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EDITORIAL EJAFB
INFLATION AS A FISCAL ADJUSTMENT MECHANISM: BETWEEN RESTRICTIVE MONETARY POLICY AND THE ERODING STANDARD OF LIVING

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Inflation is not just a statistical phenomenon, but a concentrated expression of structural imbalances in an economy. In Romania in 2025, persistently high inflation, with projections close to double digits, reflects not only exogenous shocks or cyclical volatility, but above all the accumulation of fiscal and budgetary decisions that have turned price increases into an implicit fiscal adjustment mechanism. In the absence of structural reforms, inflation becomes a disguised form of taxation, with regressive effects on the population and distorting effects on the economic environment.
The accelerated growth of the money supply, combined with high budget deficits financed at increasingly high costs, has fueled an inflationary spiral that is difficult to control. Although monetary policy responded by tightening credit conditions, its impact was transmitted asymmetrically across the economy. The cost of capital rose rapidly for the private sector and households, while the adjustment of public spending remained limited. Thus, monetary policy was called upon to correct fiscal excesses, assuming significant social costs.
From an accounting and financial perspective, inflation erodes the real value of fixed income and distorts performance indicators. Nominal growth in turnover or budget revenues may create the illusion of a dynamic economy, but adjusting for inflation reveals stagnation or even contraction in real activity. In this context, corporate profitability becomes fragile and investment decisions are postponed amid uncertainty about the evolution of costs and demand.
The social impact of inflation is deeply unequal. Households with fixed incomes – pensioners, public sector employees, social benefit recipients – bear the brunt of the adjustment. When nominal incomes grow at a slower pace than prices, real incomes decline and living standards deteriorate. Inflation thus functions as an "invisible tax" that does not require the adoption of a law but transfers resources from the population to the state and to debtors, to the detriment of creditors and savings.
At the same time, the business environment is caught between cost pressures and shrinking demand. Rising prices for energy, utilities, and raw materials, combined with declining purchasing power, are reducing sales volumes and affecting supply chains. Instead of functioning as a temporary adjustment mechanism, high inflation is becoming a factor of economic disorganization, weakening confidence in the currency and in the state's ability to manage the economy.
At the macroeconomic level, persistent inflation points to a problem of coordination between fiscal and monetary policy. Without credible budgetary discipline and without reducing structural pressures on public spending, the central bank's efforts risk being insufficient or excessively costly. Price stability cannot be achieved solely through high interest rates, as fiscal imbalances continue to fuel artificial demand.
In conclusion, current inflation is not only the result of external shocks, but also the expression of poor economic governance. Treating inflation as the default solution for adjusting public finances compromises both long-term economic growth and social cohesion. A healthy economy requires coherent policies in which price stability, fiscal sustainability, and the protection of living standards are complementary objectives, not alternative sacrifices in a game of perpetual postponements.

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