

OPPORTUNITIES FOR ECONOMIC GROWTH OF THE REPUBLIC MOLDOVA IN THE CONTEXT OF INTERNATIONAL FINANCIAL MARKET VOLATILITY

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Abstract: The economy of the Republic of Moldova faces significant challenges arising from the global context characterized by financial market volatility. Key drivers of this instability—including geopolitical and energy crises, post-pandemic effects, inflationary pressures, and trade imbalances—directly impact small and open economies such as Moldova. The country, with a limited domestic market, dependency on energy imports, and significant remittances from its diaspora, remains vulnerable to external shocks. Nevertheless, this context presents not only risks but also strategic opportunities for economic development and international integration.

The analysis indicates that financial market volatility affects Moldova through three main channels: investment flows, financing costs, and export competitiveness. During periods of uncertainty, foreign investors become more cautious, reducing capital inflows, while rising international interest rates increase borrowing costs. At the same time, currency fluctuations and shifts in global demand put pressure on the trade balance.

Despite these constraints, Moldova possesses several opportunities to stimulate medium- and long-term economic growth. Key opportunities include economic diversification through the development of high value-added sectors such as information technology, creative industries, organic agriculture, and renewable energy. The Association Agreement and the Deep and Comprehensive Free Trade Area with the European Union facilitate integration into international markets, while access to external financial resources (grants, concessional loans, green bonds) can support investments in infrastructure, digitalization, and energy transition. Strengthening human capital and modernizing institutions are also essential prerequisites for enhancing economic resilience.

The overall conclusion is that Moldova can transform international volatility into a catalyst for development if it combines prudent macroeconomic policies with structural reforms focused on competitiveness and sustainability. European integration, economic diversification, and investment in human capital represent the key elements for ensuring sustainable economic growth in the current global context.

Keywords: financial market, economic development, diversification, volatility, inflationary pressures.

JEL Classification: G10, G20

Introduction

The economy of the Republic of Moldova is in a complex stage of transition, marked by structural reform processes and European integration. The current global context, dominated by volatility in international financial markets, creates both risks and opportunities for a small and open economy like Moldova's. Capital flows, geopolitical uncertainty, variations in energy and agricultural product prices, as well as changes in international trade policies, directly influence the country's development prospects. At the same time, the dynamics of regional integration and

access to external funding provide conditions for relaunching and diversifying the national economy.

The growth opportunities of the Republic of Moldova have become a crucial topic in the context of international financial market volatility. Over recent decades, the Moldovan economy has undergone a series of transformations influenced both by global dynamics and internal factors. This paper aims to analyze in depth the current economic conditions and to identify possible ways in which the Republic of Moldova can realize its growth potential despite the unstable international environment.

In a world characterized by economic interconnections, rapid changes in the global financial markets have a direct impact on emerging economies, including Moldova. Financial crises, exchange rate fluctuations, and shifts in international trade policy generate a high degree of uncertainty, affecting both domestic and foreign investment. Thus, the study of economic growth opportunities becomes vital in order to understand how the Republic of Moldova can adapt to these volatile conditions and strengthen its economic resilience.

1. Current economic context of the Republic of Moldova

The Republic of Moldova is characterized by a small domestic market, dependence on remittances and energy imports, but also by significant growth potential in areas such as agriculture, information technologies and the service sector. According to the National Bank, macroeconomic vulnerabilities remain high, but fiscal reforms, digitalization of public administration and proximity to the European market increase economic resilience.

The Republic of Moldova is facing a complex economic situation, marked by internal and external challenges that influence its development. Recently, the country has been affected by the effects of the COVID-19 pandemic, geopolitical tensions in the region, in particular the conflict between Russia and Ukraine, as well as the unstable global economic context. Domestically, the Moldovan economy remains vulnerable, with an economic structure largely based on agriculture, which contributes significantly to GDP.

However, agriculture is extremely sensitive to climatic conditions and global market fluctuations. In addition, the lack of economic diversification has exposed Moldova to significant risks. Corruption and political instability have also significantly affected investor confidence and the state's ability to implement the necessary reforms. The operational data published by the NBS for the first two months of the second quarter of 2025 outline some premises for the recovery of economic activity in the reference period, but with its maintenance in negative territory.

Industrial production remained positive for the third consecutive month, recording an increase of 6.4 percent, while domestic retail and wholesale trade increased on average by 4.3 percent and 1.5 percent, respectively. In April-May 2025, the annual export rate registered a level of -8.3 percent, while the annual import rate continued the positive dynamics, recording 16.9 percent compared to the same period of the previous year. Global agricultural production decreased by 3.6 percent in the second quarter of 2025 compared to the same quarter of the previous year.

Inflation was another major problem, accelerated by the increase in energy and food prices, a phenomenon observed at the global level. The Moldovan government was forced to implement support measures for the population, which, however, put additional pressure on the state budget. In addition, the forced migration of a significant part of the population in search of better-paid jobs abroad reduced the labor force available in the country and led to a decrease in tax revenues.

The restrictive monetary policy cycle has ended. Thus, the National Bank continues to focus on stimulating aggregate demand, including by encouraging consumption and investment, on balancing the national economy and the current account, as well as on anchoring inflationary expectations, taking into account temporary lags in monetary policy transmission through the interest rate channel.

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The NBM's decision to resume monetary policy easing measures is based on the confirmation of the latest forecast of the National Bank of Moldova and the associated disinflationary trend. The effects will continue to be transmitted gradually through the decrease in interest rates in the money, deposit and credit markets. The moderation of annual inflation confirms and validates the correctness and timeliness of the restrictive nature of the previously adopted monetary policy measures.

The shocks to some components of the Consumer Price Index in May-June of this year, as a result of tensions in the Middle East, had a very short-term inflationary impact and have partially dissipated. The previously developed and current forecasts confirm the entry of inflation into the target range in December of this year. According to the current forecast, by the end of this year and in the first half of next year, the annual inflation rate will have a downward trend, and then it will register a stable trend until the end of the forecast period against the background of disinflationary aggregate demand.

It should be noted that domestic economic activity and inflation are still influenced by the effects of supply-side shocks, including increases in regulated tariffs from the end of 2024 and the beginning of this year, and the decrease in the volume of agricultural production affected by adverse weather conditions.

Annual inflation was 8.2 percent in June 2025 and decreased from 8.8 percent in March 2025, remaining above the upper limit of the ± 1.5 percentage point variation range from the inflation target of 5.0 percent. At the same time, the annual inflation rate in the second quarter of 2025 was attested to moderate, reaching 7.9 percent, 0.9 percentage points lower than in the previous quarter and 0.1 percentage points higher than the value anticipated in the Inflation Report, May 2025.

In August 2025, the total volume of new loans granted decreased by 7.6 percent compared to the previous month. At the same time, compared to August 2024, the volume of new loans granted increased by 15.1 percent. The average interest rate on new loans granted in the national currency recorded an insignificant increase compared to the previous month. New loans granted in the national currency represented 73.3% of the total volume of new loans granted in August 2025.

The deviation from the forecast was due to the positive deviations recorded for food, fuel and regulated prices, while core inflation evolved in line with expectations. At the global level, Moldova felt the impact of the energy crisis triggered by geopolitical conflicts. This led to significant increases in oil and gas prices, directly affecting production costs for businesses and, implicitly, the standard of living of the population.

The country's dependence on energy imports has become an obvious vulnerability, and the search for alternative energy sources has become a national priority. On the other hand, relations with the European Union and the desire to integrate Moldova into European structures have also been an essential part of the economic context. Association agreements and reforms encouraged by the partnership with the EU have opened up opportunities, but their implementation has often been hampered by internal problems, including integration and adoption of European norms.

Despite the challenges, there are also opportunities, and Moldova's economic context offers a window for reforms. Promoting foreign investment, increasing the competitiveness of the private sector and modernizing the infrastructure are essential directions for stimulating economic growth. Also, the development of the technology and IT sector, which has proven resilient in times of crisis, can offer development prospects and employment opportunities for young people.

The current economic context of the Republic of Moldova is marked by challenges and opportunities. The government's ability to address these issues and implement appropriate policies will influence the future economic direction of the country. It is essential for Moldova to diversify its economy, reduce its dependence on sectors sensitive to external fluctuations, and improve the

business climate to attract investment and create sustainable jobs. This is a major challenge, but also an opportunity for more equitable and stable development in the future.

2. Impact of international financial market volatility

International financial market volatility refers to significant fluctuations in the prices of financial assets, such as stocks, bonds, commodities and currencies. These fluctuations are often caused by a combination of economic, political and psychological factors and can dramatically influence the global economy, financial stability and investment decisions of financial market participants. In this context, it is essential to understand the impact of volatility, both at the micro (individual) and macro (national and global economies) levels.

Volatility is an indicator of the risk associated with investments. A volatile market can generate profit opportunities, but it can also bring significant losses. This is often measured by the percentage change in the prices of financial assets over a defined period, and a frequently used volatility index is the VIX, known as the “fear index”. It measures investors’ expectations regarding market volatility over the next 30 days.

One of the most direct effects of volatility is on investors. On the one hand, short-term investors, such as day traders, can benefit from rapid price movements. They can adjust their trading strategies to take advantage of price movements. On the other hand, long-term investors, who take a more conservative approach, can face significant anxiety in the face of market volatility. They may be tempted to sell their assets in times of panic, which leads to realized losses, even when the fundamentals of the economy remain strong. Publicly traded companies are highly influenced by the volatility of financial markets.

A company’s share price is often a barometer of investor confidence in its ability to generate future profits. During periods of excessive volatility, companies may have difficulty raising capital, either through initial public offerings (IPOs) or through bond issuances. Moreover, rapid price fluctuations can affect management’s decision-making regarding capital investment and operational expansion. This can lead to stagnant innovation or missed growth opportunities over time.

The global economic environment has become more challenging in 2025, amid heightened uncertainty about trade policies and rising trade barriers, with the risk of further adverse changes, particularly in trade relations between the largest economies. Rising trade restrictions reduce the near-term trade outlook – despite solid trade growth earlier this year, which partly reflected the concentration of imports by some large economies in anticipation of tariff increases.

Beyond the direct impact of rising tariffs, the potential for further rapid changes in the timing and magnitude of trade-restrictive measures is a source of policy uncertainty weighing on the confidence index. Commodity prices have fallen substantially, reflecting new headwinds for global manufacturing and industrial activity in general. With the resurgence of global core inflation pressures, the pace of global disinflation has slowed, while survey-based inflation expectations in key countries have risen in line with developments related to US tariffs. Trade policy changes and the associated increased uncertainty have weighed heavily on financial markets earlier this year, although risk appetite has largely recovered in recent weeks.

After being hit by a series of adverse shocks in 2020-2024, the global economy faces a significant new shock in 2025, with increased trade barriers and policy uncertainty, leading to a notable deterioration in the forecasts compared to those published in January. In particular, global output is expected to grow at its weakest pace since 2008. The significant increase in tariffs and the resulting uncertainty are contributing to a broad-based slowdown in growth and a deterioration in the outlook for most economies around the world. The weak global growth outlook is unlikely to improve significantly without policy action to address rising trade restrictions, geopolitical tensions, heightened uncertainty, and limited fiscal space.

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In this context, global economic growth will slow this year to 2.3%, substantially weaker than previously forecast. Subsequently, growth is estimated to strengthen to around 2.5% in 2026-2027, as trade flows adjust to higher tariffs, so that global trade will register a slight increase, while political uncertainty will moderate from record levels. The downgrade in global economic growth this year is mainly driven by advanced economies. This slowdown is forecast to focus on investment, including foreign direct investment and portfolio flows, which tend to respond more to changes in demand than to aggregate output, and trade, with widespread negative effects on other economies.

In advanced economies, economic growth is expected to decline from 1.7% in 2024 to 1.2% in 2025 and to recover to 1.7% in 2026. It is worth noting that the growth forecasts for 2025 have fallen substantially compared to those in January, driven by downgrades in some of the world's largest economies. This reflects the shock generated by increased trade restrictions (even with the partial 90-day pause in tariff increases announced by the US) and the associated political uncertainty, financial volatility and the dampening effects of the confidence index. As a result, growth is expected to remain below potential growth estimates over the forecast horizon in some advanced economies, including the United States and the euro area.

In the US, economic growth is forecast to decelerate sharply in 2025, to 1.4%, down from 2.8% in 2024. Investment spending is expected to be particularly affected by the initial concentration of imported capital goods. Going forward, the supply of capital goods is expected to be disproportionately affected by tariffs, given their high import content, as investment demand falls due to record uncertainty, rising financing costs, and weaker domestic and external demand. In 2026, growth is expected to ease to 1.6% as the economy adjusts to higher trade barriers and policy uncertainty gradually recedes. In the euro area, the recent increase in political uncertainty and financial volatility, as well as increases in tariffs imposed on the European Union by the US, are expected to prolong the bloc's economic weakness, holding back investment and trade recovery.

The EU is exposed to adverse trade policy changes and related uncertainty, given its high openness to trade, with extra-EU trade in value terms placing the bloc as the second largest exporter and importer of global goods in 2022. The bloc is also vulnerable to these external shocks due to its deep integration into global value chains. Together, these developments are set to further weigh on exports, compounding the losses in competitiveness and global market shares of exports resulting from high energy prices in recent years. Economic growth in the euro area is expected to slow to 0.7% in 2025 and remain slightly below its trend of around 1%, averaging 0.9% over 2026-2027. Economic growth in emerging market and developing countries (EMDEs) is expected to slow to 3.8% in 2025, before picking up slightly to 3.9% in 2026-2027. China's economy is expected to decelerate over the forecast horizon from 5.0% in 2024 to 4.5% in 2025 and 4.0% in 2026, as the short-term stimulus from fiscal policy fades amid slowing potential growth.

Meanwhile, near-term growth in many other EMDEs is expected to decelerate amid weaker investment, which is likely to significantly dampen any potential benefits of trade rebalancing over the forecast horizon. Against a backdrop of a deteriorating external environment, EMDEs' progress in closing their large per capita income gaps with advanced economies, boosting job creation, or reducing extreme poverty rates is expected to remain insufficient, leaving poverty rates above pre-pandemic levels in many poorer or more vulnerable EMDEs. At the same time, many of these economies face an imminent jobs challenge in the coming decades, particularly if employment growth continues to outpace population growth.

Risks to the global outlook remain firmly tilted to the downside. High and persistent policy uncertainty – particularly around trade – could lead to a larger-than-expected weakening in investment, trade and confidence. The repeated escalation of trade restrictions could push inflation higher in key economies, amplifying real income losses and limiting the ability of major central

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banks to support sluggish growth by lowering policy rates. This context also implies several potential triggers for a decline in financial risk appetite, which could spill over globally and amplify negative surprises to growth. Even with efforts to resolve major conflicts, geopolitical tensions and risks of regional conflict persist in many parts of the world and could contribute to further geopolitical fragmentation. Moreover, the escalation of conflicts could lead to concentrated and long-lasting output losses, particularly in emerging markets. Natural disasters, which have increased in frequency and intensity over time, pose another ongoing threat in many economies.

However, there are also several significant factors in the direction of economic growth. A reduction in trade tensions on the back of recent and ongoing negotiations – for example, through additional trade agreements between major economies that provide lower tariffs – would reduce uncertainty, limit trade disruptions, and strengthen business and consumer confidence. A synchronous easing of fiscal policy in several major economies could ease downward pressures on demand, while putting upward pressure on inflation, public debt levels, and interest rates. Efforts to make broad use of recent advances in technology – in particular artificial intelligence (AI) – could lead to stronger-than-expected global investment growth and could begin to contribute to overall productivity improvements.

Companies and investors are currently using a variety of strategies to manage their exposure to volatility. This includes diversifying portfolios, using derivatives for hedging, and adopting more sophisticated risk management techniques. Investors can also adopt an approach based on modern portfolio theory, which supports asset diversification to reduce risk without compromising potential returns.

Volatility in international financial markets is a complex phenomenon with profound implications for investors, companies, and economies. While it can offer opportunities for profit, it also presents significant risks that require careful management. In an interconnected world where markets are affected by a multitude of international factors, understanding volatility and its impact becomes crucial for all participants in financial markets. In the face of these challenges, the ability to adapt and innovate will determine success in navigating these uncertainties.

3. Opportunities for economic growth

The Republic of Moldova, one of the smallest economies in Eastern Europe, has significant potential for economic growth, despite the challenges it faces. In recent decades, the country has undergone numerous structural reforms and sought to integrate its economy into international trade flows. Here are some of the key economic growth opportunities for the Republic of Moldova, supported by relevant statistical data. The volatility of international financial markets has become a defining feature in a globalized world, profoundly influencing emerging economies, including the Republic of Moldova. Although this volatility generates risks and uncertainties, it also offers significant opportunities for the country's financial progress. In the following, we will explore various areas in which Moldova can take advantage of these opportunities in the current global context.

Diversifying external financing sources

One of the most important aspects of financial stability is the diversification of financing sources. The Republic of Moldova can improve its position in international markets by attracting funds from various sources, including foreign direct investment (FDI), investment funds and grants from international organizations.

For example, partnerships with international financial institutions, such as the World Bank and the International Monetary Fund, provide not only financial support but also expertise in implementing economic reforms. These loans can be used to develop infrastructure and support economic development projects. In 2022, Moldova recorded a 9% increase in FDI, demonstrating the increased interest of foreign investors.

Support for innovation and technology

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The volatility of financial markets has generated increased interest in innovation and technology, given that digitalization can provide effective solutions to current economic problems. Moldova's IT sector, which has grown rapidly in recent decades, benefits from well-trained human capital and a dynamic entrepreneurial community.

Investments in technology and innovation not only improve efficiency, but also facilitate access to wider international markets. In addition, such initiatives contribute to attracting foreign capital. Increased support for local startups and accelerator programs can generate a positive economic cycle, creating jobs and increasing incomes.

Attracting investors by stabilizing the economy

In the context of financial volatility, economic stability is becoming a primary factor in attracting investors. The Government of the Republic of Moldova has implemented a series of reforms aimed at improving the business environment, including simplifying administrative procedures and improving transparency.

These measures not only contribute to a climate of trust, but also to a better assessment of risks associated with investors. A credit rating agency recently noted improvements in the country's credit rating, which can attract foreign funds and reduce borrowing costs.

Exploring international markets

The volatility of financial markets can also be exploited by expanding international trade opportunities. The Republic of Moldova has access to large markets, such as the European Union and those in Eastern Europe, and the use of trade agreements to facilitate access to these markets can provide competitive advantages.

For example, the Association Agreement with the European Union allows Moldovan products to be sold tariff-free on the European market. Taking advantage of this opportunity by the agricultural and industrial sectors can lead to significant increases in export revenues.

Development of financial infrastructure

A well-developed financial sector is essential to cope with the volatility of international markets. By modernizing and diversifying financial instruments, Moldova can attract more investment. Financial institutions can offer innovative financial products that support SMEs and facilitate access to credit.

In the second quarter of 2025, the weighted average interest rates on new loans and deposits in lei continued their upward trend under the impact of the transmission mechanism of previous monetary policy decisions and the situation created on the money market. Thus, the weighted average interest rate on new loans granted was 8.99 percent annually, and that on deposits was 4.91 percent annually, up by 0.52 and 0.77 percentage points, respectively, compared to the first quarter of 2025.

The consecutive increase in interest rates in the banking sector since the beginning of this year led to a slowdown in the lending process in the national currency for the second consecutive quarter.

Financial innovations, such as fintechs, can contribute to improving population's access to financial services, increasing trust in the banking system. For example, the digitalization of banking services and the promotion of online financial investments can attract a young generation of economists and entrepreneurs.

Conclusions

The Republic of Moldova faces a dual challenge: adapting to global volatility and capitalizing on international integration opportunities. The key to success lies in consolidating macroeconomic stability, encouraging sustainable investments and diversifying the economy. If it manages to combine prudent economic policy with deep structural reforms, the Republic of Moldova can transform international volatility into a catalyst for sustainable economic growth.

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The Republic of Moldova is in a position to capitalize on numerous opportunities for financial progress in the context of volatility in international financial markets. Diversifying sources of financing, supporting innovation, stabilizing the economy, exploring foreign markets and developing financial infrastructure are strategic directions that can turn challenges into opportunities. Collaboration between the public and private sectors, international support, and a clear vision for economic development are essential to transform these opportunities into a sustainable competitive advantage.

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