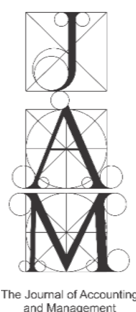

The Influence of Monetary Policy on the Sustainable Economic Development of the Country in the Context of Globalization

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Abstract: This paper analyzes the influence of monetary policy on the sustainability of a country's economic development in the current conditions of globalization. The theoretical aspects and empirical data are examined, illustrating how monetary policy contributes to achieving macroeconomic stability, economic growth, and reducing inflation levels. The relevance of the topic is determined by the impact of both internal and external factors. Understanding and applying them in a real and objective manner allow for the investigation of the rationality and correctness of the development directions of the economy, as well as the optimal use of the financial resources of the banking system. The raising of questions and analysis regarding the evaluation and efficient use of the economic resources of credit organizations is driven by the need to establish the real possibilities of the banking system in the Republic of Moldova to support the economy's exit from the crisis and its structural modernization with minimal costs. However, this, in turn, requires a comprehensive analysis of the situation, an objective evaluation of the existing resources, and the formation of development directions for the economic potential of the country's banking system.

Keywords: monetary market; financial system; monetary-credit policy; sustainable development; investment; financial corporation; globalization

JEL Classification: G10; G20

1. Introduction

The sustainability of economic development is one of the key objectives of macroeconomic policy, especially in the current conditions. The monetary-credit policy implemented by a country's central bank plays a decisive role in maintaining price stability, reducing economic volatility, and ensuring conditions for long-term economic growth. At the same time, the effectiveness of this policy depends on a variety of factors, including the economic structure, the level of development of the financial system, and external conditions.

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In the current stage of global economic development, the issue of economic growth and the stability of the national financial sector is emerging as essential for the well-being of economic agents in any country. The foundation of economic growth lies in the existence of efficient and coherent monetary-credit regulation mechanisms, implemented by the financial authority, which ensure the maintenance of the established directions for economic growth, inflation, exchange rate stability, and increased confidence in the entire banking system.

In conditions of financial crisis and global economic instability, a crucial aspect of national monetary-credit policy is establishing sustainable monetary circulation within the country and maintaining the stability of the national currency. Additionally, the development of the real sector of the economy can be threatened by the negative effects of financial risks, such as inflationary and exchange rate risks, which are of particular importance.

2. Theoretical Aspects of Monetary Policy

Monetary-credit policy is traditionally considered one of the most important areas of national economic policy and must align with the long-term objectives of the country's macroeconomic development. However, among contemporary economists, there is no consensus on the definition of the term "monetary-credit policy."

Some authors define this policy as a set of short- and long-term measures adopted by the state to manage the dynamics of monetary circulation. For example, Balino and Bennett emphasize the decisive role of the state in monetary-credit regulation, defining it as "the government's decisions regarding the amount of money supplied to the economy" (Balino & Bennett, 1999). This approach accurately reflects the U.S. Federal Reserve's policy concerning the amount of money in circulation.

From this perspective, monetary-credit policy is often viewed through a monetarist lens, focusing on the money supply in the economy. However, in addition to influencing the money supply, there are other methods of monetary-credit regulation, such as intervention through the banking sector to stimulate economic growth, demand and supply, as well as regulating banking activities through the use of selective methods.

Ultimately, monetary-credit regulation is not limited to maintaining an adequate amount of money in the economy but also involves strengthening the entire financial structure, enhancing the investment attractiveness of the economy, and stimulating the development of economic agents.

From this perspective, monetary-credit policy can be understood as a set of strategic and tactical objectives for a country's economic development, implemented through the regulation of the banking sector and influencing the monetary-credit activities of market participants.

The theoretical foundations of monetary-credit policy are based on the theory of money, which studies the impact of money and monetary-credit policy on the economy as a whole.

Analyzing the impact of monetary-credit policy in different exchange rate regimes, Devereux and Engel reached surprising conclusions. They developed a stochastic general equilibrium model for two countries with sticky prices (Devereux & Engel, 2000). In this model, optimal monetary-credit policy is evaluated from the perspective of consumer welfare, and the outcome depends on the currency in which prices are set. An example is setting prices in the producer's currency (producer-currency pricing, PCP), where exchange rate changes directly influence the prices of imported goods. This

perspective highlights the link between monetary policy, exchange rate flexibility, and economic stability.

A significant factor influencing monetary-credit policy is economic globalization. Changes brought about by financial globalization affect the functioning of the national monetary sector and the regulation carried out by central banks. These changes are analyzed in the works of theorists representing various schools of economic thought.

Gudmundsson uses the term “financial integration” as a synonym for financial globalization, defining a fully integrated financial market as one where economic agents adhere to uniform rules and have equal access (Gudmundsson, 2008). This idealistic model of financial integration is difficult to achieve in practice, as it involves eliminating disparities between national regulations. Japanese scholars Okina and Shirakawa distinguish between “globalization” and “internationalization,” emphasizing that “internationalization” involves an increase in external economic transactions, while “globalization” entails the integration of national economies into a unified global market (Okina & Shirakawa, 1999).

Furthermore, it is noted that within financial integration, the law of one price applies. It is important to mention that this definition implicitly includes a common regulatory framework for the integrated market (since it involves uniform rules), which in practice could only be realized in a distant future. Also, regarding the law of one price, many researchers, highlighting the trend of price convergence of assets in global financial markets, do not mention the maintenance of country-specific risk premiums, as financial globalization does not imply the abolition of national political systems and national economic regulations.

Former Chairman of the U.S. Federal Reserve, Alan Greenspan, characterizes the final stage of the financial globalization process as follows: financial risks will be fully assumed by those who are most willing to bear them; the transfer of the form of savings storage to national markets will gradually be minimized, and the possibility of arbitrage between national markets will disappear. Thus, he confirms the existence of factors that limit the development of financial globalization (Greenspan, 2003).

If we assume that financial globalization leads to complete capital mobility, then, according to the view accepted in economic literature, monetary authorities face a choice: they can conduct an independent monetary-financial policy, but in this case, they must abandon exchange rate regulation, or they can maintain a fixed exchange rate regime in exchange for giving up independent monetary-financial policy. This situation is formulated as the so-called “impossible trinity”: in the economy, a fixed exchange rate, complete capital mobility, and a monetary-financial policy oriented towards internal objectives cannot coexist simultaneously (Polak, 2001). However, the challenges for monetary-financial policy brought by financial globalization are not limited to this choice. They have been reflected in the works of many researchers, especially those referring to the unorthodox direction of economic thought.

3. Aspects of Promoting Monetary Policy in the Republic of Moldova - Empirical

According to data from the National Bureau of Statistics, in the first nine months of 2024, the national economy registered a real growth of 0.6% compared to the same period in the previous year, with the gross domestic product (GDP) reaching 233.1 billion lei at current market prices. This development was determined by increases in the first two quarters of the year, partially offset by a decline in the third quarter of 2024.

In January-September 2024, the total gross value added (GVA) in the economy, accounting for 86.2% of GDP formation, increased (in real terms) by 0.9% compared to January-September 2023, contributing to a 0.8% growth in GDP. At the same time, net taxes on products, accounting for 13.8% of GDP formation, led to a decrease of 0.2% in GDP, with net taxes decreasing by 1.3%.

From the expenditure side, the growth in January-September 2024 compared to the same period in 2023 was mainly determined by:

- Information and communications (+0.4%), with a share of 7.1% in GDP formation and a 6.1% increase in GVA in these activities;
- Financial and insurance activities (+0.3%), with a share of 3.8% in GDP formation and a 7.5% increase in GVA in these activities;
- Manufacturing industry (+0.3%), with a share of 7.6% in GDP formation and a 3.9% increase in GVA;
- Electricity and heat production and supply, gas, hot water, and air conditioning (+0.3%), with a share of 1.7% in GDP formation and a 14.8% increase in GVA;
- Construction (+0.3%), with a share of 5.8% in GDP formation and a 6.0% increase in GVA;
- Wholesale and retail trade; repair of motor vehicles and motorcycles (+0.1%), with a share of 15.6% in GDP formation and a 0.5% increase in GVA in these activities.

Negative influences on GDP growth came from the following activities:

- Agriculture, forestry, and fishing (-0.7%), with a share of 7.6% in GDP formation and a 9.9% decrease in GVA;
- Transportation and storage (-0.4%), with a share of 4.6% in GDP formation and a 7.1% decrease in GVA;
- Real estate activities (-0.3%), with a share of 7.6% in GDP formation and a 4.0% decrease in GVA.

Regarding the use of GDP, the growth in January-September 2024 compared to the same period in 2023 was mainly caused by:

- Final consumption of households (+2.3%), with a share of 84.5% in GDP formation and a 2.7% increase in volume;
- Gross fixed capital formation (+1.3%), with a share of 20.2% in GDP formation and a 6.8% increase in volume.

These figures indicate a modest economic growth in the Republic of Moldova during the first nine months of 2024, with certain sectors contributing positively to GDP growth, while others experienced declines.

Negative contributions to GDP growth were recorded from:

- Net exports of goods and services (-4.1%), as a result of a 2.8% decrease in the volume of exports of goods and services, coupled with a 5.3% increase in the volume of imports of goods and services;
- Final consumption of public administration (-0.5%), with a share of 17.6% in GDP formation and a 2.9% decrease in volume.

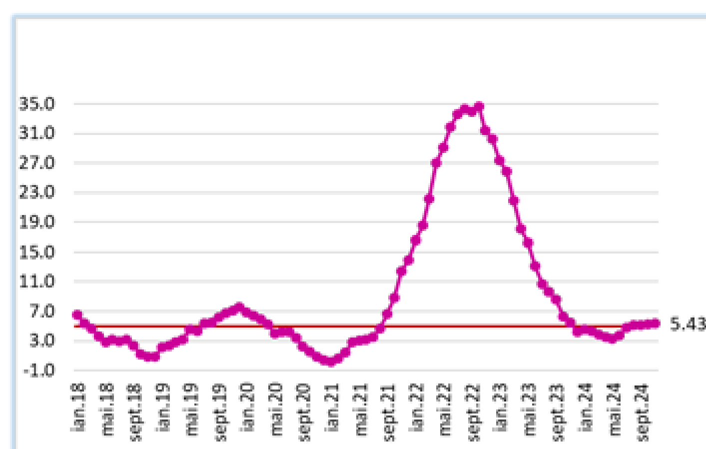
In the third quarter of 2024, GDP declined in real terms by 1.9% on a gross series (1.8% on a seasonally adjusted series) compared to the third quarter of 2023, following increases of 1.9% and 2.4%, respectively, recorded in the first and second quarters of 2024. Compared to the second quarter of 2024, GDP decreased by 3.1% (on a seasonally adjusted series).

According to the forecast of the Ministry of Economic Development and Digitalization, the economy is expected to grow by 2.5% in 2024. However, economic prospects remain uncertain due to the ongoing war in Ukraine and heightened risks associated with extreme weather conditions. According to the IMF forecast, the economy is projected to grow by 2.6% in 2024 and 3.0% in 2025. Risks remain high, with a potential worsening of the situation primarily due to the war in Ukraine and repeated shocks in the energy sector.

Investments in fixed assets made during January–September 2024 amounted to 21.3 billion lei, an increase of 2.6% (in comparable prices) compared to the same period in 2023. Of these, investments in tangible fixed assets totaled 20.5 billion lei (up by 2.0%), while investments in intangible fixed assets amounted to 0.8 billion lei (up by 21.7%).

In January-September 2024, compared to the same period of the previous year, the volume of investments increased for the following tangible fixed assets: residential buildings by 19.4%, non-residential buildings by 1.3%, machinery and equipment procurement by 7.4%, and transport equipment procurement by 17.9%. However, during the same period, the volume of investments in engineering constructions decreased (-23.8%).

Figure 1. The rate of CPI growth, in % compared to the corresponding period of the previous year



Source: League of Bankers of Moldova. Infofinancial Bulletin. December 2024

In November 2024, average consumer prices increased by 0.33% compared to October 2024, driven by higher prices for food products (+0.50%) and non-food goods (+0.35%).

The annual inflation rate has remained near the inflation target of 5.0% for the fifth consecutive month, although it is on a slightly upward trajectory. In November 2024, it reached 5.43%, up by 0.16 percentage points compared to October 2024 (fig 1). From January to November 2024, consumer prices rose by an average of 4.47% compared to the same period in 2023.

According to the NBM Inflation Report No. 4 from November 2024, the annual inflation rate is expected to increase slightly until the beginning of next year. Subsequently, toward the end of the forecast horizon (Q4 2024 - Q3 2026), it will follow a downward trend, except for Q4 2025, when a

slight increase is anticipated. Throughout the forecast horizon, inflation will remain near the 5.0% target and within the variation interval. At the same time, recent tariff increases pose the risk of an inflation trajectory above expectations for the next 3-4 months, but they are unlikely to significantly impact medium-term inflation trends. For 2024 and 2025, the National Bank of Moldova estimates an average annual inflation rate of 4.6% and 4.9%, respectively.

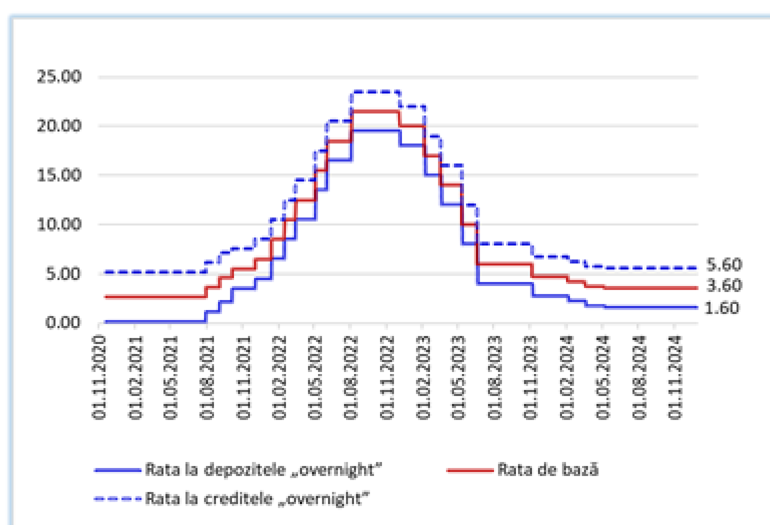
According to official data from the National Bank of Moldova (NBM), during the meeting on December 5, 2024, the NBM Executive Committee decided to maintain interest rates on monetary policy instruments at their current levels. Thus, the NBM's base rate (applied to main short-term monetary policy operations) was kept at 3.60%. The interest rates for overnight deposits and loans were maintained at 1.60% and 5.60%, respectively (fig. 2).

The monetary measures described above highlight their crucial role in preventing liquidity crises and ensuring the stable development of the banking system. The National Bank of Moldova made this decision in the context of the continued transmission of the effects of previous monetary policy decisions, considering the lags associated with their implementation.

The NBM's decision to reduce the mandatory reserve requirements for two consecutive application periods aims to enhance the predictability of monetary policy under conditions of information asymmetry and to adjust the behavior of monetary market participants. This is intended to create the necessary monetary conditions to maintain medium-term inflation within the variation interval of ±1.5 percentage points from the 5.0% target.

Additionally, the simultaneous reduction of mandatory reserve requirements in Moldovan lei and freely convertible currency will lower borrowing costs, further supporting lending activity and positively impacting the national economy. It is worth noting that the cumulative stimulative monetary policy measures will increase excess liquidity in the banking system, enabling banks to provide loans to individuals and businesses and to invest in government securities.

Figure 2. NBM interest rates, %



Source: League of Bankers of Moldova. Infofinancial Bulletin. December 2024

The impact of consecutive reductions in the base rate applied to main monetary policy operations continued to be reflected in the downward trend of interest rates on loans issued in the national currency.

According to weekly statistical data, average interest rates in the first three weeks of November 2024 showed a downward trend for new loans in Moldovan lei issued by licensed banks. The weighted average interest rate for new loans in lei decreased to 8.24% in the third week of November. Meanwhile, the weighted average interest rates on term deposits in the national currency displayed a slight upward trend, reaching 3.55% annually.

The ongoing downward trend in interest rates on loans issued in lei positively influenced the weekly dynamics of loan volumes, which grew at an annual rate of 89.8% during the first three weeks of November. Conversely, the moderate increase in interest rates on term deposits in Moldovan lei contributed to an 8.6% annual decrease in deposit volumes over the same period.

In total, new loans amounting to 6,593.0 million lei were issued in November 2024:

- Loans in the national currency: 5,050.0 million lei (a 1.7% decrease compared to the previous month);
- Loans in foreign currency: the equivalent of 1,518.2 million lei (a 14.0% decrease compared to the previous month);
- Currency-linked loans: 24.8 million lei (a 2.4% increase compared to the previous month).

4. Institutional Aspects of Promoting Monetary Policy in the Context of Global Economic Developments

The banking model for financing economic growth relies on financial intermediation institutions, primarily universal banks. In our research, we prioritize this model as a key mechanism for transmitting economic growth into the Russian economy.

Credit organizations form an integral part of the national economy, with their activities closely linked to the needs of the reproduction process. These organizations are central to economic life, providing services to enterprises in the real sector, private households, and the population, while connecting all institutional units of economic activity through financial flows. The banking system functions as the circulatory system of the economic organism within any territorial structure.

The development and functioning of the banking system in Moldova during crisis and post-crisis periods are determined by the volume and efficiency of economic potential utilization, as well as the structure of credit organizations' own capital. In recent years, significant interest has been directed toward studying issues related to the capitalization of the banking system, determining its adequacy, and accounting for existing and potential risks.

Monetary and financial policy is a crucial tool for ensuring stable economic development. Its effective application allows for the minimization of inflationary risks, stimulation of economic growth, and maintenance of financial system stability. However, to achieve maximum efficiency, monetary and financial policy must account for its limitations and adapt its instruments to current economic conditions. The future development of monetary policy should integrate traditional methods with innovative approaches to ensure long-term sustainability.

The world economy is evolving amidst intensifying global trade and geopolitical tensions, alongside persistent inflationary pressures. The monetary policy outlooks for the Federal Reserve (Fed) and the

European Central Bank (ECB) have shifted, with a more significant reduction in ECB interest rates anticipated due to slower economic growth in the eurozone and inflation below target levels.

According to the latest OECD Economic Outlook (December 2024), the global economy is expected to remain resilient despite significant challenges. OECD experts project global economic growth of 3.3% in 2025 and 3.3% in 2026, up from 3.2% in 2024.

Inflation is forecast to decline further, from 5.4% in 2024 to 3.8% in 2025 and 3.0% in 2026, supported by the still-restrictive monetary policy in most countries. Notably, inflation has already returned to central bank targets in nearly half of advanced economies and about 60% of emerging market economies.

Growth prospects vary significantly across regions:

- In the United States, GDP growth is expected to reach 2.8% in 2025 before slowing to 2.4% in 2026.
- In the eurozone, recovering household real incomes, a strong labor market, and lower policy rates continue to drive growth. Eurozone GDP growth is projected at 1.3% in 2025 and 1.5% in 2026.
- Japan's economy is forecast to expand by 1.5% in 2025 but slow to 0.6% in 2026.
- China’s economy is anticipated to decelerate, with GDP growth of 4.7% in 2025 and 4.4% in 2026.

The report underscores persistent uncertainties:

- Escalating conflicts in the Middle East could disrupt energy markets and affect confidence and growth.
- Intensifying trade tensions pose risks to global trade growth.
- Negative surprises in growth prospects or the disinflation trend could trigger disruptive corrections in financial markets.

On the other hand, positive developments are also possible:

- Improved consumer confidence, driven by a quicker recovery in purchasing power, could boost spending.
- A resolution of major geopolitical conflicts could improve sentiment and lower energy prices.

To address these challenges, the OECD highlights the need to sustainably reduce inflation, address rising fiscal pressures, and tackle labor shortages to mitigate structural impediments to stronger growth.

The annual inflation rate in the eurozone reached 2.2% in November 2024, up from 2.0% in October 2024, and down from 2.4% in November 2023. In the EU, inflation stood at 2.5% in November 2024, compared to 2.3% in October 2024 and 3.1% in November 2023.

In its December 12, 2024 meeting, the ECB’s Governing Council decided to reduce its three key interest rates by 25 basis points. Effective December 18, 2024, the deposit facility rate, the main refinancing operations rate, and the marginal lending facility rate will be lowered to 3.00%, 3.15%, and 3.40%, respectively.

According to the IMF's World Economic Outlook (October 2024), the global economy has faced significant resilience tests over the past four years. Since 2020, negative supply-side shocks have had lasting effects on output and inflation, with varying impacts across countries.

Advanced economies have largely returned to pre-pandemic output and inflation levels, while developing economies continue to face production deficits and persistent inflation. Additionally, developing economies remain more vulnerable to commodity price increases following Russia's invasion of Ukraine.

5. Conclusions

Although the balance of risks for the inflation forecast is neutral, with a slight inflationary tilt in the short term, uncertainties remain significant. The main sources of these uncertainties include the tense regional situation, moderated regional demand linked to reciprocal sanctions, uncertainties surrounding agricultural output, and adjustments in tariffs for communal and housing services.

It is necessary to continue cautiously monitoring the internal and external macroeconomic environment, the risks, and uncertainties associated with short- and medium-term inflation developments. At the appropriate time, the National Bank of Moldova (NBM) should intervene promptly by adjusting monetary policy instruments to achieve its primary objective of ensuring and maintaining price stability.

In the context of the importance of monetary and financial policy, certain limitations exist:

- Time delays between decision-making and their impact on the economy.
- Limited efficiency given the structural issues of the economy.
- The influence of external factors, such as global financial crises and fluctuations in raw material prices.

In this context, the following recommendations can be proposed:

1. Enhancing transparency and predictability in monetary policy to strengthen the confidence of economic agents.
2. Strengthening coordination between monetary and fiscal policy.
3. Integrating monetary policy instruments with measures to stimulate innovation and sustainable development.
4. Considering global factors and adapting monetary policy to evolving external conditions.

Contemporary studies on the impact of financial globalization on monetary policy primarily focus on its effects on a country's inflation rate and the transmission mechanisms of monetary policy. The general conclusion is that globalization tends to reduce global inflation rates (this trend is more empirical, and its stability still requires confirmation) and contributes to the convergence of interest rates across countries. This limits monetary policy's ability to influence economic conditions through this instrument.

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