

The Impact of Fiscal Policy on Inflation in Romania

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Abstract. *Inflation has become one of the most important macroeconomic challenges facing Romania in recent years. Although the recent rise in prices was initially triggered by external shocks, including the energy crisis, supply bottlenecks, and geopolitical instability, domestic factors have played a decisive role in sustaining inflationary pressures. Among these domestic factors, fiscal policy occupies a central place. Government spending, taxation, wage and pension policies, subsidies, and the size of the public deficit all influence inflation through multiple channels, including aggregate demand, expectations, price-setting dynamics, and the interaction with monetary policy. Romania is a particularly relevant case because inflation has unfolded in parallel with persistent fiscal deficits, strong consumption-led growth, and repeated warnings from European and international institutions regarding macroeconomic imbalances and the need for fiscal consolidation.*

This article examines the impact of fiscal policy on inflation in Romania by combining theoretical discussion with recent macroeconomic evidence. It explains the main transmission mechanisms through which fiscal policy affects prices, analyses Romania's post-pandemic inflation dynamics, and evaluates the extent to which expansionary fiscal policy has contributed to inflation persistence. The paper argues that, although fiscal policy was not the only cause of inflation in Romania, it significantly amplified domestic inflationary pressures and reduced the speed and effectiveness of disinflation. The article also highlights that monetary policy alone cannot ensure price stability when the fiscal stance remains loose or inconsistent. Consequently, credible and well-designed fiscal consolidation is presented not only as a budgetary necessity, but also as an essential anti-inflation instrument.

Keywords: inflation, monetary policy, public deficit, sustainability, income, taxation.

JEL Classification: E31, E62, E63.

1. Introduction

Inflation is often treated as a technical concept, expressed through indices, percentage points, policy rates, and forecasts. Yet behind these figures lies a much more tangible reality: inflation shapes how households live, how businesses plan, how governments borrow, and how societies perceive economic stability. In a country like Romania—where living standards have improved significantly over the past two decades, but income vulnerability remains for many— inflation is not just a macroeconomic indicator. It is also a social and political concern. When prices rise too quickly, households lose purchasing power, businesses face cost uncertainty, and confidence in economic policy becomes harder to sustain.

In recent years, Romania has faced exactly this challenge. The post-pandemic recovery, the energy crisis, and the regional effects of the war in Ukraine all contributed to a surge in inflation across Europe. However, Romania's case stands out because inflation has remained closely tied to domestic vulnerabilities: high fiscal deficits, strong consumption, rapid increases in wages and pensions, and a broader imbalance between demand and the economy's productive capacity. Both the European Commission and the National Bank of Romania have repeatedly highlighted these imbalances, pointing to fiscal and income policies as key sources of inflationary pressure and uncertainty.

This context makes Romania a particularly relevant case for analyzing the relationship between fiscal policy and inflation. Fiscal policy is often discussed in terms of growth, redistribution, and public finance sustainability, but its role in shaping inflation is just as important. Government decisions on spending, taxation, wages, pensions, and borrowing directly influence demand, labor costs, inflation expectations, and the overall consistency of macroeconomic policy. In economies with persistent deficits and limited fiscal space, these effects become even stronger, as they interact with investor confidence, financing conditions, and exchange rate dynamics. Romania fits this profile closely.

The objective of this article is to examine the impact of fiscal policy on inflation in Romania, with a focus on recent developments while also drawing on economic theory and prior research. The central argument is that fiscal policy has not only accompanied inflation but has also contributed to its persistence—by sustaining domestic demand, reinforcing wage and income pressures, and weakening the overall policy mix aimed at price stability. The article also argues that lasting disinflation in Romania requires better alignment between fiscal and monetary policy, as central bank action alone cannot fully offset an expansionary or insufficiently credible fiscal stance.

The paper is structured as follows. The next section outlines the theoretical link between fiscal policy and inflation. This is followed by an analysis of Romania's recent inflation context and macroeconomic vulnerabilities. The subsequent sections examine the transmission channels of fiscal policy, assess the recent fiscal stance, and explore the interaction between fiscal and monetary policy. The paper then discusses the challenges of fiscal consolidation before concluding with the main findings and their policy implications.

2. Theoretical Framework and Romania's Inflation Context

Fiscal policy—how governments manage spending, taxation, and deficits—plays a central role in shaping inflation. At its core, the link is simple: fiscal decisions influence how much money flows into the economy, which in turn affects prices.

When governments increase spending, cut taxes, or expand social transfers, they boost purchasing power and stimulate demand. If this demand grows faster than the economy's ability to produce goods and services, prices rise. The opposite is also true: reducing spending or increasing taxes can ease inflationary pressure by slowing demand. This balance between demand and supply sits at the heart of how fiscal policy influences inflation (Blanchard, 2017).

In practice, inflationary effects become most visible when the economy is already under strain—when production cannot expand quickly, when imports are heavily relied upon, or when labor markets are tight. Under such conditions, additional demand translates more directly into higher prices rather than higher output. This dynamic is particularly relevant in Romania, where structural constraints and strong internal demand have amplified price pressures in recent years.

However, fiscal policy affects inflation not only through immediate demand, but also through expectations. When governments run large and persistent deficits, people begin to question whether such policies can be sustained. Businesses may anticipate future tax increases, workers may demand higher wages to protect their purchasing power, and investors may require higher returns to compensate for risk. These reactions feed into inflation itself, making it more persistent. In this sense, inflation reflects not only current economic conditions, but also confidence in future fiscal discipline.

Fiscal measures can also influence prices directly. Changes in indirect taxes, such as VAT or excise duties, are often passed on immediately to consumers. On the other hand, temporary interventions—such as price caps or subsidies—can delay inflation rather than eliminate it. Once these measures are removed, prices may adjust rapidly, sometimes creating new inflation spikes. This highlights how the design and timing of fiscal policy matter just as much as its size.

Another key element is the relationship between fiscal policy and monetary policy. In Romania, the National Bank uses interest rates to control inflation. But if fiscal policy continues to stimulate demand while the central bank is trying to slow it down, the two policies work against each other. In such cases, the central bank must act more aggressively, raising borrowing costs higher than would otherwise be necessary. This makes disinflation more difficult and potentially slows economic growth. Effective inflation control therefore depends on alignment between fiscal and monetary actions.

Romania's recent experience illustrates these mechanisms clearly. The country entered the post-pandemic period with existing vulnerabilities, including a large fiscal deficit, strong

reliance on domestic consumption, and a significant external imbalance. These weaknesses made the economy more sensitive to external shocks.

When global energy and food prices surged—especially after 2021—Romania experienced a sharp rise in inflation. But what followed is particularly important: inflation remained high even after external pressures began to ease. Headline inflation reached double-digit levels in 2022 and remained elevated in 2023, while core inflation—excluding volatile components like energy—stayed persistently high. This suggests that domestic factors were sustaining inflation beyond the initial shocks.

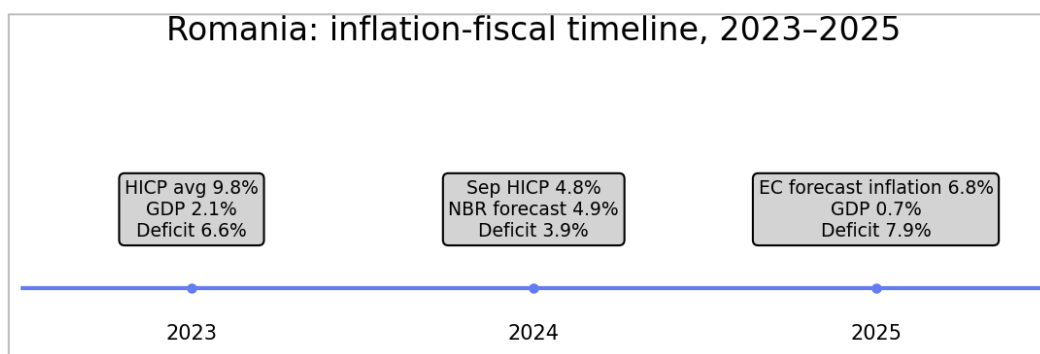
Several internal drivers contributed to this persistence. Wage growth accelerated, labor markets tightened, and both public and private consumption remained strong. At the same time, fiscal policy continued to support demand, while the budget deficit remained high and only gradually adjusted. This created a situation in which inflationary pressures were not just imported but increasingly generated within the economy itself.

Romania's position under the EU's Excessive Deficit Procedure further reflects these challenges. Persistent fiscal imbalances are not just a long-term sustainability issue—they also influence short-term inflation dynamics by shaping expectations and limiting policy flexibility.

Overall, Romania's inflation can be best understood as the result of overlapping forces. External shocks triggered the initial increase in prices. Domestic demand, supported in part by fiscal policy, sustained the pressure. And ongoing fiscal uncertainty reinforced inflation expectations. Together, these layers explain why inflation has been more persistent and harder to reduce than in a purely external shock scenario.

The key takeaway is clear: fiscal policy is not a passive background factor. It actively shapes inflation outcomes—either stabilizing the economy or making price control more difficult. In Romania's case, aligning fiscal policy with macroeconomic stabilization remains essential for achieving lasting price stability.

Figure 1. *Inflation and fiscal timeline in Romania, 2023–2025*



The figure combines historical observations with official forecasts to illustrate how disinflation, fiscal deterioration, and subsequent consolidation overlap. Note: the timeline mixes annual-average HICP (Harmonized Index of Consumer Prices), point-in-time HICP (Harmonized Index of Consumer Prices), and forecast values, so it should be presented as an interpretive macro timeline rather than a single-series statistical chart.

3. Transmission Channels: How Fiscal Policy Affected Inflation in Romania

3.1. Aggregate Demand and Consumption Pressure

The first and most obvious channel through which fiscal policy influences inflation is aggregate demand. When public expenditure rises rapidly, or when deficits remain large because spending exceeds revenue by a wide margin, the government effectively sustains demand in the economy. This effect becomes more pronounced if the additional spending directly increases household purchasing power or stimulates sectors already facing capacity constraints. In Romania, the economy has relied significantly on domestic consumption as a growth driver, and this feature makes inflation particularly sensitive to fiscal stimulus.

The European Commission's 2024 Country Report explicitly stated that growth in Romania was expected to be supported by stronger domestic demand, driven by higher real disposable income and public-sector related spending. This is a crucial observation, because it means that domestic demand was not naturally cooling enough to ensure a rapid return to price stability. Instead, fiscal and income policies contributed to preserving demand at relatively high levels. From an inflation perspective, this matters especially in an economy where supply-side rigidities and import dependence limit the speed with which higher demand can be met without price increases.

The OECD (Organization for Economic Cooperation and Development) position reinforces the same point. Its 2024 survey emphasized that fiscal consolidation would complement restrictive monetary policy in keeping demand at sustainable levels. This phrase is important because it acknowledges that inflation control depends not only on reducing the price of money through interest rates, but also on reducing the quantity of excess demand generated or sustained by fiscal policy. In Romania's case, the absence of sufficiently strong fiscal consolidation meant that monetary policy had to shoulder more of the anti-inflation burden.

3.2. Public Wages, Pensions, and Transfers

A second major channel operates through household income. In Romania, decisions regarding public wages, pensions, and other transfers have a broad macroeconomic impact because they affect disposable income for a large population segment. When such incomes increase quickly, consumption also tends to rise, especially in a context where households use a high share of income for current spending. If the supply side does not expand at the same pace, the imbalance pushes prices upward.

The European Commission explicitly warned that inflation could face upside risks if salaries and pensions continued to grow rapidly. This statement reflects the fact that wage and pension policy are not only social instruments; they are also macroeconomic variables with inflation consequences. Large increases in public-sector incomes can have two inflationary effects simultaneously: they directly increase household demand, and they influence wage-setting behavior in the wider economy, where private employers may face pressure to raise wages as well. In tight labor markets, such dynamics can feed broader cost pressures, especially in services.

The National Bank of Romania's own analysis supports this interpretation. Its Inflation Report included discussion of labor shortages and wage pressures as contributors to inflation. When the labor market is tight and productivity growth does not keep up with income growth, the result is a more inflationary internal environment. Fiscal policy becomes part of this mechanism whenever the public sector acts as a significant source of wage and transfer increases. In Romania, the interaction between fiscal income decisions and labor-market conditions has therefore been one of the main channels linking the budget to inflation.

3.3. Indirect Taxes, Excises, and Administered Price Effects

The third channel is more direct: fiscal policy can alter inflation through tax changes. Unlike aggregate demand effects, which work through broader macroeconomic transmission, tax changes affect prices almost immediately when businesses pass them on to consumers. VAT increases, excise adjustments, or changes in regulated pricing frameworks can produce a visible step-up in consumer prices. Conversely, temporary tax reductions or subsidies may dampen inflation for a period, even if the underlying pressures remain.

This distinction is especially important when discussing fiscal consolidation. In theory, deficit reduction should ease inflation in the medium term by reducing demand and improving credibility. In practice, however, consolidation that relies heavily on higher indirect taxes may increase inflation in the short term. The National Bank of Romania noted that fiscal and budgetary correction packages could alter the inflation outlook and that the future configuration of such measures remained a source of uncertainty. This means that fiscal adjustment can have mixed inflation effects depending on how it is designed.

The European Central Bank's material on Romania's price developments also helps clarify this issue by distinguishing between standard HICP (Harmonized Index of Consumer Prices) and HICP (Harmonized Index of Consumer Prices) at constant tax rates. This distinction highlights that changes in indirect taxation can create measurable shifts in consumer inflation independently of deeper demand conditions. For Romania, this means that policy evaluation must separate short-term price-level effects caused by tax measures from the broader medium-term role of fiscal policy in shaping aggregate demand and macroeconomic stability.

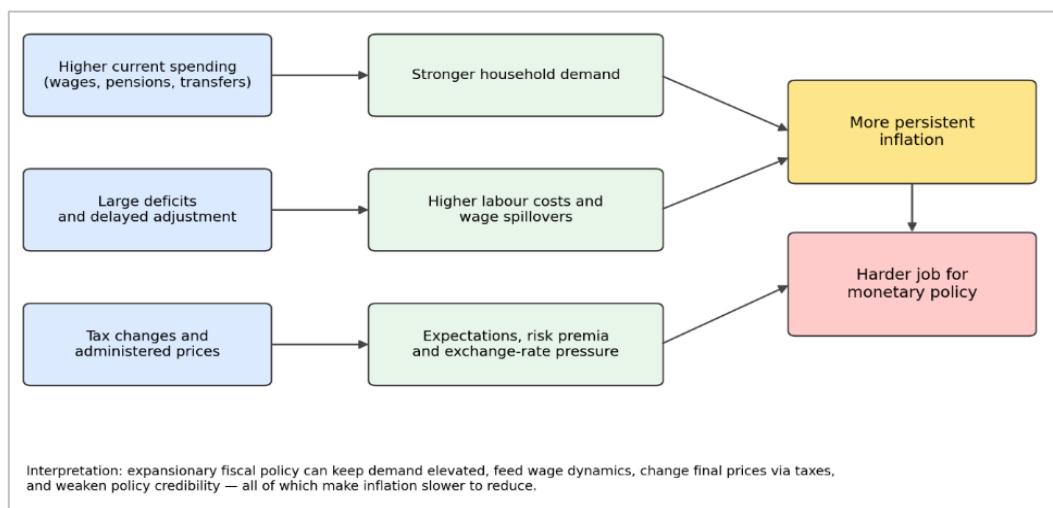
3.4. Expectations, Credibility, and External Vulnerability

A fourth and often underestimated channel concerns expectations and credibility. Inflation becomes more persistent when households, firms, and financial markets lose confidence that the policy mix is consistent. Persistent large deficits may signal that economic adjustment will be delayed, that public debt pressures will grow, or that taxes and administered prices may need to change abruptly later. Even if the government does not monetize the deficit, the perception of fiscal fragility can still influence price-setting, wage demands, and the exchange-rate environment.

Romania's continued position under the Excessive Deficit Procedure is relevant in this respect. The fact that the procedure remained open and that repeated steps were taken by the European institutions indicates not only a budgetary problem but also a credibility issue. If adjustment is repeatedly postponed, economic agents may begin to expect future corrections that are more abrupt and more painful. In emerging economies or converging economies such as Romania, this can influence inflation indirectly through financing conditions, exchange-rate sensitivity, and imported cost pressures.

The relevance of this channel is also supported by older analytical work on Romania. Budina and van Wijnbergen showed that fiscal deficits and inflation stabilization are interdependent, and that delayed adjustment raises the effort needed to restore consistency between fiscal and monetary objectives. Even though the institutional and European setting is different today, the underlying lesson remains valid: a credible fiscal anchor reduces inflationary risk, while a weak or delayed fiscal correction increases it.

Figure 2. Fiscal policy affects inflation in several ways in Romania



It boosts demand, puts pressure on wages, influences prices through taxes and regulated costs, and can reduce confidence in policy over time. Together, these effects make inflation slower to decline.

4. Romania's Recent Fiscal Stance and Its Inflationary Implications

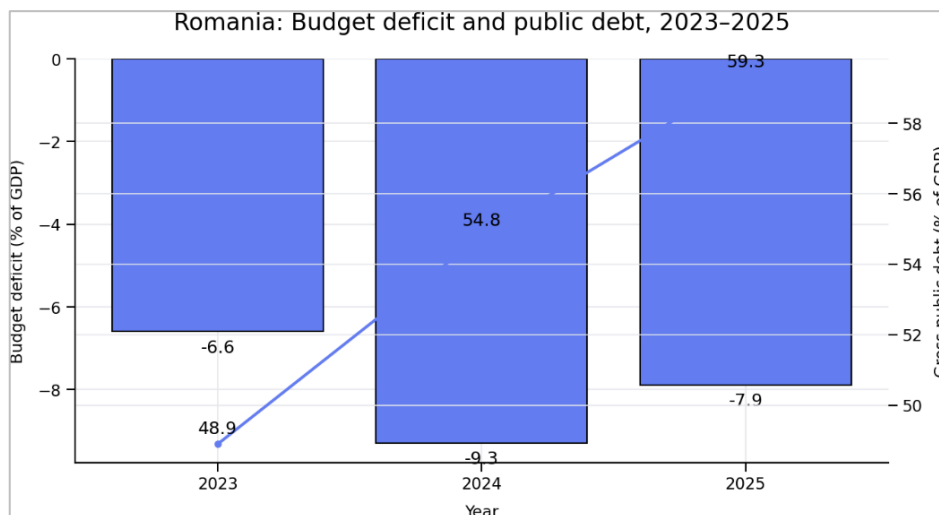
Romania's recent fiscal policy has often been seen by international institutions as not restrictive enough for the economic conditions it faced. This does not mean that the government intended to drive inflation higher. Rather, fiscal policy continued to support demand at a time when inflation control required a stronger correction. The OECD's 2024 assessment makes this point clear: tighter fiscal policy would have supported monetary tightening and helped keep demand at sustainable levels. The implication is straightforward—fiscal policy was still too expansionary for an economy dealing with high inflation.

The European Commission reached a similar conclusion. It linked strong domestic demand partly to public spending and to significant increases in wages and pensions. At the same time, it highlighted Romania's large current account deficit, which is closely connected to high government deficits. This matters because fiscal policy does not only affect the budget—it shapes the broader economy. By supporting consumption, it also increases reliance on imports, which adds pressure to external balances and makes inflation harder to bring down.

The persistence of Romania's excessive deficit reinforces this picture. European Commission reports show that the deficit has not been effectively corrected, despite repeated recommendations. This suggests that fiscal adjustment has lagged behind monetary policy. While the National Bank of Romania tightened monetary conditions to fight inflation, fiscal policy remained a source of demand pressure and uncertainty. This imbalance between policies helps explain why inflation has been slow to decline, even after passing its peak.

It is also important to separate the intent of fiscal policy from its effects. Many spending decisions—especially increases in wages, pensions, and social support—were driven by the need to protect households during a period of rising living costs. However, their macroeconomic impact depends on timing. When inflation is already high and demand is strong, such measures can unintentionally add to price pressures if they are not balanced elsewhere. This does not question the social value of these policies, but highlights their economic consequences in a given context.

Romania's experience reflects a broader policy dilemma. Governments aim to protect incomes during inflationary periods, but the tools used—higher wages, pensions, transfers, or tax relief—can also sustain demand and prolong inflation. The challenge is to strike a better balance: to support vulnerable groups without maintaining excess demand across the economy. International recommendations suggest that Romania has struggled to fully achieve this balance so far.

Figure 3. Romania's budget deficit and public debt, 2023–2025

The chart shows a sharp deterioration in the fiscal position in 2024, followed by a projected but still incomplete consolidation path in 2025–2025. Historical 2023–2025 figures are based on Eurostat-reported outcomes.

5. Fiscal Policy and Monetary policy: Complementarity or Conflict?

The relationship between fiscal policy and monetary policy is essential for understanding inflation in Romania. In countries with inflation targeting regimes, central banks are usually seen as the primary institutions responsible for price stability. This is also true in Romania, where the National Bank of Romania has operated under inflation targeting since 2005. However, central bank action can only be fully effective if it is not systematically undermined by fiscal expansion. A policy mix in which the central bank tightens while the government stimulates demand is coherent only for a limited time; beyond that point, the costs increase and the inflation outcome improves more slowly (Leeper, E. (1991) – “Equilibria under ‘Active’ and ‘Passive’ Monetary and Fiscal Policies”).

The NBR (National Bank of Romania) repeatedly emphasized that fiscal and budgetary policy was a major source of uncertainty for the inflation outlook. This is not a marginal technical comment; it reflects a structural point about macroeconomic coordination. When the central bank raises rates to control inflation, it seeks to reduce credit growth, moderate demand, and anchor expectations. If fiscal policy simultaneously raises household incomes or keeps the deficit too large, the central bank’s effort is partially offset. The result is that monetary tightening must remain in place for longer, which may affect investment, financing costs, and growth more heavily than if fiscal policy had adjusted earlier.

The OECD (Organization for Economic Cooperation and Development) expressed the same logic in more direct policy language. Its recommendation that fiscal consolidation

should complement restrictive monetary policy shows that the inflation problem was not viewed as purely monetary. Instead, price stability required a joint adjustment in which the government reduced the inflationary impulse of budget policy while the central bank maintained the nominal anchor. This is particularly relevant in Romania because the economy also faces current account pressures, meaning that excessive domestic demand has both internal and external consequences.

The interaction between the two policies is also important for credibility. When economic agents see a coherent macroeconomic mix, expectations stabilize more easily. When they see tension or contradiction between what the central bank is doing and what the government is doing, uncertainty increases. In Romania's case, the persistence of a high deficit while inflation remained elevated risked sending a mixed message: one institution was attempting to cool the economy, while the other was not adjusting fast enough. This tension may not always appear immediately in headline inflation figures, but it weakens the overall disinflation process.

A further point concerns the distribution of adjustment costs. If fiscal policy does not contribute enough to disinflation, the burden falls more heavily on interest rates, on the private sector, and on credit-sensitive activities. This means that households with loans, firms dependent on financing, and long-term investment projects carry more of the stabilization cost than they otherwise would. Better fiscal-monetary coordination is therefore not just a technical matter; it is also a way to distribute the burden of disinflation more efficiently and more fairly across the economy. Romania's recent experience suggests that a more balanced policy mix would have reduced some of these pressures.

6. Fiscal Consolidation in Romania: Necessity, Risks, and Design Principles

Given the preceding analysis, the argument for fiscal consolidation in Romania appears strong. A lower deficit should reduce aggregate demand pressure, improve fiscal credibility, support external rebalancing, and allow monetary policy to operate under better conditions. It should also strengthen Romania's position relative to European fiscal rules and reduce long-term debt risks. For these reasons, both the European Commission and the OECD (Organization for Economic Cooperation and Development) have argued in favor of credible budgetary adjustment.

Yet consolidation is not a simple mechanical solution. Much depends on how it is implemented. If the government relies primarily on indirect tax increases, the short-term effect on inflation may be adverse, even if the medium-term impact is stabilizing. If adjustment is based mainly on reducing productive public investment, long-term growth may suffer and supply capacity may weaken, which could create future inflationary pressures of another kind. If consolidation is abrupt and socially unbalanced, it may create political resistance strong enough to undermine credibility. Fiscal adjustment works best when it is not only large enough, but also well designed, gradual, and understandable to economic agents.

The OECD (Organization for Economic Cooperation and Development) provides a useful orientation regarding the quality of adjustment. It argues that Romania needs greater tax revenues to stabilize debt while continuing to fund priority spending such as infrastructure, pensions, health care, and education. This implies that the issue is not simply reducing spending across the board but improving the structure and efficiency of public finances. Stronger tax administration, broader revenue collection, a fairer tax base, and better control of non-productive expenditure can support consolidation without suffocating long-term development.

From an inflation perspective, the composition of fiscal consolidation matters enormously. Measures that reduce broad-based demand without directly increasing consumer prices are generally more supportive of disinflation than measures that immediately raise indirect taxes. Measures that protect public investment may also improve medium-term supply conditions, which helps weaken structural inflation pressure over time. Conversely, a poorly designed package may reduce the deficit but still leave the economy facing near-term price shocks, weaker growth, and fragile public support. Romania therefore needs not only consolidation, but smart consolidation.

The credibility dimension should not be underestimated either. Economic agents respond not only to enacted measures but also to whether they believe the government will maintain the adjustment path. Romania's prolonged deficit problem, already visible in the repeated stages of the Excessive Deficit Procedure, means that credibility has to be rebuilt, not assumed. A medium-term plan that is clear, realistic, and institutionally anchored would reduce uncertainty, improve coordination with monetary policy, and support lower inflation expectations. Without this credibility, even technically sound measures may have weaker effects than expected.

7. Is Fiscal Policy the Main Driver of Inflation in Romania? A Balanced Assessment

Although the evidence strongly suggests that fiscal policy has contributed to inflation persistence in Romania, the question must be answered with nuance. Fiscal policy was not the sole or original cause of the recent inflation episode. External shocks were clearly decisive in triggering the surge in prices. Energy markets, global supply disruptions, and regional geopolitical instability all had a major impact on European inflation, and Romania was no exception. The European Commission and the NBR (National Bank of Romania) both recognized the importance of these external influences when describing the inflation process.

However, fiscal policy should not be treated as peripheral simply because inflation had external starting points. What matters analytically is not only what started inflation, but also what allowed it to persist. In Romania, expansionary fiscal conditions, strong income growth, delayed deficit correction, and the lack of a fully coherent macroeconomic mix all

contributed to keeping domestic inflation pressure alive. This is particularly visible in the persistence of core inflation and in institutional repeated warnings about fiscal risks to the inflation outlook.

It is therefore more accurate to say that fiscal policy in Romania acted as an amplifier and prolonger of inflation rather than its sole origin. This distinction is important because it avoids exaggeration while still assigning responsibility where it exists. External shocks can ignite inflation, but domestic policy choices determine whether inflation fades naturally or becomes entrenched. In Romania's case, fiscal policy often tilted toward the latter outcome by supporting demand too strongly and by not adjusting deficits rapidly enough.

A balanced assessment also requires acknowledging that certain fiscal measures may have prevented social hardship in the short run. For example, income support and public expenditure can cushion the impact of inflation on vulnerable groups. But macroeconomic policy always involves trade-offs. Measures that protect income today may contribute to price pressure tomorrow if they are not targeted and financed credibly. This is exactly why the inflation-fiscal relationship is so complex and so important for Romania's policy future.

8. Broader Implications: Inflation as a Governance and Development Challenge

The Romanian case shows that inflation should not be viewed only as a short-term macroeconomic fluctuation. It is also a reflection of deeper issues in public finance governance, economic structure, and development strategy. An economy that relies heavily on consumption-led growth, persistent deficits, and recurrent policy improvisation will tend to be more vulnerable to inflation when shocks occur. By contrast, an economy with stronger productivity growth, better tax administration, disciplined current spending, and a credible policy framework will generally be more resilient. International institutions reviewing Romania's economy consistently emphasize these structural dimensions (European Commission, 2024).

This means that fighting inflation in Romania is not only about bringing monthly inflation rates down. It is also about improving the quality of governance. The issue includes how public money is spent, how revenues are collected, how medium-term budget commitments are made, how wage and pension policies are integrated into growth strategy, and how national policy aligns with European fiscal frameworks. The fact that Romania remained under the Excessive Deficit Procedure and continued to face repeated recommendations for adjustment indicates that the challenge is institutional as well as cyclical.

A second broader implication concerns convergence. Romania has made substantial progress in increasing GDP per capita and moving closer to European income levels, a point noted by the European Commission. Yet inflation can undermine that convergence if it erodes real incomes, damages competitiveness, and generates macro-financial vulnerability. In other words, inflation is not only a cost-of-living issue; it can become a drag on development itself if linked to structurally weak public finance management. Thus,

improving fiscal discipline and policy coherence is part of the broader challenge of ensuring that convergence remains sustainable.

Finally, Romania's experience offers a broader lesson for policy-making in emerging and converging economies. In such economies, the line between social support, growth support, and inflationary stimulus can be thin. The state must often respond to genuine social pressures, but those responses need to be designed in a way that does not undermine macroeconomic stability. This is why targeted support, credible medium-term planning, and transparent coordination between institutions are so important. Romania's inflation experience is, in this sense, a reminder that sound fiscal governance is a pillar of both stability and development.

9. Conclusion

The analysis in this paper shows that fiscal policy has played a significant role in shaping inflation in Romania, especially in the post-pandemic period marked by external shocks, strong domestic demand, and delayed fiscal adjustment. Fiscal policy influenced inflation through several channels: by sustaining demand, increasing disposable income through public wages and pensions, directly affecting prices through taxation, and shaping expectations through the credibility of the deficit path. These effects were particularly strong in Romania because they interacted with structural vulnerabilities such as current account imbalances, reliance on imports, and a consumption-driven growth model.

At the same time, the evidence does not support the idea that fiscal policy alone caused inflation. External shocks—especially energy and food price increases—were clearly responsible for the initial surge. However, fiscal policy amplified and prolonged these pressures by keeping demand elevated and weakening the overall policy mix. In this sense, fiscal policy was not the origin of inflation, but it became a key factor behind its persistence.

A central conclusion of this paper is that monetary policy alone cannot ensure a smooth and lasting disinflation if fiscal policy remains expansionary or uncertain. The National Bank of Romania can influence borrowing costs and anchor expectations, but it cannot fully offset strong fiscal support to demand. This is why international institutions have consistently emphasized the need for fiscal consolidation—not only to meet budgetary targets, but to support overall macroeconomic stability. Better coordination between fiscal and monetary policy would reduce the burden on the central bank, lower the cost of disinflation, and strengthen policy credibility.

At the same time, not all fiscal consolidation works equally well. The design of adjustment matters. Measures that improve tax collection, streamline spending, and protect productive investment are more effective than those relying heavily on higher indirect taxes or abrupt spending cuts. Romania therefore needs a fiscal strategy that is both corrective and forward-looking—one that reduces deficits while supporting long-term growth.

Ultimately, Romania's inflation experience shows that fiscal policy is not a secondary factor in price stability. It is one of its key drivers. While global shocks triggered inflation, domestic policy choices—especially around spending, deficits, and the timing of adjustment—shaped how long it lasted. Achieving lasting price stability will depend on turning fiscal policy from a source of pressure into a source of balance, credibility, and economic resilience.

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