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ROMANIA

Romania’s inflation problem: why disinflation is proving so difficult

Romania’s economy has cooled, but inflation hasn’t. Years of wage-driven demand, repeated energy and tax shocks, and stubborn services inflation are making the road back to price stability unusually slow



A succession of shocks has kept Romania's inflation fight alive

Romania has not looked like an overheating economy for more than two years. Growth has stalled, wage growth has slowed sharply, real incomes are under pressure, and fiscal policy has tightened. Yet underlying inflation remains stubbornly high relative to both the rest of Europe and the National Bank of Romania’s (NBR) target.

This disconnect between a cooling economy and persistent inflation is Romania's central macroeconomic story. While the country is still undergoing some income and price level convergence with the euro area – making a modest inflation differential structurally normal – that benign catch-up has been overwhelmed by much stronger forces. Years in which nominal incomes and domestic demand outpaced productive capacity have been followed by a succession of overlapping energy, tax, and administered-price shocks, each feeding into wages, services, and short-term expectations before the previous shock had time to fade.

The headline figure is falling, but the underlying picture remains fragile

Romania's annual consumer price inflation fell from 10.4% in June to 6.2% in August, before edging up to 6.6% in September (6.5% on the EU-comparable HICP measure, with prices rising 0.77% in September alone). Yet this drop overstates the underlying improvement. Much of the decline reflects favourable base effects as the sharp 2025 increases in electricity prices, VAT, and excise duties drop out of the annual comparison.

A better gauge is the NBR's adjusted CORE2 index, which excludes administered prices and volatile components. Down from 8.5% at the end of 2025 to 6.2% in September, core inflation remains elevated and shows little sign of decoupling from the headline rate.

This distinction matters. One-off VAT or utility hikes automatically drop out of annual inflation after 12 months, even though the higher price level stays in place. The real question is whether such shocks leave lasting marks on wage demands, rents, service prices, expectations and so on. In Romania, a meaningful share of each shock has done exactly that.

A relay race of shocks

Disinflation has been so slow partly because Romania has rarely enjoyed a clean window for one shock to fade before the next arrived. The pandemic supply shock was followed by the 2022 energy crisis. Energy price caps softened the initial blow to households but merely postponed the adjustment; their subsequent unwinding was followed by VAT and excise hikes in 2025, resetting the price level again. Before those effects could wash through wages and contracts, a new energy shock emerged in 2026. The NBR's August Inflation Report cited geopolitical tensions involving Iran and low Danube water levels – which constrained hydro and nuclear output – among the factors pushing fuel and electricity costs higher, prompting the bank to raise its end-2026 inflation forecast to an optimistic 6.1%.

Because inflation is path-dependent, this sequence is more than a statistical twist. A temporary shock that leaves wage negotiations and pricing behaviour unchanged eventually vanishes from the inflation rate; a shock embedded into contracts and expectations does not.

Romania is unusually vulnerable to this dynamic. Food and energy make up a larger share of household spending – and energy represents a larger share of production costs – than in Western Europe. The same global commodity shock therefore hits Romania harder both mathematically and psychologically. Because food, fuel, and utility bills are the prices consumers observe most frequently, repeated spikes encourage households and workers to anchor their decisions to the most recent inflation prints rather than the central bank's target.

Services: where the shock becomes domestic

In September, food inflation stood at 3.0% and non-food goods at 7.1%, while services inflation reached 11.1%. Services are the natural home of domestically generated persistence because they are labour-intensive and largely sheltered from international competition. A manufacturer facing higher local costs can automate, relocate, or lose market share to imports. A restaurant, hairdresser, dental clinic, or maintenance firm cannot import its service from Germany; its costs and customers are local, making wages, rent, and domestic expectations the primary drivers of pricing.

While the 11.1% services figure also reflects lumpy adjustments in rents and regulated utilities, the broader message is clear: inflation has migrated from energy and traded goods into prices set inside Romania.

Wages: the legacy of a boom that has already ended

Wages are central to this story, though their timing matters more than their current growth rate. At the macro level, unit labour-cost growth roughly equals wage growth minus productivity growth:

Unit labour-cost growth ≈ wage growth – productivity growth

When wage growth outpaces productivity, the cost of producing a unit of output rises, forcing firms to accept lower margins, cut hiring, or raise prices.

Romania experienced an intense version of this gap. Over the five years to 2024, real wages cumulatively outpaced productivity growth by more than 20 percentage points. Fuelled by sharp minimum-wage hikes and a nearly 20% jump in public-sector pay, nominal unit labour costs surged by an estimated 18% in 2024 alone.

That acceleration is now over. By August 2026, average net wage growth had slowed to 5.6% year-on-year, below inflation, meaning real wages are contracting, while hiring has softened. Rather than an active wage-price spiral, Romania is experiencing lagged wage-cost pass-through: service firms are still adjusting prices to the massive cumulative cost increases of 2023 and 2024. While this suggests unit labour costs will stabilise if productivity recovers, structural constraints, such as emigration, demographic ageing, low participation, and skills mismatches, remain unresolved beneath the cyclical slowdown, ready to reignite wage pressures once demand returns.

Imports: the safety valve that shows up as a deficit

When domestic supply cannot keep pace with demand, imports act as a safety valve. Both household consumption and capital investment in Romania are heavily import-intensive; when the government raises wages, pensions, or infrastructure spending, a large share of that

demand leaks abroad.

For several years, excess domestic demand was absorbed not just by higher local prices, but by a widening trade gap, resulting in a current account deficit of 8.2% of GDP in 2024 and 7.9% in 2025, the largest in the EU. Imports thus prevented domestic inflation from rising even higher, but at the cost of a severe external imbalance and greater vulnerability to global commodity prices and exchange-rate shifts. Inflation and the current account deficit are ultimately two sides of the same coin: domestic demand persistently outrunning productive capacity.

Fiscal policy: yesterday's accelerator, today's brake

Romania's fiscal deficit and fiscal impulse are not the same thing. The deficit widened to roughly 9.3% of GDP in 2024, supported by rapid increases in public wages, pensions and other expenditure. That fiscal expansion contributed directly to consumption, labour-market pressure and the external deficit. The deficit subsequently narrowed to around 7.7% in 2025 and is expected to decline further in 2026 to around 6.0%. The improvement reflects the consolidation packages adopted in the second half of 2025, including higher VAT and excise rates and freezes on public sector wages and pensions.

The inflation effect runs in two directions. Higher indirect taxes and administered prices initially raise the CPI. But consolidation also reduces disposable income, consumption and companies' pricing power. The first-round effect is inflationary; the subsequent demand effect is disinflationary.

This explains how Romania can combine weak activity with still-high inflation. Romania is currently caught between those two stages. The inflation data continue to reflect the impact of higher taxes, energy costs and regulated price increases introduced as part of the adjustment, even as the same fiscal correction is weighing on demand. Fiscal policy is now contributing to the cure, but some of the instruments used to achieve the cure temporarily worsen the inflation print.

The NBR and monetary policy: constrained, not cosmetic

Despite inflation sitting well above the NBR's 2.5% target, expectations have not fully de-anchored. Instead, anchoring has become horizon-dependent. Professional forecasters still see longer-term inflation near the top of the target band (with the NBR projecting 3.4% by the end of 2027), showing the target still anchors the destination. However, households and firms base their short-term pricing and wage decisions on the supermarket prices and utility bills they see today, leaving the target with little grip over the near-term route.

Meanwhile, NBR has held its policy rate at 6.50%, with the lending facility at 7.50% and the deposit facility at 5.50%, since the two 25 basis point cuts delivered in 2024. Romania's

monetary transmission mechanism can be imperfect. A persistent liquidity surplus in the banking system can push money-market rates toward the lower end of the central bank's corridor, reducing the informational value of the headline policy rate. But this does not make the policy rate irrelevant. The NBR can manage liquidity directly, while monetary policy also operates through bank lending conditions, government yields, asset prices, expectations and – importantly for Romania – the exchange rate.

It is also misleading simply to subtract today's inflation rate from today's policy rate and conclude that monetary policy is loose. Investment and borrowing decisions depend on expected inflation over the period during which those decisions pay off. If inflation is expected to decline toward 3.0-4.0%, nominal borrowing costs above 5.0% imply materially positive ex-ante real rates. The NBR's constraint is therefore not simply a reluctance to tighten. With the economy near stagnation, fiscal policy tightening, and supply-side shocks unresponsive to rate hikes, the NBR is sensibly relying on fiscal drag and weak consumption to do the heavy lifting – even if the lags are long.

The exchange rate: stabilising inflation, delaying adjustment

The leu formally floats, but the NBR has historically limited large EUR/RON movements. For an import-intensive economy, that policy has clear benefits. A large depreciation would quickly raise the domestic cost of imported goods. Exchange rate stability therefore acts as a second nominal anchor alongside the inflation target. But it also changes the way the economy adjusts.

The euro traded near RON 5.09 in March 2026, around RON 5.23 by May and roughly RON 5.34 by early October – a noticeable weakening of the leu after years of remarkable stability not far from the 5.00 level. Even so, the currency has moved far less than domestic costs. When Romanian wages and prices rise persistently faster than those of trading partners while the nominal exchange rate changes only modestly, the result is real appreciation.

The European Commission estimates that Romania’s unit-labour-cost-based real effective exchange rate appreciated significantly in 2023 and 2024. The IMF’s external balance assessments also suggest that the currency may be materially overvalued, although these estimates are subject to considerable uncertainty. Regardless of the precise degree of misalignment, if labour costs in Romania continue to rise faster than those of its trading partners without corresponding productivity gains or nominal currency depreciation, cost competitiveness will weaken and pressure on the external balance will increase. Even so, Romania’s export performance has so far remained more resilient than relative cost indicators alone would suggest.

That leaves the NBR facing a genuine trade-off. Allow more nominal depreciation and import additional inflation in the short term, or limit depreciation and accept a gradual deterioration in cost competitiveness when domestic costs rise faster than those of trading partners.

Romania has largely opted for a modified version of the latter approach, managing to combine exchange rate stability with rapid wage growth and persistent inflation for several years. The needed adjustment did not disappear, however, but it was largely redirected into real appreciation and a wider current-account deficit. A stable exchange rate also preserved the purchasing power of rapidly rising incomes. That helped support consumption growth and, given Romania's high import propensity, channelled part of the demand expansion into imports and a larger external deficit.

Productivity: the only durable solution, but one that takes time

Weak consumption and high interest rates can suppress inflation temporarily, but the only lasting cure is expanding productive capacity: better infrastructure, higher labour participation, stronger skills, and a larger tradable sector.

Backed by deep integration into European supply chains and substantial EU funds for transport, energy, and digital networks, Romania has the tools to raise potential output. Yet infrastructure investment carries a timing mismatch: building roads and power grids creates demand for labour and imported materials today, while the productivity dividend arrives years later. Even so, shifting the growth model from consumption and nominal wage hikes toward investment and tradable capacity is the only sustainable path forward.

Conclusion: persistence, not de-anchoring

Romania is no longer in the overheating environment that created its macroeconomic imbalances. Fiscal policy is restrictive, real incomes are shrinking, consumption is weak, and growth is near zero. Yet the economy entered this slowdown carrying a massive overhang of unresolved cost pressures from 2023-24 and a fresh round of tax and energy shocks. Consequently, the most important metrics over the coming months will not be headline CPI prints, but adjusted CORE2 and services inflation. If they begin to fall as weak demand works through the economy, Romania is navigating a longer but ultimately conventional disinflation. If they remain sticky, domestic pricing has become backwards-looking enough to require a much longer period of economic slack – or sharper policy intervention.

For now, the evidence points to persistence rather than de-anchoring. It is also important not to confuse Romania's inflation differential with macroeconomic imbalance. As long as the economy continues to converge towards euro-area income and productivity levels, the Balassa-Samuelson effects are likely to generate a modest inflation premium, particularly in domestically oriented services.

Romania is not trapped in a permanent high-inflation regime, nor has the recent dip in headline CPI completed the adjustment. Rather, the challenge is that a structurally

normal convergence-related inflation premium has been compounded by years of excess demand, repeated cost shocks and their delayed pass-through into domestic prices. Until growth shifts more decisively from consumption toward productivity and productive capacity, Romanian inflation will likely retain its defining trait: it falls, but slowly, and each new shock travels further through the economy than policymakers would like.

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