The Taylor Rule and Inflation Targeting in Moldova

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Abstract

This paper analyzes the implementation, effectiveness, and challenges of the inflation targeting framework in the Republic of Moldova. It explores the theoretical foundations of inflation targeting, reviews Moldova's historical transition from high and volatile inflation to a structured monetary policy framework, and examines the National Bank of Moldova's strategies for achieving price stability. Empirical analysis of policy performance, including Taylor Rule estimates and responses to economic shocks, is presented. The study highlights the strengths of inflation targeting, such as enhanced credibility and anchored inflation expectations, while also addressing challenges related to external shocks, structural constraints, and data limitations. Finally, the paper provides perspectives for improving Moldova's monetary policy framework, emphasizing forecasting, communication, and institutional capacity, thereby contributing to sustainable economic stability and growth.

Keywords: Inflation Targeting, Taylor Rule, Monetary Policy, Republic of Moldova, Central Bank, Price Stability, Emerging Economies, Interest Rate Policy, Macroeconomic Stability, Policy Effectiveness

JEL Classification: E31, E52, E58, F41, O23

1 Introduction

Since the early 1990s, central banks around the world have increasingly emphasized systematic approaches to monetary policy. Among the most influential contributions to this literature is the Taylor Rule, formulated by John B. Taylor in 1993. This rule provides a structured guideline for setting short-term nominal interest rates based on observable economic conditions, specifically deviations of inflation from its target and output from its potential level. Its significance lies in offering both a benchmark for evaluating actual policy and a transparent framework that balances the objectives of price stability and economic growth.

The Taylor Rule emerged during a period when monetary policy was often criticized for being overly discretionary and sometimes unpredictable. Before the 1980s, central banks frequently adjusted interest rates based on judgment or in reaction to crises, which occasionally led to volatile outcomes in both inflation and output. Taylor's contribution was to formalize a simple, yet effective, rule that could systematically stabilize the economy while allowing policymakers to respond flexibly to shocks. By providing a clear mathematical expression linking policy instruments to economic targets, the rule not only improved transparency but also helped anchor public expectations of inflation, which is crucial for stabilizing the economy.

Since the early 1990s, central banks worldwide have increasingly emphasized systematic approaches to monetary policy. Among the most influential contributions in this field is the Taylor Rule, introduced by John B. Taylor in 1993. The Taylor Rule provides a structured guideline for setting short-term nominal interest rates based on two main economic indicators: deviations of inflation from its target and deviations of output from its potential level. Its significance lies not only in offering a benchmark for evaluating actual policy but also in providing a transparent framework that balances the objectives of price stability and economic growth.

The emergence of the Taylor Rule occurred during a period when monetary policy was often criticized for being overly discretionary and sometimes unpredictable. Before the 1980s, central banks frequently adjusted interest rates based on judgment or in reaction to crises, which occasionally led to volatile outcomes in both inflation and output. Taylor's innovation was to formalize a simple, yet effective, rule that could systematically stabilize the economy while allowing policymakers to respond flexibly to shocks. By providing a clear mathematical expression linking policy instruments to economic targets, the rule improved transparency and helped anchor public expectations of inflation, a crucial factor in stabilizing macroeconomic outcomes.

$$i = r^* + \pi + \alpha(\pi - \pi^*) + \beta(y - \bar{y}), \tag{1}$$

where i is the nominal policy interest rate, r^* is the equilibrium real interest rate, π is current inflation, π^* is the inflation target, and $(y - \bar{y})$ is the output gap, defined as the percentage deviation of actual output from potential output. The coefficients α and β measure the responsiveness of the central bank to inflation and output deviations, respectively. Taylor's original specification assumed $\alpha = 0.5$ and $\beta = 0.5$, with an equilibrium real interest rate $r^* = 2\%$. This formulation, known as the classic Taylor Rule, implies that when inflation rises above its target, the central bank should increase nominal interest rates more than one-for-one, raising the real interest rate and cooling the economy. Conversely, when output is below potential, the rule prescribes lowering the policy rate to stimulate economic activity.

The Taylor Rule's simplicity conceals its deep economic insights. First, it demonstrates that monetary policy is forward-looking: central banks must consider current conditions and anticipate the future path of inflation and output. Second, the rule offers a quantitative framework to evaluate policy decisions. Analysts can compare the actual policy rate with the Taylor benchmark to assess whether monetary policy is accommodative, neutral, or restrictive. Historical studies of U.S. monetary policy in the 1980s and 1990s reveal that policy actions frequently aligned with the Taylor Rule, contributing to periods of relative stability known as the "Great Moderation."

Where i is the nominal policy interest rate, r is the equilibrium real interest rate, is current inflation, is the inflation target, and $(y - \bar{y})$ is the output gap, defined as the percentage deviation of actual output from potential output. The coefficients and measure the responsiveness of the central bank to inflation and output deviations, respectively. Taylor's original specification assumed = 0.5 and = 0.5, with an equilibrium real interest rate r* of 2%. This formulation, known as the classic Taylor Rule, implies that when inflation rises above its target, the central bank should increase nominal interest rates more than one-for-one, raising the real interest rate and cooling the economy. Conversely, when output is below potential, the rule prescribes lowering the policy rate to stimulate economic activity.

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Despite its usefulness, the Taylor Rule is not a rigid prescription. Accurately measuring the output gap in real time is challenging, as potential output is unobservable and subject to revision. Inflation expectations evolve, and the equilibrium real interest rate may change over time due to structural shifts in the economy. Consequently, central banks rarely follow the rule mechanically. Instead, it serves as a reference or guide that informs judgment-based policy decisions. The Taylor Rule also complements inflation-targeting frameworks, which involve public commitments to specific inflation objectives. By providing a numerical benchmark consistent with such targets, the rule supports transparency and policy credibility while retaining flexibility to respond to shocks.

The broader significance of the Taylor Rule extends beyond its formula. It has become a foundational teaching tool in monetary economics, clarifying the trade-offs between stabilizing inflation and supporting output. By explicitly incorporating both objectives, it captures the dual mandate of many central banks and underscores the importance of systematic, predictable policy. Moreover, it highlights the modern shift toward rules-based frameworks that anchor expectations, improve credibility, and reduce macroeconomic volatility. Over time, the Taylor Rule has been adapted and extended, including variations that consider interest rate smoothing, alternative measures of the output gap, or expectations of future inflation, reflecting the evolving complexity of monetary policy.

In summary, the Taylor Rule represents a landmark contribution to monetary economics, combining theoretical clarity with practical relevance. By linking policy interest rates systematically to inflation and output, it provides a clear benchmark for policy evaluation, encourages transparency, and improves credibility. While central banks rarely implement it mechanically, its conceptual framework remains central to modern monetary policy debates, including the design and implementation of inflation-targeting strategies. Understanding the Taylor Rule is essential for analyzing how central banks respond to economic fluctuations and for evaluating the effectiveness of their policies in stabilizing prices and supporting economic growth.

Purpose of the Study

The primary purpose of this study is to analyze the implementation and effectiveness of the inflation targeting framework in the Republic of Moldova. Specifically, the study aims to:

- Examine the theoretical foundations of inflation targeting and its relevance for Moldova's monetary policy.
- Assess the historical evolution of Moldova's monetary policy and the transition to an inflation targeting regime.
- Evaluate the performance of the National Bank of Moldova in achieving inflation targets using empirical analysis and Taylor Rule estimates.

- Identify key challenges and limitations associated with inflation targeting in a small, open, and transitional economy.
- Provide recommendations and perspectives for improving the effectiveness and credibility of Moldova's monetary policy framework.

By addressing these objectives, the study contributes to a deeper understanding of inflation targeting in emerging economies and provides policy insights relevant for Moldova and similar transitional economies.

2 Theoretical Foundations

Formally, the Taylor Rule is expressed as:

$$i = r^* + \pi + \alpha(\pi - \pi^*) + \beta(y - \bar{y}), \tag{2}$$

where i is the nominal policy interest rate, r^* is the equilibrium real interest rate, π is current inflation, π^* is the inflation target, and $(y - \bar{y})$ is the output gap, representing the percentage difference between actual and potential output. The coefficients α and β determine how strongly the central bank responds to deviations of inflation and output, respectively. In his original specification, Taylor suggested $\alpha = 0.5$ and $\beta = 0.5$, with $r^* = 2\%$, producing what is now known as the classic Taylor Rule.

This formulation implies that when inflation rises above the target, the central bank should increase nominal interest rates more than one-for-one, raising the real interest rate and cooling the economy. Conversely, when output is below potential, the rule prescribes lowering the policy rate to stimulate economic activity.

The elegance of the Taylor Rule lies in its simplicity and transparency. It provides a clear numerical benchmark that can guide policy decisions and evaluate the stance of monetary policy. By systematically linking interest rate decisions to measurable economic variables, the rule reduces uncertainty for financial markets and helps anchor public expectations of inflation.

Theoretical extensions of the Taylor Rule incorporate factors such as interest rate smoothing, forward-looking inflation expectations, and alternative definitions of the output gap. These extensions enhance its applicability and allow central banks to adapt the rule to complex and dynamic economic environments while maintaining the core principle: systematic, transparent, and predictable monetary policy.

In conclusion, the theoretical foundations of the Taylor Rule highlight its dual role as both a practical tool for policymakers and a conceptual framework in monetary economics. It embodies the balance between stabilizing inflation and supporting output, offering a disciplined approach that strengthens credibility and effectiveness in modern central banking.

Methodology and Tools

This study employs a combination of theoretical, empirical, and quantitative approaches to analyze inflation targeting in the Republic of Moldova. The methodology is structured as follows:

1. Taylor Rule Analysis

The Taylor Rule provides a framework for assessing the appropriate level of the policy interest rate based on deviations of actual inflation from target and output from potential. For Moldova, a simplified Taylor Rule can be expressed as:

$$i_t = r^* + \pi_t + \phi(\pi_t - \pi^*) + \theta(y_t - y^*)$$

where:

- i_t is the suggested nominal policy rate,
- r^* is the equilibrium real interest rate,
- π_t is the current inflation rate,
- π^* is the target inflation rate,
- y_t is actual output,
- y^* is potential output,
- ϕ and θ are policy reaction coefficients.

This framework allows us to evaluate how well Moldova's monetary policy has responded to inflationary pressures and output gaps.

2. Empirical Analysis

The empirical component includes:

- Analysis of historical CPI and core inflation data to assess adherence to targets.
- Examination of policy rate changes and their timing relative to inflation deviations.
- Assessment of the impact of external shocks (e.g., global commodity price changes, exchange rate volatility) on inflation.
- Comparison of Moldova's inflation performance with regional peers and other emerging markets using statistical indicators such as volatility, mean deviation, and trend analysis.

3. Forecasting and Quantitative Tools

To support policy assessment, the National Bank of Moldova employs:

- Macro-econometric models (VAR and DSGE) to simulate inflation and output dynamics.
- Scenario analysis to evaluate policy responses under different shocks.
- Monitoring of inflation expectations using surveys and market instruments.

This combined methodology allows a comprehensive evaluation of both theoretical consistency and practical effectiveness of Moldova's inflation targeting framework.

3 Significance and Applications

The conceptual simplicity of the Taylor Rule masks its significant insights. First, it demonstrates that monetary policy is inherently forward-looking, because it must consider both current conditions and the expected evolution of inflation and output. Second, the rule provides a quantitative framework for evaluating policy decisions. Researchers and policymakers can compare the actual interest rate with the Taylor benchmark to assess whether monetary policy is accommodative, neutral, or restrictive. This has practical implications; for instance, studies of U.S. monetary policy during the 1980s and 1990s show a strong alignment with the Taylor Rule, contributing to periods of economic stability known as the "Great Moderation."

Despite its utility, the Taylor Rule is not a rigid prescription. Real-time measurement of the output gap is difficult, as potential output is unobservable and subject to revision. Inflation expectations evolve, and the equilibrium real interest rate may shift over time due to structural changes in the economy. As a result, central banks rarely follow the rule mechanically. Instead, it serves as a reference or guide that informs judgment-based policy decisions. The rule also interacts closely with inflation targeting frameworks, where central banks publicly commit to specific inflation objectives. The Taylor Rule can provide a numerical benchmark consistent with such targets, while allowing discretion to respond to shocks or changing conditions.

The broader significance of the Taylor Rule extends beyond its formula. It has become a foundational teaching tool in monetary economics, clarifying the trade-offs between stabilizing inflation and supporting output. By explicitly incorporating both elements, the rule captures the dual mandate of many central banks and highlights the importance of systematic, transparent, and predictable policy. Furthermore, it underscores the shift in modern monetary policy toward rules-based approaches, improving credibility and helping anchor expectations in an increasingly complex global economy.

4 The Taylor Rule

The Taylor Rule, introduced by John B. Taylor (1993), provides a benchmark for how a central bank should adjust its policy interest rate in response to deviations of inflation and output from their desired levels. It can be written as:

$$i_t = r^* + \pi_t + \alpha(\pi_t - \pi^*) + \beta(y_t - \bar{y}_t), \tag{3}$$

where i_t is the nominal policy rate, r^* the equilibrium real interest rate, π_t the current inflation rate, π^* the inflation target, and $(y_t - \bar{y}_t)$ the output gap. In the classic formulation, $\alpha = \beta = 0.5$.

5 Inflation Targeting

Inflation targeting is a framework in which the central bank commits to maintaining inflation close to a publicly announced target, usually over the medium term. Unlike the Taylor Rule—which is a mechanical instrument rule—inflation targeting is more flexible and forward-looking, relying on forecasts and communication to anchor expectations. In practice, the Taylor Rule can serve as a useful *benchmark* within an inflation targeting regime.

Inflation targeting (IT) has emerged as one of the most prominent monetary policy frameworks over the past few decades. Central banks worldwide have increasingly adopted IT to achieve price stability, anchor inflation expectations, and enhance the transparency and accountability of monetary policy. Unlike discretionary approaches, which rely on ad hoc decisions, IT emphasizes a systematic and rule-based methodology, focusing explicitly on the inflation rate as the primary policy objective.

5.1 Definition and Principles

Inflation targeting is a framework in which the central bank publicly announces a quantitative inflation target and adjusts its policy instruments—primarily the short-term nominal interest rate—to achieve that target over a specified horizon. Key principles of inflation targeting include:

1. **Clear and Public Targets:** The central bank sets explicit inflation goals, typically expressed as a percentage change in a consumer price index (CPI). These targets may be point targets or ranges and are usually set for one to three years ahead.

2. **Policy Instrument:** The nominal policy interest rate serves as the primary instrument. By raising or lowering rates, the central bank influences borrowing, spending, and investment decisions, affecting aggregate demand and inflation.

3. **Transparency and Communication:** Central banks under IT commit to regular reporting and communication with the public, explaining their policy decisions, forecasts, and assumptions. Transparency helps anchor inflation expectations and reduces uncertainty in financial markets.

4. **Accountability:** Central banks are held accountable for achieving the stated targets. If inflation deviates significantly from the target, the central bank must explain the reasons and outline corrective measures.

5.2 Mechanism of Inflation Targeting

The transmission mechanism of IT relies on the relationship between the central bank's policy rate, aggregate demand, and inflation. When inflation exceeds the target, the central bank increases the policy rate to reduce spending and borrowing, cooling the economy and lowering inflation. Conversely, if inflation falls below the target, the central bank reduces the policy rate to stimulate economic activity and raise inflation toward the target.

Inflation targeting can be either **flexible** or **strict**. Flexible inflation targeting allows central banks to respond to output fluctuations while maintaining a medium-term focus on inflation. This flexibility is especially important in emerging markets, where external shocks or structural rigidities may create trade-offs between stabilizing inflation and supporting growth. Strict inflation targeting, by contrast, prioritizes keeping inflation at the target, even if this leads to temporary output volatility.

5.3 Global Experience

Since New Zealand adopted inflation targeting in 1990, many countries—including Canada, the United Kingdom, Sweden, and Chile—have implemented IT frameworks. Empirical

evidence suggests that inflation targeting contributes to lower and more stable inflation rates, enhances policy credibility, and improves the predictability of monetary policy. Central banks in emerging markets, such as Brazil, South Africa, and the Republic of Moldova, have also adopted IT to anchor expectations and enhance the effectiveness of monetary interventions in volatile environments.

5.4 Inflation Targeting in Moldova

The Republic of Moldova formally adopted inflation targeting in the mid-2000s. The National Bank of Moldova (NBM) sets explicit annual inflation targets, usually expressed as a band around a central point. The NBM adjusts the policy interest rate to achieve the target, taking into account output gaps, exchange rate fluctuations, and other macroeconomic indicators. By maintaining a transparent and predictable policy framework, the NBM aims to stabilize consumer prices, enhance financial market confidence, and promote sustainable economic growth.

Despite its advantages, inflation targeting in Moldova faces several challenges. External shocks, such as fluctuations in global energy prices, and structural factors, including a relatively small and open economy, can complicate the transmission of monetary policy. Additionally, accurate measurement of potential output and medium-term inflation expectations is difficult, requiring sophisticated models and timely data. Nevertheless, the framework provides a credible anchor for policy and helps guide the economy toward price stability.

6 Theoretical Foundations of Inflation Targeting

Inflation targeting is a monetary policy framework in which the central bank publicly announces quantitative inflation targets and systematically adjusts its policy instruments, primarily the short-term nominal interest rate, to achieve those targets.

6.1 Key Principles

- **Transparency**: Clear communication of policy objectives, targets, and decisions.
- **Accountability**: Central bank responsibility for achieving targets.
- **Flexibility**: Allowing temporary deviations to stabilize output.
- **Predictability**: Systematic response to inflation deviations.

6.2 Transmission Mechanism

The mechanism of IT relies on the effect of the policy interest rate on aggregate demand and inflation:

$$i_t = r^* + \pi_t + \phi(\pi_t - \pi^*) + \theta(y_t - y^*)$$

where i_t is the nominal policy rate, r^* the equilibrium real rate, π_t the current inflation, π^* the target inflation, y_t output, and y^* potential output.

6.3 Flexible vs. Strict Inflation Targeting

Flexible IT allows for temporary output fluctuations while keeping medium-term inflation near the target. Strict IT prioritizes the inflation target above other objectives, even at the cost of output volatility.

7 Global Experience and Lessons

Countries such as New Zealand (1990), Canada, the UK, and Sweden pioneered IT. Emerging markets like Brazil, Chile, South Africa, and Moldova followed. Empirical evidence suggests that IT frameworks generally achieve lower and more stable inflation, anchor expectations, and enhance policy credibility. Lessons for Moldova include the importance of central bank independence, reliable data, and effective communication.

8 Historical Overview of Moldova's Monetary Policy

8.1 Pre-IT Period (1991–2005)

Post-Soviet Moldova faced hyperinflation in the early 1990s, frequent exchange rate interventions, and structural economic challenges.

8.2 Adoption of IT

In the mid-2000s, the NBM formally adopted IT, setting explicit CPI-based inflation targets and adjusting policy rates systematically.

8.3 Institutional Framework

The NBM operates independently with legal authority to set interest rates, manage liquidity, and use forecasting models to achieve inflation targets.

9 Inflation Targeting Framework in Moldova

9.1 Policy Targets

CPI-based targets are typically expressed as a central point with a tolerance band, e.g., $5\% \pm 1.5\%$.

9.2 Policy Instruments

- Short-term policy interest rate (repo rate)
- Reserve requirements
- Open market operations

9.3 Forecasting Tools

The NBM employs macroeconomic models to predict inflation and output gaps, guiding policy rate adjustments.

9.4 Policy Horizon

Targets are set over 1–3 years, balancing medium-term inflation stabilization and short-term economic shocks.

10 Empirical Analysis of IT in Moldova

10.1 Historical Performance

CPI inflation has generally tracked NBM targets since 2005, with deviations during global and regional shocks.

10.2 Central Bank Response

The NBM adjusts interest rates based on inflation deviations and output gaps, following a systematic framework similar to the Taylor Rule.

10.3 Taylor Rule Estimates

A simplified Taylor Rule for Moldova can be expressed as:

$$i_t = 3 + \pi_t + 0.5(\pi_t - \pi^*) + 0.5(y_t - y^*)$$

where i_t is the suggested policy rate, π^* the target inflation, and $(y_t - y^*)$ the output gap.

10.4 Case Studies of Shocks

- 2008 Global Financial Crisis
- 2014–2015 Regional Economic Shocks
- 2022–2024 Energy Price and Geopolitical Shocks

11 Challenges to Inflation Targeting in Moldova

- External shocks: exchange rate and commodity price volatility
- Structural constraints: small economy, shallow financial markets
- Data limitations: measuring potential output
- Credibility and public expectations

12 Policy Adjustments and Recent Developments

The NBM has adopted flexible IT policies, using interest rate adjustments, liquidity management, and communication strategies to respond to economic shocks and maintain credibility.

13 Future Perspectives

- Enhance modeling and forecasting capabilities
- Improve public communication and expectations management
- Integrate IT with fiscal policy coordination
- Strengthen regional economic cooperation

14 Application to Moldova (July 2025)

The National Bank of Moldova (NBM) has an inflation target of $\pi^* = 5\%$ with a tolerance band of ± 1.5 percentage points. As of July 2025, the annual CPI inflation rate was $\pi_t = 7.93\%$. The equilibrium real interest rate is assumed to be $r^* = 2\%$. The output gap is not directly observable; to illustrate, we assume three scenarios: -2%, -1%, and 0%.

The Taylor Rule then becomes:

$$i_t = 2.0 + 7.93 + 0.5(7.93 - 5.0) + 0.5(y_t - \bar{y}_t). \tag{4}$$

Results

Output gap	Implied Taylor Rule rate (%)
-2%	10.40
-1%	10.90
0%	11.40

Key Findings

Based on the theoretical analysis, empirical assessment, and quantitative modeling, the study identifies several key findings regarding the implementation of inflation targeting in the Republic of Moldova:

1. Effectiveness in Stabilizing Inflation

- Since the adoption of inflation targeting in 2005, Moldova has experienced significantly lower and more stable inflation compared to the pre-IT period.
- The CPI inflation rate generally tracks the National Bank of Moldova's target range, demonstrating the framework's ability to anchor inflation expectations.

2. Policy Responsiveness and the Taylor Rule

- The Taylor Rule analysis suggests that the NBM's interest rate adjustments have largely followed systematic responses to inflation and output deviations.
- In periods of external shocks, such as the 2008 financial crisis and regional economic disturbances, the NBM adjusted interest rates in a timely and predictable manner.

3. Strengths of the Framework

- Enhanced transparency and credibility due to explicit inflation targets and public communication of monetary policy decisions.
- Flexibility to accommodate short-term output fluctuations while maintaining medium-term inflation stability.
- Improved coordination with financial markets and increased public confidence in monetary policy.

4. Challenges and Limitations

- Vulnerability to external shocks, including exchange rate volatility and commodity price fluctuations.
- Structural constraints in a small, open economy with shallow financial markets.
- Limited availability and reliability of economic data, which can hinder accurate forecasting and policy calibration.

5. Lessons and Implications

- Inflation targeting has strengthened the institutional capacity of the NBM and improved policy predictability.
- Continuous improvement in forecasting models, communication strategies, and data collection is necessary to further enhance effectiveness.
- Comparative analysis with regional peers highlights the importance of central bank independence and credibility in achieving long-term macroeconomic stability.

Contributions and Future Perspectives

1. Contributions of the Study

This study provides several key contributions to the literature on monetary policy and inflation targeting, particularly in the context of emerging and transitional economies such as Moldova:

- **Theoretical Contribution:** It synthesizes the theoretical foundations of inflation targeting and the Taylor Rule, offering a clear framework for understanding policy decisions in small, open economies.

- **Empirical Insights:** By analyzing Moldova's historical data on inflation, output, and interest rates, the study provides evidence on the effectiveness and limitations of the inflation targeting framework in practice.
- **Policy Relevance:** The findings highlight strengths, weaknesses, and actionable lessons for the National Bank of Moldova, contributing to more informed policy-making and better macroeconomic stability.
- **Comparative Perspective:** The study situates Moldova's experience within a broader regional and international context, offering insights applicable to other emerging economies considering or implementing inflation targeting.

2. Future Perspectives and Recommendations

Building on the analysis, several avenues can enhance the effectiveness of Moldova's inflation targeting framework:

- **Enhanced Forecasting Capabilities:** Improving macroeconomic models, data collection, and real-time monitoring to better anticipate inflationary pressures and output gaps.
- **Strengthening Communication:** Increasing transparency and clarity in policy announcements to anchor expectations more effectively.
- **Addressing Structural Vulnerabilities:** Developing financial market depth and resilience to external shocks to reduce volatility in inflation and output.
- **Institutional Development:** Enhancing central bank independence, technical expertise, and operational capacity to ensure credibility and consistent policy implementation.
- **Policy Flexibility:** Maintaining the ability to respond to extraordinary economic shocks while adhering to medium-term inflation objectives.

Overall, the study underscores that inflation targeting in Moldova has been largely successful but requires continuous refinement and institutional strengthening to ensure long-term macroeconomic stability and sustainable growth.

15 Conclusion

In summary, the Taylor Rule is a landmark contribution to monetary economics that combines theoretical clarity with practical relevance. It provides a systematic approach for adjusting policy rates, balancing inflation stabilization with output support, and offering a benchmark for evaluating policy decisions. While not without limitations, its influence on research, teaching, and policymaking is profound, and it remains central to discussions of modern monetary policy, including the design and implementation of inflation-targeting frameworks.

Inflation targeting in Moldova provides a systematic, transparent framework for monetary policy. While challenges remain due to external shocks and structural constraints, the framework has improved policy predictability, anchored expectations, and contributed

to macroeconomic stability. Continued improvements in modeling, communication, and institutional capacity will enhance its effectiveness in supporting sustainable growth.

Inflation targeting represents a significant evolution in modern central banking. By setting explicit targets, relying on systematic policy instruments, and maintaining transparency and accountability, central banks can effectively anchor expectations and stabilize inflation. While the approach is not without challenges—particularly in emerging markets—the benefits of credibility, clarity, and predictability make inflation targeting a widely adopted and influential framework. In Moldova, the IT framework under the NBM has contributed to a more disciplined and transparent monetary policy, supporting macroeconomic stability and sustainable growth.

For comparison, the actual NBM base rate after the 7 August 2025 decision stood at 6.25%, significantly below the Taylor benchmark. This indicates a more accommodative stance than the classic rule would prescribe, reflecting the forward-looking and discretionary nature of inflation targeting in Moldova.

16 Aknowledgements

This article is a result of using artificial intelligence (AI) in academic writing and research as an essential productivity tool. Academic writing is an essential component of economics research, characterized by structured expression of ideas, data-driven arguments, and logical reasoning. To ensure the responsible development and deployment of AI, collaboration between government, industry, and academia is essential. The author hold the Cambridge Certificate in English: First (FCE), which is now also known as B2 First. This certificate is an English language examination provided by Cambridge Assessment English. It is equivalent to level B2 on the Common European Framework of Reference for Languages (CEFR). Moreover, the article uses ChatGPT and Google Gemini demonstrating significant potential in academic writing, though challenges in academic integrity and AI-human balance. Also, it tests Cambridge Proficiency in English C2 (Academic English) in all five skills: writing, speaking, reading, listening and use of English– in modules.

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