

INFLATION AS AN ECONOMIC RISK FACTOR: A COMPARATIVE ANALYSIS BETWEEN THE REPUBLIC OF MOLDOVA AND ROMANIA

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Abstract: *This article examines inflation as a significant economic risk factor, focusing on a comparative analysis between the Republic of Moldova and Romania. Inflation rates and a comparison of the Consumer Price Index (CPI) in the two nations are the main sources of the analysis. It investigates how inflation affects consumer spending power, investor appeal, and economic stability in both countries. The research assesses the monetary policies that each nation's central bank has put in place, emphasizing the success of inflation control measures and their effects on macroeconomic stability. It also covers the structural variations influencing inflation dynamics, the significance of coordinated fiscal and monetary policies, and the susceptibilities of both economies to external shocks. By examining these factors, the paper seeks to provide light on the difficulties and approaches to controlling inflation within the framework of Moldova's and Romania's larger economies.*

Key words: *inflation, economic risk, inflation rates, consumer price index, solutions*

INTRODUCTION

Inflation is an economic phenomenon that has a significant impact on financial stability and purchasing power, and is an issue that is carefully studied both globally and nationally. A continuous rise in prices that leads to a fall in monetary value is a sign of inflation. It is characterized by a general and continuous rise in the prices of most goods and services [9]. A nation's inflation may become less and less sensitive to domestic economic activity as it is increasingly influenced by international circumstances in an interconnected world [3].

Inflation in countries in transition, such as the Republic of Moldova and Romania, may be exacerbated by specific structural elements and an increased dependence on external markets. Inflation is a significant economic risk in these circumstances. It has the potential to disrupt economic stability, reduce purchasing power and cause social imbalances. Therefore, finding effective macroeconomic solutions and anti-inflationary policies is essential for both economic stability and sustainable living for the people of Romania and Moldova.

MATERIALS AND METHODS

The theoretical and methodological sources on which this paper is based are academic reference sources, publications in economic journals, analytical materials, and reports provided by the National Bank of Moldova (NBM) and the National Bank of Romania (NBR), which are all available through both official channels and the press. The study examines inflation as an economic risk factor in Romania and the Republic of Moldova, focusing on how it affects financial stability and purchasing power. The analysis has used scientific techniques such as synthesis, clustering, and comparison to analyze inflation in detail in the economies of the two countries and to find solutions for managing it more effectively.

RESEARCH RESULTS

Given its substantial impact on many aspects of global economies, the analysis of inflation is a crucial issue in economic theory [5].

The study of inflation continues to be a crucial area in economic theory because of its significant influence on several facets of global economies.

Numerous economic sectors are significantly impacted by inflation, which disregards the interests of the wealthy and the poor, all forms of entrepreneurs, the political environment of the country, and the financial relationships between suppliers from different industries [2].

Acknowledging inflation as a crucial economic factor entails assessing its impact on economic development and the efficacy of monetary policy in addition to buying power and financial stability. Understanding inflation dynamics is especially crucial for controlling economic risks and promoting sustainable growth in economies with a variety of structural features, as those of Moldova and Romania.

The consumer price index (CPI) and inflation rate are key indicators in this paradigm that provide information on monetary value and price stability across time. By bringing the money supply into line with actual economic conditions, the analysis of these variables aids in the formulation of monetary policy. This entails central banks striking a balance between growth dynamics and inflationary pressures, placing a strong emphasis on exact control over variables like interest rates and currency valuation.

An economic indicator known as the Consumer Price Index (CPI) calculates the average increases in the costs of consumer goods and services that people have bought during a specific time period. Because it measures the population's buying power and accounts for the cost of living, the CPI is a crucial component of inflation analysis. Generally speaking, rising inflation is indicated by rising CPI, whereas falling inflation is indicated by falling CPI.

As a result, boosting consumer confidence, encouraging the improvement of the consumption structure, and stimulating the vitality of consumption have all become crucial components of the strategy for boosting high-quality economic development and growing domestic demand [6].

Therefore, by analyzing the evolution of the CPI in the Republic of Moldova and Romania, we can observe and compare the inflation rates, the associated risk factors, and the impact of inflation on the economies of the two countries.

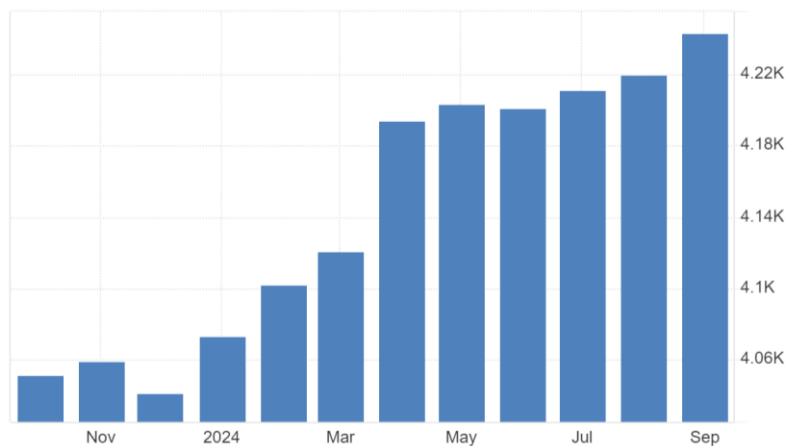


Figure 1. MD Consumer Price Index CPI – points

Source: *Tradingeconomics* [12]

The index for consumer prices has been steadily rising over the last year, according to the Republic of Moldova's CPI graph. This trend demonstrates ongoing inflation, meaning that the cost of life for the populace has gone up due to rising prices for necessities. The Republic of Moldova is heavily impacted by import reliance in addition to external causes like rising food and energy costs. Chain pricing for necessities have resulted from this circumstance, creating inflationary pressures. At the domestic level, the main factors influencing price volatility are climate, currency stability, and fiscal policy. Policies that provide energy subsidies, for instance, might temporarily slow price rises, but their effectiveness is limited when faced with significant external shocks, such increases in the price of gas globally.

The Republic of Moldova's consumer price index (CPI) was around 4,060 points in November 2023. The CPI increased to 4,130 points by March 2024, indicating an increase in inflation. Reaching 4,180 points in June 2024 and 4,220 points in September 2024, this trend persisted. This indicates ongoing pressure on consumer prices, which has important ramifications for both the nation's economic stability and the purchasing power of its citizens. The Republic of Moldova's economy is modest and mostly reliant on imports for commodities, energy, and other products and services. Because of this reliance, it is susceptible to changes in international prices, including those of food and fuel, which raises local market prices and speeds up inflation. Furthermore, poor productivity and a lack of investment in domestic production capacity make the nation more susceptible to outside shocks, which raises the cost of domestic commodities. The populace is under more financial strain as a result of rising inflation, which lowers spending and slows economic growth. Savings are impacted by high inflation because bank deposits lose real value and real interest rates turn negative. For the Republic of Moldova, this poses a serious concern as it undermines investor and public trust in the country's economic stability. Additionally, a growing CPI increases economic uncertainty by making budgeting more difficult for both families and enterprises.

In addition to decreasing the buying value of money, the inflationary process, which is a monetary process, also makes SMEs less competitive and redistributes national revenue in favor of huge monopolistic businesses [4].

Comparing Romania to the Republic of Moldova, the CPI graph indicates a moderate growth in the consumer price index with fewer noticeable volatility. This implies more effective actions to maintain prices below a particular level and greater control over inflation.

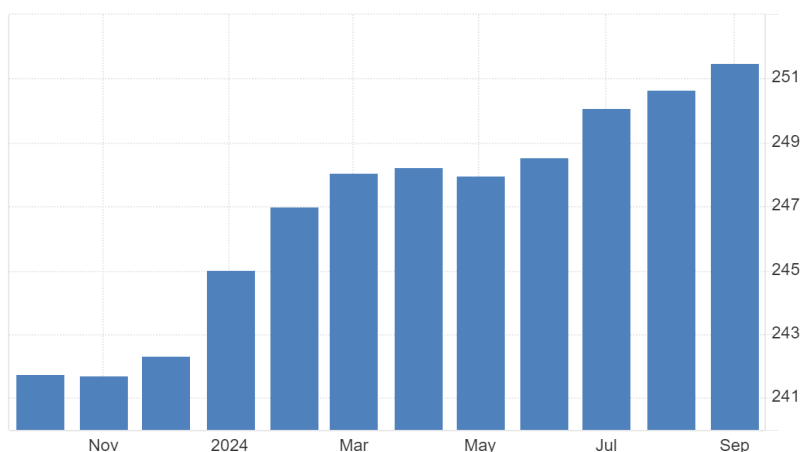


Figure 2. RO Consumer Price Index CPI – points

Source: *Tradingeconomics* [12]

Romania's consumer price index (CPI) was about 241 points in November 2023. The CPI increased to 246 points by March 2024, showing modest inflation. This pattern persisted, rising by 249 points in June 2024 and 251 points in September 2024, for a roughly 10-point gain overall. Romania's CPI rise is more modest than that of the Republic of Moldova, indicating relative price stability and better control over inflation. Nevertheless, the population's purchasing power is impacted by this consistent growth. Romania is less dependent on imports and more resilient to price rises from outside sources because of its diverse economy, which helps it handle inflationary shocks better than the Republic of Moldova. In order to control inflation, the National Bank of Romania (NBR) uses its wealth of knowledge and sophisticated instruments, such as the reference interest rate modification, which aids in managing capital flows and demand. Additionally, Romania has access to structural funding and supporting policies as a member of the European Union, which help to maintain economic stability and improve inflation control.

Through cross-border exchanges of capital, products, and services, international trade fosters economic development and efficiency. Important aspects of international commerce include bilateral and multilateral trade agreements, which involve several countries and are supported by international organizations such as the World Commerce Organization (WTO) [10].

Households in Romania are less negatively impacted by CPI increase than in Moldova, in part because of a more robust economic structure that lessens the effects of inflation. Rising costs for electricity, food, and other essentials, however, provide difficulties for lower-income people. Romania benefits from structural grants and policies that promote economic stability and domestic consumption as a member of the European Union.

The banking industry is the main pillar of the Romanian financial system. The primary source of funding for businesses and consumers is commercial banks. Even while the capital market has expanded recently, it is still not as established as the banking system, and many investors would rather put their money into bank products like loans or deposits [11].

In order to lower economic risks and preserve the economy's long-term stability, the National Bank of Romania is also aggressively stepping in to control inflation.

To control inflation and maintain macroeconomic stability, the National Bank of Romania (NBR) has taken a number of important actions. Raising the monetary policy interest rate was one of the primary tactics used to reduce aggregate demand by making credit more expensive for both consumers and businesses. In order to absorb excess liquidity in the banking system and stabilize the money supply, liquidity sterilization operations which included the sale of government securities supported this endeavor.

Furthermore, the NBR regularly interfered in the foreign exchange market to ensure the stability of the leu-euro exchange rate and lessen the impact of imported inflation. By stopping the leu's devaluation, which might have increased inflation by raising import prices, this action was crucial to safeguarding consumers' buying power. In order to promote a responsible fiscal strategy and assist contain the budget deficit and lower inflationary risks, the NBR concurrently collaborated closely with government authorities.

Significant inflationary pressures were evident in the Republic of Moldova, where inflation was between 6.5% and 7% in September of last year. [15] Following this, the National Bank's monetary policies (monetary policy interest rate increase, by discouraging borrowing and promoting saving, a higher interest rate lowers consumer demand and so restrains price rises, increase in minimum reserve requirements, exchange rate stabilization) and the relaxation of external variables like energy costs caused inflation to gradually drop to 3% to 3.5% in May 2024. The minor increase in inflation since May,

which stabilized between 4.5% to 5.2% in September 2024, raises the possibility of rising internal pressures or changes in domestic demand.

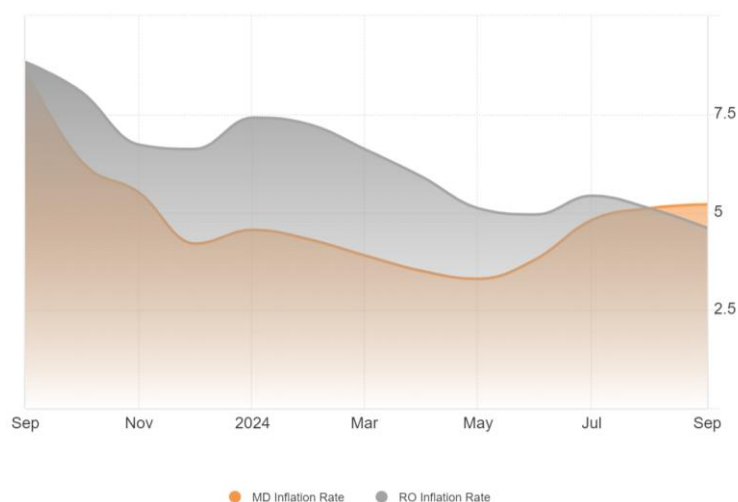


Figure 3. Inflation developments in the Republic of Moldova and Romania

Source: Tradingeconomics [12]

Forecasts of several macroeconomic indicators are a major part of central banks' monetary policy framework. Over the past 20 years, forecasts have also become more significant as a communication tool for central banks, with the ability to influence market and public expectations [8].

Due to both internal (strong domestic demand, pay rises) and external (high energy and food costs) causes, Romania's inflation rate was between 7% and 7.5% in September of last year. Monetary policy measures have been put in place to lower inflation, but the rate of fall has been gradual; in March 2024, it was only between 5.5% and 6%. Strong domestic demand in Romania, which is fueled by expansion in industries like retail and services as well as a bigger and more sophisticated consumer market, is the reason for this slower pace as compared to the Republic of Moldova. Inflation hit about 5% in September 2024, indicating a brief stability brought on by stricter monetary policies including raising the benchmark interest rate and limiting credit availability. However, a strong labor market where pay rises may continue to underpin demand and persistently high manufacturing costs are driving inflationary pressures. Despite the recent stability, these indicators indicate that Romanian inflation may be rather high in the foreseeable future.

Targeting an inflation rate of 4.8 percent in December 2024, the earlier projections on the very short-term behavior of inflation were reaffirmed in the most recent minute of the monetary policy meeting of the Board of Directors of the National Bank of Romania [7,14].

The two countries' inflation rates in September 2024 were fewer than one percentage point apart, almost convergent. This reconciliation would suggest that economic policies and inflationary pressures are coordinated across the region.

Being able to forecast the effects of acts that alter or interfere with a system, like an economy, is a natural goal of any rigorous discipline, including economics [1].

This might be the result of normal economic events such as shifts in import costs, disruptions in global supply, or adjustments to interest rates by the European Central Bank. These events have an indirect effect on the Republic of Moldova, but they also have a direct effect on Romania's economic policy [13].

CONCLUSIONS

In conclusion both nations have seen the effects of inflation on economic stability, which have a detrimental impact on investment appeal, competitiveness, and buying power. Despite implementing distinct monetary policies, the National Bank of Romania and the National Bank of Moldova had the objective of lowering inflation. Compared to Romania, Moldova has seen a more noticeable long-term reduction in inflation as a result of a more conservative strategy. Both nations' economies are clearly susceptible to external shocks, as seen by the worldwide swings in the price of commodities and energy. This emphasizes the necessity of domestic shock absorption systems and an economic strategy that emphasizes supply source diversity. The way that inflation appears is also influenced by structural variations among economies. Romania has had a harder time keeping inflationary pressures under control because of its bigger market and stronger domestic demand.

The National Bank of Moldova has prioritized exchange rate stabilization in order to contain inflation and decrease inflationary imports. However, outside forces may make it challenging to sustain this measure over time. Furthermore, in order to lower inflationary risks and promote macroeconomic stability, a cautious fiscal policy is required in addition to monetary policy.

Longer term, structural changes that lessen both nations' susceptibility to inflation might be advantageous. These include diversifying the economy, increasing domestic output, and establishing efficient social safety nets to help the populace during price increases.

The National Bank of Moldova has put in place a number of policy initiatives to fight inflation. Price pressures decreased as a result of the monetary policy interest rate hike, which restricted credit availability and deterred excessive spending. The economy's money supply and liquidity were decreased in part by raising the minimum reserve requirements and implementing liquidity-absorbing activities. The impact of imports on inflation has been reduced by to interventions to maintain the exchange rate, which have also stopped the Moldovan Leu from depreciating significantly. The NBM decreased inflationary expectations and increased public trust by implementing a clear communication program.

A number of actions have been taken by the Romanian National Bank to curb inflation. By restricting borrowing for investment and consumption, the monetary policy interest rate hike was intended to constrain domestic demand. By selling government assets, liquidity sterilizing efforts contributed to price stabilization and a reduction in the money supply. In order to keep the leu-euro exchange rate stable and avoid a major depreciation that would have increased import costs and spurred inflation, the NBR kept an eye on the market and interfered when necessary. The budget deficit was kept to a minimum and inflationary pressures were lessened by cooperating with the government to advance a responsible fiscal strategy. The NBR helped stabilize the market by stabilizing inflationary expectations through the explicit transmission of inflation objectives and projections.

These actions have shown how strongly both central banks are committed to preserving price stability and have been crucial in controlling inflation in the Republic of Moldova and Romania. Since interest rate increases and other interventions were intended to reduce inflationary pressures and moderate domestic demand, the adoption of strict monetary policies was a key component of this strategy. However, central bank activities were not the only factor that determined how effective these programs were. It has been equally important to work closely with fiscal policy in order to prevent fiscal stimulation

that may drive inflation and to keep budget deficits under control. Furthermore, financial markets' responses to the policies implemented had a big impact on inflationary expectations and the stability of the economy as a whole.

Therefore, managing the economic difficulties and preserving a stable environment in both nations have shown to need an integrated approach that combines fiscal and monetary measures.

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