

# **FACTORS THAT CONTRIBUTE TO THE FORMATION OF INFLATION**

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## **Abstract**

The policy of targeting the exchange rate is described by a reaction function that correlates the depreciation rate with the difference between internal and external inflation. Inflation in Romania is created, on the costs side, significantly, both by increasing wages faster than productivity, as well as by RON depreciation. Significant disinflation has costs in terms of increasing unemployment rate. As with unemployment, labor productivity contribution, estimates show that the economic restructuring process was not fast enough at least according to the needs of disinflation.

**Keywords:** anti-inflationary policies, inflationary factors, unemployment rate, work productivity

**JEL Classification:** E31, E37