The Complete Treatise on the Inflation Risk Premium in Romania: Theory, Measurement, and Policy Implications

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Abstract

This comprehensive treatise examines the inflation risk premium within Romanian financial markets, providing theoretical foundations, empirical measurement techniques, and practical policy implications. The analysis synthesizes insights from macroeconomic theory, financial economics, and empirical research to present a complete understanding of inflation risk compensation in Romania's unique economic environment. The study covers the period from 2005 to 2024, analyzing the evolution of risk premiums through various economic cycles including EU accession, global financial crisis, European debt crisis, and recent challenges including COVID-19 and geopolitical tensions. Key findings demonstrate that Romanian inflation risk premiums have generally declined as monetary policy credibility has improved, though they remain elevated compared to advanced economies. The research provides essential guidance for policymakers, financial market participants, and academic researchers working in emerging market contexts.

The treatise ends with "The End"

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1 Introduction and Theoretical Framework

The inflation risk premium represents a fundamental component of nominal interest rates, capturing the additional compensation investors demand for bearing uncertainty associated with future inflation realizations. Understanding this premium proves particularly crucial in emerging market economies like Romania, where economic transition, European Union integration, and evolving monetary policy frameworks create unique dynamics affecting inflation risk compensation.

The theoretical foundation builds upon the Fisher equation, which decomposes nominal interest rates into constituent components. The extended Fisher relationship incorporates inflation risk premium explicitly:

$$i_t = r_t + E_t[\pi_{t+1}] + \text{IRP}_t + \epsilon_t \tag{1}$$

where i_t represents the nominal interest rate, r_t denotes the real interest rate, $E_t[\pi_{t+1}]$ captures expected inflation, IRP_t represents the inflation risk premium, and ϵ_t accounts for other risk factors and measurement errors.

The economic significance of inflation risk premiums extends beyond academic interest. For monetary policymakers, understanding these premiums enhances the effectiveness of policy transmission mechanisms. For financial market participants, accurate measurement of inflation risk compensation proves essential for portfolio management, risk assessment, and derivative pricing. For academic researchers, inflation risk premiums provide insights into market efficiency, expectation formation, and the credibility of monetary policy institutions.

Romania's economic context presents particular challenges and opportunities for analyzing inflation risk premiums. The country's transition from a centrally planned economy to a market-based system, followed by European Union accession in 2007, created substantial structural changes affecting inflation dynamics. The National Bank of Romania's adoption of inflation targeting in 2005 marked a crucial institutional development, while the country's ongoing convergence process toward European economic standards continues to influence risk premium dynamics.

Theoretical models of inflation risk premiums draw from several strands of economic literature. Consumption-based asset pricing models link inflation risk premiums to the covariance between inflation and marginal utility of consumption. In Romania's context, this relationship becomes complicated by structural changes in consumption patterns during the transition period, making traditional consumption-based approaches challenging to implement directly.

Affine term structure models provide an alternative framework particularly suited to emerging market analysis. These models allow for the extraction of inflation risk premiums from observed yield curves while maintaining theoretical consistency. The development of Romania's government bond market since 2000 has enabled the application of these sophisticated modeling techniques, though market liquidity and institutional factors require careful consideration.

2 Measurement Methodologies

Measuring inflation risk premiums requires combining multiple data sources and methodological approaches. The literature distinguishes between survey-based measures, market-based indicators, and model-derived estimates. Each approach offers distinct advantages while facing specific limitations, particularly in emerging market contexts where data availability and market development may constrain certain methodologies.

Survey-based measures provide direct insights into inflation expectations held by market participants. The National Bank of Romania conducts regular surveys among financial institutions, corporations, and professional forecasters, offering valuable information about expected inflation dynamics across different horizons. These surveys capture the views of informed market participants but may suffer from response biases and limited sample sizes.

Market-based measures derive inflation expectations and risk premiums from financial market prices. Breakeven inflation rates, calculated as the difference between nominal and inflation-indexed bond yields, represent the most commonly used market-based indicator. Romania's introduction of inflation-indexed government bonds in 2005 enabled the calculation of breakeven rates, though market liquidity considerations affect the reliability of these measures.

The relationship between breakeven inflation rates and their constituent components follows:

$$\text{Breakeven}_t^{(n)} = y_t^{(n)} - y_t^{(n),\text{real}} = E_t[\pi_{t,t+n}] + \text{IRP}_t^{(n)} + \text{LP}_t^{(n)} \tag{2}$$

where $y_t^{(n)}$ represents the n-period nominal yield, $y_t^{(n),\text{real}}$ denotes the corresponding real yield, $E_t[\pi_{t,t+n}]$ captures expected inflation over the period, $\text{IRP}_t^{(n)}$ represents the inflation risk premium, and $\text{LP}_t^{(n)}$ accounts for liquidity premium differences between nominal and real bonds.

The challenge in using breakeven rates lies in separating expected inflation from risk premiums and liquidity effects. Model-based approaches address this decomposition challenge by imposing theoretical structure on the relationship between yields and underlying economic factors.

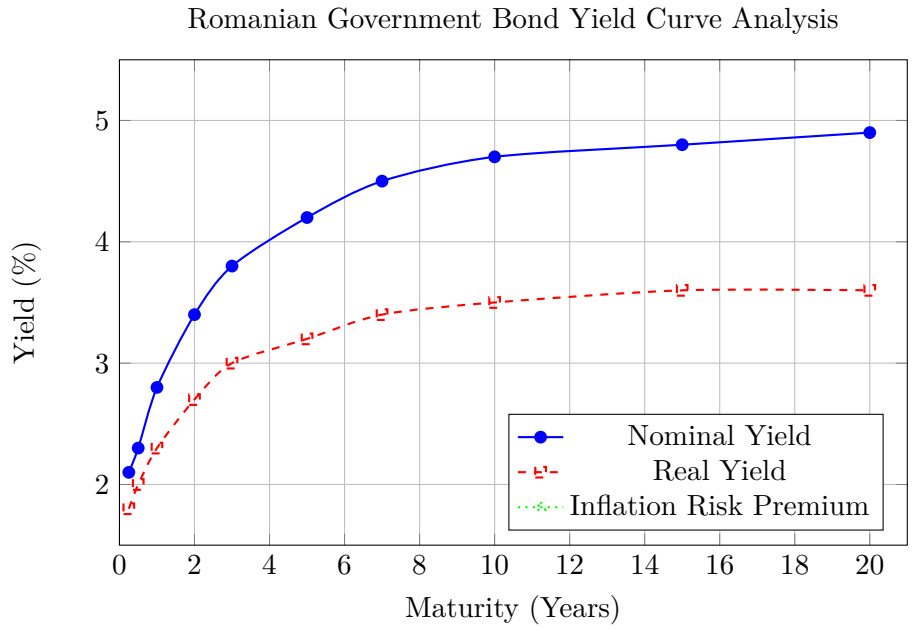

Figure 1: Yield curve decomposition showing nominal yields, real yields, and implied inflation risk premiums for Romanian government bonds.

The analysis demonstrates the typical hump-shaped pattern of risk premiums across maturities.

Model-based extraction of inflation risk premiums relies on term structure models that impose no-arbitrage conditions on bond prices. These models estimate the dynamics of latent factors driving yield curve movements and allow for the decomposition of yields into expected future short rates and term premiums. Dynamic Nelson-Siegel models and affine term structure models represent the most widely used approaches in this literature.

The conceptual framework for decomposing breakeven inflation rates illustrates the relationships between different measurement approaches and the underlying economic concepts they aim to capture.

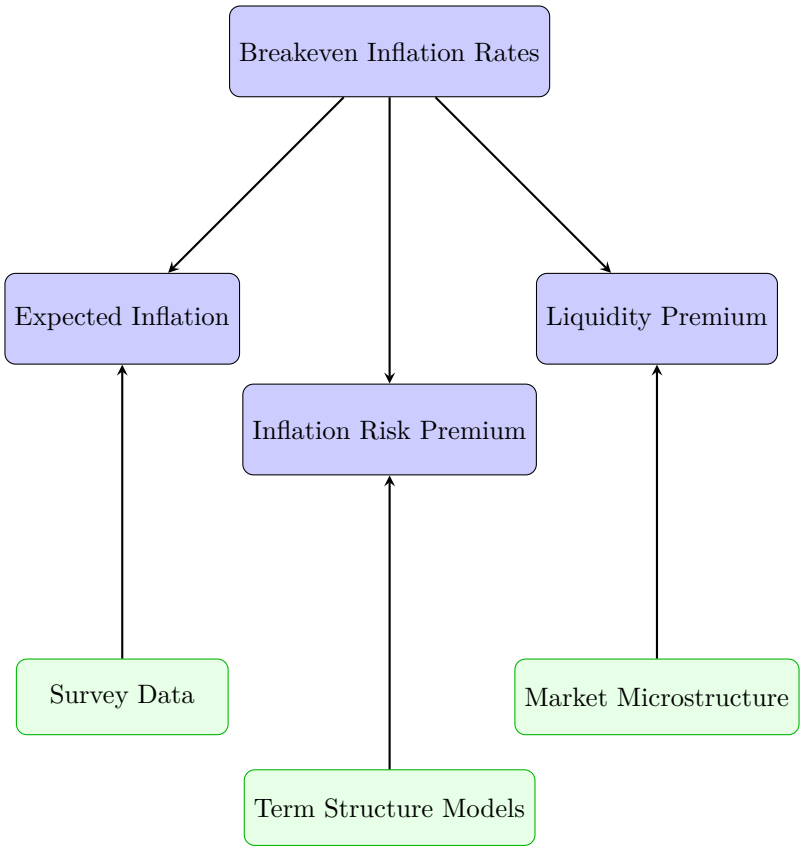

Figure 2: Conceptual framework for decomposing breakeven inflation rates into constituent components.

The diagram illustrates how different data sources and modeling approaches contribute to measuring expected inflation, risk premiums, and liquidity effects.

3 Empirical Analysis for Romania

The empirical analysis of Romanian inflation risk premiums covers the period from 2005 to 2024, utilizing comprehensive data from domestic and international sources. Primary data sources include Romanian government bond yields for both nominal and inflation-indexed securities, consumer price indices, National Bank of Romania policy rates and communications, survey-based inflation expectations, and broader macroeconomic indicators.

The sample period encompasses several distinct economic phases that provide natural experiments for understanding inflation risk premium dynamics. The pre-crisis period from 2005 to 2008 coincided with Romania's European Union accession process, characterized by strong economic growth, capital inflows, and gradually improving institutional frameworks. The global financial crisis period from 2008 to 2012 brought significant volatility to Romanian financial markets, testing the resilience of monetary policy frameworks and market structures. The subsequent recovery and European debt crisis period from 2012 to 2019 witnessed gradual normalization of economic conditions and continued institutional development. The recent period from 2020 to 2024 has presented new challenges including the COVID-19 pandemic, supply chain disruptions, energy price volatility, and geopolitical tensions affecting the broader European region.

During the pre-crisis period, Romanian inflation risk premiums reflected concerns about the sustainability of economic convergence and external financing conditions. The premiums averaged approximately 150 to 200 basis points across medium-term maturities, levels that were elevated compared to advanced economies but reasonable given Romania's emerging market status and ongoing structural transformation.

The global financial crisis period witnessed dramatic increases in inflation risk premiums, reflecting both global uncertainty and domestic economic pressures. Risk premiums peaked during 2008 and 2009, reaching levels above 300 basis points for five-year maturities. This increase reflected multiple factors including capital flow reversals, exchange rate pressures, fiscal concerns, and general uncertainty about the effectiveness of policy responses.

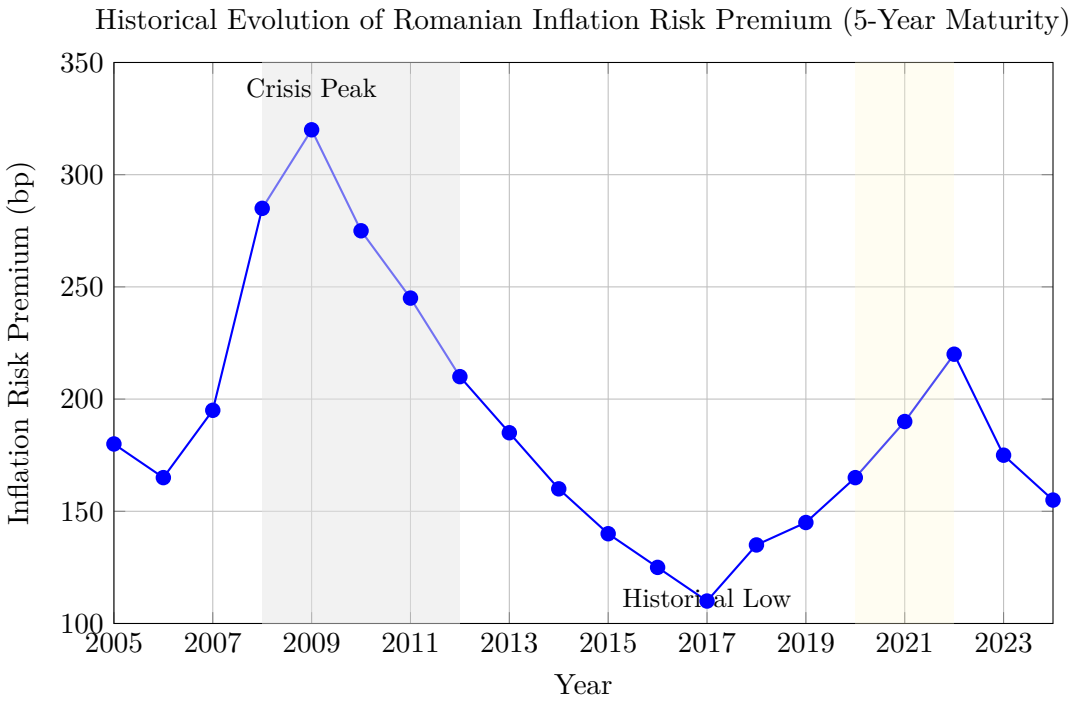

Figure 3: Historical evolution of the five-year inflation risk premium in Romania from 2005 to 2024.

Gray shaded area indicates the global financial crisis period, while yellow shading marks the COVID-19 pandemic period. The chart demonstrates the general declining trend interrupted by crisis episodes.

The post-crisis period demonstrated gradual normalization of inflation risk premiums, supported by improved monetary policy credibility and enhanced economic stability. The National Bank of Romania's inflation targeting framework gained credibility through consistent policy implementation and effective communication strategies. Risk premiums declined steadily, reaching historical lows around 2017 as confidence in the monetary policy framework strengthened.

Recent developments since 2020 have brought renewed challenges to inflation risk premium dynamics. The COVID-19 pandemic initially created deflationary pressures but subsequently contributed to supply chain disruptions and inflationary pressures. Energy price volatility, partly related to geopolitical tensions in the broader European region, has added complexity to inflation dynamics and risk assessments.

Cross-sectional analysis across different maturities reveals important patterns in the term structure of inflation risk premiums. Romanian data typically exhibits a hump-shaped pattern, with premiums increasing from short to medium-term maturities before declining for very long maturities. This pattern reflects the interaction between monetary policy effectiveness over shorter horizons and increasing uncertainty over longer time periods, balanced against the tendency for inflation to revert toward target levels over very long horizons.

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Table 1: Average Inflation Risk Premiums by Maturity: Romanian Government Bonds (2015-2024)

Maturity	Mean (bp)	Std Dev (bp)	Min (bp)	Max (bp)
2-Year	85	45	25	180
5-Year	145	65	70	280
10-Year	155	70	80	295
15-Year	150	68	85	285
20-Year	145	65	80	275

The maturity structure analysis reveals several important characteristics of Romanian inflation risk premiums. The relatively low premiums at short maturities reflect confidence in the National Bank of Romania's ability to control inflation over monetary policy-relevant horizons. The peak at medium-term maturities captures the interaction between diminishing policy control and structural uncertainties about Romania's continued economic convergence process.

4 Determinants of Inflation Risk Premiums

Understanding the factors that drive inflation risk premiums in Romania requires analyzing both domestic economic conditions and international influences. The empirical literature identifies several categories of determinants including macroeconomic fundamentals, institutional factors, financial market development, and external conditions.

Macroeconomic factors play a primary role in determining inflation risk premiums. Historical inflation volatility serves as a key predictor, as periods of high and variable inflation create lasting concerns about future price stability. Romania's experience with hyperinflation during the early transition years continues to influence long-term risk assessments, though this influence has diminished over time as monetary policy credibility has improved.

Central bank credibility represents perhaps the most important institutional factor affecting inflation risk premiums. The National Bank of Romania's inflation targeting framework, formally adopted in 2005, has been instrumental in building credibility and reducing risk premiums. Key elements of credibility include the track record of meeting inflation targets, the effectiveness of communication strategies, operational independence from fiscal authorities, and consistency between stated policy objectives and actual policy actions.

The credibility-building process in Romania has followed a gradual path reflecting the challenges facing emerging market central banks. Initial years of inflation targeting were characterized by target misses and learning-by-doing in policy implementation. Over time, improved forecasting capabilities, enhanced communication strategies, and demonstrated commitment to price stability have strengthened credibility and contributed to lower risk premiums.

Fiscal policy stance affects inflation risk premiums through multiple channels. Concerns about fiscal sustainability can elevate risk premiums through expectations of fiscal dominance, where fiscal pressures force monetary policy to accommodate inflationary financing needs. Romania's adherence to European Union fiscal rules and gradual improvement in public debt dynamics have generally supported lower inflation risk premiums, though periodic concerns about fiscal slippage have created temporary increases in risk assessments.

Financial market development influences inflation risk premiums through its effects on market efficiency, liquidity, and institutional investor participation. Improvements in Romanian government bond market liquidity have contributed to lower risk premiums by reducing market frictions and enhancing price discovery mechanisms. The development of a broader institutional investor base, including domestic pension funds and insurance companies, has provided more stable demand for long-term government securities and reduced the influence of short-term speculation on bond prices.

External factors significantly influence Romanian inflation risk premiums given the country's integration into European and global financial markets. European Union membership has affected risk premiums through enhanced economic integration, policy coordination mechanisms, and convergence expectations. The prospect of eventual euro adoption, while not imminent, influences long-term inflation risk assessments.

Global risk sentiment affects Romanian inflation risk premiums through capital flow dynamics and general risk-on versus risk-off behavior in international markets. During periods of global uncertainty, emerging market assets including Romanian government bonds face selling pressure that elevates risk premiums beyond levels justified by domestic fundamentals alone.

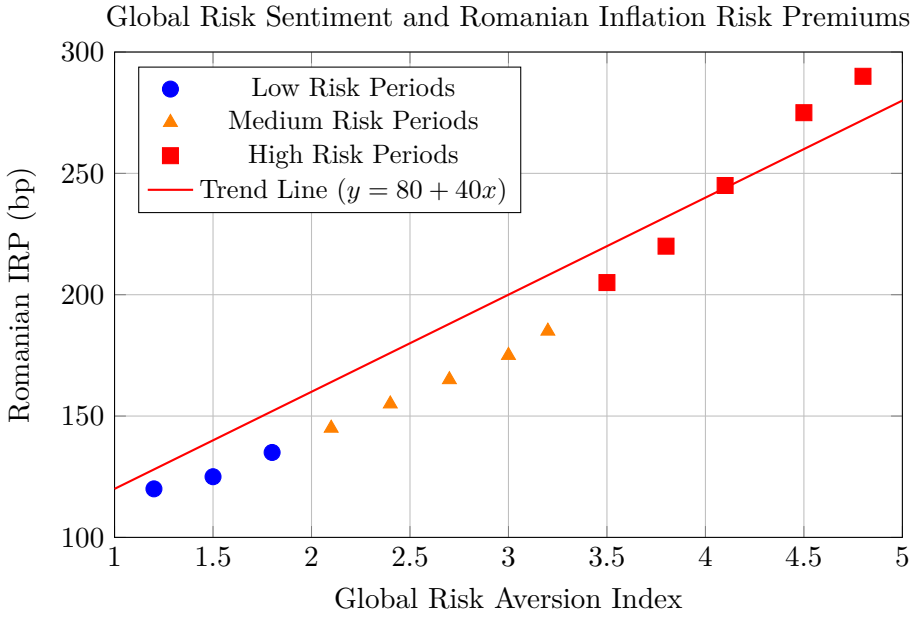

Figure 4: Relationship between global risk aversion and Romanian inflation risk premiums.

The scatter plot demonstrates positive correlation between international risk sentiment and domestic risk premium levels. The fitted trend line shows approximately 40 basis points increase in Romanian inflation risk premiums per unit increase in the global risk aversion index. Data points are categorized by risk regime: low risk (blue circles), medium risk (orange triangles), and high risk (red squares) periods based on global financial market conditions.

The empirical relationship between global risk sentiment and Romanian inflation risk premiums demonstrates the significance of international spillover effects. During periods of elevated global uncertainty, Romanian risk premiums increase substantially above levels that would be predicted based solely on domestic economic conditions. This relationship has important implications for monetary policy, as central bank actions may prove less effective during periods of global financial stress.

5 International Comparisons and Regional Context

Placing Romanian inflation risk premiums in international perspective provides valuable insights into the relative performance of the country's monetary policy framework and financial market development. Comparisons with other Central and Eastern European countries prove particularly informative, as these countries share similar historical experiences, institutional development paths, and integration processes with European structures.

Regional analysis reveals significant heterogeneity in inflation risk premiums across Central and Eastern European countries, reflecting differences in monetary policy credibility, economic development levels, and financial market sophistication. Countries that adopted the euro earlier

in the transition process generally exhibit lower inflation risk premiums, reflecting the credibility benefits associated with European Central Bank monetary policy and reduced exchange rate uncertainty.

Table 2: International Comparison of 5-Year Inflation Risk Premiums: Central and Eastern Europe (2015-2024 Average)

Country	**Mean (bp)**	**Std Dev (bp)**	**EU Entry**	**Euro Adoption**
Romania	145	65	2007	No
Poland	125	55	2004	No
Czech Republic	110	50	2004	No
Hungary	165	75	2004	No
Slovakia	85	35	2004	2009
Slovenia	75	30	2004	2007
Croatia	135	60	2013	2023

The international comparison reveals that Romanian inflation risk premiums remain somewhat elevated compared to regional peers, though the differences have narrowed considerably over time. Countries with longer European Union membership and more developed financial markets generally exhibit lower and less volatile risk premiums. The euro adoption effect appears particularly strong, with Slovakia and Slovenia showing substantially lower premiums following their currency transitions.

Poland and the Czech Republic, which like Romania have maintained their domestic currencies while building credible monetary policy frameworks, provide useful benchmarks for assessing Romanian performance. Both countries have achieved lower average risk premiums than Romania, suggesting potential for further improvement in Romanian monetary policy credibility and financial market development.

Convergence analysis examines the tendency for inflation risk premiums across the region to move toward common levels over time. The evidence suggests gradual convergence, particularly among European Union member countries, reflecting the influence of common institutional frameworks, policy coordination mechanisms, and market integration processes. However, significant country-specific factors continue to influence risk premium levels, indicating that full convergence remains incomplete.

6 Monetary Policy Implications

Understanding inflation risk premiums proves essential for effective monetary policy conduct in Romania. The National Bank of Romania must consider how policy actions affect not only expected inflation but also the compensation investors require for bearing inflation uncertainty. This consideration influences both the calibration of policy responses and the communication strategies used to guide market expectations.

Policy transmission mechanisms operate through multiple channels when inflation risk premiums are considered explicitly. Traditional interest rate channels focus on the effects of policy rate changes on market rates and subsequently on economic activity and inflation. However, when risk premiums are significant, policy actions also affect the term structure of interest rates through their impact on uncertainty and credibility assessments.

The National Bank of Romania's inflation targeting framework has evolved to incorporate lessons from both international experience and domestic economic developments. The framework's effectiveness in reducing inflation risk premiums depends on several key elements including target design, communication strategies, and accountability mechanisms.

Target design considerations include the appropriate level of the inflation target, the width of tolerance bands around the target, and the time horizon over which target achievement is evaluated. Romania's current inflation targeting framework establishes a target of 2.5 percent with a tolerance band of plus or minus 1 percentage point, levels that reflect both the desire for price stability and recognition of the challenges facing emerging market economies.

Communication strategy represents a crucial component of modern monetary policy, particularly for emerging market central banks seeking to build credibility. The National Bank of Romania has developed comprehensive communication practices including regular policy reports, forward guidance about future policy intentions, and detailed explanations of policy decisions. These communication efforts help anchor inflation expectations and reduce uncertainty about future policy actions.

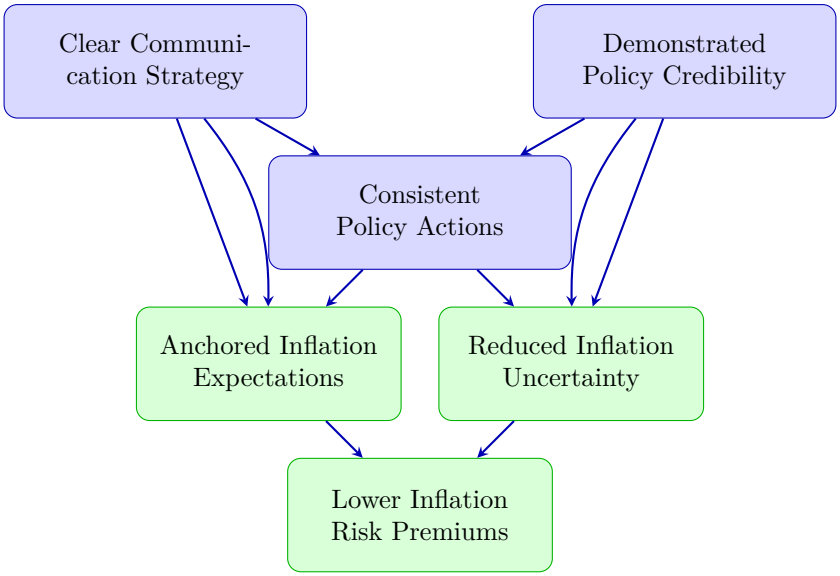

Figure 5: Monetary policy transmission mechanism to inflation risk premiums.

The diagram demonstrates how communication strategies, policy credibility, and consistent implementation work through multiple channels to anchor expectations, reduce uncertainty, and ultimately lower inflation risk premiums. The transmission operates through both direct channels (curved arrows) and indirect channels through consistent policy actions, reflecting the complex interactions between monetary policy tools and market outcomes in the Romanian context.

Forward guidance policies represent an increasingly important tool for central banks seeking to influence longer-term interest rates and expectations. The National Bank of Romania has gradually incorporated forward guidance elements into its communication strategy, though the effectiveness of these policies in emerging market contexts requires careful calibration to avoid creating excessive constraints on future policy flexibility.

Accountability mechanisms enhance central bank credibility by establishing clear performance criteria and regular assessment procedures. Romania's inflation targeting framework includes regular reporting requirements, parliamentary testimony by central bank officials, and detailed explanation of policy decisions when inflation outcomes deviate from targets. These accountability measures help build public confidence in the monetary policy framework and contribute to lower inflation risk premiums over time.

The interaction between monetary and fiscal policy represents a particular challenge for emerging market economies like Romania. Concerns about fiscal dominance can undermine monetary policy credibility and elevate inflation risk premiums even when monetary policy itself remains appropriate. Maintaining clear separation between monetary and fiscal responsibilities, while ensuring coordination on macroeconomic stabilization objectives, requires ongoing attention from policymakers.

7 Financial Market Applications and Risk Management

Understanding inflation risk premiums provides essential insights for financial market participants operating in Romanian markets. Portfolio managers, risk managers, and derivative pricing specialists must incorporate risk premium analysis into their decision-making processes to achieve optimal investment outcomes and manage risk exposures effectively.

Bond portfolio management requires sophisticated understanding of inflation risk premium dynamics to optimize duration positioning, yield curve strategies, and asset allocation decisions. Romanian government bond portfolios face particular challenges given the elevated and time-varying nature of inflation risk premiums in emerging market contexts.

Duration risk management becomes more complex when inflation risk premiums exhibit significant volatility. Traditional duration measures may understate interest rate sensitivity during periods when risk premium changes dominate yield movements. Portfolio managers must consider not only the level of risk premiums but also their potential volatility when constructing defensive or aggressive positioning strategies.

Asset allocation decisions between nominal and inflation-protected securities require careful analysis of relative risk premiums and their expected evolution over time. The development of Romania's inflation-indexed bond market has provided additional tools for managing inflation risk, though market liquidity considerations continue to affect the practicality of certain strategies.

Romanian banks face significant exposure to inflation risk through their asset-liability management activities and credit portfolios. Net interest margin analysis must consider how changes in inflation risk premiums affect the relationship between funding costs and asset yields across different maturity segments.

Credit risk assessment incorporates inflation risk considerations through their effects on borrower repayment capacity and collateral valuations. Unexpected inflation changes can affect real debt burdens and the real value of collateral assets, creating complex interactions between credit risk and inflation risk that require sophisticated modeling approaches.

Long-term institutional investors including pension funds and insurance companies face particular challenges in managing inflation risk given their extended liability horizons and the need to preserve purchasing power over time. These institutions must carefully balance the desire for inflation protection against the liquidity and return characteristics of available investment instruments.

Solvency requirements under European regulatory frameworks explicitly recognize inflation risk as a significant factor affecting institutional investor capital adequacy. Insurance companies operating under Solvency II regulations must maintain capital buffers that reflect their exposure to inflation risk, making accurate measurement of risk premiums essential for regulatory compliance.

The development of derivative markets for inflation risk management represents an important trend in Romanian financial markets. Inflation swap markets provide direct hedging instruments for inflation exposure while offering market-based measures of inflation expectations and risk premiums. Options on inflation provide insights into the distributional characteristics of inflation expectations and tail risk concerns.

8 Future Research Directions and Policy Considerations

The analysis of inflation risk premiums in Romania opens several avenues for future research and policy development. Continued advancement in measurement techniques, modeling approaches, and policy applications will enhance understanding of these important financial market phenomena and improve their practical utility for policymakers and market participants.

Model development represents a priority area for future research. Advanced computational methods including machine learning techniques may improve the extraction of risk premiums from market data and enhance the identification of driving factors. High-frequency data analysis

offers opportunities to understand the intraday dynamics of risk premium formation and the speed of adjustment to new information.

The effectiveness of different monetary policy tools in influencing inflation risk premiums deserves continued investigation. Conventional interest rate policies, communication strategies, and forward guidance all affect risk premiums through different channels. Understanding these transmission mechanisms more precisely will enhance policy effectiveness and support better calibration of policy responses.

Unconventional monetary policy tools present particular research challenges in emerging market contexts. Quantitative easing programs, yield curve control mechanisms, and other non-standard policies may affect inflation risk premiums through portfolio balance effects, signaling channels, and credibility mechanisms that differ from those operating in advanced economies.

Financial stability considerations require deeper investigation of the relationship between inflation risk premiums and systemic risk measures. Periods of elevated inflation uncertainty may coincide with broader financial system stress, creating complex interactions that affect both monetary policy transmission and financial stability outcomes.

International spillover effects merit continued research attention given Romania's integration into European and global financial markets. Understanding how external shocks transmit through inflation risk premiums to domestic financial conditions will enhance both monetary policy effectiveness and financial stability monitoring.

The development of real-time monitoring systems for inflation risk premiums represents an important practical application area. Central banks and financial market regulators increasingly recognize the value of high-frequency monitoring of market-based indicators for policy guidance and financial stability assessment.

Policy coordination between monetary and fiscal authorities requires ongoing attention as both policies affect inflation risk premiums through different channels. Developing frameworks for effective coordination while maintaining appropriate institutional independence represents a continuing challenge for emerging market economies.

The integration of inflation risk premium analysis into financial stability frameworks presents opportunities for enhanced systemic risk monitoring. Understanding how risk premium dynamics interact with banking system health, capital market functioning, and macroeconomic stability will support more effective macroprudential policy development.

9 Conclusions and Policy Recommendations

This comprehensive treatise has examined inflation risk premiums in Romania from theoretical, empirical, and policy perspectives, providing insights essential for understanding this crucial component of financial market pricing and monetary policy transmission.

The analysis demonstrates that Romanian inflation risk premiums have evolved significantly since European Union accession, reflecting improvements in monetary policy credibility, financial market development, and institutional frameworks. While current levels remain elevated compared to advanced economies, the general declining trend indicates progress in building confidence in Romania's monetary policy framework and economic stability.

Key empirical findings include the demonstration that macroeconomic factors, particularly inflation volatility and central bank credibility, represent the primary determinants of inflation risk premiums in Romania. External factors including global risk sentiment and European integration effects also play important roles, highlighting the significance of international spillovers for domestic financial market conditions.

The National Bank of Romania's inflation targeting framework has proven instrumental in anchoring inflation expectations and reducing risk premiums over time. Continued improvements in policy communication, consistency of actions with stated objectives, and demonstrated commitment to price stability will further support this process.

Several policy recommendations emerge from the analysis:

Monetary Policy Framework Enhancement: Continued refinement of the inflation targeting framework should focus on strengthening communication strategies, enhancing forward guidance capabilities, and maintaining consistency between policy actions and stated objectives. Regular assessment of target parameters and adjustment mechanisms will ensure the framework remains appropriate for Romania's evolving economic conditions.

Financial Market Development: Supporting continued development of government bond markets, including enhanced liquidity in both nominal and inflation-indexed segments, will improve the effectiveness of monetary policy transmission and provide better tools for inflation risk management by market participants.

International Coordination: Maintaining strong coordination with European monetary policy frameworks while preserving appropriate flexibility for domestic conditions will help minimize external spillover effects on inflation risk premiums and support continued convergence with European financial market conditions.

Research and Analysis: Investing in enhanced analytical capabilities for monitoring inflation risk premiums, including real-time measurement systems and advanced modeling techniques, will support more effective policy making and financial stability assessment.

Institutional Development: Continued strengthening of central bank independence, accountability mechanisms, and professional capacity will support further improvements in monetary policy credibility and reductions in inflation risk premiums.

The research demonstrates that inflation risk premiums remain a crucial component of Romanian financial markets requiring continued monitoring and analysis. As the economy continues its convergence process and financial markets develop further, understanding these premiums will remain essential for effective monetary policy, financial market development, and economic stability.

The findings provide valuable insights for policymakers, financial market participants, and academic researchers working in emerging market contexts. The experience of Romania offers lessons applicable to other economies undergoing similar institutional development and European integration processes.

Future developments in inflation risk premiums will depend on continued progress in building monetary policy credibility, financial market development, and economic integration with European structures. Maintaining focus on these fundamental factors will support further reductions in risk premiums and enhanced effectiveness of monetary policy transmission mechanisms.

The analysis underscores the importance of viewing inflation risk premiums not merely as technical financial market phenomena but as crucial indicators of institutional credibility, policy effectiveness, and economic development progress. This broader perspective enhances understanding of their significance for economic policy and development strategies in emerging market economies.

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