

## INFLATION IN MOLDOVA: STATUS, REASONS AND SOLUTIONS FOR ITS REDUCTION

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**Abstract:** *This article examines the problem of inflation in Moldova, its performance in recent years, the current state of inflation, the factors influencing it and the inflationary consequences in Moldova, and offers recommendations for its regulation. And also considered the experience of other countries that have successfully coped with similar problems and identified the most effective methods of combating inflation. It is important to note that solving the problem of inflation in Moldova is key to achieving stable economic development and improving the living standards of the population.*

**Key words:** *inflation, price level, inflation indicators, factors, solutions.*

### INTRODUCTION

Inflation is a characteristic of any monetary economy. Inflation in Moldova is one of the main economic problems of the country, which affects the standard of living of the population. This phenomenon, when prices for goods and services are constantly rising, leads to a decrease in the purchasing power of money and a decrease in the standard of living of the population. [8,9,10]

For the normal functioning of the economy based on the uninterrupted sale and circulation of goods as a whole, a clear correspondence between the amount of money and the mass of goods is necessary. If, for some reason, the mass of money exceeded the mass of goods, then prices rose, which was originally interpreted as inflation. [1,2,5]

In recent years, Moldova has faced rising inflation, the causes of inflation are both internal and external factors, such as increased consumption of the population, rising prices for energy and food products, as well as the deterioration of the economic situation in the world. [11,12]

Inflationary processes have a negative impact on the country's economy, worsen the quality of life of the population and lead to a decrease in the level of investment. [3,13]

To combat inflation in Moldova, it is necessary to carry out reforms in the economic sphere, stimulate economic growth and the development of the investment environment, as well as improve the system of monetary policy. [14,15] Solving the problem of inflation is an important task for Moldova, which will improve the economic situation in the country and raise the standard of living of the population. In our country, as in many other developing countries, inflation is a serious problem that requires a comprehensive analysis and adoption of effective measures to regulate it. [7,13]

### MATERIALS AND METHODS

The theoretical basis and methodology of the work were the works of Moldovan and foreign scientists, materials, articles from scientific periodicals, information. and reports of the NBM of the Republic of Moldova published on their websites and in the press. on inflationary processes and ways to reduce them in the conditions of the modern world economy We used scientific research methods such as synthesis, grouping, comparison and others. [4]

## RESEARCH RESULTS

Inflation is a serious problem for many countries, including Moldova. The impact of inflation on the economy can be devastating, so it is important to understand the factors that cause its growth, as well as offer solutions to reduce it [3].

Inflation is directly and directly related to the money supply. In Moldova, as in almost all countries of the world, the only issuing center is the Central Bank, whose main function is to ensure the stability of both the national currency and the general price level.

The main task in this case is to achieve a correspondence between the growth of the money supply and the dynamics of the economy. To do this, central banks develop and implement a monetary policy aimed at regulating the money supply in accordance with the state of the market and economic development dynamics in general.

The main causes of inflation include the following factors:

- reduction of gross domestic product (GDP) with a constant amount of money supply in circulation;
- growth of public expenditures due to emissions;
- excessive expansion of lending to companies and individuals;
- monopoly in the economy, when large firms get the opportunity to determine the cost of their products and costs.

Causes of inflation in Moldova can be both internal and external. One of the main internal reasons is the increase in consumption of the population, which leads to an increase in demand for goods and services and, as a result, to an increase in prices. Another important factor is the deterioration of the economic situation in the country, which leads to a decrease in production and an increase in production costs.

Among the external reasons, one can single out the rise in prices for energy carriers and food products, which are imported into the country due to a lack of own resources. In addition, the global economic situation also affects inflation in Moldova, as many goods and services produced in the country depend on world prices for raw materials and equipment. The history of Moldovan inflation regulation reveals the lack of independence of monetary regulation.

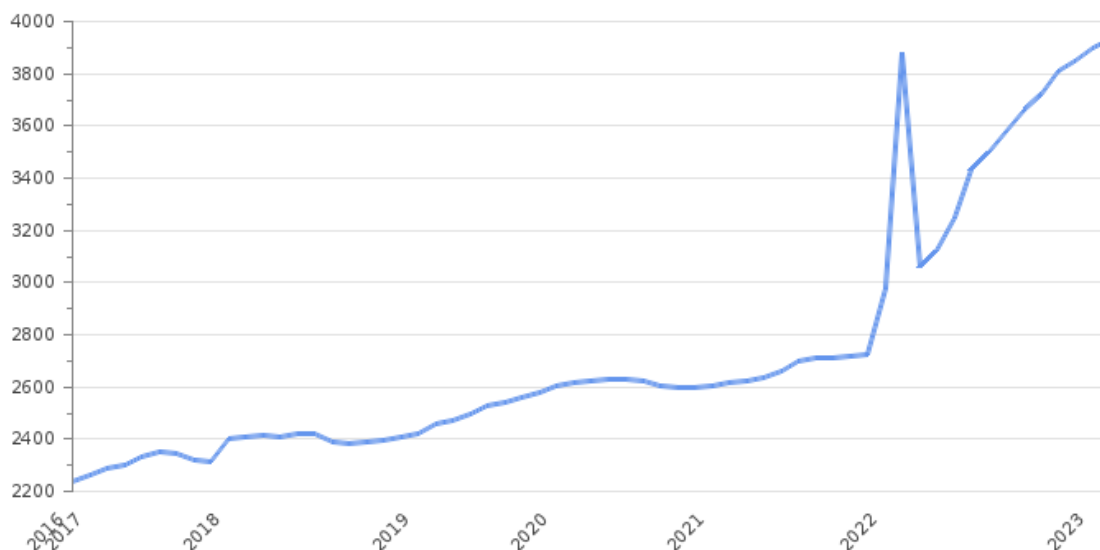
Despite the development by the Central Bank of the Republic of Moldova of all tools to influence the scale of monetary circulation and the value of money, inflation is not fully under the control of the country's central emission body. And the reason is not only non-monetary causes of inflation. Monetary policy is tightly linked to other types of economic policy, in particular monetary and fiscal, and the specific state of the economy. [15,16]

The consequences of inflation for the Moldovan economy can be serious. Firstly, a high level of inflation leads to a decrease in the purchasing power of the population, which negatively affects the standard of living and the social sphere. Secondly, inflationary processes can lead to a decrease in investment and a deterioration in the economic situation as a whole. Thirdly, high inflation can cause a devaluation of the national currency, which can negatively affect the country's international economic relations.

In Moldova, inflation had a downward trend in 2020, but since the beginning of 2021 it has started to rise again. According to the National Bank of Moldova, at the beginning of 2022, the inflation rate in the country increased to 16.6%. Fuel prices increased the most - by 32.4%, food - by 21% and utilities - 17%. For comparison, in December 2021, inflation was 13.9%. At the same time, inflation in the last quarter of 2021 amounted to 11.7%, while the National Bank of Moldova predicted an indicator of 9.3%.

In February 2023, its level reached 25.9%, which is a high figure. Factors affecting the growth of inflation may be different. One such factor is the economic policy of the government. For example, an increase in government spending without a corresponding

increase in revenue can lead to an increase in inflation. In addition, political instability or changes in legislation can cause market uncertainty and increase inflation.



**Figure 1. Inflation rate in Moldova**

The second factor influencing inflation in Moldova is the global economic situation. If there are significant changes in the global economy, such as an increase in oil prices or a change in the exchange rate, this may affect the Moldovan economy and lead to an increase in inflation. Figure 1 shows the general trends and percentages of inflation in Moldova for the period 2017-2023 [1,15].

There are a number of inflation management recommendations that could be applied in Moldova based on the experience of other countries. Below are some of them:

1. Establishment of inflation targets and strict adherence to them. Many developed countries, such as the US, Japan, and Germany, set inflation targets that must not exceed a certain level. This helps lower inflationary expectations and bring down the rate of inflation.

2. The use of monetary policy to regulate the money supply. Some countries use monetary policy to regulate the amount of money in circulation and thereby control the rate of inflation. For example, Switzerland uses a money supply targeting system to control inflation.

3. Limitation of public spending. High government spending can contribute to inflation as the government is forced to print more money to cover spending. Many countries are cutting government spending to bring down inflation.

4. Regulation of foreign trade. This may include imposing import duties, capital controls, and other measures to reduce dependence on imported goods and services.

5. Stimulation of production and investment. The development of production and investment can help reduce inflation, as an increase in production can lead to lower prices for goods and services.

6. Credit control. Lending can stimulate inflation if it is not properly controlled. Many countries set limits on lending and interest rates to reduce inflation.

7. Cooperation with international financial institutions. Many countries are cooperating with international financial institutions to support macroeconomic stability and reduce inflation. These institutions can provide financial and economic assistance, as well as expert support, to help the country deal with inflation problems.

It is important to note that the regulation of inflation in each country must be adapted to its specific economic conditions and characteristics. When choosing suitable measures to

control inflation, it is necessary to take into account factors such as the level of economic development, inflationary expectations of the population, the size and composition of the economy, and others.

In order to reduce the level of inflation in Moldova, the government can apply various solutions. One possible solution is to cut government spending or increase tax revenues. This can reduce consumption and reduce inflation [2]. In addition, monetary policy can be implemented by increasing interest rates, which can also reduce inflation. Another solution is to increase domestic production of goods and services. This will help meet demand and bring down the price of goods, which can reduce inflation.

## CONCLUSIONS

In conclusion, it can be noted that inflation in Moldova is a serious problem that has a negative impact on the country's economy and the lives of its citizens. Despite some government efforts to fight inflation, these measures are not always effective. The level of desirable inflation in Moldova is set in the same way as in other countries, according to the consumer price index. The Central Bank of the Republic of Moldova takes the necessary measures to identify observed inflation in order to avoid price shocks and other adverse consequences. The origins of inflationary phenomena are rooted: in the prevailing and constantly reproducible macroeconomic disproportions; in the form of management created in the administrative economy, which predetermines the pricing model, the way of making investment and foreign economic decisions, the stereotype of economic motivations of economic agents; in a specific model of fiscal and monetary policy.

However, the experience of other countries shows that there are recommendations and strategies that can help manage inflation in Moldova. Setting inflation targets, using monetary policy, limiting public spending, regulating foreign trade, stimulating production and investment, controlling credit and cooperating with international financial institutions - all these measures can be useful in fighting inflation in Moldova. Inflation management is still the most important problem of monetary and economic policy in general. At the same time, it is necessary to take into account the multi-complex, multi-factor nature of inflation, which is based not only on monetary, but also on other factors. Despite the importance of reducing government spending, the gradual reduction of money supply, a wide range of anti-inflationary measures is required. Among them are stabilization and stimulation of production, improvement of the tax system, creation of market infrastructure, increasing the responsibility of enterprises for the results of economic activity. The implementation of these measures will help improve the economic situation in the country and provide a more favorable environment for the life of citizens. From the above, we can conclude that the Moldovan government is taking all measures to regulate inflation.

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