THE FEATURES OF INFLATION TARGETING IN THE REPUBLIC OF MOLDOVA

CARACTERISTICILE ȚINTIRII INFLAȚIEI ÎN REPUBLICA MOLDOVA

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Abstract: *Această lucrare analizează regimul de țintire a inflației în Republica Moldova, implementat formal de Banca Națională a Moldovei în 2012, cu o țintă de 5,0% anual (±1,5%). Studiul evidențiază elementele fundamentale ale regimului: angajamentul pentru stabilitatea prețurilor, comunicarea transparentă şi mecanismele de responsabilizare. Analiza perioadei 2019-2025 demonstrează vulnerabilitatea economiei moldoveneşti la şocuri externe, cu fluctuaţii majore ale inflaţiei. Lucrarea examinează instrumentele de politică monetară utilizate: operaţiunile de piaţă deschisă şi instrumentele complementare (facilităţi permanente, rezerve obligatorii, intervenţii valutare). Datele analizate arată adaptabilitatea strategiei BNM în gestionarea lichidităţii şi menţinerea stabilităţii financiare în condiţii dificile, subliniind importanţa ţintirii inflaţiei pentru stabilitatea macroeconomică şi credibilitatea băncii centrale.*
Cuvinte cheie: *inflaţie, instrumente de politică monetară, stabilitatea preţurilor, BNM*

JEL CLASSIFICATION: E5, E31, G28

INTRODUCTION

Inflation targeting has emerged as a cornerstone of modern monetary policy, particularly for economies striving to achieve macroeconomic stability. The Republic of Moldova formally adopted this regime in 2012, with the National Bank of Moldova setting an annual inflation target of 5.0% (±1.5%). This framework prioritizes price stability, transparency, and accountability, aligning Moldova with international best practices. However, as a small open economy, Moldova remains highly susceptible to external shocks, as evidenced by significant inflation fluctuations between 2019 and 2025. This paper explores Moldova's inflation targeting framework, examining the NBM's use of tools like interest rates, open market operations, and reserve requirements. It also analyzes how the NBM has responded to challenges such as the COVID-19 pandemic and global energy crises. The study highlights the importance of clear communication, and policy flexibility to ensure economic stability in an unpredictable global environment.

APPLIED METHODS AND SOURCES OF INFORMATION

The investigation presented in this article was implemented using such research methods as: the documentary method, grouping of quantitative data, graphical analysis, and synthesis. The analysis is based on data obtained from the official website of the National Bank of Moldova, ensuring reliability and relevance to the study.

THE RESULTS OF RESEARCH

According to Milton Friedman, the only real cause of inflation is monetary issuance. Without currency there is no price, hence higher prices - with more money (Coste, 1993).

The NBM works to keep prices stable by making legal changes, sharing updates on monetary policy, and providing inflation reports. By focusing on inflation targets, the NBM can pay attention to local conditions, react to changes, and help the public understand what's going on, which makes this method better than just targeting the exchange rate or money supply (NBM, 2013).

In 2010, the National Bank of Moldova began setting quantitative annual inflation targets as a precondition for transitioning to an inflation targeting regime, aiming for 5.0% inflation in 2010 with a ±1.0% deviation. By 2011-2012, the target shifted to a mid-single-digit range. The formal

adoption of inflation targeting occurred in 2012 with the Medium-term Monetary Policy Strategy, setting a 5.0% annual target with a ±1.5% deviation. This approach needs more than just numbers; it requires commitment, transparency, and good forecasting tools (NBM, 2013).

In this context, we would like to mention *the main elements of the inflation targeting regime* (NBM, 2013):

1. public announcement of numerical targets for inflation over the medium term;

2. institutional commitment to price stability as the primary objective of the monetary policy, to which the others are subordinated;

3. a comprehensive analysis and forecasting system that includes a variety of variables, not just monetary aggregates and the exchange rate, for monetary policy decisions;

4. a transparent monetary policy strategy that involves communication to the public and the markets of the plans, objectives, rationale for central bank decisions;

5. mechanisms by which the central bank is responsible to achieve the inflation target.

The inflation rate influence the dynamics of economics, serving as a critical indicator of price stability and economic health in Moldova.
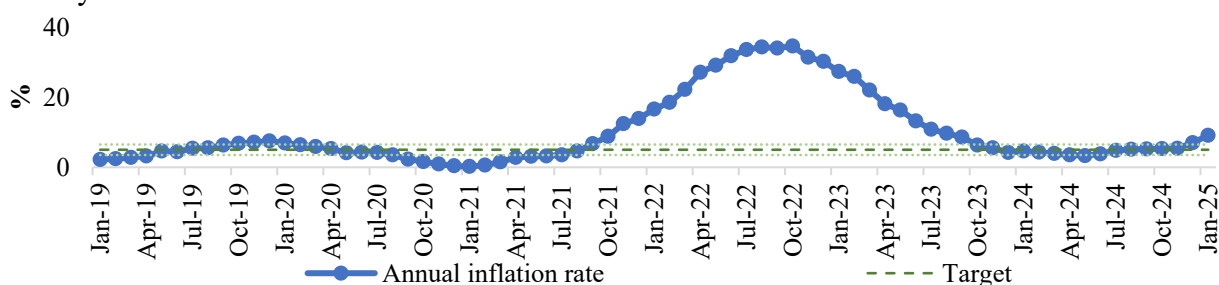

Figure 1. The evolution of inflation rate
Source: (BNM, Banca de date interactivă, 2025)

Based on data presented in Figure 1., we can see that in 2019, inflation in Moldova rose to 7.5% due to higher food and energy prices, but the COVID-19 pandemic caused a sharp drop to 0.4% by December 2020 as demand weakened. Inflation rebounded in 2021, reaching 13.9% by year-end, and surged to 34.6% in October 2022 amid energy crises and geopolitical tensions. Tighter monetary policy helped reduce inflation to 4.2% by December 2023, but it rose again to 5.4% in November 2024 and 9.1% by January 2025, driven by energy price hikes and domestic demand. These fluctuations underscore Moldova's vulnerability to external shocks and the critical role of inflation targeting in maintaining macroeconomic stability.

The base rate serves as a key monetary policy tool used by the National Bank of Moldova to influence inflation, manage liquidity, and stabilize the economy in response to domestic and external economic conditions.
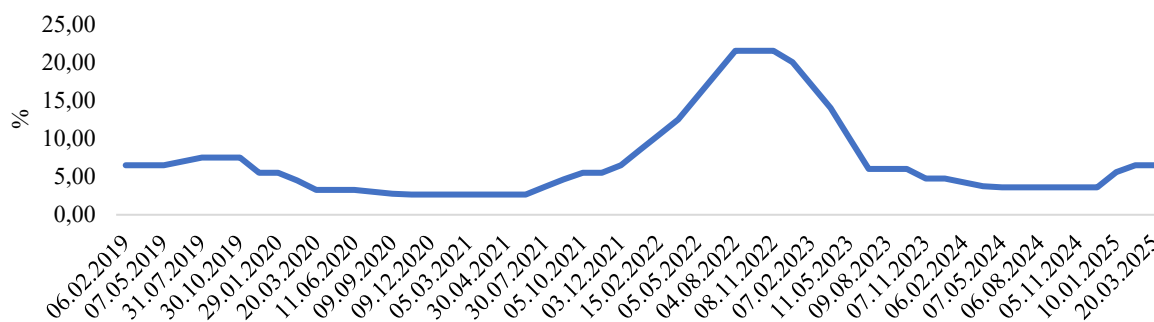

Figure 2. The evolution of base rate
Source: (BNM, Annual inflation, 2025)

Based on Figure 2., we can mention that in 2019, the base rate rose from 6.50% to 7.50% to combat inflation but was cut to 5.50% by year-end to stimulate the economy. In 2020, it dropped further to 2.65% to address COVID-19 impacts. Low rates persisted until mid-2021, when inflation prompted gradual hikes, reaching 6.50% by December 2021. In 2022, the rate surged to 21.50% amid severe inflation and external shocks. From 2023, the NBM eased rates as inflation moderated, reducing it to 4.75% by November 2023 and stabilizing at 3.60% for most of 2024. However, in early 2025, rates rose to 5.60% and 6.50%, likely due to renewed inflationary pressures. These adjustments reflect the NBM's adaptive approach to balancing price stability and economic growth amid evolving challenges.

The NBM will use ***open market operations*** as its main monetary policy instrument with the aim of reaching the target of 5.0 percent annually. The Central Bank uses the following categories of money market operations (BNM, HOTĂRÂRE Nr. 188 cu privire la aprobarea Regulamentului cu privire la operaţiunile de piaţă monetară ale Băncii Naţionale a Moldovei, 2014): REPO operations; issuance of NBM certificates; deposit-borrowing and sales/purchases of government securities.

The NBM uses the following complementary monetary policy instruments (NBM, 2013)*:*

- ***The standing facilities*** - are provided by the NBM to banks for short-term liquidity management (overnight maturity), these facilities help stabilize interbank interest rates within a set corridor;

- ***The required reserves -*** are used as a tool in monetary policy to help control excess money in the market and lessen its effect on bank interest rates;

- ***The interventions on the foreign exchange market -*** the NBM steps in only when needed to help with inflation goals, keeping away from affecting the basic trends of the Moldovan Leu.

Permanent facilities like deposit and lending operations are important for the National Bank of Moldova. They help manage liquidity and keep the financial system steady during changing economic conditions.
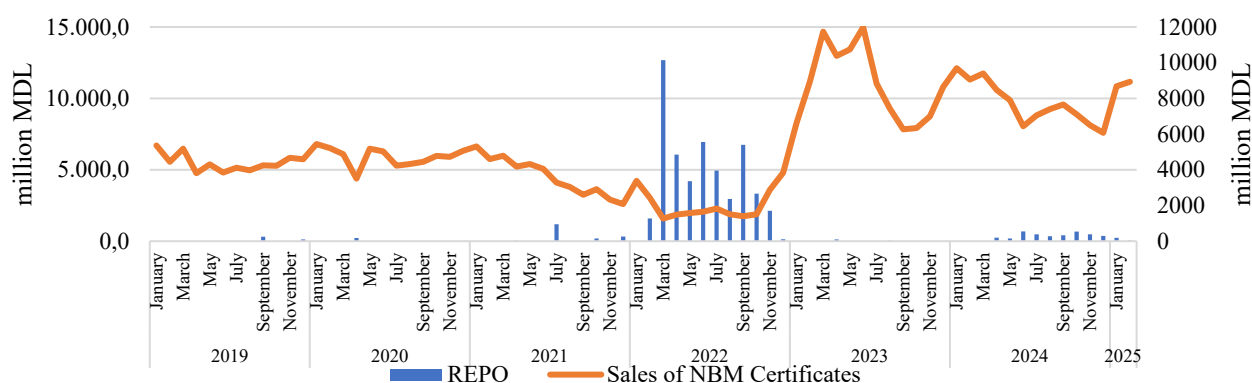

Figure 3. Evolution of permanent facilities granted to banks by the NBM
Source: (BNM, Banca de date interactivă, 2025)

Based on Figure 3., we can mention that between 2019 and 2020, REPO operations were minimal, while NBM certificate sales remained stable at 5,000-6,500 million lei monthly, focusing on liquidity and financial stability. In 2021, REPO operations increased, notably in July and December, as inflation rose, and NBM certificate sales declined, indicating active liquidity management. This trend peaked in March 2022 with REPO operations at 10,139 million lei due to severe inflation, while certificate sales dropped. By 2023, REPO operations decreased, and certificate sales rebounded to record levels (14,672 million lei in March) as inflation eased. In 2024, REPO operations resumed moderately, and certificate sales gradually declined, reflecting a balanced approach. By early 2025, both tools stabilized, showcasing the NBM's adaptive strategy in maintaining financial stability amid economic challenges.

Obligatory reserves serve as an important instrument for the National Bank of Moldova to regulate banking sector liquidity and ensure monetary stability in response to evolving economic conditions.
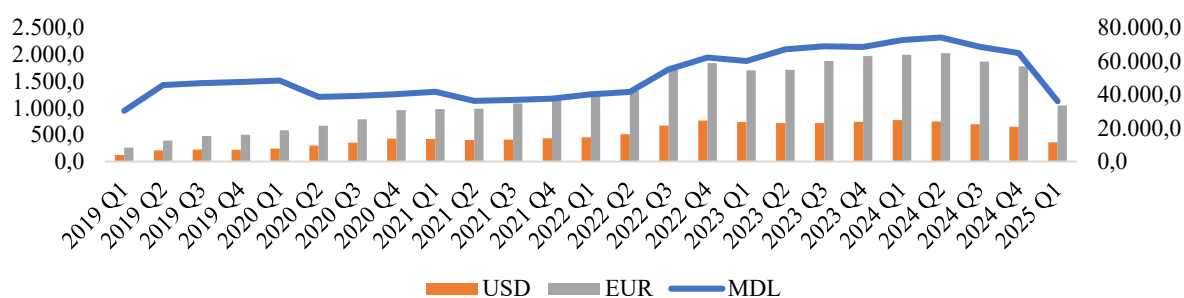
Figure 4. Evolution of obligatory reserves
Source: (BNM, Banca de date interactivă, 2025)

Based on Figure 4., we can mention that between 2019 and 2023, reserves grew steadily, with significant increases in EUR-denominated holdings, reflecting diversification efforts and economic stabilization amid inflation and external shocks. Despite COVID-19-related fluctuations in 2020, reserves reached record levels by 2022 (1,839.2 million EUR in Q4). In 2023, EUR reserves peaked at 1,971.3 million EUR, though USD reserves showed volatility. However, 2024 saw a gradual decline in reserves due to persistent economic pressures, culminating in a sharp drop by Q1 2025 to 357.5 million USD and 1,046.4 million EUR, highlighting challenges in maintaining liquidity buffers. These trends illustrate the NBM's adaptive reserve management in response to evolving economic conditions.

CONCLUSIONS/RECOMMENDATIONS

The adoption of inflation targeting by the National Bank of Moldova (NBM) marks a significant step towards achieving macroeconomic stability, aligning with international best practices. However, as a small open economy, Moldova remains vulnerable to external shocks, as evident from the inflation volatility experienced between 2019 and 2025. The NBM has demonstrated resilience in utilizing monetary policy tools, particularly through open market operations. Nonetheless, enhancing forecasting capabilities and instruments is essential to better manage external shocks and economic challenges, and to effectively target inflation. The main features of inflation targeting in Moldova are: (1) medium-term numerical targets, (2) regular policy communication and (3) operational flexibility to absorb external shocks. But as a small open economy Moldova is still exposed to global volatility and needs further fine-tuning.

To strengthen stability and resilience it is necessary to improve forecasting models to better anticipate external shocks and to mitigate their impact. Deepening of financial markets will also improve monetary policy transmission so that policy measures are more effective. Central bank independence is also crucial to maintain policy credibility and public trust. And clear and consistent public communication should be the priority to anchor inflation expectations and to build confidence in economic policies. All this will contribute to a more solid and stable framework.

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