

Macroeconomic Resilience Ensuring From the Perspective of Monetary Policy Promoting in the Context of Capital Account Liberalization

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Abstract

The purpose of this research is to theoretically and empirically investigate the perspective of ensuring macroeconomic resilience with the liberalization of the capital account by implementing effective macroeconomic policies, mainly monetary policy which is under the prerogative of the monetary authority. Monetary authorities implicitly contribute to ensuring macroeconomic resilience by achieving price stability and financial stability. The methodological and empirical aspect is based on the simulation and estimation of a VAR model with the identification of the response functions of the main macroeconomic indicators to the conditionality of full liberalization of the capital account, taking as a benchmark the historical developments of these variables. The model and the variables included in the model, such as economic growth, inflation, the exchange rate of the national currency and the monetary policy rate, were associated with the Republic of Moldova. The research results indicate the presence of causal relationships between variables with the manifestation of fluctuations with the capital account liberalization. Thus, we suggest the gradual liberalization of the capital account in order to overcome potential vulnerabilities and crises in macroeconomic indicators, generated with massive capital inflows, and to ensure macroeconomic resilience in this context.

Keywords: resilience, central bank, inflation, monetary policy, VAR model.

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Introduction

The importance of the researched topic lies in investigating the opportunity to ensure macroeconomic resilience through the identification of decision-making factors capable of strengthening an economy's ability to withstand shocks or unforeseen events arising from both the domestic and external environment. In this context, identifying the factors capable of keeping under control the circumstances associated with a favorable climate for ensuring macroeconomic resilience represents a priority for state institutions. Central banks inherently contribute to ensuring macroeconomic resilience by maintaining price stability and financial stability, thereby shaping the economy's capacity to withstand and adapt to potential crises or unexpected shocks. The benefits of price stability are universally acknowledged by global economies, with positive repercussions for ensuring sustainable economic growth capable of resisting and adapting to shocks with minimal losses and macroeconomic distortions, while preserving the country's productive and economic potential.

Ensuring macroeconomic resilience has become a national objective in the Republic of Moldova in the context of its obtaining the status of a candidate country for accession to the European Union. While the liberalization of capital flows is emerging as a precondition for our accession to the European Union, it entails the removal of restrictions on the movement of capital flows related to foreign investments, loans, and investments in securities. In addition to the advantages it offers, materialized through attracting investments, directing them toward productive sectors of the economy, and implicitly increasing labor productivity, it also entails the emergence of vulnerabilities. Sudden increases in capital inflows are associated with macroeconomic instability, reflected in economic overheating, inflationary pressures, exchange rate appreciation, and loss of competitiveness, which jeopardize price stability and pose challenges to the conduct of monetary policy.

In this regard, the mix of macroeconomic policies represents the pillars of this process, while the implications of capital flows in the context of capital account liberalization generate challenges for the implementation of monetary policy, thus highlighting the need for research and, at the same time, for the capitalization of measures aimed at preventing crises and vulnerabilities in the context of excessive capital inflows.

Monetary policy aims to ensure and maintain price stability and to control the inflationary process over the medium term through the timely application of monetary policy instruments, primarily the policy interest rate, taking as a reference the priority of the interest rate channel specific to the inflation-targeting framework within the transmission mechanism of monetary policy decisions. Capital account liberalization involves capital inflows capable of influencing the determinants of inflation dynamics from the perspective of aggregate supply. This suggests the need for a contextual analysis supported by empirical evidence associated with the situation in the Republic of Moldova, which gives the study both relevance and underscores the importance of the researched subject.

1. Literature review

In the academic literature, macroeconomic resilience is defined as the ability of an economy to withstand a shock originating from either the domestic or external environment, to recover and rebuild, and consequently to minimize aggregate consumption losses. According to Hallegatte (2014), macroeconomic resilience encompasses two components: instantaneous resilience, defined as the capacity to limit the magnitude of immediate output losses for a given level of asset losses, and dynamic resilience, referring to the capacity for reconstruction and recovery. According to Abiad et al. (2016), the concept of economic resilience involves:

- The capacity to absorb domestic and external shocks through the implementation of appropriate and adaptive macroeconomic policies capable of supporting beneficial and timely decision-making;
- Adaptive capacity, particularly with regard to structural reforms;
- The capacity to return to equilibrium (steady state).

In their study, Briguglio et al. (2009) identify the factors that contribute to the enhancement of resilience. These include the monetary and fiscal policy framework, with particular emphasis on the principles of credibility and independence; the stability of the financial and banking sector, as well as the effectiveness of macroprudential mechanisms; economic potential and its diversification; and the quality of public institutions and decision-making processes. Guillaumont (2010) argues that small and open economies are the most vulnerable to external disturbances; however, through the appropriate calibration of the macroeconomic policy mix, they are capable of achieving a high degree of resilience.

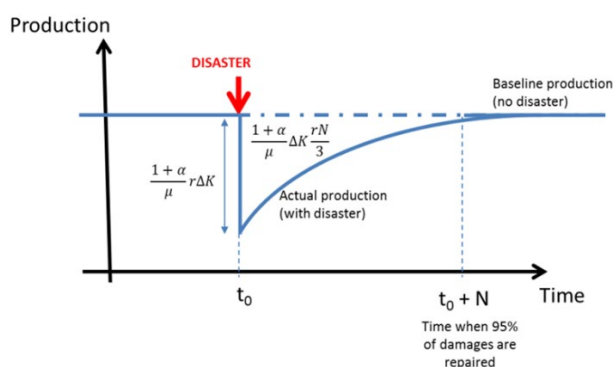


Figure no. 1. Schematic Representation of the Concept of Economic Resilience
Source: Hallegatte S. (2014). *Economic Resilience. Definition and Measurement*

Hallegatte (2014) argues that an economy affected by a shock may encounter difficulties in returning to its initial, pre-shock state, particularly in circumstances where certain sectors may disappear permanently or be replaced by substitutes. Macroeconomic resilience depends on the interest rate and the marginal productivity of capital; the duration of reconstruction, measured in years, which is determined by the economy's capacity to mobilize financial and technical resources for reconstruction; and the factors that amplify (or mitigate) instantaneous output losses, which depend on the availability of idle resources within the economy, the redundancy of infrastructure and other networks, as well as the capacity of firms to withstand shocks. Charlotte Benson and Edward J. Clay (2004), as well as Mark Skidmore and Hideki Toya (2002), emphasize the strategy and quality of an economy's recovery following a shock, arguing that when appropriately selected and efficiently implemented, such measures contribute to the strengthening of productive capital. Macroeconomic resilience represents a fundamental concept in assessing the sustainability of a state's economic policies and a country's capacity to maintain equilibrium, or to restore equilibrium, in the face of or following adverse shocks.

Ensuring and enhancing macroeconomic resilience constitutes a key pillar of monetary policy effectiveness, particularly in the context of capital flow liberalization and financial globalization. Large-scale capital inflows generate macroeconomic volatility, with the potential emergence of banking, currency, and inflationary crises, as well as a sudden expansion of credit activity capable of overheating the economy.

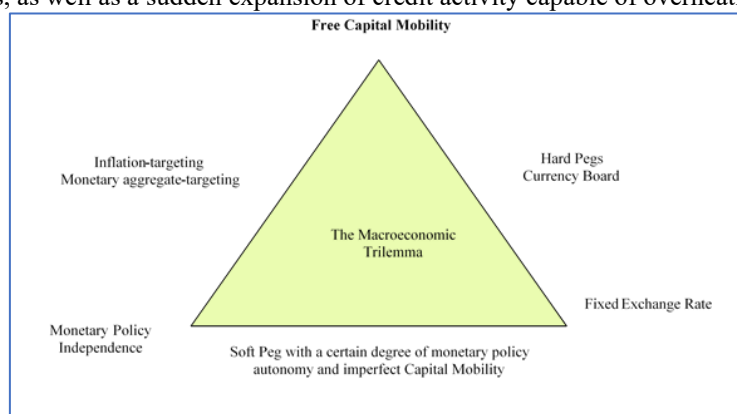


Figure no. 2. The Mundell–Fleming Model and the Macroeconomic Trilemma

Sursa: Bearce, D. (1967). Monetary Divergence: Domestic Policy Autonomy in the Post-Bretton Woods Era

In the 1960s, Robert Mundell and Marcus Fleming explored the relationships among exchange rates, capital flows, and monetary policy independence. The original Mundell–Fleming Model was based on several significant limitations and shortcomings. Primarily, it abstracted from the expectations of financial markets and assumed price rigidity in the short run. Subsequently, Maurice Obstfeld et al. (2005) further developed this theory by conceptualizing it as a macroeconomic policy trilemma, finding that the natural implication of the trilemma determines the prevalence of capital mobility in the context of supporting either a monetary policy regime associated with a fixed exchange rate or an independent monetary regime at the expense of maintaining a fixed exchange rate. Later, Hélène Rey (2015) argued that the trilemma is not as straightforward as it appears. According to the economist, most countries effectively face only two options, or rather a dilemma, as exchange rate fixation is not considered an efficient practice, which leads to a stronger focus on the relationship between independent monetary policy and free capital flows. The Impossible Trinity highlights the role of capital account liberalization within the framework and regime through which monetary policy is implemented, emphasizing the impossibility of simultaneously achieving the three benchmark objectives: Free Capital Mobility, a Fixed Exchange Rate, and Monetary Policy Independence. While Geert Bekaert et al. (2005) argue that capital account liberalization enhances market efficiency and capital allocation, Hélène Rey (2015) and Maurice Obstfeld (2015) emphasize the materialization and amplification of contagion risks and volatility associated with capital account openness.

3. Macroeconomic stability under financial liberalization. Evidence from the Republic of Moldova

The Republic of Moldova faced several major shocks during January 2015–March 2025, significantly affecting inflation, GDP, and overall macroeconomic stability through spillover effects. Four major crises can be identified: the 2015 banking crisis linked to the “bank fraud” scandal and the liquidation of three banks, the 2020 pandemic crisis, the 2022 energy crisis, and the increase in natural gas and electricity tariffs during late 2024–early 2025, which accelerated regulated prices and contributed to the slowdown of economic activity.

At the same time, Figure 3 highlights the economy's capacity to recover from both domestic and external shocks. The 2020–2022 period was particularly challenging, as consecutive crises, together with the Russian invasion of Ukraine and the refugee crisis, intensified inflationary pressures through higher consumption demand.

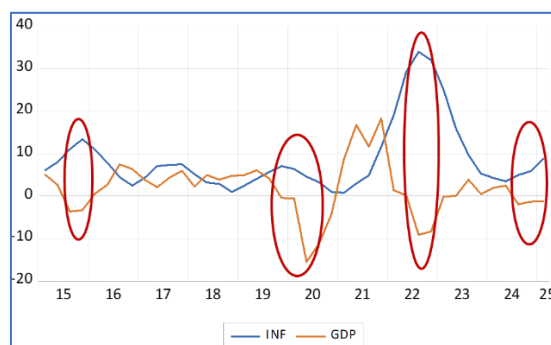


Figure no. 3. Identification of Shocks and Economic Resilience in the Republic of Moldova

Source: Authors' processing using statistical data obtained from the National Bureau of Statistics of the Republic of Moldova. Note: INF – inflation rate; GDP – GDP growth rate.

In this context, institutional policymakers played a key role in mitigating the effects of these shocks through the implementation of macroeconomic policies. The National Bank of Moldova (NBM) responded promptly to inflationary pressures and risks to price stability by using its monetary policy instruments, thereby strengthening the country's macroeconomic resilience.

As shown in Figure 4, the monetary authority acted in line with inflation developments, following the forward-looking approach of the Inflation Targeting regime adopted in 2010. During the 2022 energy crisis, when inflation peaked at 34.6% in October, the central bank implemented strongly restrictive measures. These included increases in the policy rate, reserve requirements on liabilities denominated in national currency, and reserve requirements on foreign currency liabilities, aimed at restoring price stability and supporting macroeconomic equilibrium. Accordingly, the policy rate was raised to 21.5%, the reserve requirement ratio for MDL deposits to 40.0%, and the ratio for foreign currency liabilities to 45.0%. These measures contributed to the gradual decline of inflation, which returned within the target range of 5.0% $\pm$ 1.5 percentage points by October 2023, when inflation reached 6.3%.

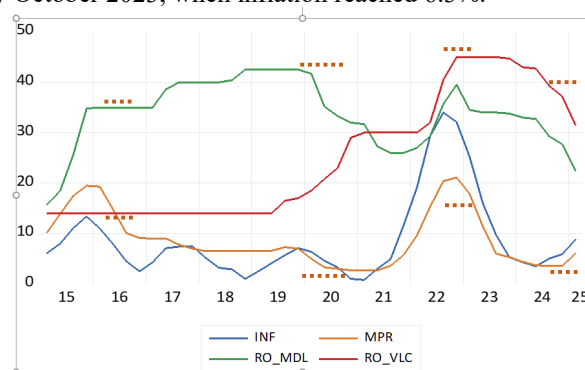


Figure no. 4. Response reactions of the NBM to the crises of the 2015–2025 period

Source: Authors' processing using statistical data obtained from the National Bureau of Statistics of the Republic of Moldova and the NBM. Note: INF – inflation rate; MPR – monetary policy rate; RO_MD – required reserve ratio on liabilities denominated in Moldovan Leu; RO_FCC – required reserve ratio on liabilities denominated in freely convertible foreign currency.

One of the medium-term strategic objectives of the Republic of Moldova is to achieve economic growth through the attraction of foreign investment under conditions that ensure macroeconomic resilience, so that capital flows do not generate excessive fluctuations in macroeconomic indicators, such as exchange rate dynamics and, consequently, inflation, thereby creating challenges for the implementation of monetary policy. The structure of capital inflows differs between advanced and emerging economies (Figure no. 5). While in advanced economies portfolio flows—such as debt and equity investments—as well as other forms of investment, tend to prevail, in emerging economies the dominant form of capital inflows is Foreign Direct Investment. International trends indicate a reallocation of direct investments toward emerging economies, primarily driven by more attractive interest rates, which provide investors with higher rates of return.

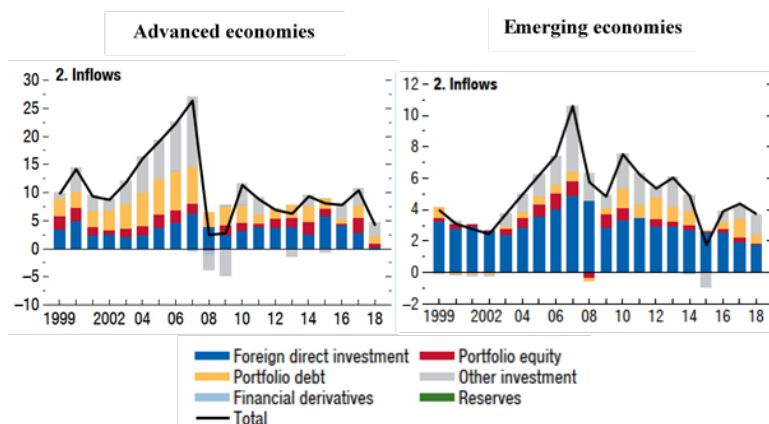


Figure no. 5. Structure of Capital Inflows in Advanced and Emerging Economies (% of GDP)
Sursa: The decline in world foreign direct investment in 2018. World Economic Outlook, Global Manufacturing Downturn, Rising Trade Barriers.

With regard to the Republic of Moldova, Figure 6 shows the limited contribution of Foreign Direct Investment (FDI) to economic growth, highlighting the need to attract foreign capital in order to strengthen macroeconomic resilience and support long-term economic sustainability. According to the International Monetary Fund AREAER Report (2023), Moldova maintains a partially liberalized capital account regime, with significant restrictions on capital outflows, residents' external investments, and certain cross-border credit operations.

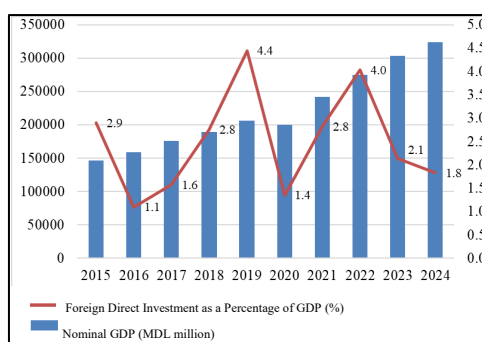


Figure no. 6. The potential of foreign direct investment to support economic resilience
Source: compiled by the author based on statistical data published by the National Bureau of Statistics of the Republic of Moldova and the World Bank.

Direct investments are largely liberalized. Outward direct investments are not subject to authorization by the NBM, while inward investments remain partially restricted, especially in the case of long-term loans exceeding EUR 10,000. In addition, non-residents are prohibited from owning agricultural land and forests. For low-income countries, maintaining investor confidence requires a stable legal and business framework, together with a favorable macroeconomic environment. At the same time, the Russian invasion of Ukraine has weakened investment security in the region, contributing to capital outflows and negatively affecting the Moldovan economy.

4. Research methodology

This study employs an interdisciplinary approach, combining deductive theoretical analysis with causal econometric modeling. The research is designed as an applied simulation to investigate the interdependence of macroeconomic phenomena within the framework of the monetary policy transmission mechanism. The core of the empirical analysis identifies the functional relationship between inflation (INF), the monetary policy rate (MPR), exchange rate dynamics (exr), economic growth (GDP), and capital account liberalization (lib_ca). These variables are treated as endogenous determinants of inflation, leading to the following functional relationship: $INF = f(MPR, GDP, exr, lib_ca)$.

4.1. Data and Model Specification

The study utilizes quarterly time-series data sourced from the National Bureau of Statistics of the Republic of Moldova and the National Bank of Moldova (NBM). GDP data were seasonally adjusted, and indicators such as the exchange rate and policy rate were calculated using weighted daily averages. To facilitate the interpretation of coefficients as elasticities, all variables were transformed into logarithmic form.

A Vector Autoregression (VAR) model was applied to identify the dynamic relationships between these variables. Model validation included:

- Stationarity: The Augmented Dickey-Fuller (ADF) test confirmed that all variables - *loginf*, *lgdp*, *lex* and *mpr* - are stationary after first differencing, $I(1)$;
- Lag Selection: Based on the Schwarz and Hannan-Quinn information criteria, an optimal lag of 2 was identified for the estimation.

Table no. 1. Summary of Impulse Response Functions (Shock: Capital Account Liberalization)

Indicator	Direction of Change	Relative Magnitude	Time Horizon (Quarters)	Policy Implication
Exchange Rate (MDL/USD)	Initial Volatility	High	Q1 - Q3 (Gradual stabilization)	Requires flexibility to absorb external shocks.
GDP (Economic Growth)	Pro-cyclical Increase	Moderate to High	Q1 - Q4 (Peak in Q2)	Risk of economic overheating.
Inflation (CPI)	Increase (Inflationary pressure)	Moderate	Q2 - Q5	Close monitoring of aggregate demand required.
Monetary Policy Rate	Increase (Tightening)	Prompt Reaction	Q1 - Q6	Forward-looking intervention to anchor expectations.

As shown in the table, the model captures an immediate pro-cyclical acceleration of economic growth. This dynamic generates inflationary pressures starting in the second quarter, triggering a preemptive response from the National Bank of Moldova. By raising the policy rate, the monetary authority effectively anchors expectations and moderates excess demand, leading to the stabilization of prices by the sixth or seventh quarter.

4.2. Simulation Results and Discussion

The simulation assumes full capital account liberalization ($LIB_CA = 1$) starting in Q1 2024, accompanied by a surge in capital inflows. Figure 7 illustrates the resulting impulse response functions, reflecting how historical trends in the Moldovan economy react to this structural shift.

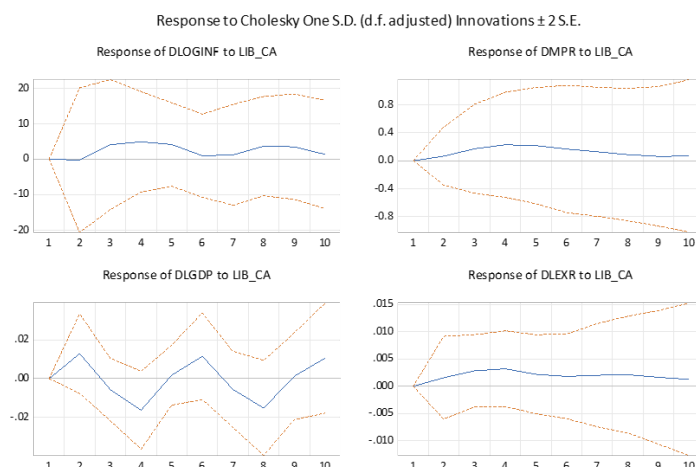


Figure no. 7. Response Function of Capital Account Liberalization on the Main Macroeconomic Indicators of the Republic of Moldova

Source: prepared by the author using data processed in EViews 11, based on statistical data obtained from the National Bureau of Statistics of the Republic of Moldova and the National Bank of Moldova; author's calculations.

The model captures the immediate volatility of the exchange rate and the pro-cyclical acceleration of economic growth. Significantly, it highlights the forward-looking reaction of the monetary authority; the policy rate rises in the initial periods to counteract inflationary pressures that peak by the second period. This tightening effectively anchors expectations, leading to price stabilization by the sixth or seventh quarter.

5. Results and discussion

Capital inflow management measures

Full capital account liberalization is a gradual and complex process that requires strong financial and institutional development to reduce potential risks and ensure that the benefits of liberalization outweigh its costs. This process involves improving the legal and statistical framework, strengthening liquidity management, prudential supervision, financial and corporate sector reforms, and developing capital markets and pension funds to enhance macroeconomic resilience. The International Monetary Fund (2022) outlines several methodologies for identifying excessive and sudden capital inflows, including threshold analysis, trend analysis, and cluster analysis (Table no. 2). These methods detect capital surges that exceed historical patterns and can be applied to both net and gross capital flows, as well as to specific sectors such as portfolio debt and equity investments. In the short term, macroeconomic policies such as monetary policy, exchange rate management, foreign reserve interventions, fiscal policy, financial regulation, and capital flow management measures (CFMs) can be used to mitigate the effects of large capital inflows. According to the IMF framework, policy responses depend on factors such as exchange rate overvaluation, reserve adequacy, and the economy's position relative to its potential output.

Table no. 2. Methodologies for identifying excessive capital inflows

Metodologia	Concept	Sursa
Threshold analysis	Flows within top 30th percentile of country's own distribution and sample distribution	Reinhart and Reinhart (2008), Ghosh et al. (2012)
Trend analysis	HP filter: Deviation from long-term trend by one historical standard deviation	IMF (2007, 2010, 2011), Cardarelli et al. (2010)
	Hamilton filter: An asymmetric ordinary least squares (OLS) regression filter	Hamilton (2017)
	Rolling window: Annual increase in inflows by more than one standard deviation above the five-year rolling average	Forbes and Warnock (2012, 2021)
Cluster analysis	Partitioning inflows into k-clusters with the nearest mean (minimizing within-cluster sum of squared differences)	Ghosh et al. (2012)

Sursa: IMF (2022). [Review of the Institutional View on the Liberalization and Management of Capital Flows.](#), p. 29.

In this context, policymakers may apply measures such as interest rate adjustments, foreign exchange interventions, sterilization operations, or exchange rate appreciation. CFMs can complement macroeconomic adjustment policies by supporting financial stability, especially during periods of excessive and volatile capital inflows. They may also provide additional time for macroeconomic policies to take effect under conditions of heightened uncertainty. When capital inflows generate both macroeconomic and systemic financial risks, macroprudential measures may also be required to limit vulnerabilities. In the short term, several macroeconomic policy tools can be used to mitigate the effects of large capital inflows, including monetary policy, exchange rate and foreign reserve policies, fiscal policy, financial regulation, and capital flow management measures. According to the IMF (2022), each circle represents cases where a specific condition is met. The intersection of all three circles (Figure no.8) indicates situations in which the exchange rate is overvalued, reserves are adequate, and the economy operates above its potential level.

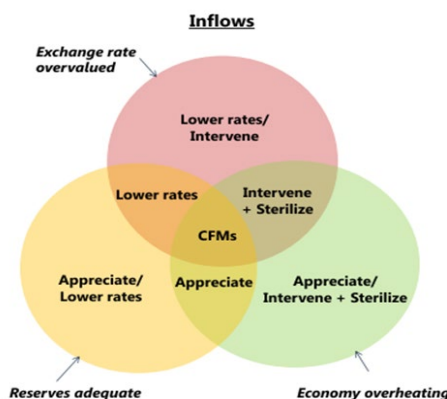


Figure no. 8. Management of excessive capital inflows

Source: IMF (2022). [Review of the Institutional View on the Liberalization and Management of Capital Flows.](#), p. 9.

In this context, expert judgment suggests the implementation of the measures illustrated in the Venn diagram (Figure 8), including interest rate reductions, foreign exchange market interventions, sterilization operations, or exchange rate appreciation. In such cases of policy flexibility, capital flow management measures (CFMs) complement macroeconomic adjustment policies and support financial stability. They may also provide additional time for macroeconomic policies to take effect during periods of heightened uncertainty caused by excessive capital inflows. When unexpected capital inflows generate both macroeconomic and systemic financial risks, macroprudential measures may also be required to limit vulnerabilities associated with excessive capital movements.

6. Conclusions

Central banks serve as the primary guardians of macroeconomic resilience by maintaining price and financial stability, which strengthens an economy's capacity to absorb and adapt to external shocks. The Republic of Moldova experienced significant volatility between 2015 and 2025, with major shocks to inflation and GDP highlighting the need for a more robust resilience framework. While the country possesses significant underutilized investment potential, the transition toward full capital account liberalization presents a complex trade-off between growth and stability. The empirical evidence from the VAR model confirms that capital account liberalization significantly impacts key macroeconomic indicators. The response functions demonstrate that sudden capital inflows trigger immediate exchange rate volatility and pro-cyclical GDP growth, which subsequently fuel inflationary pressures. The model specifically highlights the effectiveness of the interest rate channel, as the National Bank of Moldova's proactive tightening facilitates the stabilization of inflation within six quarters of the initial shock.

Consequently, this research recommends a gradual approach to capital account liberalization, synchronized with financial market deepening and institutional strengthening. To mitigate the vulnerabilities associated with excessive capital movements, policymakers should prioritize a coherent policy mix where proactive monetary policy is complemented by flexible exchange rate management and macroprudential tools. Such a managed transition ensures that the benefits of foreign investment—such as improved resource allocation and technological transfer—are realized without compromising long-term macroeconomic equilibrium.

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