by the Romanian government on the external

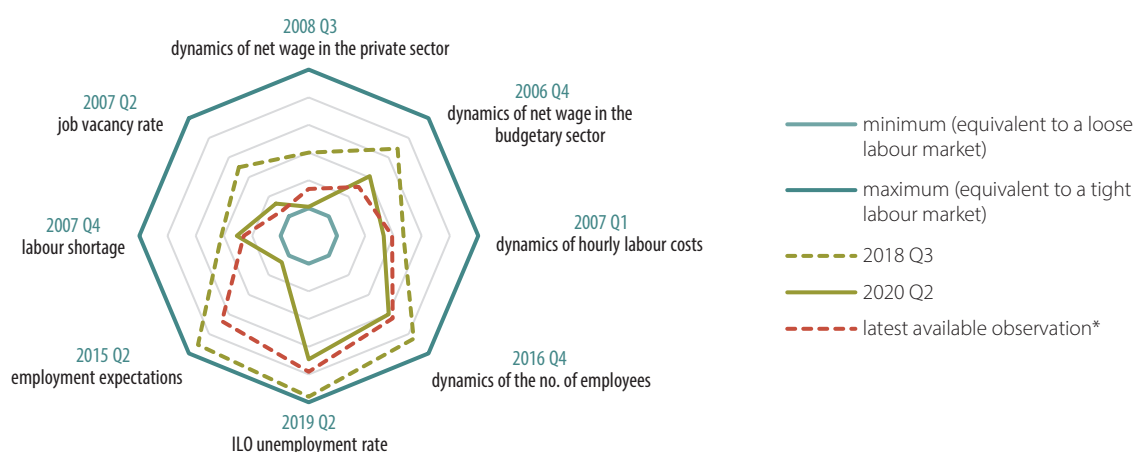
¹⁴ The decision was made towards the end of 2025, amid the US's economic sanctions against Russia.

markets); the secondary income deficit went up marginally, with the stepped-up absorption of European funds being offset by the higher contributions to the EU budget (Chart 2.5).

Labour market developments

The labour market conditions index (LUCI), which summarises the information available on the topic, shows an easing of labour market conditions in 2025, in line with the cyclical position of the economy (see Box 1). Despite being stable over the course of the year, the labour market tightness indicator (calculated as the ratio of the job vacancy rate to the unemployment rate) fell below the 2024 level, while the annual growth rate of the number of employees turned negative in Q4 and that of wages decelerated markedly to 6.4 percent (Chart 2.6). Over the short term, the surveys are suggestive of a persistence of the trend, the number of companies expecting headcount reductions exceeding that of firms anticipating an increase in payrolls. At the same time, companies' heightened pessimism mirrors a worsening of their financial standing and hence a lower capacity to sustain fast wage growth.

Chart 2.6. Overview of labour market developments



*) 2026 Q1 for employment expectations and labour shortage; Jan.-Feb. 2026 for the dynamics of net wage in private and budgetary sectors, the dynamics of the no. of employees and ILO unemployment rate (monthly data); 2025 Q4 for job vacancy rate and the dynamics of hourly labour costs.

Note: The sample used covers the period from 2006 Q1 to 2026 Q1 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.

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

The job vacancy rate remained unchanged at 0.6 percent throughout 2025.

The ILO unemployment rate fluctuated somewhat, without displaying however a clear trend, ending Q4 at 6.2 percent, a similar reading to that posted in Q2 and only slightly above the 2025 average (6.1 percent); for January-February 2026, the provisional data indicate 6 percent. Conversely, the youth unemployment rate (young people under 25), which is more sensitive to the slowdown in economic activity, witnessed a significant increase in Q4 (+1.7 percentage points from the previous quarter). According to the results of the DG ECFIN survey for 2026 Q1, the number of companies citing labour shortage as constraining their economic activity declined, this factor becoming less relevant in the current macroeconomic environment.

Box 1. The labour market conditions index

The response of labour market conditions to changes in the business cycle may be difficult to interpret when the available data series convey divergent or inconclusive signals, so that relying on a single indicator can provide a distorted image and weighs on the capacity to adequately capture the cyclical component of the labour market. Hence, several central banks (such as the ECB, the Fed or those of New Zealand, Czechia or Greece) use composite indices that summarise the available information in a common factor. Through its design, the labour market conditions index (LMCI) facilitates the integration of the information derived from the variables relevant to the area of research. The LMCI manages to reduce the importance of the factors specific to each time series, which can mirror own particulars¹⁵, and allows the extraction of the common economic signal. At the same time, the indicator may also serve as a tool to identify labour demand surplus or deficit. In this context, using the principal component analysis, this box builds a labour market conditions index for Romania, aimed at capturing the cyclical position of the labour market in a more accurate manner.

Data and methodology

A selection of 19 variables¹⁶, based on data from the National Institute of Statistics and the European Commission (DG ECFIN and Eurostat), was used for constructing the labour market conditions index. The first step was to transform the series to be stationary, while maintaining their economic significance, primarily by using annual or quarterly percentage changes¹⁷ (Table A). Subsequently, each variable was standardised¹⁸ to ensure comparability. The LMCI¹⁹ is a linear combination of all the 19 time series, gathering the essential input as follows:

1. Arrange the standardised series, y_i , where $i \in \{1, 2, \dots, 19\}$, in a $T \times 19$ matrix (where T is the number of time periods) of the form:

$$M = [y_1, y_2 \dots y_{19}] \quad (T \times 19)$$

2. Form the variance-covariance matrix:

$$\Omega = M' M \quad (19 \times 19)$$

3. Extract all eigenvalues (which are subsequently sorted by descending value) and eigenvectors v_i , which set the optimal shares²⁰, from Ω :

¹⁵ These can be attributed to structural factors or even to measurement errors, apart from the cyclical influence.

¹⁶ Their selection was based on the degree of correlation between them.

¹⁷ For already stationary series, the variables were used in level terms.

¹⁸ Standardisation implies subtracting the series mean and dividing by the series standard deviation, so that the resulting variable has a mean of 0 and a standard deviation of 1.

¹⁹ Armstrong, J. *et al.* (2016) describe the steps followed to construct the index.

²⁰ Eigenvalues indicate the share of total variation explained by each principal component, while eigenvectors define the shares through which the 19 variables are combined to build each component, the first principal component thus capturing the largest amount of the common information; the eigenvectors are ordered by their corresponding eigenvalue.

$$\lambda = [v_1, v_2 \dots v_{19}] \quad (19 \times 19)$$

4. The principal components are obtained by multiplying the initial matrix by the matrix of eigenvectors; the first column is the LMCI, which captures the largest share of the common variation between the variables.

$$F = M\lambda \quad (T \times 19)$$

The labour market conditions index has a mean of zero, mirroring solely labour market movements. Positive values indicate labour market tightening, specific to the expansion phases of the business cycle (overuse of human resources, occurrence of wage pressures), whereas negative values suggest labour market easing, characteristic of downturns (underutilisation of human resources). Looking at the distribution, approximately 68 percent of the values lie in a range of [-1, 1] (common fluctuations, as they occur in most cases), around 27 percent of them fall in the ranges of [-2, -1] and [1, 2] (significant, but not extreme fluctuations) and 4.7 percent of them in the ranges of [-3, -2] and [2, 3] (extreme cases). These cover 99.7 percent of the cases, according to the normal distribution.

Table A. Variables used in the LMCI

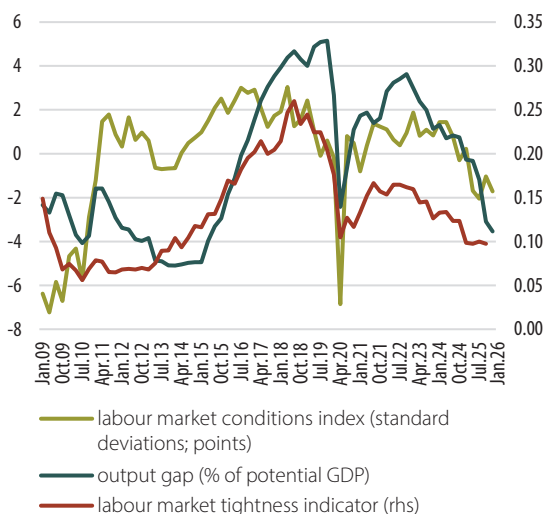
Variable	Source	Transformation
Number of employees in agriculture	NIS (Monthly survey on earnings)	quarterly change
Number of employees in trade	NIS (Monthly survey on earnings)	quarterly change
Number of employees in construction	NIS (Monthly survey on earnings)	quarterly change
Number of employees in industry	NIS (Monthly survey on earnings)	quarterly change
Number of employees in services	NIS (Monthly survey on earnings)	quarterly change
Employment rate in urban area	NIS (Household Labour Force Survey)	cyclical component
Employment rate in rural area	NIS (Household Labour Force Survey)	cyclical component
Registered unemployment rate	NIS (NEA)	no changes
ILO unemployment rate	NIS (Household Labour Force Survey)	cyclical component
Job vacancies	NIS (Job vacancy survey)	quarterly change
Average real net wage economy-wide	NIS (Monthly survey on earnings)	quarterly change
Average net wage in the private sector	NIS (Monthly survey on earnings)	quarterly change
Average net wage in the budgetary sector	NIS (Monthly survey on earnings)	quarterly change
Unit labour costs	NIS	annual change
Hourly labour costs	Eurostat	annual change
Labour shortage in construction	EC-DG ECFIN	first difference
Labour shortage in services	EC-DG ECFIN	first difference
Labour shortage in industry	EC-DG ECFIN	first difference
Labour hoarding	EC-DG ECFIN	no changes

Note: The Hodrick-Prescott filter was used to extract the cyclical component from the data series.

Results

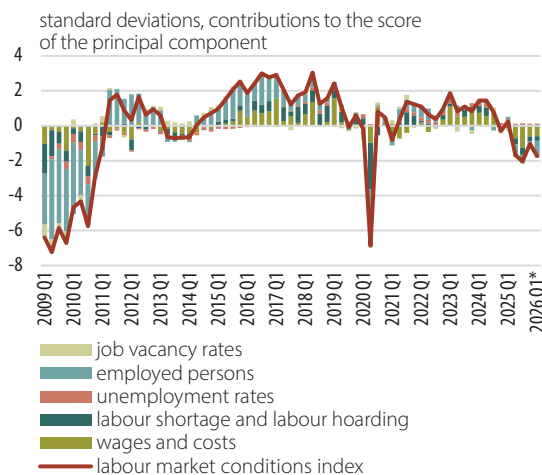
Traditionally, labour market tightness is assessed via the ratio of the job vacancy rate to the unemployment rate, the two variables exhibiting however a relatively

Chart A. Labour market tightness and business cycle



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

Chart B. Labour market conditions index (LMCI)



*) The latest available data were used for the results for 2026 Q1, whereas in their absence the values in 2025 Q4 were kept.

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

high degree of rigidity. Consequently, the range within which they fluctuate is somewhat small; in the post-COVID period, for instance, the labour market tightness indicator ran between 0.10 and 0.16 as compared with the labour market conditions index, which stood between -2 and 2 (deviations from the average). At the same time, according to the labour market tightness indicator, changes in labour market conditions occur gradually: over the recent easing, it declined in 2024 and stabilised at a lower level, before decreasing again in early 2025 to remain relatively unchanged subsequently. Both the labour market tightness indicator and the LMCI are strongly correlated with the output gap. Nevertheless, unlike the classic indicator, the labour market conditions index shows the changes in trend/message more clearly, also via its interpretation relative to the null hypothesis threshold (Chart A).

In addition, the labour market conditions index summarises a broad dataset, allowing the identification of each component's contribution in different periods, so that the indicators playing a leading role in its evolution over time should become apparent. As shown in Chart B, the LMCI indicates an easing of the labour market in Romania in 2025, which has persisted in early 2026 as well, as signalled by the deceleration in wage dynamics, together with headcount reductions. Furthermore, after a protracted period in which labour shortage fuelled labour market tightness²¹ – namely since 2015 to date, when leaving out the atypical period linked to the pandemic shock –, its influence has recently receded and even turned negative, as the general economic environment deteriorated.

²¹ The structural features of labour shortage and its impact on wages were analysed in the November 2024 and August 2025 NBR Inflation Reports.

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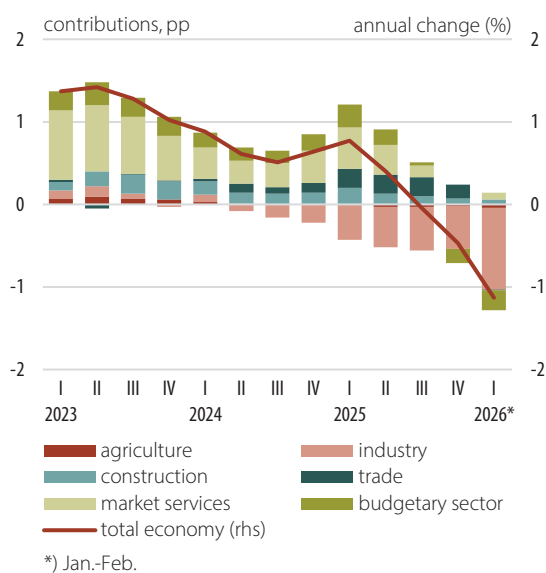
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Chart 2.7. Number of employees economy-wide



Source: NIS, NBR calculations

In 2025 Q4, the number of employees shrank by 0.5 percent versus the same year-ago period, the contraction widening to 1.1 percent in the first two months of 2026 (Chart 2.7). Downsizing occurred particularly in manufacturing, especially the automotive industry and its suppliers, which have been affected by protracted layoffs, driven by both the drop in output volumes and the shift towards streamlining production processes (based on robotisation/automation). Under the circumstances, labour productivity in the automotive sub-sector increased by 5.3 percent in 2025 versus a 2.8 percent decrease in 2024. In addition, the number of budgetary sector employees declined over the last months of 2025, as a result of the fiscal consolidation measures. Private sector services posted a slower pace of hiring, also in the case of trade, where higher annual dynamics were recorded nonetheless (1 percent in Q4 as compared with 1.5 percent January through September). A similar deceleration was also seen in construction, i.e. from 1.2 percent in Q3 to 0.8 percent in Q4, albeit with a lower influence on the aggregate indicator.

The tendency of some big tech companies to reduce headcount at global level, possibly driven by the take-up of AI-based technologies, seems to have exerted a limited impact on the domestic front so far, the number of employees being relatively

stable throughout the year (only in Q3 and Q4 the annual rate of change recorded marginal declines). This came with increases in gross value added and ICT exports (up by 4.1 percent and 9.4 percent respectively in 2025), which is indicative of rising productivity.

For 2026 Q2, the results of the DG ECFIN survey and the Manpower Employment Outlook Survey suggest further cuts to headcount, as companies focus on cost optimisation and apply stricter recruitment criteria.

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 2025 Q4, the annual growth rate of gross wage earnings economy-wide continued to slow down, yet more moderately, reaching 6.4 percent (-0.3 percentage points from Q3). The annual dynamics of private sector wage earnings remained at 8.7 percent, whereas those of budgetary sector wages fell deeper into negative territory (to -1.4 percent). Nevertheless, data for January-February 2026 point to a stronger deceleration, to 3.6 percent, visible in both the private (5.4 percent²²) and the public sectors (-2.5 percent).

In-house estimates of the wage Phillips curve highlight the role played by inflation expectations in wage dynamics (Chart 2.8), yet, unlike in previous periods, when their deterioration drove the general trend, currently the upward pressures are offset by labour market easing and the influence of exogenous factors (whose contribution turned negative). The new setup can reflect employers' greater wage bargaining power and firms' low capacity to award substantial pay rises (amid the new hike in the minimum gross wage

economy-wide planned as of 1 July 2026) – which may involve a lower threshold for wage negotiations, also via a stronger focus on benefit packages²³.

²² This occurred *inter alia* amid the base effect linked to the removal of tax breaks in certain economic sectors a year ago, when some employers made additional wage increases to partly make up for employees' net wage earnings losses, as well as on account of current developments (the annual rate of change of net wages also following the same trend).

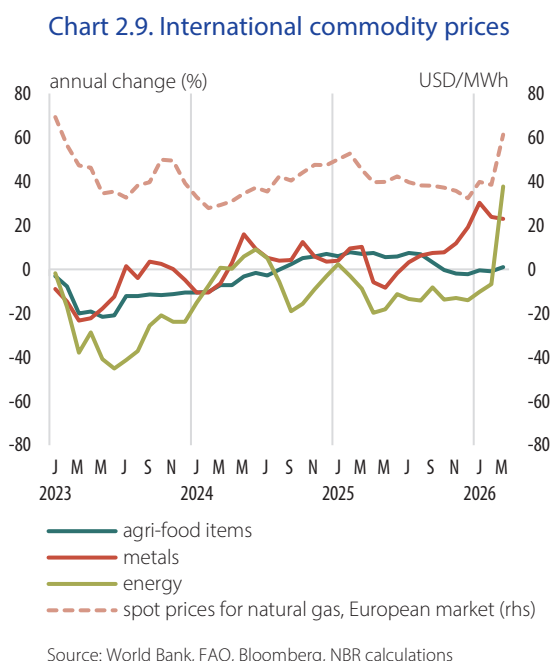
²³ These are preferred at times marked by challenging economic conditions, as they offer greater flexibility in medium- and long-term cost optimisation (changes to the benefit package are usually easier to adjust than the wage level).

2. Import prices and producer prices on the domestic market

In 2025 Q4, import prices and agricultural producer prices continued to record negative annual dynamics, given the relatively favourable conditions in commodity markets. As for industrial producer prices on the domestic market, the path of their growth rate is further shaped by the sizeable fluctuations in the energy sector: a pick-up in 2025 Q4 was followed by a slowdown in the first months of 2026, while a renewed acceleration appears likely over the period ahead, amid the outbreak of the conflict in the Middle East. By contrast, the industrial producer price index (excluding energy) stayed on an upward trajectory in the first months of the year as well, with this trend likely to persist as the sharp rises in oil and natural gas prices feed through to producer prices, their impact being only partly offset by the significant easing of unit labour cost pressures.

2.1. Import prices

Against the backdrop of the cumulative impact of the Middle East conflict, US trade policies and robust demand related to digitalisation and decarbonisation, the aggregate commodity price index calculated by the World Bank (Chart 2.9) reversed



course in 2026 Q1, posting an annual increase of 4.9 percent, after contracting by 8.4 percent in 2025 Q4. Specifically, the annual dynamics of energy prices returned to positive territory (6.2 percent), following a 13.6 percent decline in 2025 Q4. The breakdown shows that the Brent oil price moved on a downward path in the latter part of the year, on account of excess supply in non-OPEC countries. The attacks launched by the US and Israel against Iran at the end of February, the blockage of the Strait of Hormuz and Iran's retaliation against energy hubs in the Persian Gulf led to a surge in prices (to over USD 120/barrel in the final days of March 2026, a 4-year high). Turning to the European natural gas market, the significant inflow of liquefied natural gas from the US redirected to this market, amid weaker demand from Asian economies, together with substantial pipeline flows from Norway, contributed to an annual contraction in prices of 24.4 percent in 2025 Q4. Subsequently,

the blocking of the Strait of Hormuz and the severe damage to natural gas production and processing facilities (South Pars in Iran and Ras Laffan in Qatar) caused prices to soar by more than 32 percent in January-March 2026 compared with 2025 Q4.

Industrial metal prices saw their upward trend already visible towards end-2025 strengthen, with the World Bank index recording annual increases of 12.9 percent

in Q4 and 25.6 percent in 2026 Q1. Copper made a notable contribution, its price reaching record highs, supported by a structural supply shortage (with large mines in Indonesia, Panama and Chile facing technical problems, strikes or closures on environmental grounds), as well as by rising demand fuelled by precautionary stockpiling amid persistent uncertainty surrounding US trade policies. Other metals, such as aluminium, nickel and tin, followed a similar path, against the background of high energy costs, tight supply²⁴, and inelastic demand from the electronics and aerospace industries. By contrast, the annual growth rate of iron ore prices slowed down, given the oversupply on the market (due to the opening of a new large-capacity mine in Guinea producing high-grade ore).

The annual rate of decline of the FAO food commodity price index moderated to -0.1 percent in 2026 Q1 (from -1.5 percent in 2025 Q4). Slight upward pressures came from cereals (amid climate risks in Europe and the US and logistical problems in the Black Sea basin), oilseeds (on account of rising demand for biofuels), and meat (particularly beef and mutton), possibly also against the background of stronger demand from China, where a tariff-rate quota system was introduced for imports of some meat varieties²⁵. By contrast, dairy and sugar prices continued to decline in annual terms, reflecting abundant supply from the EU (in the context of higher customs tariffs in China) and prospects of record output in the main exporting countries.

The movements in international commodity prices in 2025 H2 also reflected in import prices. Thus, in 2025 Q4, the annual unit value index (UVI) of imports remained below one, at 97.7 percent, even slightly lower than in the previous quarter (by 0.4 percentage points). The sharpest downward corrections were recorded for some food items whose prices depended on the outcome of the agricultural year (such as fruit and vegetables), as well as for meat²⁶, with annual changes in external prices turning negative. As regards non-food consumer goods, price developments were further mixed, with increases in the case of transport equipment and slower growth rates for wearing apparel, footwear, pharmaceuticals and hygiene products.

2.2. Producer prices on the domestic market

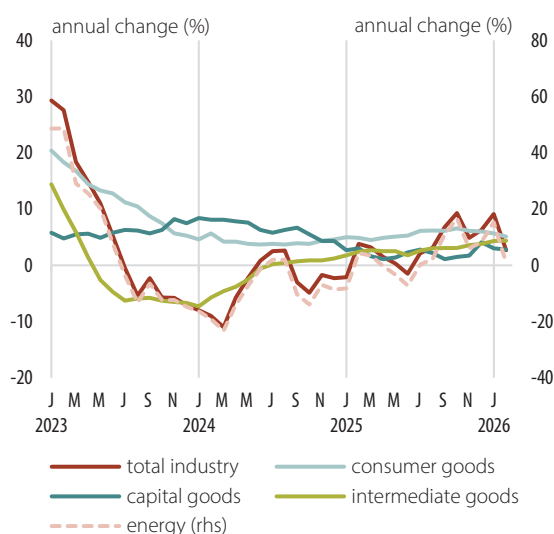
In January-February 2026, the annual growth rate of industrial producer prices on the domestic market decelerated by 0.9 percentage points compared to 2025 Q4, reaching 5.8 percent, with energy prices making a decisive contribution in this regard (Chart 2.10). Leaving aside this influence, the annual rate of change of producer prices for non-energy goods is estimated to have followed an upward path during the period under review. Given the broadly favourable conditions in agri-food commodity

²⁴ China reached the government-set ceiling on aluminium production capacity, while Indonesia introduced annual production plans for mineral resources, which were approved after a long delay.

²⁵ For beef, China's imports increased substantially in the first two months of the year, following the introduction, as of 1 January 2026, of individual import quotas by country; once these thresholds are reached, imports are subject to an additional 55 percent duty.

²⁶ This was also attributable to the increase in poultry meat supply (following the lifting of sanitary restrictions on poultry from Brazil), as well as to China's lower demand for pigmeat (given the introduction of customs duties after the recovery of livestock that had been hit by the African swine fever outbreak).

Chart 2.10. Industrial producer prices on the domestic market



Source: NIS, Eurostat, NBR calculations

markets, these dynamics most likely reflected the rise in metal prices, the introduction of a carbon border adjustment mechanism, as well as the reduction in the share of CO₂ allowances allocated free of charge to large polluters, which supported the pick-up in the annual growth rate of producer prices for intermediate and capital goods.

The results of the March DG ECFIN survey point to an increase in the balance of answers on the expected evolution of producer prices, to 33.4 percent, from 28.7 percent in the first two months of 2026, driven by: (i) the rise in Brent oil and natural gas prices, amid escalating tensions in the Middle East; and (ii) the liberalisation of the natural gas market for non-household consumers starting in April. Favourable influences could stem from expectations of a good agricultural year materialising.

The path of energy prices (whose annual growth rate fell by 2.5 percentage points to 7.7 percent) was shaped by crude oil processing, in line with the trajectory of oil prices, but mainly by electricity, gas, steam and air conditioning supply (annual change of 9.6 percent in January-February 2026 versus 11.6 percent in 2025 Q4). In the latter case, the movement was due solely to a base effect²⁷, as the analysis of current developments points to further price increases associated with the hikes in electricity and natural gas prices in the first month of the year. Specifically, in line with the trend seen across Europe, spot prices on the domestic wholesale markets surged in January, against the backdrop of higher consumption generated by temperatures below those recorded in the same year-ago period. Prices nevertheless underwent a correction in February, owing to weaker demand at European level in the context of milder temperatures and higher US exports of liquefied natural gas. At the same time, coal-fired electricity generation has faced high costs for CO₂ emission allowances, whose price reached two-year highs at the beginning of 2026, amid tighter EU-level rules on their availability²⁸. Electricity distribution and transmission tariffs, which increased as of 1 January 2026, acted in the same direction.

The annual growth rates of producer prices for intermediate and capital goods picked up by 0.9 percentage points and 0.5 percentage points, to 4.4 percent and 2.9 percent respectively, in line with the upward adjustments in international metal prices seen in the previous months and with higher energy costs. Moreover, the gradual implementation, as of 1 January 2026, of the carbon border adjustment

²⁷ In early 2025, the unexpected closure of the Alexandroupoli liquefied natural gas terminal caused gas prices to surge, which in turn translated into higher electricity prices.

²⁸ In order to align with the target of reducing emissions by 62 percent by 2030 (under Directive (EU) 2023/959), the European Commission decided to further reduce the number of allowances issued as of 1 January 2026, in addition to the annual 4.3 percent reduction.

mechanism²⁹ contributes to price increases for some raw materials imported from outside the EU (such as cement, iron, steel, aluminium, chemical fertilisers, and electricity). The gradual phasing-out, as of 1 January, of free CO₂ allowances³⁰ is reflected particularly in intermediate goods, with the metallurgy, building materials and chemical industry being more affected.

Producer prices for consumer goods saw their annual rate of change decelerate slightly, by 0.8 percentage points, on account of the food industry (an annual advance of 4.2 percent versus 4.7 percent), given the broadly favourable conditions in agri-food commodity markets. However, a trend reversal is highly likely, given that fertiliser

prices increased first following a rise in the carbon tax³¹ and subsequently under the impact of the Middle East conflict on energy markets (oil and natural gas). In fact, in view of the considerable hike in fertiliser prices at the beginning of 2026 and in order to keep them affordable for farmers, the European Commission retroactively suspended, for one year, the payment of customs duties on imports of nitrogen fertilisers and raw materials used to produce them (except for those from Russia and Belarus).

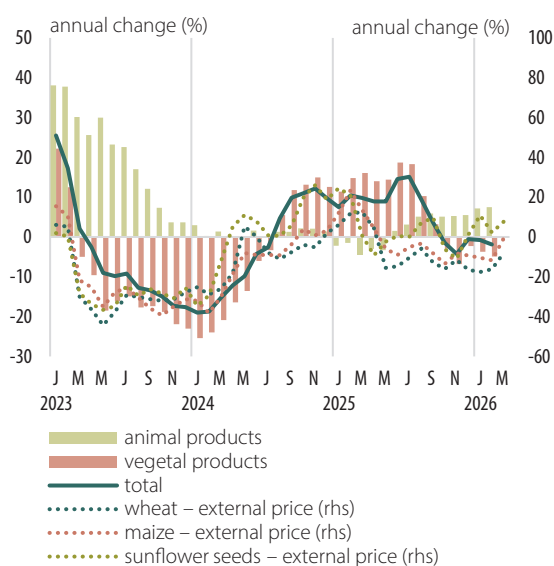
The annual decline in agricultural producer prices slowed down January through February 2026, as a result of developments in the animal segment (Chart 2.11). In the case of vegetal products, the negative dynamics persisted, with the first signals on the 2026 harvest not pointing to any pressures. The annual rate of change rose to 7.4 percent in the animal segment, with meat products (beef and

poultry) making an important contribution, as the impact of higher production costs (animal feed and utilities) was compounded by lower livestock numbers caused by the plague of small ruminants (*peste des petits ruminants* – PPR) and outbreaks of avian flu. Pigmeat was an exception, with its annual change remaining negative, amid competition from imports.

Unit labour costs

Unit labour costs economy-wide rose marginally in 2025 Q4, their annual dynamics standing at 0.3 percent, compared to 0.7 percent in Q3 (Chart 2.12). This reflected the deceleration in the annual growth rate of compensation per employee (3.1 percent versus 5.1 percent in the previous quarter), which offset the dampening effect

Chart 2.11. Agricultural producer prices



Source: NIS, Bloomberg, NBR calculations

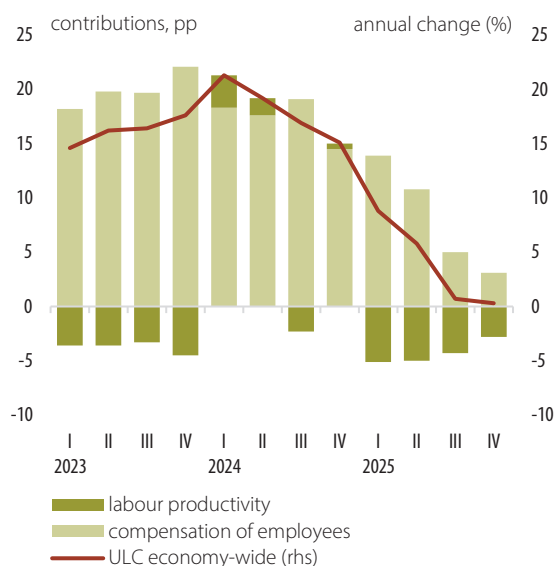
²⁹ As of 1 January 2026, importers pay an additional cost directly proportional to the carbon footprint of goods originating in non-EU countries. Specifically, they are required to purchase CBAM certificates (under the carbon border adjustment mechanism) for 2.5 percent of the embedded emissions of those goods, while still benefiting from free allocations for the remainder.

³⁰ As of 1 January, large polluters pay for 2.5 percent of the quota of free allowances previously granted to them.

³¹ The association of fertiliser manufacturers in the EU estimates the impact of the carbon tax at an additional EUR 45 per tonne on the price of urea.

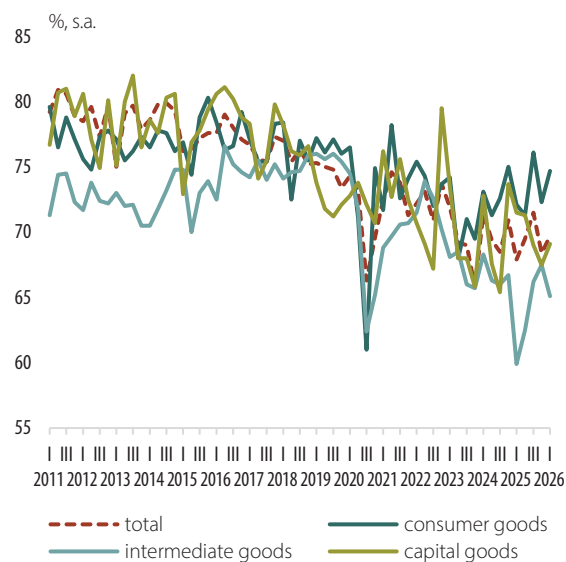
stemming from the moderation in labour productivity growth (2.8 percent from 4.3 percent in Q3).

Chart 2.12. Unit labour costs



Source: NIS, NBR calculations

Chart 2.13. Capacity utilisation rate in industry



Source: EC-DG ECFIN

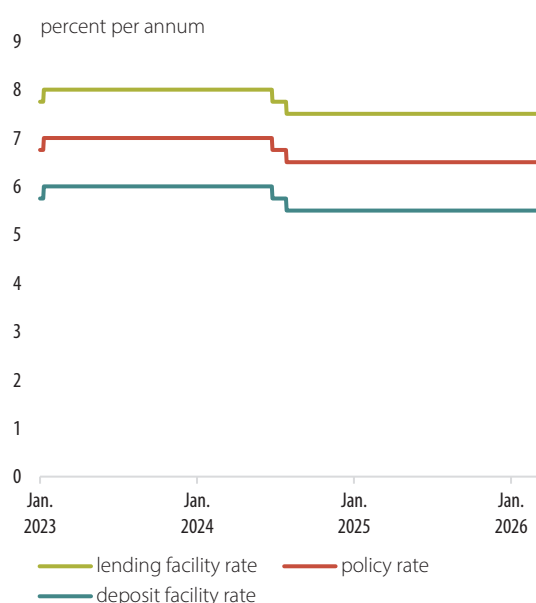
In industry, the annual rate of increase of unit wage costs went up slightly in 2025 Q4, reaching 7.8 percent (+1.6 percentage points from 2025 Q3), mainly on account of developments in labour productivity, while wages remained relatively stable in annual terms at aggregate level. Most subsectors, including major industries such as the food industry, the automotive industry and fabricated metal products, saw a slowdown or contraction in activity. However, unit labour cost growth in industry is expected to moderate over the next quarter. In January-February, this indicator fell to 4.6 percent, as the annual change in wages decelerated visibly. Labour productivity is expected to exert a marginally favourable influence on ULC dynamics, given that layoffs in industry are accompanied by annual declines in production, albeit of a smaller magnitude. The capacity utilisation rate showed a slight improvement at the beginning of 2026 but remained low from a historical perspective (Chart 2.13).

3. Monetary policy and financial developments

1. Monetary policy

In February and April 2026, 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



Behind the February decisions of the NBR Board stood the current inflation developments and those anticipated in the short term, reflecting the sizeable inflationary effects of supply-side shocks, but also the prospective strengthening of underlying disinflationary pressures over the longer horizon, especially those from aggregate demand, amid the progress in the fiscal adjustment initiated in 2025.

Specifically, the annual inflation rate fell slightly in 2025 Q4, to 9.69 percent in December from 9.88 percent in September, driven by the significant declines in the dynamics of fuel and VFE prices, whereas the annual adjusted CORE2 inflation rate continued to pick up³², 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.

At the same time, the updated medium-term forecast pointed to a worsening of the inflation outlook, especially in the middle segment of the projection horizon, as the annual inflation rate was expected to extend its slow downward course into 2026 Q1, the same as in the previous forecast, but to witness the following quarter a steeper rise than that envisaged in November 2025. Moreover, after the abrupt

³² To 8.5 percent in December 2025 from 8.1 percent in September

downward correction in 2026 Q3 amid base effects, it would resume its decline on a higher-than-previously anticipated path, re-entering the variation band of the target in 2027 Q2 – somewhat later than in the prior forecast – and staying in the upper half of the band at the end of the projection horizon. Specifically, the annual inflation rate would reach 9.8 percent in June and stand at 3.9 percent in December 2026 – versus 9.2 percent and 3.7 percent respectively, as previously anticipated for the same reference points – and it would drop to 2.9 percent in December 2027, a similar level to that indicated by the prior projection for September 2027.

Behind the pick-up in the annual inflation rate in 2026 Q2 stood primarily the base effects that would be manifest in the energy segment, as well as the increase in some commodity prices and the removal of the cap on the mark-up on basic food products as of 1 April 2026, whose influences would mainly affect the performance of exogenous CPI components and to a smaller extent the core inflation dynamics. The action of supply-side factors would thus become inflationary again in 2026 Q2, before turning strongly disinflationary the following quarter, amid the dissipation of the direct effects exerted by the removal of the electricity price cap and by the increases in VAT rates and excise duties in 2025 Q3.

The balance of risks stemming from supply-side factors remained, however, tilted to the upside, given the uncertainties associated with the implications of the expiry on 1 April 2026 of the natural gas price capping scheme for households, but also the possible higher indirect effects of costlier energy, as well as the potential oil price trajectory, amid the geopolitical tensions.

Moreover, underlying factors were foreseen to exert neutral or very slightly disinflationary pressures in the near run, given the probable marked widening of the aggregate demand deficit in 2025 H2, but also the time lag necessary for the effects of the negative output gap to become manifest, as well as the still high dynamics of wage costs in some sectors. However, underlying pressures were expected to strengthen their disinflationary nature in 2026 H2 and then to remain significantly disinflationary, as the aggregate demand deficit was seen widening over the course of 2026, amid the progress in budget correction, and narrowing only slightly in 2027, to reach considerable values, yet lower than previously envisaged³³. Additional influences were anticipated to stem from the likely consolidation in 2026 of the improved composition of aggregate demand compared to 2024, involving an increased contribution of investment to economic growth to the detriment of that of consumption, with implications for the future dynamics of potential GDP as well.

In such a context, the risk for the probable temporary pick-up in the annual inflation rate in 2026 Q2 to affect medium-term inflation expectations and generate second-round effects was significantly diminished, yet called for close scrutiny of all developments, also in light of the inflation behaviour in previous years.

³³ Economic activity was anticipated to recover in 2026 H2 and accelerate its growth more visibly in 2027 compared to previous forecasts, mainly amid the influences from the use of European funds under the Next Generation EU programme and from the revival of external demand.

Uncertainties were further associated with the measures likely to be adopted in the future in order to keep the budget deficit on a sustainable downward path beyond 2026, 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, stemmed from the external environment, given the geopolitical conflicts and the global trade tensions, but also the plans to increase defence and infrastructure investment spending in EU countries.

A significant source of risks and uncertainties remained the absorption and efficient use of EU funds, especially those under the Next Generation EU programme, essential for partly counterbalancing the contractionary effects of budget consolidation and of global geopolitical and trade conflicts, 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 continued to decrease slowly in the first two months of 2026 Q1, to reach 9.31 percent in February, amid significant declines in the dynamics of electricity and natural gas prices, which were largely offset by the opposite developments in the growth rates of VFE prices, administered prices, and the prices of tobacco products and fuels. During this period, a minor disinflationary contribution also came from core inflation, given that the annual adjusted CORE2 inflation rate halted its rise, posting a small drop to 8.3 percent in February³⁴, almost entirely on account of the processed food sub-component³⁵.

Economic activity contracted by 1.9 percent in 2025 Q4, after having narrowed by 0.1 percent in the previous quarter, which made it likely for the aggregate demand deficit to have widened more visibly over this period compared to expectations. At the same time, annual GDP growth slowed to 0.2 percent in 2025 Q4 from 1.7 percent in Q3, mainly due to the significant increase in the negative contribution made by the change in inventories, but also amid the moderate fall in household consumption, whose cumulative contractionary impact on domestic demand was only partly counterbalanced by the further step-up in the robust growth rate of gross fixed capital formation. By contrast, the impact of net exports became expansionary again, given that the annual growth rate of exports of goods and services outpaced once again that of imports in terms of volume, posting a relatively more modest drop as against the previous quarter. Against this background, the trade deficit saw an even stronger contraction in annual terms, while the current account deficit continued to shrink mildly, the pronounced worsening of income balances notwithstanding.

Looking at the labour market, the number of employees economy-wide followed a more pronounced trend of monthly declines in January 2026 after the halt in

³⁴ The slight decline in the annual core inflation rate was mainly driven by the decrease in the prices of some agri-food commodities, disinflationary base effects and the deceleration in import price growth, being attributable to a small extent to the widening of the aggregate demand deficit and the weakening of consumer demand.

³⁵ The annual dynamics of which embarked on a downward trajectory after six quarters of increase.

mid-2025 Q4, and therefore recorded a wider contraction in annual terms, while the ILO unemployment rate also went down in the first two months of 2026 overall, after rising to an average of 6.2 percent in 2025 Q4. However, surveys related to 2026 Q1 indicated that employment intentions over the very short horizon weakened visibly (after a soft recovery in 2025 Q4) and that the labour shortage reported by companies narrowed markedly. At the same time, the annual growth rate of nominal gross wage re-accelerated its drop in January 2026, while that of the unit labour cost in industry decreased notably compared to the still high levels seen in the second half of 2025.

The main interbank money market rates continued to decrease in February 2026, but climbed and consolidated subsequently at visibly higher readings. Moreover, medium- and long-term yields on government securities steepened their downtrend in February, before witnessing sizeable increases in the first two 10-day periods of March, only to a small extent corrected afterwards, amid the abrupt deterioration of investor sentiment, especially towards markets in the region, once with the outbreak of the war in the Middle East. The EUR/RON exchange rate recorded a rise as well, albeit relatively modest, including from a regional perspective, and then tended to stay at the new levels, given *inter alia* the considerable improvement in the balance of residents' transactions in the interbank forex market.

The annual pace of increase of credit to the private sector halted the downward trend followed in the second part of 2025, posting mild pick-ups in the first two months of 2026, to 6.8 percent in February³⁶. The added momentum was generated, this time round, by the renewed step-up in the dynamics of credit to non-financial corporations, on the back of developments in the leu- and foreign currency-denominated components alike. At the same time, the rate of change of household credit continued to decrease, relatively slowly however and from a higher level, mainly reflecting the slower dynamics of leu-denominated consumer loans and other loans.

The updated assessments in this context indicated that the annual inflation rate would step up and stick to higher levels than envisaged in the February 2026 medium-term forecast during the period from March to June 2026. The worsening of the near-term inflation outlook was attributable to supply-side factors/shocks, whose action would become more markedly inflationary in 2026 Q2 than previously foreseen, mainly as a result of costlier fuels, amid the considerable rises in oil and natural gas prices in the context of the Middle East war. The inflationary effects thus generated would outweigh by far the opposite influences stemming over the near term from the natural gas price setting mechanism applicable to household consumers as of April 2026. Moreover, they would overlap the unfavourable base effects that would be 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 would dissipate in 2026 Q3.

³⁶ After having declined to 6.2 percent in December 2025 from 9.7 percent in May 2025

The balance of risks stemming from supply-side factors remained, however, tilted to the upside in the short run, given especially the potentially higher direct and indirect effects exerted domestically by the rise in oil prices, while the recently adopted measures aimed at shielding firms and households from the inflationary impact of the energy shock, but also the current and anticipated situation of consumer demand, were likely to cushion the pass-through of costlier fuels to some services and goods prices.

Underlying factors would exert slightly disinflationary pressures over the very short horizon, considering the larger-than-expected size reached by the aggregate demand deficit in 2025 Q4 and the prospects for its further widening in the first half of 2026³⁷, but also the time lags necessary for the effects of the negative output gap and of the decreasing dynamics of private sector wage costs to become manifest, especially amid the recent inflationary bout and the high short-term inflation expectations, conducive to a higher persistence of core inflation.

However, underlying disinflationary pressures were expected to strengthen over the longer horizon, especially those stemming from aggregate demand, amid the progress in the budget correction initiated in 2025 – with favourable implications for inflation expectations as well –, while in the short run households' purchasing power would be additionally weakened by the effects of costlier fuels.

In such a context, the risk for the likely steeper rise in the annual inflation rate in 2026 Q2 under the impact of the energy shock to affect medium-term inflation expectations and generate second-round effects was significantly diminished, yet called for close scrutiny of all developments.

Uncertainties were still associated with the measures likely to be adopted in the future in order to keep the budget deficit on a sustainable downward path 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.

High uncertainties and risks to the outlook for economic activity, implicitly the medium-term inflation developments, stemmed however from the energy crisis generated by the Middle East war, via the effects potentially exerted, through multiple channels, on consumer purchasing power and confidence, as well as on firms' activity and profits, also by affecting the dynamics of economies and inflation in Europe/worldwide and the risk perception towards the region, with knock-on effects on financing costs. Moreover, uncertainties were associated with the absorption and use 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.

³⁷ The new assessments pointed to a slight recovery of economic activity in 2026 H1 compared to the closing quarter of 2025, implying that the aggregate demand deficit would go down to lower values than those previously anticipated for this period.

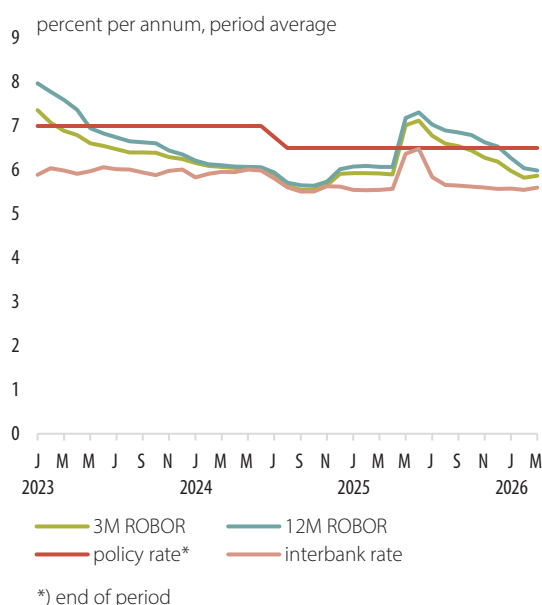
Under the circumstances, in its meeting of 7 April 2026, the NBR Board decided to keep the monetary policy rate at 6.50 percent and to leave unchanged the lending and deposit facility rates at 7.50 percent and 5.50 percent respectively. At the same time, the NBR Board kept the existing levels of minimum reserve requirement ratios on both leu- and foreign currency-denominated liabilities of credit institutions.

2. Financial markets and monetary developments

In 2026 Q1, the daily average interest rate in the interbank money market³⁸ continued to fluctuate slightly above the lower bound of the interest rate corridor, while longer-term rates extended their downward course into January and February, but climbed and consolidated afterwards at visibly higher readings. The EUR/RON exchange rate saw somewhat stronger fluctuations in the first part of the quarter, before reaching relatively higher levels in March. The annual growth rate of liquidity in the economy and that of credit to the private sector halted their decline January through February overall.

2.1. Interest rates

Chart 3.2. Policy rate and ROBOR rates



The daily average interest rate in the interbank money market continued to fluctuate slightly above the lower bound of the interest rate corridor during 2026 Q1. Its quarterly average thus halted the downward path, staying practically unchanged at 5.58 percent³⁹.

The developments reflected the behaviour of very short-term rates, amid the *status-quo* of NBR interest rates, as well as the sizeable money market liquidity surplus. The latter steepened its increase during the first two months of Q1 overall⁴⁰, before narrowing moderately in March, and was further mopped up by the central bank via the deposit facility⁴¹.

The 3M-12M ROBOR rates accelerated their downward adjustment in January 2026 and continued to decline the following month, albeit

³⁸ The average interest rate on transactions in deposits on the interbank money market, weighted by the volume of transactions

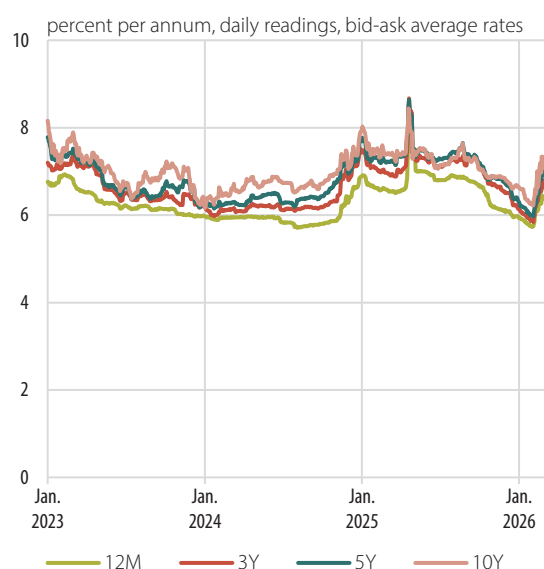
³⁹ Average weighted by the volume of transactions

⁴⁰ Under the impact of liquidity injections generated by Treasury operations

⁴¹ The average daily stock of these deposits rose to lei 45.1 billion in February 2026, from lei 29.5 billion in the closing month of 2025, and then shrank to lei 35.5 billion in March.

relatively slowly, before witnessing marked rises in the early days of March and then sticking to the new readings, given the abrupt worsening of financial investor sentiment, especially towards markets in the region, once with the outbreak of the Middle East war (Chart 3.2). The quarterly averages of ROBOR rates steepened,

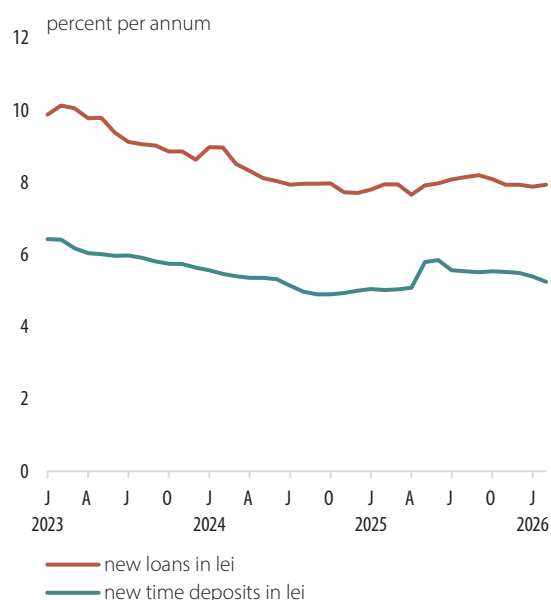
Chart 3.3. Reference rates on the secondary market for government securities



however, their downward course, shedding 0.42-0.49 percentage points for the 3M and 6M rates, to 5.88 percent and 5.96 percent respectively, and 0.57 percentage points for the 12-month maturity, to 6.09 percent.

In turn, medium- and long-term reference rates on the secondary market for government securities⁴² went down at a faster pace during the first two months of 2026 Q1, *inter alia* amid the improvement of investor risk perception towards the local economy and financial market, given the favourable outcome of the budget execution for 2025 and following the wrap-up of actions related to the adoption of new fiscal consolidation measures (Chart 3.3). The rates saw nevertheless marked increases in the first half of March, which were corrected only to a small extent afterwards, amid the rise in global risk aversion with the outbreak of the war in the Middle East. At the same time, the rates on 6- and 12-month Treasury certificates stayed on a downward path in the first two months of the quarter, but went up significantly in the first part of March.

Chart 3.4. Bank rates



Specifically, the monthly averages of the rates in March 2026 climbed slightly above those in December 2025 for 6M-12M maturities (by 0.14-0.16 percentage points, to 6.15 percent and 6.27 percent respectively), as well as for the 10-year one (by 0.10 percentage points, to 6.93 percent) and returned to values similar to those recorded in the closing month of 2025 across the middle segment of the maturity spectrum (i.e. 6.54 percent and 6.75 percent for 3- and 5-year securities respectively). Under the circumstances, the positive slope of the yield curve moderated slightly.

⁴² Bid-ask averages

Looking at the primary market⁴³, the total volume of issues increased considerably in January and remained high from a historical perspective the following month, before shrinking markedly in March, as the MF rejected the primary dealers' bids submitted at the majority of auctions⁴⁴, following the significant rise in bid rates. In 2026 Q1 overall, the total value of securities issued went up, however, by lei 4.6 billion versus the previous three months (to about lei 26 billion)⁴⁵. Reflecting in their turn the strengthening of the investor appetite for this type of investments during the first two months of 2026 Q1, but also the visible weakening in March, the ratio of the amounts of bids submitted to the announced volume at auctions, as well as the ratio of the volume of issues to the announced volume advanced January through February overall to 2.50 and 1.19, from 2.11 and 0.99 respectively in December, before falling abruptly to 1.15 and 0.29 respectively in March⁴⁶.

The average interest rate applicable to non-bank clients' new loans moderated its decline in the period from January to February 2026 overall as against 2025 Q4 (-0.08 percentage points, to an average of 7.91 percent), whereas the average remuneration of new time deposits went down at a slightly faster pace, shedding 0.20 percentage points, to 5.32 percent (Chart 3.4).

From a sectoral perspective, developments were heterogenous for interest rates on loans, yet uniform for those on new time deposits. Specifically, the average interest rate on new loans to households posted a renewed mild increase (+0.06 percentage points, to 7.66 percent, after a similar decline in the previous quarter), yet solely on the back of the wider share in total of new consumer credit, whose average interest rate, relatively higher, shrank by 0.11 percentage points (to 9.64 percent), after a more modest rise in the prior quarter, while the average interest rate on new housing loans stayed almost unchanged at 5.85 percent⁴⁷ (Chart 3.5).

⁴³ During 2026 Q1, the MF's "Tezaur" programme saw the monthly issuance of government securities with 1-, 3- and 5-year maturities, at rates of: (i) 6.40 percent, 7.00 percent and 7.40 percent respectively in January, totalling lei 1.7 billion, (ii) 6.40 percent, 7.00 percent and 7.40 percent respectively in February, worth lei 2.6 billion, and (iii) 6.10 percent, 6.55 percent and 7.00 percent respectively in March, in total amount of lei 3.5 billion. Moreover, under the "Fidelis" programme, the MF issued government securities for households as follows: (i) in January, securities both in domestic currency, with 2-, 4- and 6-year maturities, at rates of 6.45 percent, 7.10 percent and 7.50 percent respectively, worth lei 700 million, and in euro, with 3-, 5- and 10-year maturities, at rates of 3.75 percent, 4.75 percent and 6.20 percent respectively, totalling EUR 230 million; (ii) in February, government securities in lei, with 2-, 4- and 6-year maturities, at rates of 6.15 percent, 6.75 percent and 7.25 percent respectively, worth lei 379 million, and in euro, with 3-, 5- and 10-year maturities, at rates of 3.6 percent, 4.5 percent and 6.0 percent respectively, totalling EUR 124 million; (iii) in March, government securities in lei, with 2-, 4- and 6-year maturities, at rates of 5.90 percent, 6.60 percent and 7.10 percent respectively, worth lei 533 million, and in euro, with 3-, 5- and 10-year maturities, at rates of 3.5 percent, 4.5 percent and 6.0 percent respectively, totalling EUR 126 million. Moreover, in January, the MF issued EUR-denominated government securities on the domestic market, with maturities of 1 year and 2 years respectively, at average rates of 2.45 percent and 2.91 percent respectively, totalling EUR 395 million, and CHF-denominated Eurobonds on the external market, with a 5-year maturity and at a variable rate (6M CHF SARON + 1.37 percent), worth 175 million Swiss francs. In February, the MF issued on the external market Eurobonds denominated both in euro, with 7- and 18-year maturities respectively, totalling EUR 3 billion, and in US dollars, with a 10-year maturity, worth USD 2 billion.

⁴⁴ Even amid the revision of the initial schedule of issues, by reducing the volume and the average maturity thereof

⁴⁵ The value of net issues decreased by lei 1.2 billion (to lei 7.0 billion), given the rise in the volume of securities maturing in this quarter (by around lei 5.3 billion to lei 18.8 billion).

⁴⁶ In 2026 Q1 overall, the ratio of the amounts of bids submitted to the announced volume at auctions and the ratio of the volume of issues to the announced volume shrank to 2.19 and 0.98 versus 2.23 and 1.05 respectively in the previous quarter.

⁴⁷ As the average interest rate on fixed-rate loans, which prevail under this category, went down marginally during the period overall, while that on floating-rate loans increased, even amid the hefty drop in the 2026 Q1 IRCC.

Chart 3.5. Interest rates for households*

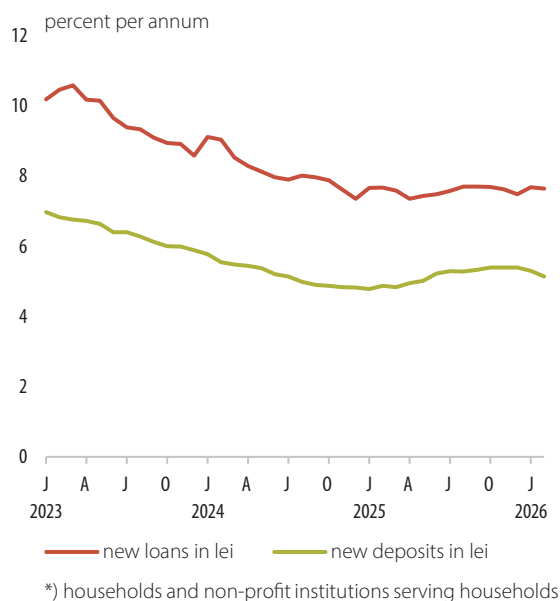
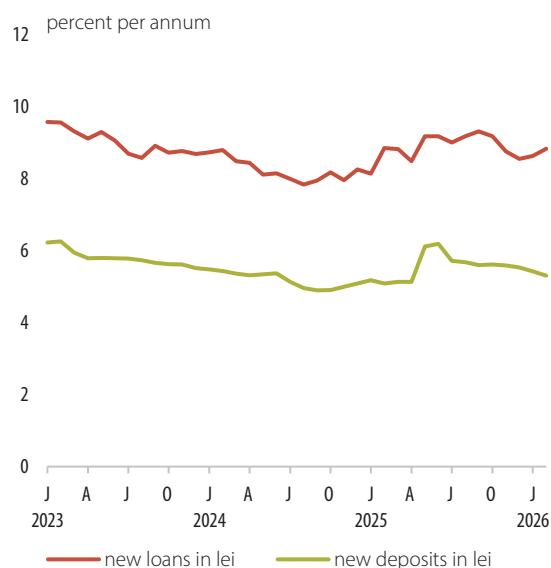


Chart 3.6. Interest rates for non-financial corporations



Conversely, the average interest rate on new loans to non-financial corporations stuck to a downward path, at a slower pace however than in the previous three months (-0.09 percentage points, to 8.74 percent), as the new decrease in the average interest rate on high-value loans, i.e. above EUR 1 million equivalent (-0.23 percentage points, to an average of 8.05 percent), was cushioned in terms of impact by the *status-quo* of that on low-value loans, below the said threshold, at 9.00 percent after the previous quarter's downward adjustment (Chart 3.6).

The average remuneration of new time deposits from households stopped its upward course seen in the previous three quarters, shedding 0.17 percentage points against 2025 Q4, to 5.22 percent, whereas that on similar deposits from non-financial corporations steepened slightly its decline (-0.21 percentage points versus the prior quarter, to 5.37 percent).

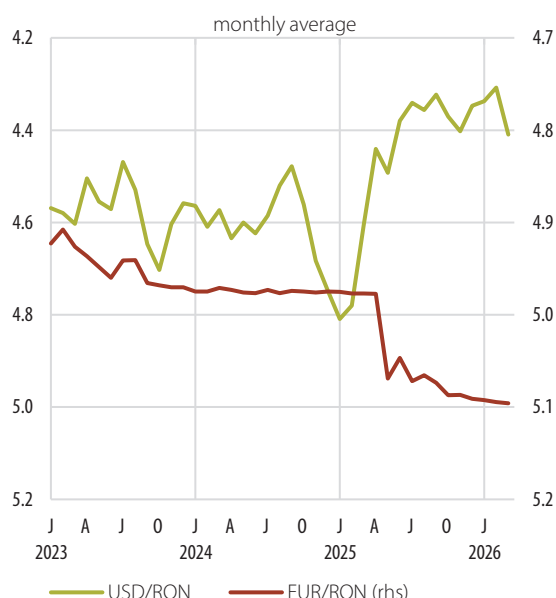
2.2. Exchange rate and capital flows

The EUR/RON exchange rate saw somewhat stronger fluctuations in the first part of 2026 Q1, before reaching relatively higher levels in March (Chart 3.7).

The EUR/RON declined relatively abruptly in the early days of January 2026, but returned gradually by the end of the month to the higher readings recorded at the beginning of the period⁴⁸. The behaviour of the currency pair reflected the changes in international financial market sentiment, *inter alia* amid an episode

⁴⁸ In January 2026 overall, the value of the leu remained almost unchanged in relation to the euro.

Chart 3.7. Nominal exchange rate



of heightened geopolitical and trade tensions worldwide⁴⁹, but also residents' increased demand for foreign currency, cushioned however in terms of influence by the improvement in investor risk perception towards the domestic economy and financial market.

The EUR/RON exchange rate followed a slightly winding path in February as well, given that the global risk appetite continued to fluctuate – amid investors reconsidering the magnitude of future Fed rate cuts⁵⁰, but also in the context of escalating geopolitical tensions in the Middle East⁵¹ –, while investor risk perception towards the local economy and financial market steepened its improvement trend, *inter alia* following the wrap-up of actions related to the adoption of new budget consolidation measures (Table 3.1).

Table 3.1. Key financial account items

	EUR million					
	2 mos. 2025			2 mos. 2026		
	Net acquisition of financial assets*	Net incurrence of liabilities*	Net	Net acquisition of financial assets*	Net incurrence of liabilities*	Net
Financial account	1,307	5,117	-3,810	-497	543	-1,041
Direct investment	1,094	1,852	-759	108	1,162	-1,053
Portfolio investment	-114	3,178	-3,292	-159	-473	314
Financial derivatives	-15	0	-15	0	0	0
Other investment	198	87	111	-426	-145	-280
– currency and deposits	179	-622	802	-695	-723	28
– loans	247	324	-77	45	445	-400
– other	-228	385	-614	224	132	91
NBR's reserve assets, net	145	0	145	-21	0	-21

*) "+" increase/"-" decrease

The global risk aversion rose however markedly in the early days of March, and the risk perception towards markets in the region deteriorated considerably, once with the outbreak of the war in the Middle East, likely to generate a global energy crisis. Against this backdrop, the EUR/USD steepened visibly its decline in the first half of the month⁵², while the exchange rates versus the euro of the currencies in the region witnessed sizeable increases at the onset of the period, followed only by small downward corrections or by significant fluctuations, amid the high uncertainty and risks surrounding the outlook and the implications of the armed conflict (Chart 3.8).

The EUR/RON exchange rate also posted an increase, albeit relatively modest, and then tended to stick to the new readings, *inter alia* amid the considerable improvement of the balance on residents' transactions

⁴⁹ It also entailed an abrupt rise in the EUR/USD exchange rate, to the highest reading in the past four and a half years (1.2041 US dollars per euro on 27 January). Towards the end of the month, the EUR/USD saw a partial downward adjustment, also amid the Fed's decision to keep the policy rate unchanged.

⁵⁰ Considering the worse-than-expected developments in some labour market indicators, in retail trade turnover, as well as in the annual inflation rate, as shown by the new statistical data

⁵¹ Against this background, the EUR/USD exchange rate embarked in the first 10-day period of February and stayed until the end of the month on a mildly downward trend.

⁵² The EUR/USD dropped to a seven-month low of 1.1476 US dollars per euro in mid-March.

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



Source: ECB, NBR

in the interbank forex market, probably correlated with international trade developments as well.

The interbank forex market turnover went up further in 2026 Q1 against the previous three months, hitting a new historical high, while the overall foreign currency deficit widened, on account of non-residents' transactions.

In 2026 Q1 as a whole, the leu weakened versus the euro by 0.1 percent in nominal terms^{53,54}, thus appreciating by 1.5 percent in real terms. In relation to the US dollar, the leu strengthened 0.5 percent in nominal terms, after having weakened somewhat more markedly in the previous quarter, and appreciated by 2.2 percent in real terms. Looking at the annual change in the quarterly averages of the exchange rate, the domestic currency kept a quasi-steady pace of depreciation against the euro

and steepened its strengthening in relation to the US dollar.

2.3. Money and credit

Money

The annual growth rate of broad money (M3) discontinued its decline in the first two months of 2026 as a whole, remaining on average at 7.0 percent⁵⁵, in correlation with private sector credit dynamics halting their downtrend as well as amid the opposite influences that stemmed, on the one hand, from the further improvement in the budget execution and, on the other hand, from the trade balance faring relatively better and from the noticeably slower increase in individuals' holdings of government securities (Table 3.2).

Looking at the composition, the dynamics of broad money stopped their downward trend amid the visibly less diverging developments of the main M3 components compared to the previous quarter. Specifically, the annual rate of change of narrow money (M1) moderated its decline⁵⁶, both on account of the increase in leu-denominated overnight deposits re-accelerating^{57,58} – primarily owing to the evolution of those

⁵³ Against the previous quarter, based on the quarterly averages of the exchange rate

⁵⁴ During the same period, the forint and the zloty appreciated further in relation to the euro, by 0.6 percent and 0.1 percent respectively, whereas the Czech koruna weakened 0.2 percent versus the single currency.

⁵⁵ In turn, the real annual growth rate of M3 posted a marginally less negative value during the period overall, i.e. -2.3 percent from -2.5 percent in 2025 Q4.

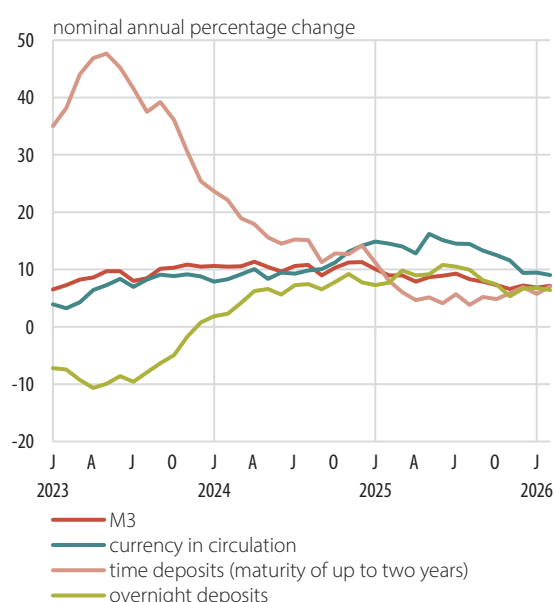
⁵⁶ Hitting, however, a seven-quarter low

⁵⁷ After five quarters of decline

⁵⁸ In terms of impact, this slightly outweighed the new significant drop, albeit somewhat more modest, in the dynamics of foreign currency-denominated overnight deposits (expressed in EUR).

Table 3.2. Annual growth rates of M3 and its components

	nominal percentage change					
	2025				2026	
	I	II	III	IV	Jan.	Feb.
	quarterly average growth					
M3	9.3	8.5	8.5	7.0	6.9	7.1
M1	10.0	11.1	10.8	7.8	7.6	7.2
Currency in circulation	14.5	14.7	14.1	11.2	9.5	9.0
Overnight deposits	8.3	9.6	9.5	6.5	6.8	6.5
Time deposits (maturity of up to two years)	8.4	4.7	4.9	5.9	5.8	7.1

Chart 3.9. Main broad money components

from non-financial corporations – and as a result of the growth in currency in circulation coming down at a milder pace⁵⁹ (Chart 3.9).

Conversely, the annual dynamics of time deposits with a maturity of up to two years slowed their advance, given that the rate of change of leu-denominated deposits continued to rebound at a relatively steady pace on the back of household deposits⁶⁰, while that of the foreign currency component (expressed in EUR) saw a steeper decline, also with the major contribution of developments in the household segment⁶¹.

The share of M1 in M3 continued to narrow, albeit at a visibly slacker pace, reaching 60.2 percent in February 2026 – a 12-month low – from 60.5 percent in December 2025.

The breakdown by holder shows that both major institutional sectors contributed to M3 dynamics halting their decrease in January-February 2026⁶². Specifically, the annual rate of change of household deposits slowed its downward path markedly, given that the faster decline in real disposable income was associated with an even sharper contraction in annual terms in purchases of goods and services and with a somewhat more noticeable deceleration in the dynamics of households' holdings of government securities. Concurrently, the growth rate of non-financial corporations' deposits remained unchanged at the lower level posted in the previous quarter, given, on the one hand, the decrease in disbursements from the government budget⁶³ and the strong contraction

in retail trade compared to the same year-ago period, and, on the other hand, the improvement in the trade balance and the slightly renewed pick-up in the dynamics of credit to this sector.

From the perspective of M3 counterparts, the influences exerted in this period by the significantly brisker increase in net credit to the central government were fully offset by those from the further advance in the dynamics of other net internal assets⁶⁴.

⁵⁹ However, it fell to one-digit levels for the first time in six quarters.

⁶⁰ The step-up in the dynamics of non-MFIs' leu-denominated time deposits also exerted a small influence.

⁶¹ The evolution of similar deposits from non-financial corporations made a notable contribution as well.

⁶² At the same time, the fast annual dynamics of investments of non-MFIs picked up from the previous quarter.

⁶³ According to general government budget execution data in January-February 2026.

⁶⁴ This includes long-term financial liabilities and capital accounts.

Credit to the private sector

The annual pace of increase of credit to the private sector halted the downtrend it had embarked on in mid-2025, remaining, in January-February 2026 as a whole, at a level similar to the 2025 Q4 average (6.7 percent)^{65,66}. This occurred as the rate of change of the leu-denominated component moderated its decline somewhat and the growth rate of foreign currency-denominated loans (expressed in EUR) slowed its advance (Chart 3.10). The share of the domestic currency component in credit to the private sector narrowed further, to 67.8 percent in February from 68.2 percent in December 2025.

Chart 3.10. Credit to the private sector by currency

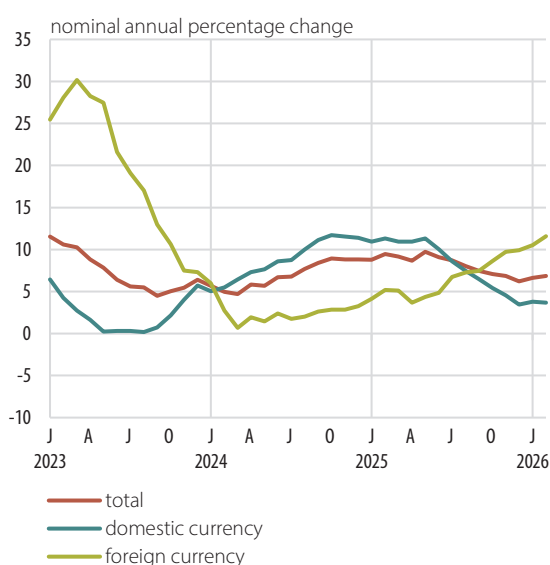
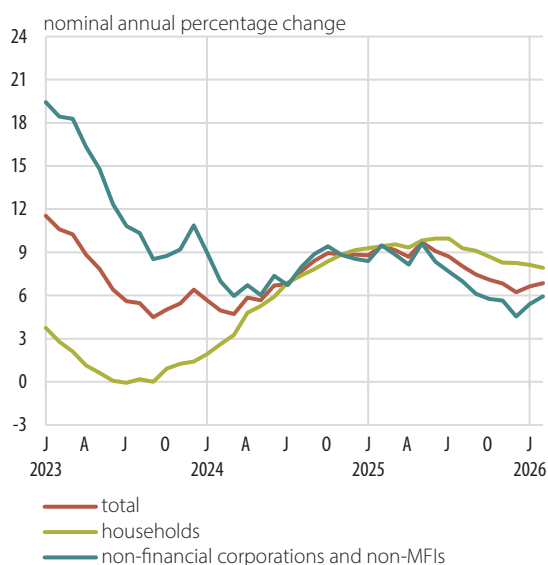


Chart 3.11. Credit to the private sector by institutional sector



The dynamics of loans to the private sector stopped their decline as a result of the diverging developments at the level of the main institutional sectors (Chart 3.11). Specifically, the annual growth rate of household loans further decreased, primarily on the back of the pace of increase of leu-denominated consumer credit and other loans⁶⁷, as well as amid a new slight loss of momentum of leu-denominated housing loans for the second quarter in a row⁶⁸, whereas the stock of foreign loans (expressed in EUR) continued to slowly narrow its annual decline.

The annual dynamics of loans to non-financial corporations however saw a mild re-acceleration after seven months of continuous decrease, given that the domestic

⁶⁵ At monthly level, the annual dynamics of private sector credit recorded mild increases in the first two months of 2026 Q1, reaching 6.8 percent in February from 6.2 percent in December 2025.

⁶⁶ Credit to the private sector recorded a slightly less negative real annual rate of change, i.e. -2.5 percent in January-February 2026, from -2.8 percent in 2025 Q4.

⁶⁷ However, it moderated its decline, given that the volume of actually new leu-denominated consumer credit and other loans (adjusted for renegotiation operations) held steady on average in January-February 2026 at the level posted in the previous quarter and their annual dynamics stepped up slightly.

⁶⁸ The volume of actually new leu-denominated housing loans (adjusted for renegotiation operations) witnessed a fall in annual terms in January-February 2026, similarly to the previous three months.

currency components saw a significantly slower contraction against the same year-earlier period⁶⁹, while the high rate of change of foreign currency loans (expressed in EUR) stuck to an upward path, albeit at a slacker pace compared to 2025 H2 and entirely ascribable to the developments in medium- and long-term loans.

⁶⁹ The volume of actually new leu-denominated loans to non-financial corporations (adjusted for renegotiation operations) nevertheless halved in January-February 2026 versus the 2025 Q4 average.

4. Inflation outlook

The baseline macroeconomic scenario is surrounded by exceptional uncertainties, being essentially conditioned by the assumptions on the unfolding of the Middle East conflict and the scale of ensuing disruptions in energy supply. Given the path of oil futures prices, the updated projection points to an increase to 10.3 percent in the annual CPI inflation rate in June 2026. In Q3, CPI dynamics are anticipated to witness a sharp correction of approximately 4.6 percentage points, due to the dropping out of the calculation of the price hikes recorded in July-August 2025. To this add an envisaged easing of global energy markets and a persistent aggregate demand deficit domestically. In this context and to the extent that these developments are confirmed, one cannot rule out some first downward adjustments of economic agents' inflation expectations, which could make an additional contribution to strengthening disinflation. Over the remainder of the projection interval, the inflation rate is anticipated to decline gradually, mainly under the disinflationary impact of the fiscal consolidation process. Insofar as the baseline assumptions materialise, this effect will also be supported by the gradual normalisation of external market conditions and the fading out of the influences from previous shocks. Under the circumstances, significant inflationary pressures are also visible in the case of core inflation. They are expected to dissipate over the forecast interval, the indicator being estimated to reach 4.8 percent in December 2026, 2.5 percent in December 2027 and 2.2 percent at the forecast horizon, March 2028. As a result, the annual CPI inflation rate is projected at 5.5 percent for end-2026, at 2.9 percent in December 2027, and at 2.7 percent in March 2028.

Due to the reconfiguration of the global economic context, the annual CPI inflation rate is expected to reach higher values than those published in the previous *Inflation Report* until mid-2027. For the end of 2026, it was revised upwards by 1.6 percentage points, the forecast for December 2027 being, however, similar to the previous one.

The escalating geopolitical tensions bring again to the fore upside risks to the CPI inflation path, the current macroeconomic environment being dominated by stagflation risks. On the external front, the energy crisis could be amplified by the extension of restrictions on the maritime traffic through the Hormuz Strait. At the same time, the supply disruptions stemming from attacks on the critical infrastructure also affect other strategic commodities. Domestically, the persistence of tensions in international energy markets could generate a strong inflationary shock, once with the liberalisation of the natural gas market for household consumers, scheduled for April 2027. In the current context, new episodes of volatility in financial markets and adjustments in capital flows could be caused by the recent political tensions.

1. Baseline scenario

1.1. External assumptions

Compared to the previous *Inflation Report*, the economic growth prospects of external trading partners – a variable proxied by the EU effective GDP – were revised downwards, more markedly for 2026, i.e. to approximately 1 percent versus 1.3 percent, amid the adverse short-term impact of the Middle East conflict on energy prices and the functioning of global value chains (Table 4.1). The revision for 2027

is more modest (down to about 1.4 percent from 1.5 percent), reflecting mainly the persistence of residual effects of the shock generated by the Middle East conflict, against the background of a slow economic recovery, even in the assumption of a relatively quick conflict de-escalation, taken into consideration in the baseline scenario.

In 2026 Q1, the economic activity of external trading partners posted a slight advance. Subsequently, starting with 2026 Q2, as the fallout from the Middle East conflict passes through into the economy, the growth dynamics are anticipated to remain slow during this year and then to recover gradually until the projection horizon, i.e. 2028 Q1.

Table 4.1. Expected developments in external variables

	annual averages	
	2026	2027
EU effective GDP growth (%)	1.0	1.4
Euro area annual inflation (%)	2.7	1.9
Euro area annual inflation excluding energy (%)	2.0	2.5
Annual CPI inflation rate in the USA (%)	2.7	2.3
3M EURIBOR (% p.a.)	2.2	2.5
USD/EUR exchange rate	1.16	1.16
Brent oil price (USD/barrel)	84.8	75.7

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

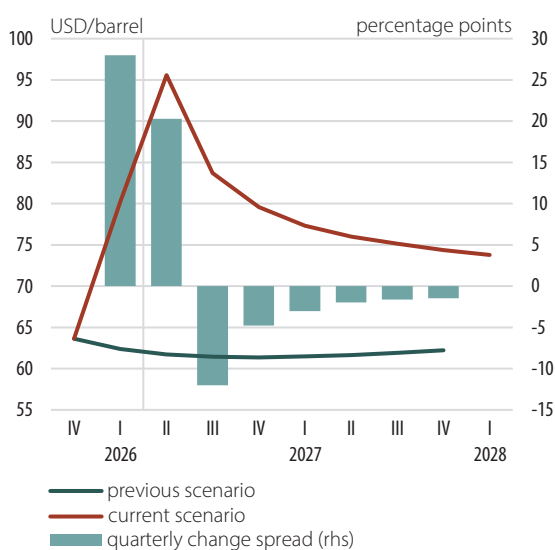
The external output gap was revised downwards compared to the previous round, implying wider negative values in both 2026 and 2027. Looking by quarter, the indicator is foreseen to record negative values until the projection horizon.

The annual headline inflation rate in the euro area (HICP) went up to 2.6 percent in March 2026 from 1.9 percent in February. Flash estimates point to a new increase in the annual HICP inflation rate in the euro area to 3 percent in April 2026, owing to the rise in energy prices and the ensuing effects. Subsequently, the inflation rate is expected to resume a downward path, as the impact of the energy shock fades away. Specifically, at the forecast horizon, the annual headline inflation rate is projected to post levels close to the ECB's target level of 2 percent. Compared to the previous *Inflation Report*, the average annual HICP inflation rate in the euro area was revised upwards for 2026 by approximately 0.8 percentage points, as a result of the direct and indirect effects of the hikes in prices of oil, natural gas and other commodities, as well as of their pass-through into final prices. For 2027, the adjustment is smaller, i.e. about 0.1 percentage points, based on the assumption that the energy shock will be temporary, yet with effects continuing to be partly manifest through indirect channels, amid an only gradual dissipation of its impact.

In turn, the euro area HICP inflation excluding energy⁷⁰ is indirectly influenced by higher energy costs, due to their pass-through along production and transport chains. These pressures are, however, partly offset by the slower growth of labour costs, the previous strengthening of the euro and the step-up in imports from economies with more competitive prices, such as China. In this context, the indicator is anticipated to rise from approximately 1.6 percent in 2026 Q2 to a high of 2.9 percent in 2027 Q1 and then to stabilise in the range of 2.3-2.4 percent over the remainder of the forecast interval.

Financial market expectations indicate an upward trend in the nominal 3M EURIBOR rate, amid anticipations of a possible monetary policy response from the ECB to inflationary pressures. In the short run however, the real 3M EURIBOR rate is estimated to have a relatively stimulative impact on the economic activity in Europe, given the swifter increase in inflation expectations than in the nominal interest rate. Subsequently, in the course of 2027, the real interest rate will gradually become restrictive, once with the dissipation of the energy shock and the return of inflation expectations close to the ECB's target level of 2 percent.

Chart 4.1. Brent oil price scenario



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

In 2026 Q1, the USD/EUR exchange rate was 1.17 US dollars per euro, but the US dollar appreciated towards 1.15 in March, amid the heightened geopolitical tensions. The exchange rate is foreseen to stand at around 1.16 US dollars per euro over the forecast interval, but the projected trajectory is surrounded by elevated uncertainty, being sensitive to the duration and magnitude of the Middle East conflict. Compared to the previous round, the USD is slightly stronger versus the euro, i.e. by approximately 2 euro cents throughout the forecast interval.

The scenario for the Brent oil price is based on futures prices and mirrors the effects of the escalating conflict in the Middle East. Specifically, the crude oil price increased swiftly in March, remained at high levels in April and subsequently is projected to follow a downward path, amid the

assumptions on the conflict de-escalation. Compared to the previous *Inflation Report*, the updated trajectory of prices, despite heading downwards, is considerably higher, i.e. by approximately USD 34/barrel in 2026 Q2. The gap is gradually narrowing to reach about USD 18/barrel at the end of 2026. At the projection horizon, the Brent oil price is foreseen to stand at around USD 73.8/barrel (Chart 4.1), i.e. up by approximately USD 11/barrel from the previous *Inflation Report*.

In the short and medium run, oil price developments are shaped by supply-side factors, strongly influenced by the escalating conflict in the Middle East. The shock

⁷⁰ A proxy for imported inflation in the case of Romania

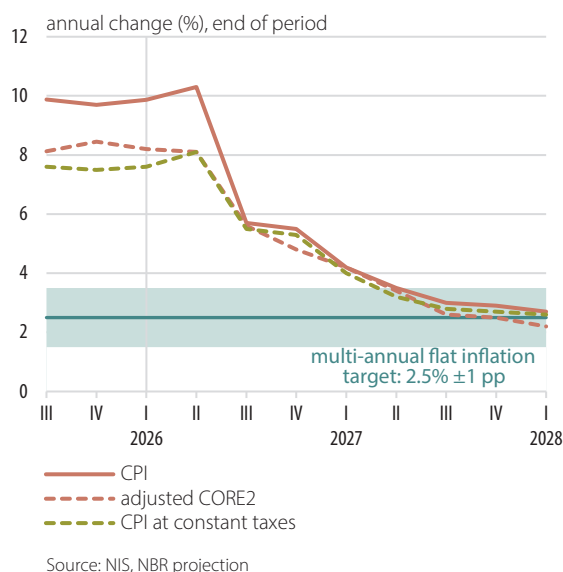
is perceived by markets and main international institutions as having systemic implications. The regional turmoil, including the risks pertaining to critical shipping lanes, such as the Strait of Hormuz, and the raids on energy infrastructure, generated significant supply disruptions and heightened the uncertainty surrounding the balance between demand and supply worldwide. At the same time, the lack of diplomatic progress and the uncertainty about the duration of conflict caused a strong rise in the geopolitical risk premium, reflected in the high volatility of prices. In this context, the recent assessments of the International Energy Agency⁷¹ indicate a significant reduction in the global oil supply, i.e. by approximately 13 million barrels/day, the equivalent of around 13 percent of world consumption, despite resorting to strategic reserves in order to cushion the impact on the market (400 million barrels). Moreover, financial markets started to internalise alternative scenarios on the persistence of the shock, which led to higher futures curve slopes and elevated price volatility.

Even in the scenario assuming the conflict de-escalation or cessation, the market adjustment is not instant. The reconfiguration of trade flows, the replenishment of stocks and the potential persistent logistic constraints can put further pressure on supply for an extended period of time. In this context, the experience of previous episodes suggests that the complete dissipation of supply-side shocks is gradual, and the return to more balanced market conditions depends on the normal functioning of energy infrastructure and trade routes. As a result, one cannot rule out that the oil price might remain relatively high in the medium term, due *inter alia* to a risk premium that decreases only gradually and to persistent uncertainty about the new global balance of the energy market.

1.2. Inflation outlook

The conflict in the Middle East caused a major shock on energy commodity prices, which substantially reshaped the trajectory of the annual CPI inflation rate domestically. Direct effects have quickly become visible, mainly through the increase in final motor fuel prices, whereas indirect effects – passed through via production and transport costs – are more persistent as they are gradually reflected in the prices of other goods and services. The pass-through of these pressures is amplified by the recent rise in short-term inflation expectations, which enables economic agents to adjust prices faster. Under the circumstances, the downward trend of the annual CPI inflation rate seen before the energy shock has reversed ever since March, when the indicator climbed to 9.87 percent. This was higher by 0.18 percentage points than the reading in December 2025 and by 0.7 percentage points than the forecast in the February 2026 *Inflation Report*, mainly due to the pick-up in motor fuel prices. In the short run, the updated projection, based on oil futures prices, shows that inflationary pressures are expected to carry on in 2026 Q2 as well and the annual rate is foreseen to reach 10.3 percent in June (Chart 4.2, Table 4.2).

⁷¹ Available at <https://www.iea.org/reports/oil-market-report-april-2026>

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

	annual change (%), end of period							
	2026			2027				2028
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Target (mid-point)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
CPI projection	10.3	5.7	5.5	4.2	3.5	3.0	2.9	2.7
CPI projection*	8.1	5.5	5.3	4.0	3.2	2.8	2.7	2.6
Adjusted CORE2 projection	8.1	5.6	4.8	4.2	3.4	2.6	2.5	2.2

*) calculated at constant taxes

Source: NBR projection

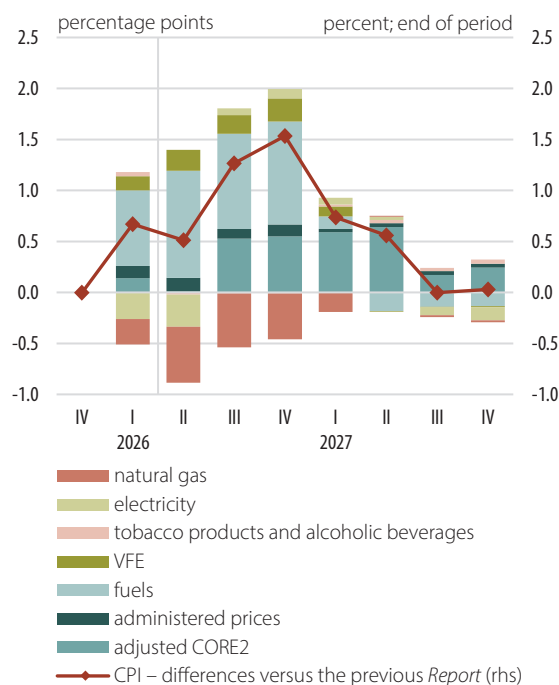
Looking ahead, CPI dynamics are anticipated to witness a sharp correction of approximately 4.6 percentage points in Q3, due to the dropping out of the calculation of the price hikes recorded in July-August 2025 – i.e. higher electricity prices following market liberalisation and the effects of the rise in indirect taxes –, to which add an envisaged easing of global energy markets and a persistent aggregate demand deficit domestically. In this context and to the extent that these developments are confirmed, one cannot rule out some first downward adjustments in economic agents' inflation expectations, which could make an additional contribution to strengthening disinflation.

Subsequently, the inflation rate is anticipated to decline gradually, mainly under the disinflationary impact of the fiscal consolidation process. Insofar as the baseline assumptions materialise, this effect will also be supported by the gradual normalisation of external market conditions and the fading out of the influences from previous shocks, which will reflect in a correction of inflation expectations over the medium term. Therefore, the annual CPI inflation rate is projected at 5.5 percent for end-2026, at 2.9 percent in December 2027 and at 2.7 percent in March 2028 (the forecast horizon). Under the circumstances, it is anticipated to reach the upper bound of the variation band of the target in 2027 Q2 and to return inside it in 2027 Q3 (Chart 4.2, Table 4.2), both foreseen to occur one quarter later than in the previous round. This delay mirrors the protracted inflationary pressures exerted

by the energy shock and their gradual pass-through via indirect channels.

Under the inflationary impact of the energy shock, the annual CPI inflation rate is expected to reach higher values than those published in the previous *Report* until mid-2027 (Chart 4.3). In the first part of the forecast interval, the main additional contribution comes from fuel prices, amid the direct effects of geopolitical tensions on energy prices. At the same time, there are also rising contributions to core inflation, reflecting the gradual pass-through of the shock via indirect channels, especially via production and transport costs, which are more persistent effects. However, lengthy second-round effects are assessed as unlikely, amid signals on labour market easing and a significant aggregate demand deficit, which limits the transmission of inflationary pressures. Conversely, the projection includes a downward revision of natural gas prices, given the introduction of a new capping scheme to protect

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



Source: NBR projection

household consumers, in effect until 31 March 2027⁷². In addition, in 2027 H2, declining contributions, albeit of a smaller magnitude, are anticipated from fuel and electricity prices, in line with the assumptions regarding a gradual easing of energy markets⁷³.

Under the circumstances, compared to the levels in the previous round, the forecast for the annual CPI inflation rate was revised upwards by 1.6 percentage points for December 2026. Over the medium term, after the fading out of the temporary direct impact of the energy shock, the indirect effects on the adjusted CORE2 inflation rate are partly offset by the downward revision of the contributions coming from electricity and fuel prices. Consequently, in December 2027, CPI dynamics are foreseen at a similar level to that published in the February 2026 *Inflation Report*. The impact of the conflict in the Middle East is assessed at approximately 1.6 percentage points for the end of this year, of which 0.9 percentage points pass through directly through fuel prices.

The projected path of core inflation is shaped by the interaction between opposite factors. On the one hand, there are supply-side inflationary pressures that stem from the higher energy costs amid the Middle East conflict and feed through into domestic prices also through the channel of import prices. On the other hand, the disinflationary influences linked to aggregate demand – particularly to fiscal consolidation and to the economy operating below potential – contribute to the easing of these pressures. Over the short term, the annual growth rate of the adjusted CORE2 index is expected to slow down slightly to 8.1 percent in June, as the indirect effects of the energy shock become manifest gradually. Starting in 2026 Q3, the revised path of core inflation is foreseen to run above that in the previous round. Nonetheless, the indicator is anticipated to remain on a downward trend over the entire projection horizon. Thus, in 2026 Q3 a more significant correction is expected, driven primarily by favourable base effects associated with the increases in indirect taxes in 2025. For the remainder of the projection interval, core inflation will further decline progressively, in line with the fading away of cost influences and with the persistent aggregate demand deficit. Specifically, the indicator is projected at 4.8 percent for end-2026, at 2.5 percent in December 2027 and at 2.2 percent in March 2028 (Chart 4.2).

⁷² Amid the outstanding uncertainty surrounding market liberalisation, given the repeated extensions of the regulatory measures in the past, the updated forecast does not include a significant impact from a possible market liberalisation at the time the current scheme expires, i.e. in April 2027.

⁷³ International oil prices are expected to be higher than those foreseen in the previous round throughout the entire projection interval, yet posting a more pronounced decrease.

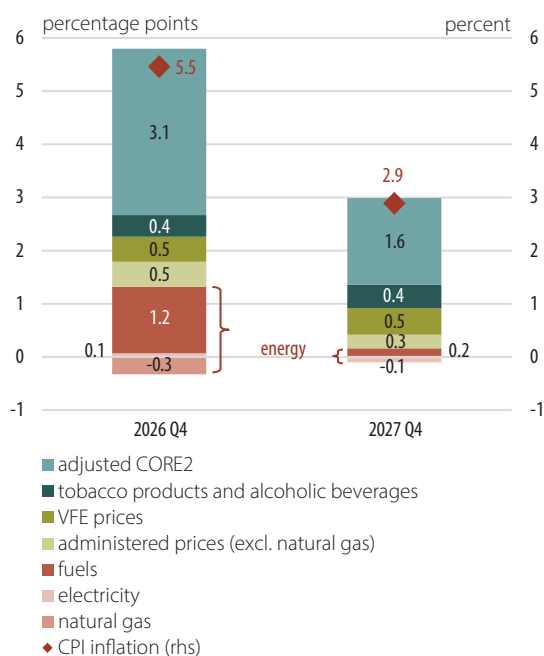
Over the medium term, disinflation will reflect the gradual fading out of the aforementioned supply shocks, as well as the contractionary influences of fiscal consolidation, overlapping a correction of inflation expectations. In addition, the significantly lower labour cost dynamics than in the previous years will also contribute to disinflation. Pressures from import prices will act in the same direction too, amid the gradual decline in euro area HICP inflation excluding energy, which limits the pass-through of external pressures into domestic prices. A distinct factor, with a temporary impact and of relatively low magnitude, is the expiry of the cap on the mark-up on some basic food products in July 2026⁷⁴, which may lead to specific price adjustments, without changing however the overall disinflationary trend.

Compared to the projection in the previous *Inflation Report*, the path of the annual core inflation rate was revised upwards. Specifically, the updated values are higher by 0.8 percentage points for end-2026 and by 0.4 percentage points in December 2027. The revision mainly reflects the effects of the shock triggered by the Middle East conflict, whose impact was assessed at around 1 percentage point over the one-year horizon. Looking at forecast models, the shock propagates through several channels – primarily supply-side shocks, inflation expectations, developments in import prices and persistence mechanisms –, each one's contribution being proportional to both its

relative importance in the model and the magnitude with which the shock spreads through that channel. Conversely, the downward revision of the output gap throughout the forecast interval partly offsets the impact on core inflation.

The cumulative contribution of the exogenous components of the consumer basket to the annual CPI inflation rate is estimated at 2.3 percentage points at end-2026 (up by 0.9 percentage points compared with the February 2026 *Inflation Report*), before declining to 1.3 percentage points both in December 2027 (a -0.2 percentage point correction) and at the forecast horizon, i.e. March 2028 (Chart 4.4). The upward revision for end-2026 is mainly driven by the more unfavourable dynamics of fuel prices, volatile food (VFE) prices, administered prices and electricity prices, effects partly counterbalanced by the downward adjustments in natural gas prices. The correction anticipated for December 2027 (the preceding forecast horizon) largely mirrors more favourable developments in fuel and electricity prices than previously expected.

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

⁷⁴ Similarly to the previous forecasting round, the impact of the removal of the cap is calibrated in a relatively cautious manner, i.e. adding 0.2 percentage points to core inflation and 0.13 percentage points to the annual CPI inflation rate. The assessment took into account several uncertainties surrounding its magnitude.

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

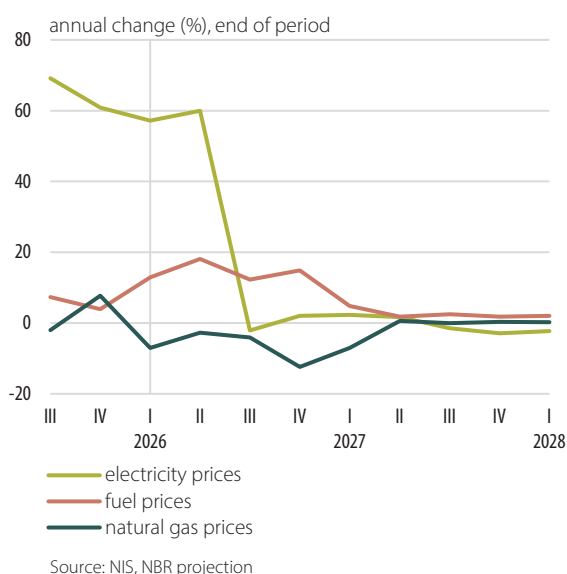


Table 4.3. Inflation of CPI exogenous components

	annual change (%), end of period		
	Dec. 2026	Dec. 2027	Mar. 2028
Energy prices	6.8	0.4	0.6
Fuel prices	14.9	1.8	2.0
Electricity prices	2.0	-2.9	-2.3
Natural gas prices	-12.4	0.3	0.2
VFE prices	7.9	8.6	8.2
Administered prices (excl. natural gas)	7.2	3.9	3.9
Tobacco products and alcoholic beverages prices	5.8	6.2	6.1

Source: NIS, NBR projection

The major energy shock triggered by the war in the Middle East prompted a sharp increase in oil prices in March and April 2026⁷⁵, resulting in the markedly faster dynamics of motor fuel prices. Under the circumstances, the annual growth rate of fuel prices (Chart 4.5, Table 4.3) is foreseen to post double-digit levels for 12 months, until the initial shock drops out of the calculation. The recent government measures⁷⁶ concerning pump prices act towards a deceleration in the component's pace of increase, albeit to a lower extent. Compared to the previous *Report*, the annual inflation rate for fuels was revised significantly upwards throughout 2026, against the backdrop of the pronounced rise in oil prices, as well as of the higher USD/RON exchange rate than previously expected, amid a weaker path of the euro against the US dollar. These factors amplified the pass-through of external shocks into domestic motor fuel prices. For the remainder of the forecast interval, namely between 2027 Q2 and 2028 Q1, the annual dynamics of fuel prices are anticipated to remain in the lower half of the variation band of the central target, amid the relative stabilisation in oil futures prices.

The annual pace of increase of electricity prices in the first half of 2026 is driven solely by the substantial inflationary impact of the electricity market liberalisation⁷⁷ in July 2025, with effects on the annual inflation rate lasting 12 months (Chart 4.5, Table 4.3). Following the fading out of this impact, the forecast for this group incorporates the exogenous path of the wholesale electricity price, based on futures prices, which indicates an easing

of the market in the medium term, also in line with the outlook for the oil price. In this context, the annual growth rate of electricity prices is foreseen to be slightly positive at end-2026 and marginally negative at end-2027 and at the projection horizon respectively. The new forecast values imply an upward and respectively a downward revision compared to those in the previous *Inflation Report*, amid the developments recorded and respectively expected in wholesale prices.

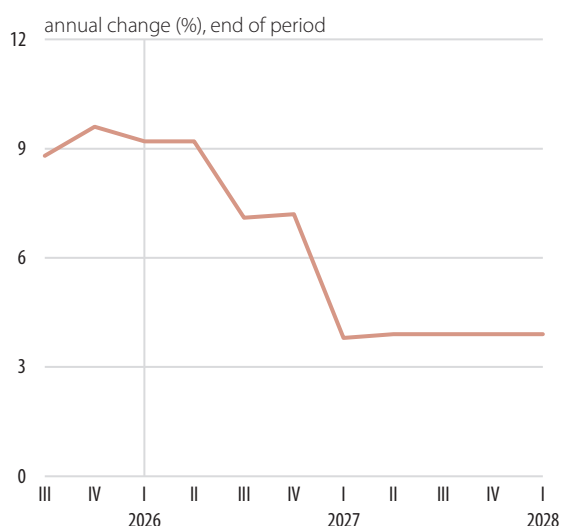
⁷⁵ For further details, see Section 1.1 External assumptions.

⁷⁶ The adoption of GEO No. 19/2026 sets forth the capping of the mark-up on petrol and diesel at the average level charged in 2025 by each company. In addition to the aforementioned ordinance, a bani 30 cut in the excise duty on diesel fuel per litre, from lei 2.8, was also implemented for April-June 2026, with a -0.7 percentage point impact on the dynamics of fuel prices and a -0.06 percentage point impact on CPI growth rate.

⁷⁷ Following the expiry of the capping scheme for electricity prices – according to GEO No. 27/2022 –, these are set in line with free market mechanisms as of July 2025.

The implementation of the new support scheme⁷⁸ for households directly impacts the annual dynamics of natural gas prices in the first half of the projection interval by mitigating the pass-through of wholesale price changes to final consumers. Under the

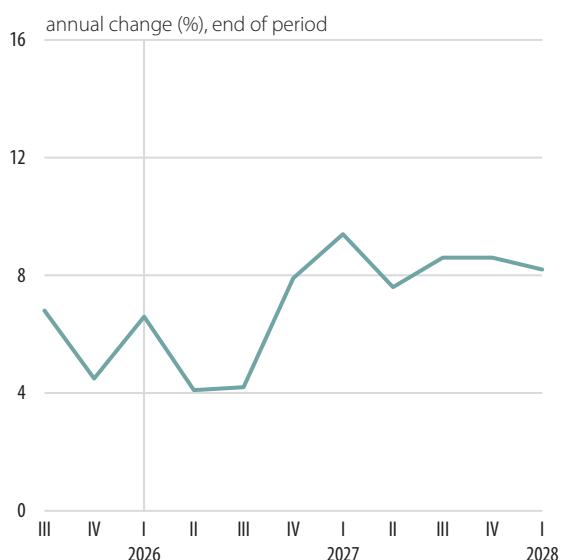
Chart 4.6. Administered price inflation (excl. natural gas)



Source: NIS, NBR projection

circumstances, the annual growth rate of this group is projected to remain in negative territory until the expiry of the scheme, March 2027 (Chart 4.5, Table 4.3). Subsequently, in the absence of reliable information on both potential new measures to be taken by the authorities and suppliers' offers, the dynamics of natural gas prices are expected to be similar to those in the previous round, with relatively minor price changes. Under the impact of the updated support scheme, the anticipated trajectory is significantly lower than that in the previous *Inflation Report* until 2027 Q1.

Chart 4.7. VFE price inflation



Source: NIS, NBR projection

The annual growth rate of administered prices⁷⁹ is foreseen to run significantly above the variation band of the central target throughout 2026, mainly on account of the price increases seen at the beginning of this year for water, sewerage and waste disposal (which were not anticipated in the previous *Report*), to which add the inflationary effects of the VAT rate hike in August 2025, with an impact lasting 12 months (Chart 4.6, Table 4.3). Over the remainder of the projection interval, the annual pace of increase of administered prices is anticipated to stabilise at levels 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.

The notable step-up in the annual dynamics of volatile food (VFE) prices in the first part of the projection interval is driven by the recent developments⁸⁰ and the rise in production costs, exacerbated by the component's increased sensitivity to motor fuel prices (Chart 4.7, Table 4.3). Thus, the forecast for end-2026 was revised significantly upwards from the previous round. For the remainder of the forecast interval, similarly to the preceding round, the annual growth rate of

⁷⁸ Pursuant to GEO No. 12/2026, the price charged to household consumers is the lower of the contract price and the final price calculated for each month. The latter depends on the price of the wholesale purchase component for natural gas, which, as far as domestic production is concerned, was capped at lei 110/MWh, a significantly lower level than the current price in the free wholesale market, of over lei 200/MWh.

⁷⁹ About 80 percent of the weight of this group is accounted for by medicines and water, sewerage, and waste disposal.

⁸⁰ Hikes in vegetables prices amid a prolonged period of low temperatures during this winter and precipitation below the normal spring average.

VFE prices is expected to stay above the upper bound of the variation band of the target, in line with its historical evolution and multi-annual averages.

The path of the annual dynamics of tobacco product and alcoholic beverage prices is shaped primarily by higher excise duties provided for in the legislation, but also by the price-setting behaviour of companies in this field. The annual pace of increase of the group is projected to decelerate until 2027 Q1, exceeding the upper bound of the variation band of the target throughout the forecast interval (Table 4.3). There were marginal revisions as compared with the projected values in the previous *Report*.

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

The output gap

In 2025 Q4, real GDP recorded a strong decrease (-1.8 percent in quarterly terms)⁸¹, markedly steeper than anticipated in the previous *Report*. Looking at the breakdown, the sharper-than-expected contraction of households' actual final individual consumption contributed significantly to the deterioration of GDP dynamics, while gross fixed capital formation remained broadly stagnant, in line with the forecast. Conversely, net exports contributed positively to GDP dynamics, exceeding expectations, amid stagnant exports, broadly in line with the forecast, and a larger contraction in imports than previously estimated. Given that the contributions of demand-side components added to a much smaller negative value in absolute terms than the -1.8 percent decline recorded by real GDP, the difference pointed to a sizeable negative contribution coming from the residual component – the change in inventories and statistical discrepancy, which have limited economic relevance. In 2025 overall, real GDP continued its moderate growth trajectory, advancing by 0.7 percent versus 0.9 percent in 2024. These developments were mainly driven by investment, while consumption and trade flows were affected by the stronger restrictive effects of fiscal consolidation – more pronounced in the latter half of the year – as well as by the weak dynamics of external demand, amid uncertainties generated by the more protectionist stance of international trade policies. The average annual economic growth in 2025 stood below the level projected in the prior *Report*, amid the revision of historical data series and the much steeper contraction in economic activity in Q4.

Short-term forecasts indicate, in terms of quarterly dynamics, a near stagnation of real GDP in 2026 Q1 and just a slight rebound in Q2. Economic activity over the first two quarters is expected to reflect the still dampening effects of fiscal adjustment – amplified after the entry into force of the second fiscal consolidation package in January –, as well as the impact of the hefty rise in energy prices generated by the escalation of the Middle East conflict. The moderate increase in nominal wages in the private sector and the decrease thereof in the public sector, alongside the persistently high inflation rates during 2026 Q1 and Q2, continue to exert downward pressures on trade and services activity via the reduction in household real disposable income.

⁸¹ According to NIS Press Release No. 87 of 9 April 2026 regarding second provisional data on GDP

Actually, the Economic Sentiment Indicator (ESI) for Romania reaching a new five-year low in 2026 Q1 mirrors primarily the deterioration in the balances of answers related to consumer and services confidence indicators. In addition, the first month of Q2 saw a further decline in the ESI, with the consumer and manufacturing components equally making the strongest negative contributions relative to the Q1 average. While construction benefits from the financing of public infrastructure projects through EU funds, among others, industry remains adversely affected by the subdued dynamics of external demand, recently impacted by disruptions in global production and supply chains, alongside the hikes in prices of international commodities, energy in particular.

The steep decline in economic activity recorded in 2025 Q4 generates a significant negative carry-over effect of roughly -1.2 percentage points on this year's average annual growth. Under these conditions, the outlook for this entire year suggests further very low dynamics of economic activity. Much less favourable developments cannot be ruled out either⁸², whereas the downward revision compared to the previous *Report* reflects, *inter alia*, this significantly stronger carry-over effect. The projected path of real GDP is determined to a large extent by the cumulative negative effects of fiscal consolidation measures, compounded by those stemming from the escalation of the Middle East conflict. The latter weigh on economic growth both by inducing new inflationary pressures and by exerting an adverse impact on Romania's main trading partners⁸³. Conversely, economic activity is expected to benefit from the absorption of European funds, with the working assumption of substantial inflows, in the context of the NRRP programme completion this year. For 2027, real GDP growth is underpinned by the ongoing effects of the investment stimulus, the improved labour market conditions, the gradual abatement of the restrictive effects of fiscal policy and the progressive recovery in the functioning of global supply chains. Against this backdrop, economic growth is expected to converge towards its potential level in 2027. By component, with household consumption projected to post an even more pronounced slowdown, gross fixed capital formation is seen remaining the key driver of domestic demand this year as well, this assumption being, however, strictly conditional on a high absorption of NRRP funds allocated to Romania. Given the sizeable contractionary effects stemming from fiscal consolidation measures, the actual collective consumption of general government is expected to make the largest negative contribution to the average annual GDP dynamics in 2026 as well. As these restrictive effects gradually dissipate over time, the component's contribution is expected to turn nil in 2027. Against this background, in parallel with the gradual rebound in household consumption, next year domestic demand is projected to exhibit a more balanced composition versus 2026. On the international trade side, amid a marked slowdown in demand for imported goods and services due to the substantial erosion of real disposable income, the contribution of net exports is forecasted to become marginally positive in 2026. Subsequently, in 2027 it is expected to return to negative territory, in the context of a gradual normalisation of domestic demand and a merely modest recovery in external

⁸² In particular, under the assumption of protracted tensions on the domestic political scene, bearing effects on confidence, financial conditions and investment decisions.

⁸³ The impact of the Middle East conflict on Romania's economic activity is assessed as moderately contractionary, estimated at around 0.3 percentage points of GDP, with effects concentrated in Q2 and Q3.

demand. The real GDP path remains subject to significant uncertainties, particularly with regard to the developments in the Middle East conflict, the stance of global trade policies, as well as the medium-term fiscal consolidation trajectory, also amid rising domestic political tensions in the recent period.

The estimated average annual growth rate of potential GDP was revised downwards for 2026 and 2027 compared to the previous *Report*. This reassessment occurs following the historical data revision and the larger-than-expected GDP decline in 2025 Q4, bearing an immediate impact on economy-wide productivity, as well as on the subdued outlook for the current year. At the same time, labour makes a slightly lower contribution, amid adverse developments recorded on the labour market, including an increase in the unemployment rate, with persistent effects over the longer term.

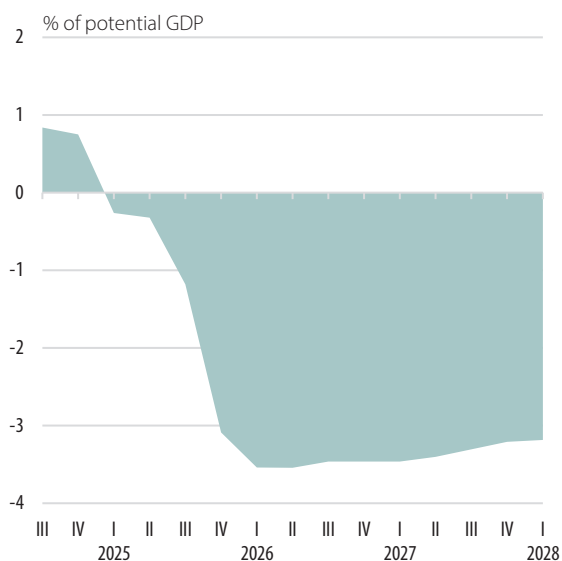
The key driver of potential GDP dynamics continues to be capital accumulation, with a relatively stable contribution over the projection horizon. The favourable prospects for the component are underpinned by the robust trajectory of public investment⁸⁴. At this juncture, the absorption and use to a great extent of EU funds, especially those under the NRRP, turn to be essential for counterbalancing the contractionary effects of budget consolidation and of geopolitical and trade conflicts, as well as for carrying out the necessary structural reforms, energy transition included. The contribution of total factor productivity (TFP) remains moderate, being contained by the slow-paced innovation and take-up of new technologies, the delays in technology integration and energy efficiency, and by the insufficient use of digital solutions in companies' operations⁸⁵. Labour contribution is almost zero, amid unfavourable demographic trends and structural labour market rigidities, including skills shortage in certain sectors, a high inactivity rate among young people and lower employment rates among women. Over the medium term, the path of potential GDP remains marked by persistent external risks, given the escalating geopolitical and trade tensions related to ongoing conflicts that could weigh on international trade and trigger new disruptions in global supply chains. These are compounded by a high level of domestic uncertainty, against the backdrop of effects stemming from fiscal and budgetary adjustment measures, enhanced by the context of political instability.

The assessed output gap was revised downwards over the course of 2025. This adjustment reflects both the unfavourable revision of the seasonally-adjusted real GDP historical series for the first three quarters of 2025 and the sharper-than-expected decline in real GDP in 2025 Q4 compared to the prior forecasts. Similarly to the previous assessment, the output gap is estimated to have entered negative territory in early 2025, and then to have gradually deepened until 2025 Q3. Subsequently, in 2025 Q4, the output gap widened markedly, given the significant fall in real GDP during that period. Against the backdrop of an expected weak domestic demand

⁸⁴ The general government budget planned public investments amounting to approximately lei 163.8 billion in 2026 – around 8 percent of GDP – which represent a lei 25.6 billion rise compared to the previous year.

⁸⁵ 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.

Chart 4.8. Output gap



Source: NBR assessments based on data provided by the NIS

in the 2026 Q1 and Q2 – driven by the overlap of fiscal consolidation measures and the effects of the Middle East conflict that have been reflected in lower real disposable income and higher uncertainty – the negative output gap continues to increase. Subsequently, as the impact of these shocks fades, the adjustment is slow, so that the output gap narrows only moderately until the forecast horizon (Chart 4.8).

Looking at the components of the output gap, its dynamics are mainly driven by the developments in the gap of households' actual final individual consumption. Fiscal measures significantly diminish the real disposable income of households – both directly, via nominal adjustments, and indirectly, through the higher inflation rate associated with the hikes in indirect taxes and the expiry of the electricity price capping scheme. At the same time,

the effects of the Middle East conflict further contribute to these developments by raising motor fuel prices and increasing uncertainty, thereby amplifying constraints on real incomes. Consequently, the gap of households' actual final individual consumption is estimated to have entered negative territory as of 2025 Q3 – similarly to the previous round – and then to have continued to widen and to reach a low in 2026 Q2 and Q3, followed by a minor correction until the projection horizon. In turn, the gap of actual final collective consumption of general government is estimated to be negative and to deepen over the projection interval, given the fiscal consolidation measures. The negative GFCF gap is assessed to reach a low in 2026 Q1, before gradually closing and re-entering positive territory in the last quarter of this year. Mirroring the position of effective external demand, the gap of exports of goods and services stays negative throughout the projection interval. In correlation with the trajectory of the gap of households' actual final individual consumption, the positive gap of imports of goods and services is estimated to have gradually closed, turning negative in 2025 Q4 – similarly to the previous round – and then to remain in negative territory until the projection horizon.

The output gap fundamentals previously identified continue to be relevant:

(i) the fiscal impulse, which is assessed to further exert a large restrictive impact in 2026, comparable to that in the previous year and (ii) the persistence and even short-term widening of the negative gap of external demand, *inter alia* as a result of the Middle East conflict. In parallel, real broad monetary conditions remain restrictive for the economic activity throughout the projection interval, reflecting the prudent stance of monetary policy in a still highly volatile inflationary environment.

Aggregate demand components

This year, households' actual final individual consumption is anticipated to witness a moderate contraction in annual terms, undergoing a significant downward revision compared to the prior round. After the steep decline in households' actual

final individual consumption in 2025 Q4 – which generates a significant negative statistical effect on the 2026 annual average –, the outlook remains unfavourable, at least for 2026 Q1. The developments reflect the erosion of household purchasing power amid the impact of fiscal measures affecting broad categories of consumers, alongside elevated inflation due *inter alia* to recent increases in motor fuel prices, which generate indirect effects as well on the prices of goods and services. At the same time, the actual final collective consumption of general government is expected to further decline in 2026, given the effects of fiscal consolidation measures. Starting with 2026 H2 and throughout the following year, households' actual final individual consumption is anticipated to resume a gradual growth path, as pressures on real income ease and financial conditions stabilise. However, this recovery is surrounded by a high degree of uncertainty, stemming from the difficulty of assessing the persistence of the impact of fiscal consolidation measures on disposable income and, implicitly, on the propensity to consume. At the same time, the international environment is further an important source of risks, as geopolitical tensions and potential shifts in global trade policies may affect trade flows and may trigger additional disruptions in supply chains, with consequences for both prices and the availability of goods.

Gross fixed capital formation is foreseen to remain the main driver of economic growth in the current year, given the relatively smaller direct impact exerted by fiscal consolidation measures on investment. However, the developments in this component remain strictly conditional on business confidence and on the foreign investors' appetite for placements in Romania, especially in a context marked by domestic political tensions that may lead to postponed investment decisions. At the same time, a key role is played by the authorities' capacity to attract and efficiently deploy European funds for the timely implementation of the projects undertaken, given that recently intensified domestic political tensions may delay the implementation of certain reforms or may hinder projects that are currently in early stages of execution.

The growth rate of exports of goods and services is anticipated to decelerate this year, with a gradual rebound thereafter over the projection interval, amid a still subdued outlook for external demand. Compared to the previous round, this year's forecast was revised downwards, against the backdrop of worsening short-term prospects, also owing to the escalation of the Middle East conflict whose effects spill over to global demand via the trade, financial and uncertainty channels. Over the medium-term, developments in exports are further marked by heightened uncertainty stemming from geopolitical tensions and from the risk of international trade policies changing and thus potentially amplifying disruptions in supply chains and hampering trade flows. Moreover, the real effective exchange rate, deflated by the CPIs of Romania and its trading partners, is envisaged to remain overvalued until the projection horizon, affecting the price competitiveness of Romanian products, albeit these pressures are anticipated to gradually ease.

The dynamics of imports of goods and services are forecasted to slow down in 2026, amid the restrictive effects of fiscal consolidation on domestic demand, and in particular on consumption. Under these circumstances, the negative contribution of

net exports to economic growth is expected to temporarily turn even slightly positive in 2026. At the same time, the effects of the escalation of the Middle East conflict on the external sector are assessed as moderate, given that the temporary increase in the value of imports, driven mainly by higher energy prices, is partially offset by lower import volumes amid the slowdown in economic activity and supply constraints on energy markets.

The current account deficit is expected to further gradually adjust over the projection interval, reflecting the persistence of structural imbalances in the economy. Compared to the previous round, the short-term outlook points to a moderate worsening of the external position, against the backdrop of the overlapping effects associated with heightened geopolitical tensions, the recent support measures, and the persistent sizeable deficit on primary income. 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. Over the medium term, the external deficit correction is expected to occur relatively slowly as well, reflecting the persistence of structural imbalances in the economy. This is influenced by the gradual adjustment in domestic demand and by the developments in the external environment. Thus, potential additional disruptions in international trade, including through higher transport costs or the impairment of critical infrastructure, may delay the correction process, whereas more unfavourable dynamics of the domestic economic activity could result in a faster correction.

The financing of the current account deficit from stable, non-debt-creating sources is anticipated to be supported in the period ahead by substantial inflows of EU funds, against the background of the ongoing implementation of programmes under the NRRP and the 2021-2027 MFF. In this context, the coverage of the external deficit from such sources is expected to remain favourable in the short term, before declining thereafter. By contrast, foreign direct investment is envisaged to post more modest dynamics, given the persistence of geopolitical uncertainties, domestic political tensions, and also the restrictive effects associated with the fiscal consolidation process. 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.

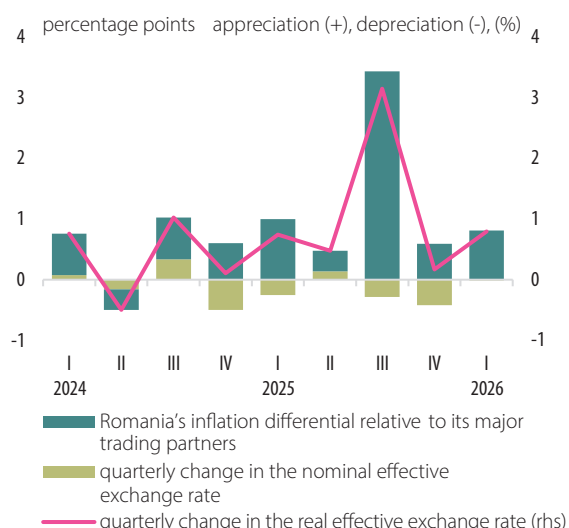
Broad monetary conditions

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 envisages that real broad monetary conditions will only temporarily be less restrictive in 2026 Q2, given the short-lived strengthening of the

stimulative effect of real interest rates on both new loans and new time deposits, against the background of mounting inflation expectations⁸⁶. Subsequently, starting with 2026 Q3, as supply-side shocks dissipate and the inflation expectations embark on a downward path, real interest rates increase and real broad monetary conditions gradually become more restrictive until 2027 Q1. The latter will further maintain their restrictiveness relatively unchanged until the forecast horizon. Relative to the previous *Report*, the degree of restrictiveness is assessed to be less pronounced due to the lower overvaluation of the leu in real terms as well as to more stimulative real interest rates on both new loans and new time deposits throughout this year. The path of real broad monetary conditions reflects the transmission into the economy of the NBR Board's monetary policy decisions, which aim to ensure and maintain price stability over the medium term, in a manner conducive to achieving sustainable economic growth.

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 products⁸⁷, with a significant impact via the net export channel. In fact, the developments in the real effective exchange rate point to a mixed image: while the indicators calculated based on unit labour costs or industrial producer prices suggest a relative improvement in competitiveness over the recent period, the real exchange rate deflated by the CPIs of Romania and its trading partners – influenced by many supply-side shocks – is envisaged to remain overvalued until the projection horizon. Under these circumstances, the pressures on the price competitiveness of Romanian exports remain relevant, albeit expected to gradually abate over the forecast interval.

The wealth and balance sheet effect is assessed to entail a temporary quasi-neutral impact in 2026 H1, and then to turn restrictive as of 2026 Q4. The breakdown shows that these developments mirror the limited and temporary stimulative effect of the real foreign interest rate – 3M EURIBOR –, given the rising inflation expectations in the euro area. Subsequently, financial market expectations indicate a potential monetary policy response from the ECB, which, amid the fading supply-side shocks, will gradually drive the real 3M EURIBOR rate into restrictive territory. At the same time, the sovereign risk premium is forecasted to exert a restrictive impact, associated with recent geopolitical and domestic political tensions. 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.

⁸⁶ In the context of supply-side shocks related to the energy cost hikes generated by the Middle East conflict.

⁸⁷ The changes in VAT rates and in the level of excise duties do not affect the price competitiveness of Romanian products, as exports are exempt from these taxes and imports are subject to the same rates as domestic products.

2. Risks associated with the projection

After reaching relative equilibrium in the previous projection round, at present the balance of risks undergoes a reconfiguration, shifting mainly to the upside (Chart 4.10). The escalation of the Middle East conflict brings again to the fore upside risks to the CPI inflation path. At the current juncture, uncertainties surround the

duration and intensity of the geopolitical crisis and, implicitly, the magnitude and persistence of adverse effects. Depending on these developments, both the relative importance of the transmission channels and the magnitude of the direct and indirect pass-through of potential additional shocks may vary. These external risks overlap with the domestic uncertainties recently compounded by political tensions.

In the case of oil prices, international markets showed increased sensitivity to the information on on-the-ground developments and to the statements of the actors involved, these rapid adjustments reflecting a significant geopolitical risk premium, recalibrated based on the perception of the likelihood of a conflict escalation or de-escalation. The extension of restrictions on the maritime traffic through the Strait of Hormuz could amplify the energy crisis, thus intensifying the shock.

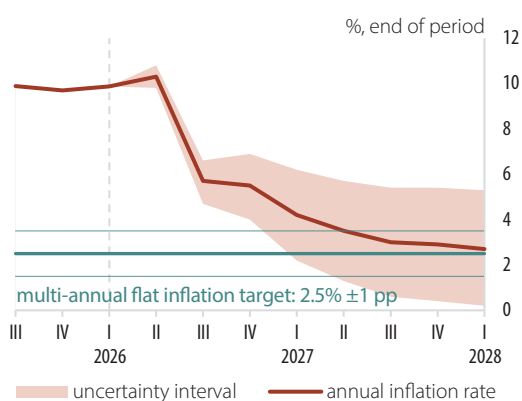
At the same time, damage to critical energy infrastructure could generate additional, persistent inflationary pressures, causing a delay in supply recovery even if traffic normalises. These risks also extend to the natural gas market, being compounded, in the case of Europe, by the relatively low level of stocks, amid last winter's weather conditions.

The Persian Gulf region is also a major supplier of fertilisers used in agriculture, so that disruptions in the international trade can put inflationary pressures on agri-food items by higher production costs. These effects can be amplified by adverse weather conditions, especially in the event of extreme weather episodes affecting agricultural production and yields.

At the same time, risks to supply posed by the attacks on energy and industrial infrastructure, as well as by the time necessary to repair damages, also extend to other strategic commodities, such as aluminium or helium. Disruptions in supplying these critical intermediate goods can affect production chains and can contribute to the persistence of inflationary pressures over a longer period of time.

Additional price pressures may also come from increased logistics costs. Uncertainties surround the capacity to reconfigure traditional trade routes, as well as the hike in transport and ship insurance costs. Overall, these developments can pass through, at least in part, into final prices of goods, compounding inflationary pressures.

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 2005-2025. The magnitude of forecast errors is positively correlated with the time horizon they refer to.

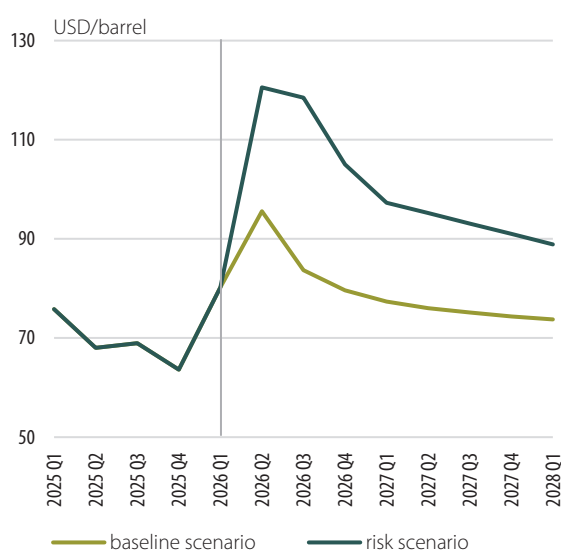
Source: NIS, NBR calculations and projections

On balance, the macroeconomic picture is dominated by stagflation risks. The escalation of geopolitical tensions weighs on global growth prospects, with a more pronounced impact on economies which are highly dependent on energy imports. At the same time, the worsening of the international financial market sentiment tends to put a drag on investment as investors postpone or reassess projects. Turning to inflation, divergent forces are at work: on the one hand, the weakening of aggregate demand has a disinflationary effect; on the other hand, inflation expectations may generate opposite pressures, fuelled by the high visibility of price increases for energy and other sensitive goods. Against this background, the risk of a wider pass-through to core inflation remains high, in particular through costs and expectations. Box 2 shows the potential impact on the baseline inflation path in the assumption of an escalation and protraction of the Middle East conflict.

Box 2. Quantitative assessments of the implications of the escalation and protraction of the Middle East conflict

Despite the ceasefire concluded on 8 April 2026, the risk of a large-scale renewed escalation of the Middle East conflict fuels high uncertainty surrounding the developments in commodity markets, oil and natural gas markets in particular. Against this background, this Box looks at the implications of a further disruption in energy markets associated with the re-intensification and protraction of the armed conflict.

Chart A. Oil prices



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

The risk scenario is based on a range of values included in the latest *ECB staff macroeconomic projections for the euro area*⁸⁸, with assumptions calibrated for 2026 Q2 to 2028 Q1.

The main assumption concerns the Brent oil price⁸⁹, for which an increase until May 2026 is foreseen, ahead of a gradual downward path, yet remaining significantly above the baseline scenario levels (Chart A). Looking at quarterly averages, the widest spread against the baseline scenario is of approximately USD 35/barrel in 2026 Q3, hovering around USD 17/barrel in 2027 Q4 as well.

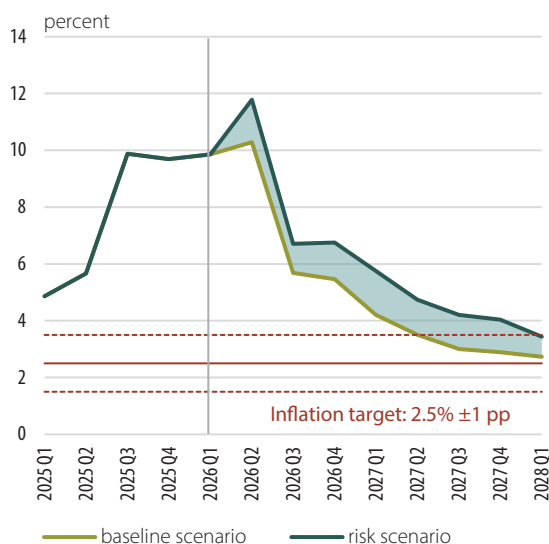
Given higher energy costs and more elevated uncertainty, the scenario also incorporates a further economic slowdown in Europe, with EU-wide growth below the baseline scenario by about 0.4 percentage points in 2026 and 0.3 percentage points in 2027. At the same time, additional inflationary pressures are expected for the euro area, with annual inflation adding approximately 1.3 percentage points in 2026 and 1.5 percentage points in 2027. Concurrently, the scenario

⁸⁸ Available at: https://www.ecb.europa.eu/press/projections/html/ecb.projections202603_ecbstaff~ebe291cd3d.en.html

⁸⁹ Prior to the outbreak of the conflict, about 20 percent of global oil transit passed through the Strait of Hormuz.

also assumes a gradual pass-through of the shock to HICP inflation excluding energy, which is higher than in the baseline scenario, especially in 2027. From a financial perspective, a further appreciation of the US dollar against the euro is also envisaged, in line with historical episodes of mounting global risk aversion and financial flows shifting towards safe heavens.

Chart B. Annual CPI inflation rate



Source: NBR projections using the Model for Analysis and Medium-Term Forecasting (MAMTF)

Chart B sets out the range of possible annual CPI inflation rates under the risk scenario.

The alternative path in the chart should be regarded as an indicative exercise, not as a specific estimate, given that the macroeconomic effects of a potential protraction and re-intensification of the Middle East conflict remain saddled with elevated uncertainties and possible pass-through non-linearities. In fact, inflation may move within a broader range, delineated by the baseline and risk scenarios (grey area), conditional on the intensity and persistence of the shock, as well as on the response from of the domestic economy and the external environment.

The inflation path in the baseline scenario could be pushed upwards by a faster and broader pass-through of energy costs into goods and services prices, a stronger response from inflation

expectations, a weaker local currency or a more pronounced impact on the price- and wage-setting mechanisms. When shocks of an exceptional magnitude occur, consumer and business behaviour may become more sensitive to developments in energy and commodity prices than the historical relationships captured by standard models suggest.

Conversely, a sharper worsening of domestic and external economic activity could squeeze aggregate demand more notably, thus containing firms' ability to fully pass on costs to final prices. Moreover, a more marked slowdown in the euro area economy could ease external inflationary pressures by reducing demand and import prices. At the same time, more cautious mark-up adjustments and a more moderate wage response could help render inflationary effects less persistent.

As in the previous rounds, the relevance of administrative risks is reconfirmed for the inflation outlook. Relevant uncertainties are associated with regulations impacting price setting mechanisms. On the domestic front, a major risk factor refers to the prospects for the liberalisation of the natural gas market for household consumers scheduled for April 2027. At European level, additional uncertainty comes from

the possible introduction of the Emissions Trading System (ETS2), currently set for 1 January 2028, with implications for energy and fuel prices⁹⁰.

While the baseline scenario assumes an increase in domestic natural gas production in 2027 – possibly leading to a new price equilibrium following the adjustment of the demand-to-extended supply ratio –, the persistence of tensions in international energy markets could cause significant inflationary pressures to materialise⁹¹.

Overall, these developments highlight the importance of administrative factors in shaping the path of inflation over the medium term, especially in a context marked by highly volatile energy markets and persistent uncertainties about the regulatory framework.

The protraction of the energy crisis could lead to stronger government interventions in the economy, including in Romania, by extending support measures aimed at containing the impact on households and firms. In the absence of a sufficiently consolidated fiscal position, the adoption of additional support packages could cause deviations from the assumed fiscal path, with implications for the sustainability of public finances. A possible deterioration of fiscal discipline could quickly reflect in the perception of investors and rating agencies, with adverse effects on the risk premium and the exchange rate. At the same time, the current domestic political context amplifies these vulnerabilities and could generate additional pressures on the national currency and, implicitly, on inflation through the exchange rate channel. The experiences of past episodes of political tensions point to a rapid pass-through of such developments into government security yields, creating volatility in financial markets and adjustments in capital flows.

A high absorption of the funds available under the NRRP programme could help mitigate the adverse effects of geopolitical tensions and cushion the impact of the ongoing fiscal consolidation by supporting investment and domestic demand. However, uncertainties continue to surround the administrative capacity to fulfil the milestones and targets by the deadline of 31 August 2026, as well as the risks posed by the actual pace of project implementation. Moreover, it remains to be assessed to what extent the SAFE programme will produce significant effects on the national defence industry, including by boosting production capacities and domestic supply chains.

⁹⁰ Preliminary assessments indicate potentially significant effects. Assuming a certificate price of EUR 59 and a full pass-through of the shock, the direct impact on inflation could amount to around 1.3 percentage points, while in an alternative scenario with a certificate price of EUR 46 – based on an alternative analysis by the European Commission – the effect is assessed at around 1.1 percentage points. These values should be interpreted as upper limits, given that the pass-through into final prices can be only partial, depending on firms' price setting strategies and their ability to absorb additional costs into margins.

⁹¹ However, illustrative assessments suggest that the natural gas market liberalisation could have a notable direct impact on inflation, even in the scenario of a relative easing of energy markets. For example, assuming a wholesale natural gas price in line with the TTF gas futures prices currently in place for April 2027, i.e. about EUR 35/MWh, prices for household consumers may increase by approximately 28 percent, contributing, according to estimations, by around 0.75 percentage points to the annual CPI inflation rate. For non-household consumers, price adjustments already effective as of 1 April 2026 may generate additional indirect effects through the pass-through into production costs and subsequently into the prices of goods and services.

In terms of labour market, the signs of easing pressures and weakening aggregate demand usually tend to limit firms' ability to raise prices. However, in the current context, marked by the build-up of several shocks, the decline in companies' profit margins may cause a greater pass-through of costs into final prices, including of the costs associated with the hike in the minimum wage as of July 2026. Over the medium term, inflationary pressures may also be fuelled by structural factors, such as labour market rigidities and labour shortage in highly specialised sectors, which limit the flexibility of cost adjustment and can support relatively high wage dynamics.

Abbreviations

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

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