


New challenges in monetary policy under economic instability


Mardoyan Ashot V.

*PhD in Economics, Associate Professor,
Head of the Chair of Financial Markets and Institutions,
Armenian State University of Economics (Yerevan, RA)*

 <https://orcid.org/0000-0001-7304-5267>
ashot.mardoyan80@gmail.com

Sargsyan Hayk A.

*PhD in Economics, Lecturer
Armenian State University of Economics (Yerevan, RA)*

 <https://orcid.org/0000-0002-1720-4603>
sargsyan007@gmail.com

UDC: 338.2; **EDN:** PBAWRS; **JEL:** E31, E52, E58, G01

DOI: 10.58587/18292437-2025.4-204

Keywords & phrases: Monetary policy, inflation, financial stability, systemic risk, fiscal coordination, macroprudential regulation, global economy

Դրամավարկային քաղաքականության նոր մարտահրավերները տնտեսական անկայունության պայմաններում

Մարդոյան Աշոտ Վ.

*Տնտեսագիտության թեկնածու, դոցենտ, Ֆինանսական շուկաներ և ինստիտուտներ ամբիոնի վարիչ
Հայաստանի պետական տնտեսագիտական համալսարան (Երևան, ՀՀ)*

Սարգսյան Հայկ Ա.

*Տնտեսագիտության թեկնածու, դասախոս,
Հայաստանի պետական տնտեսագիտական համալսարան (Երևան, ՀՀ)*

Անփոփոխ. Ցածր գնաճի երկարատև շրջանից հետո գլոբալ տնտեսությունն այսօր բախվում է նոր գնաճային ճնշումներին և խորացող ֆինանսական անորոշությունների: 2008 թ. ֆինանսական ճգնաժամից հետո կիրառված՝ հիմնականում մեղմեցման և գնաճի թիրախավորման վրա հիմնված դրամավարկային քաղաքականության շրջանակներն իրենց կառուցվածքային սահմանափակումներն են դրսևորում՝ պայմանավորված աճող պարտքային բեռներով, գլոբալ մատակարարման խաթարումներով և պետական ֆինանսավորման միջամտության ընդլայնմամբ: Սույն հոդվածքում քննարկվում է գործող դրամավարկային մոտեցումները՝ առաջարկելով բազմաչափ քաղաքականության մոդել, որը միավորում է գնաճի վերահսկումը, ֆինանսական կայունությունն ու մակրոքառավարական վերահսկողությունը: Եվրոպական կենտրոնական բանկի կառուցվածքային քվանտիլային վեկտորային ավտոռեգրեսիոն (SVAR) մոդելի և համակարգային ռիսկի հիմնական ցուցանիշների (CISS, STLFSI) վրա հիմնված վերլուծությունը ցույց է տալիս, որ տոկոսադրույքների կտրուկ բարձրացումները խորացնում են ֆինանսական լարվածությունն ու ռեալ ՀՆԱ-ի անկման ռիսկերը: Արժույթի միջազգային հիմնադրամի 2025 թ. «Գլոբալ ֆինանսական կայունության հաշվետվությունը» մատնանշում է, որ աշխարհաքաղաքական լարվածության աճը և ակտիվների վերագնահատումը հանգեցրել են ֆինանսական պայմանների խստացման՝ սահմանափակելով դրամավարկային քաղաքականության գործիքակազմը: Այս համատեքստում, հոդվածը քննության է առնում կենտրոնական բանկերի անկախության ավանդական ընկալումը՝ ընդգծելով դրամավարկային և հարկաբյուջետային քաղաքականությունների միջև արդյունավետ համակարգման անհրաժեշտությունը: Հետազոտության հիմնական նպատակը ֆինանսական անկայունության գործոնի ինտեգրումն է կանխատեսային դրամավարկային մոդելներում՝ թույլ տալով կենտրոնական բանկերին ավելի հավասարակշռված կառավարել գնաճի զսպման և ֆինանսական կայունության պահպանման փոխադարձ ազդեցությունները: Հոդվածում առաջարկվում է կանխարգելիչ և ռիսկերին զգայուն քաղաքականություն, որի նպատակն է ամրապնդել տնտեսական դիմացկունությունը և վերահաստատել կենտրոնական բանկերի վստահելիությունը՝ երկուսն էլ կարևոր նախապայման հանդիսանալով արդյունավետ դրամավարկային քաղաքականություն վարելու և մակրոֆինանսական կայունությունը պահպանելու համար՝ անորոշություններով լեցուն գլոբալ միջավայրում:

Հանգուցաբառեր և բառակապակցություններ՝ դրամավարկային քաղաքականություն, գնաճ, ֆինանսական կայունություն, համակարգային ռիսկ, հարկաբյուջետային համակարգում, մակրոարդյունաբերական կարգավորում, գլոբալ տնտեսություն

Новые вызовы денежно-кредитной политике в условиях экономической нестабильности

Мардоян Аиот В.

*Кандидат экономических наук, доцент
Заведующий кафедрой финансовых рынков и институтов
Армянский государственный экономический университет (Ереван, РА)*

Саргсян Айк А.

*Кандидат экономических наук, преподаватель
Армянский государственный экономический университет (Ереван, РА)*

Аннотация. После продолжительного периода низкой инфляции мировая экономика сталкивается с новыми инфляционными давлениями и нарастающей финансовой нестабильностью. Денежно-кредитные рамки, применявшиеся после глобального финансового кризиса 2008 года – в основном основанные на мягкой политике и таргетировании инфляции – демонстрируют структурные ограничения в условиях растущей долговой нагрузки, сбоев в глобальных цепочках поставок и расширения роли государственного финансирования. В данной статье рассматриваются существующие подходы к монетарной политике и предлагается многомерная модель, интегрирующая контроль инфляции, обеспечение финансовой стабильности и макропруденциальный надзор. Анализ, основанный на структурной квантильной векторной авторегрессии (SVAR) Европейского центрального банка и ключевых индикаторах системного риска (CISS, STLFSI), показывает, что резкое повышение процентных ставок усиливает финансовое напряжение и повышает риски снижения реального ВВП.

Согласно отчету Международного валютного фонда о глобальной финансовой стабильности (апрель 2025 г.), рост геополитической напряженности и переоценка активов привели к ужесточению глобальных финансовых условий, что ограничивает пространство для эффективного проведения денежно-кредитной политики. В этом контексте ставится под сомнение традиционное представление о независимости центральных банков в управлении инфляцией и подчеркивается необходимость эффективной координации между монетарной и фискальной политикой. Основная цель исследования – интеграция фактора финансовой нестабильности в прогнозные модели денежно-кредитной политики, что позволит центральным банкам более сбалансированно управлять компромиссами между инфляционными целями и обеспечением финансовой стабильности. В статье предлагается упреждающий и чувствительный к рискам подход, направленный на укрепление экономической устойчивости и восстановление доверия к центральным банкам – оба фактора являются ключевыми условиями эффективной денежно-кредитной политики и сохранения макрофинансовой стабильности в условиях усиливающейся глобальной неопределенности.

Ключевые слова и словосочетания: денежно-кредитная политика, инфляция, финансовая стабильность, системный риск, фискальная координация, макропруденциальное регулирование, глобальная экономика

Introduction. Following several decades of relative price stability, the global economy is now contending with a resurgence of inflationary pressures, accompanied by mounting financial vulnerabilities. These developments unfold amid persistently high levels of public and private debt, ongoing disruptions in global supply chains, and expansive fiscal interventions. The monetary policy frameworks devised in the aftermath of the 2008 Global Financial Crisis - primarily centered on accommodative measures and inflation targeting - have revealed significant limitations in confronting these multifaceted challenges. Central banks today face the complex dual mandate of mitigating inflation while safeguarding financial stability. Notably, aggressive interest rate increases, while aimed at price containment, have simultaneously elevated debt servicing burdens and heightened financial market volatility. This evolving macro-financial landscape necessitates a fundamental reevaluation of conventional monetary policy paradigms. The longstanding emphasis on central bank independence, though historically foundational, now appears insufficient in the face of interconnected global shocks and rising systemic risk. Instead, there is a growing imperative for a

more flexible, anticipatory, and multidimensional policy framework—one that not only maintains inflation discipline but also fortifies financial system resilience. This paper proposes a novel approach to monetary policy, integrating inflation management with macroprudential regulation and fiscal coordination. Through the incorporation of proactive oversight mechanisms and forward-looking strategies, the proposed framework aims to enhance central banks' capacity to respond adaptively to emerging risks. Emphasizing policy coordination across institutional boundaries, this approach seeks to strike a deliberate balance between price stability and financial robustness, thereby strengthening the foundations for sustained macroeconomic resilience in an increasingly volatile global environment.

Research methodology. This study adopts a mixed-methods research design that combines rigorous empirical investigation with a robust theoretical framework, aimed at reassessing the efficacy of contemporary monetary policy in the context of heightened economic uncertainty. The methodology is structured around three principal components: (1) quantitative econometric analysis to identify structural relationships and dynamic interactions; (2) empirical evaluation using key

financial and macroeconomic indicators; and (3) the construction of a comprehensive theoretical framework to inform and guide policy formulation.

Quantitative Analysis. The empirical core of this research relies on advanced econometric modeling, specifically the Structural Quantile Vector Autoregression (QVAR) model. This model facilitates an in-depth examination of the dynamic interactions among key macro-financial variables—such as real GDP growth, inflation, short-term interest rates, and systemic financial stress indicators—across different quantiles of their conditional distributions. By accounting for heterogeneous responses, the QVAR model captures asymmetric policy effects, particularly during episodes of financial distress or macroeconomic turbulence, thereby offering a granular understanding of monetary transmission mechanisms.

Empirical Data Assessment. The study draws upon a range of high-frequency financial stress indicators to evaluate the systemic implications of monetary policy interventions. Chief among these are the Composite Indicator of Systemic Stress (CISS) and the St. Louis Fed Financial Stress Index (STLFSI4), both of which provide robust proxies for real-time financial stability assessments. Additionally, the empirical analysis leverages data from the European Central Bank's Structural QVAR framework, which offers critical insights into the Eurozone's policy dynamics. This dataset is employed to quantify the macroeconomic consequences of abrupt interest rate adjustments, with a focus on their spillover effects on systemic risk and real sector activity.

Theoretical Framework. The theoretical dimension of this study introduces an integrated framework that bridges monetary policy instruments, fiscal policy dynamics, and macroprudential oversight. This framework challenges the traditional doctrine of central bank independence by advocating for greater inter-institutional coordination. Central to the model is the explicit incorporation of financial stability as a core policy objective, alongside inflation control. By embedding financial fragility considerations into the monetary policy decision-making process, this approach enhances the strategic coherence and responsiveness of central banks in managing dual mandates under complex economic conditions. In sum, the research methodology combines empirical rigor, data-driven insights, and theoretical innovation to develop a forward-compatible, resilience-oriented monetary policy framework capable of addressing the systemic challenges of a rapidly evolving global economy.

Literature review. In addressing the complexities of the contemporary global financial land-

scape, the Federal Reserve is confronted with the so-called financial trilemma, a concept that posits the impossibility of simultaneously achieving three key objectives: a fixed exchange rate, an independent monetary policy, and full capital mobility [16]. This trilemma underscores the inherent trade-offs and strategic dilemmas that central banks must navigate in an increasingly interconnected and dynamic global economy. The Federal Reserve's policy framework, which emphasizes the primacy of maintaining an independent monetary policy and facilitating capital mobility while permitting a floating exchange rate, reflects its primary goal of preserving domestic economic stability while remaining responsive to external financial dynamics [26]. Furthermore, the accelerating pace of financial innovation and the unpredictability of economic shocks necessitate a reconsideration of conventional monetary policy tools and paradigms. In this context, the Federal Reserve's employment of interest rate adjustments and quantitative easing represents a sophisticated, flexible approach aimed at mitigating economic volatility and ensuring long-term macroeconomic stability.

According to Mendicino, Nikolov, Suarez, and Supera [21], the macroeconomic effects of higher capital requirements critically depend on monetary policy. When interest rates approach the lower bound, the policy loses its stabilizing power, increasing short-run costs. Fragile banking systems, however, benefit more from such regulation, justifying stricter capital rules.

Chang Ma examined how macroprudential policy affects financial stability and economic growth in a small open economy with endogenous growth. The model shows that financial crises have persistent output effects. While macroprudential policy stabilizes the economy by reducing the probability of a crisis, it imposes a modest trade-off in average growth [20].

Bruno, Shim, and Shin [6, pp. 183-202] conduct an empirical cross-country analysis assessing the impact of macroprudential policies on credit expansion and systemic vulnerabilities. Utilizing a broad panel dataset and robust econometric techniques, the authors find that more stringent macroprudential regulation significantly curbs credit growth and mitigates systemic financial risk. These results underscore the critical role of well-calibrated regulatory instruments in preserving macro-financial stability across diverse economic environments.

Cerutti, Claessens, and Laeven (2017) present a thorough empirical investigation into the deployment and performance of macroprudential instruments, analyzing data from 119 advanced and

emerging market economies over the 2000–2013 period. Their cross-country approach offers valuable insights into the patterns and relative success of these policy tools across diverse economic contexts. Utilizing a novel IMF survey dataset, they classify policies into borrower- and lender-based tools and examine their impact on credit and housing markets. The study finds that macroprudential measures—particularly borrower-based tools such as loan-to-value and debt-to-income limits— are effective in moderating credit growth, especially in emerging markets. However, their effectiveness diminishes in financially open and developed economies due to policy circumvention [10, pp. 203-224].

Ling Wang (2023) investigates how large banks in Japan and the U.S. adjust their holdings of risky securities in response to central bank asset purchase programs during periods of unconventional monetary policy. By employing both macro- and micro-level data, the study provides novel evidence on the risk-taking and portfolio-rebalancing channels of monetary transmission. The paper reveals contrasting behaviors: Japanese banks increase, while U.S. banks reduce, their risky asset holdings under such policies. It further shows that profitability incentives play a key role in these adjustments, offering new insights into the nexus between monetary policy and bank portfolio strategy [24, pp. 363-384].

Akkaya, Bitter, Brand, and Fonseca (2024) propose an innovative statistical method to uncover key facets of European Central Bank monetary policy by analyzing asset price reactions to policy announcements. Utilizing Varimax rotation to account for excess kurtosis in the distributions of asset returns, the study distinguishes separate policy components, including interest rate targets, forward guidance, and quantitative easing measures. The results highlight the increasing significance of risk-taking behavior in the transmission of monetary policy, especially during episodes marked by heightened sovereign risk and economic uncertainty [1].

Amiti et al. (2023) analyze U.S. inflation surges using a two-sector DSGE model, finding that supply chain disruptions and labor supply shocks jointly amplified inflation by about 2 percentage points in 2021–22. Their findings underscore the differing policy effectiveness depending on inflation's underlying drivers [2].

Ampudia, Ehrmann, and Strasser (2023) analyze how monetary policy influences inflation differently across income groups in the six largest euro area countries. Their study draws on two datasets: one broad but low-frequency, and another high-frequency dataset focused on food and beverages. The findings reveal that inflation responsiveness varies by income level. High-income households tend to show lower inflation sensitivity due to their distinct consumption composition, yet also display stronger reactions attributed to more flexible shopping habits. These contrasting effects suggest that previous estimates may have overestimated the overall impact of monetary policy on inflation, highlighting the necessity for further investigation to better understand inflation as a distributional channel in monetary transmission [3].

Analysis. This study explores how advanced economies and emerging market economies have addressed the financial challenges that arose after the 2008 global financial crisis through the use of a combination of monetary policy, macroprudential regulation, and foreign exchange interventions. It underscores the relative success of emerging market economies in employing a diverse set of instruments, including measures aimed at managing capital flows, to buffer their economies against external shocks such as capital flow volatility. The analysis finds that adopting integrated policy strategies has contributed to greater economic resilience and more favorable policy trade-offs in these countries. However, the establishment of a comprehensive and coherent macro-financial stability framework remains an ongoing endeavor, with unresolved issues related to the understanding and management of international spillover and feedback effects, as noted by Basu and colleagues in their 2024 study [5].

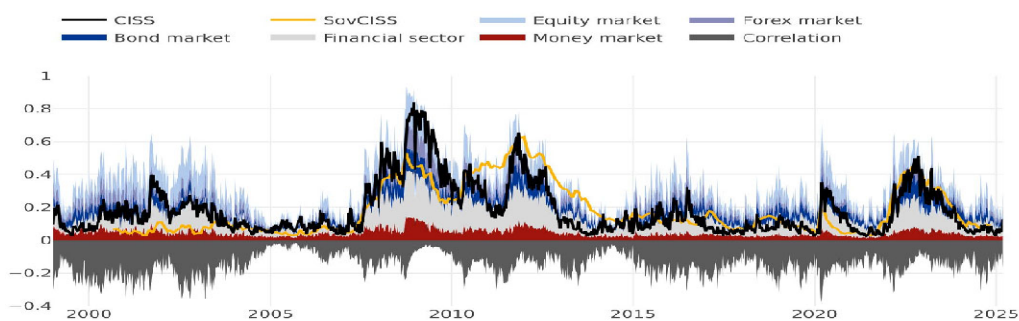


Figure 1. Composite indicator of systemic stress (Euro area; indicator), 2000-2025
Source: LSEG, ECB and ECB calculations

The Composite Indicator of Systemic Stress, developed by Holló, Kremer, and Lo Duca (2012), is a unit-free metric ranging from 0 to 1, constructed to measure the intensity of systemic stress within the euro area's financial system. It aggregates data from five critical segments of the financial market—money markets, bond markets, equity markets, financial intermediaries, and foreign exchange markets—while incorporating time-varying correlations among these segments to account for inter-market interconnectedness, particularly relevant during episodes of financial distress. This multidimensional structure enhances the precision and responsiveness of systemic risk monitoring, offering a comprehensive tool for real-time macroprudential surveillance [17]. Embedded within the European Systemic Risk Board's broader risk dashboard, the CISS serves as a key indicator for tracking fluctuations in financial stability. However, it is explicitly not intended to function as an early-warning mechanism. The accompanying methodological guidance stresses the importance of contextual interpretation, warning against the mechanical use of such indicators in policymaking.

Expanding upon the original CISS methodology, Garcia-de-Andoain and Kremer (2017) developed the Sovereign Composite Indicator of Systemic Stress, tailored to capture stress conditions specifically in sovereign bond markets. This sovereign-focused variant incorporates sovereign bond yield spreads, measures of market liquidity, and price volatility to provide a more nuanced and comprehensive view of stress in sovereign debt markets—an essential component of financial stability in fiscally integrated regions such as the euro area. Together, these indicators form a critical foundation for the euro area's macroprudential oversight regime [14, pp. 153-156].

In their 2024 Research Bulletin, Chavleishvili, Kremer, and Lund-Thomsen introduce a new analytical framework for examining the complex trade-offs between monetary policy objectives and financial stability concerns. Their analysis employs a Quantile Vector Autoregression model, which allows for the assessment of the dynamic interplay among key macro-financial variables—including real GDP growth, inflation, short-term interest rates, and systemic stress indicators—across the entire conditional distribution. First conceptualized by

Cecchetti and Li (2008, unpublished) [9], the QVAR model was subsequently formalized by White et al. (2015) [25, pp. 169-188] and further refined by Montes-Rojas (2019) [22, pp. 739-752]. This approach captures both the average effects of monetary interventions and the risks associated with extreme outcomes, thus offering a richer understanding of how monetary policy decisions transmit through the financial system.

Within the QVAR framework, systemic vulnerabilities are assessed using two key indicators: the forward-looking Systemic Risk Indicator and the real-time Composite Indicator of Systemic Stress. Their integration enables a detailed analysis of how monetary policy adjustments—either tightening or easing—affect financial stability across different economic contexts. Empirical results indicate that aggressive interest rate hikes, while effective in inflation control, markedly increase systemic financial stress and downside output risks, especially in fragile financial environments. Conversely, gradual tightening reduces financial risks but may prolong inflationary pressures. This highlights the need for a risk-sensitive monetary policy that balances inflation targeting with financial stability preservation.

Figure 2 illustrates forecasted real GDP growth and CISS under three interest rate scenarios. The central GDP projection aligns with the ECB baseline, while the 10th and 90th percentiles reflect downside and upside risks. Front-loaded tightening significantly heightens downside risks to economic activity and systemic stress. These asymmetric tail risks show that tightening beyond market expectations disproportionately raises the probability of systemic disruptions and GDP contraction. Conversely, a more gradual tightening path results in milder financial stress and more contained output risk [11]. These findings collectively support the argument for a more adaptive, forward-looking monetary policy framework—one that integrates financial stability as a central objective, rather than treating it as a secondary or unintended consequence. The study reinforces the need for central banks to adopt a multi-objective, risk-sensitive strategy that weighs inflation control against broader macro-financial vulnerabilities, especially in increasingly interconnected and fragile global financial systems.



Figure 2. Projected Distributions of Euro Area Real GDP Growth (Left) and Systemic Stress (CISS, Right) under Three Alternative Monetary Policy Scenarios

Sources: ECB, Chavleishvili, Kremer, & Lund-Thomsen, 2024.

The baseline projection for real GDP growth corresponds to the European Central Bank staff forecast released in September 2022 and extends through the fourth quarter of 2024. Empirical findings indicate that accelerating interest rate increases beyond market expectations tends to amplify downside risks to real GDP growth while concurrently heightening the likelihood of systemic financial stress. This suggests that an aggressive monetary tightening stance may increase the probability of adverse macroeconomic outcomes and undermine financial system stability.

By contrast, a more measured and gradual pace of interest rate normalization appears to mitigate these negative outcomes. Such a policy trajectory is more conducive to balancing the dual objectives of inflation containment and financial stability preservation. These insights underscore the critical importance of explicitly incorporating financial stability considerations into the monetary policy decision-making framework.

In this context, the St. Louis Fed Financial Stress Index emerges as a valuable diagnostic tool for central banks. The STLFSI4 consolidates a range

of financial market indicators—including interest rate spreads, equity market volatility, and credit risk premiums—into a single composite measure of financial stress. Its real-time monitoring capability allows policymakers to gauge the intensity of prevailing financial conditions and adjust their policy stance accordingly. For instance, if the STLFSI4 signals rising financial stress, central banks might consider tempering the pace of monetary tightening to avoid exacerbating vulnerabilities in financial markets. Conversely, when financial conditions appear stable or improving, monetary authorities may proceed more assertively in pursuing inflation targets. In sum, the integration of financial stress metrics—such as the STLFSI4—into the monetary policy framework facilitates a more nuanced and responsive policy approach. This strategy enables central banks to better navigate the inherent trade-offs between achieving price stability and safeguarding the resilience of the financial system, thereby enhancing the overall effectiveness, credibility, and sustainability of monetary policy implementation.

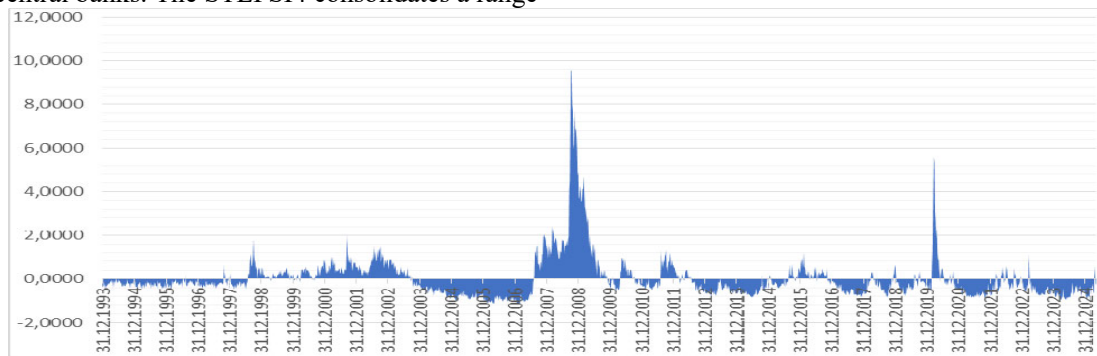


Figure 3. St. Louis Fed Financial Stress Index 1993-2024, %

Source: Federal Reserve Bank of St. Louis [13]

The St. Louis Fed Financial Stress Index quantifies the prevailing level of financial stress in U.S. financial markets and is constructed from eighteen weekly data series, encompassing seven interest rate measures, six yield spreads, and five additional financial variables. Each component captures a distinct facet of financial stress—such as liquidity constraints, credit risk, and volatility—and the index reflects co-movements among these indicators, which often become more pronounced during periods of elevated systemic strain.

The index is standardized to a mean of zero, with zero representing typical market conditions. Positive values indicate above-average levels of financial stress, while negative values suggest periods of relative market calm. With a historical data series extending back to late 1993, the STLFSI4 serves as a high-frequency, real-time tool for monitoring financial market stability and supporting policy decision-making under stress conditions.

In addition to real-time monitoring tools, the St. Louis Fed employs a Dynamic Stochastic General Equilibrium model as a core instrument for macroeconomic forecasting and policy evaluation. The current version of the model builds on a medium-scale New Keynesian framework, augmented to include household heterogeneity and a detailed fiscal sector. These enhancements allow for differentiated marginal propensities to consume across households and improve the model’s ability

to simulate the effects of fiscal interventions, including social transfer programs [12].

The model extensions align with best practices in DSGE modeling and significantly enhance its empirical relevance. For example, the incorporation of labor market frictions enables the model to replicate the dynamics of unemployment, job vacancies, and wage rigidities—features emphasized in the contributions of Arias et al. (2019) [4] and Gelain and Lopez (2023) [15]. These features are especially valuable in evaluating how policy shocks propagate through the real economy under varying structural conditions.

Moreover, the April 2025 edition of the IMF’s Global Financial Stability Report highlights a marked increase in global financial stability risks. This rise is primarily attributed to a sharp repricing of risk assets, driven by recently imposed U.S. tariff measures. In response, global financial markets experienced significant turbulence, characterized by heightened volatility across equity, foreign exchange, and sovereign debt markets [19].

Compounding this instability, reactive policy measures from other major economies further escalated investor uncertainty, leading to a notable tightening of global financial conditions. These developments, as visualized in Figure 4, underscore the importance of incorporating global risk factors and cross-border policy spillovers into national monetary and macroprudential policy frameworks.

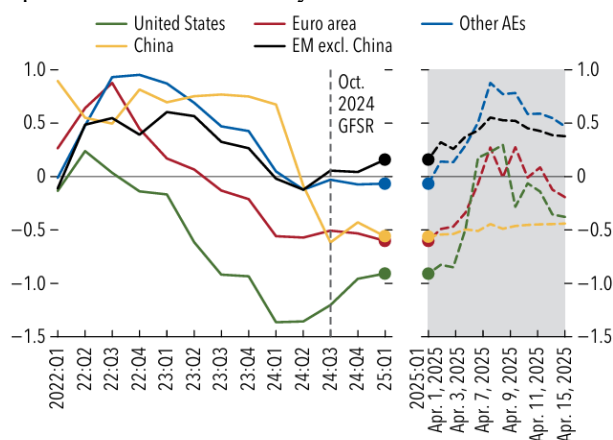


Figure 4. Financial Conditions Index (percentage deviation from long-term averages)
Source: Bloomberg Finance L.P. and calculations by staff of the International Monetary Fund.

The IMF Financial Conditions Index is designed to capture the dynamics of financial risk pricing across economies by integrating a broad array of market-based indicators. These include real house prices and a range of high-frequency financial market variables; however, the index deliberately omits balance sheet metrics and credit growth measures to focus exclusively on price-based channels. Detailed methodological information can

be found in Online Annex 1.1 of the October 2018 Global Financial Stability Report.

The shaded area in Figure X depicts daily FCI values beginning April 1, 2025, derived from high-frequency financial data. These estimates are approximate but serve as a timely indicator of evolving financial conditions. For historical context, long-term averages and standard deviations are calculated using a data series spanning from the first

quarter of 1990 to the first quarter of 2025. The analysis differentiates between advanced economies and emerging market economies, occasionally excluding specific country subgroups to enhance clarity, as noted in the relevant sections of the April 2025 GFSR.

Complementing this assessment, the IMF's Growth-at-Risk model highlights a meaningful increase in macro-financial downside risks to global economic growth. Despite recent financial market volatility, valuations in certain segments—particularly equities and corporate bonds—remain elevated, indicating that further corrections may occur if the economic outlook deteriorates. Heightened economic policy uncertainty and weaker-than-expected macroeconomic data releases increase the likelihood of sharper asset price adjustments.

Emerging markets appear particularly vulnerable under this scenario. Several of these economies are already experiencing currency depreciation and equity market declines, reflective of weakening growth prospects. Moreover, investor expectations for monetary policy easing by emerging market central banks have lowered

projected carry trade returns, thereby increasing the risk of capital outflows.

The April 2025 GFSR underscores the urgency of addressing these vulnerabilities through well-calibrated and coordinated policy responses. The report emphasizes that in a deeply interconnected global financial environment, shocks in one market segment or jurisdiction can have wide-ranging spillover effects, making proactive and synchronized interventions crucial for mitigating systemic risks.

In response to mounting macroeconomic headwinds and ongoing disinflationary trends, major central banks - including the European Central Bank and the U.S. Federal Reserve—have begun a cautious shift from restrictive to neutral monetary policy stances. Initial rate cuts have already been implemented, with additional easing measures expected in 2025, signaling a strategic pivot aimed at supporting a soft-landing scenario. This policy recalibration seeks to balance the need for continued price stability with the imperative of preserving financial resilience amid heightened uncertainty and subdued economic momentum.

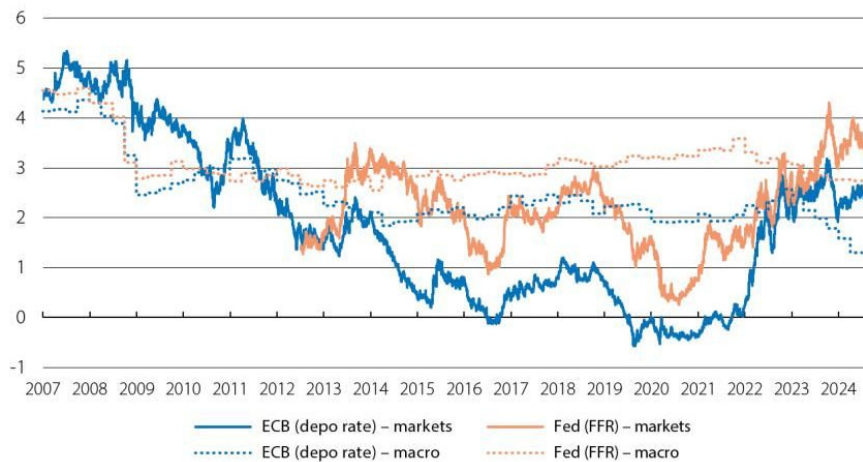


Figure 5. Estimates of the equilibrium interest rate (%)

Sources: CaixaBank Research, based on data from Bloomberg and the Federal Reserve Bank of New York [8]

The estimates labeled as "markets" correspond to forward rates on benchmark interest rates projected over a five-year horizon. In parallel, macroeconomic estimates are derived from the natural (neutral) interest rate as calculated by Holston et al. (2023) [18] in their study "Measuring the Natural Rate of Interest after COVID-19", to which a 2% inflation assumption is added to reflect target-consistent nominal rates.

The European Central Bank is anticipated to reach its neutral rate as early as 2025, supported by subdued regional growth, decelerating wage dynamics, and narrowing corporate profit margins.

These factors collectively contribute to inflation expectations converging toward the ECB's 2% target. A similar trajectory is expected for the Federal Reserve, which is projected to gradually shift toward neutrality while aiming to avoid excessive labor market deterioration amid ongoing disinflation [8].

The expected monetary easing in 2025 is likely to alleviate downward pressure on GDP growth. While conventional macroeconomic theory posits that monetary policy exerts its full impact on the economy with a lag—typically around nine quarters, according to Romer and Romer (2023) [23]- more

recent empirical evidence suggests that certain transmission effects may occur more rapidly. Based on detailed high-frequency data, Buda et al. (2023) [7] demonstrate that interest rate adjustments can affect household consumption within days, business revenues within a month, and employment levels within two months. These findings suggest that policy easing could provide a timely, albeit moderate, stimulus to economic activity in 2025. Crucially, such stimulus could support a soft landing scenario -characterized by easing inflationary pressures without reigniting them- thereby enhancing central banks' capacity to navigate the trade-offs between growth stabilization and price discipline.

Conclusions. This study underscores the urgent necessity to reconceptualize monetary policy frameworks in light of the persistent economic volatility affecting the global economy. The empirical and theoretical analysis presented herein reveals the structural shortcomings of post-2008 crisis paradigms, which emphasized accommodative monetary policy and inflation targeting as primary policy tools. Given the convergence of resurging inflation, elevated debt burdens, fragmented supply chains, and expansive fiscal policies, these legacy frameworks have become increasingly inadequate for addressing contemporary macro-financial challenges. The findings show that although aggressive interest rate hikes may contribute to inflation containment, they also produce significant unintended consequences, most notably the amplification of systemic financial stress and increased downside risks to real GDP growth. A core conclusion of this study is the need to transition toward a multidimensional, integrated approach to monetary policymaking. In particular, the study challenges the traditional notion of central bank independence, arguing that in today's interdependent fiscal and financial landscape, such independence—especially from fiscal policy—may no longer be tenable. Instead, the analysis advocates for a forward-looking, risk-sensitive framework that combines inflation targeting with macroprudential oversight and fiscal coordination. Critical real-time indicators, such as the Composite Indicator of Systemic Stress and the St. Louis Fed Financial Stress Index, offer central banks valuable insights into emerging systemic vulnerabilities. Incorporating these tools into monetary policy deliberations enhances the capacity to preempt adverse economic outcomes and supports more informed, data-driven decision-making. Moreover, the research calls for enhanced coordination between monetary and fiscal authorities, asserting that uncoordinated monetary tightening—particularly in the absence of fiscal support—may

exacerbate market volatility and compromise long-term financial stability. In contrast, a gradual and well-coordinated policy trajectory can help mitigate systemic risks, reinforce central bank credibility, and bolster economic resilience. In conclusion, this paper advocates for a paradigm shift in monetary policy design - one that embraces a holistic, collaborative, and adaptive framework. Central banks must adopt strategies that not only target inflation but also integrate real-time financial stability considerations and align with fiscal dynamics. This evolution in policy orientation is essential for navigating today's complex and uncertain global environment, strengthening macro-financial stability, and fostering sustainable, inclusive economic growth in the years ahead.

References

1. **Akkaya, Y., Bitter, L., Brand, C., & Fonseca, L.** (2024). A statistical approach to identifying ECB monetary policy (ECB Working Paper No. 2994). European Central Bank. <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2994~6c2bcefa86.en.pdf> Retrieved April 29, 2025.
2. **Amiti, M., Heise, S., Karahan, F., & Sahin, A.** (2023). Inflation strikes back: The role of import competition and the labor market (NBER Working Paper No. 31211). National Bureau of Economic Research. <https://doi.org/10.3386/w31211>
3. **Ampudia, M., Ehrmann, M., & Strasser, G.** (2023). The effect of monetary policy on inflation heterogeneity along the income distribution (ECB Working Paper No. 2858). European Central Bank. Retrieved April 29, 2025, from <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2858~bccf5beb84.en.pdf>
4. **Arias, J., Drautzburg, T., Fujita, S., & Sill, K.** (2019). Technical Appendix: PRISM-II Documentation. Federal Reserve Bank of Philadelphia. Retrieved April 28, 2025, from <https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/prism/prism-ii-technical-appendix.pdf>
5. **Basu, S., Boar, C., & Gambacorta, L.** (2023). Monetary, macroprudential and exchange rate policies: The scope for integrated policy frameworks. In Agénor, P.-R., & Pereira da Silva, L. A. (Eds.), *Integrated Policy Frameworks for Monetary and Financial Stability* (pp. 29–60). World Scientific. https://doi.org/10.1142/9789811259432_0003
6. **Bruno, V., Shim, I., & Shin, H. S.** (2017). Comparative assessment of macroprudential policies. *Journal of Financial Stability*, 28, 183–202. <https://doi.org/10.1016/j.jfs.2016.04.001>
7. **Buda, G., Carvalho, V. M., Corsetti, G., Duarte, J. B., Hansen, S., Ortiz, Á., Rodrigo, T., Rodríguez Mora, J. V., & da Silva, G. A.** (2023, March). Short and variable lags. BBVA Research. Retrieved April 29, 2025, from

- <https://www.researchgate.net/publication/369094065>
[Short and Variable Lags](#)
8. **CaixaBank Research.** (2024, November 19). Monetary policy in 2025: Dialling-back time. Retrieved April 30, 2025, from <https://www.caixabankresearch.com/en/economics-markets/monetary-policy/monetary-policy-2025-dialling-back-time>
 9. **Cecchetti, S. G., & Li, H.** (2008, February 14). Measuring the impact of asset price booms using quantile vector autoregressions. Retrieved April 27, 2025, from https://people.brandeis.edu/~hli/quantile_regression/Cecchetti%20and%20Li%20Feb%202008.pdf
 10. **Cerutti, E., Claessens, S., & Laeven, L.** (2017). The use and effectiveness of macroprudential policies: New evidence. *Journal of Financial Stability*, 28, 203–224. <https://doi.org/10.1016/j.jfs.2015.10.004>
 11. **Chavleishvili, S., Kremer, M., & Lund-Thomsen, F.** (2024, January 29). Quantifying financial stability risks for monetary policy (Research Bulletin No. 115). European Central Bank. <https://www.ecb.europa.eu/press/research-publications/resbull/2024/html/ecb.rb210129~d9b4085476.en.html>
 12. **Faria e Castro, M.** (2024). The St. Louis Fed DSGE model (Federal Reserve Bank of St. Louis Working Paper No. 2024-014B, pp. 1–39). Federal Reserve Bank of St. Louis, Research Division. Retrieved April 27, 2025, from <https://s3.amazonaws.com/real.stlouisfed.org/wp/2024/2024-014.pdf>
 13. **Federal Reserve Bank of St. Louis.** (2025). St. Louis Fed Financial Stress Index. FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/STLFSI4> Retrieved April 30, 2025
 14. **Garcia-de-Andoain, C., & Kremer, M.** (2017). Beyond Spread: Measuring Sovereign Market Stress in the Euro Area. *Economics Letters*, 159, 153–156. <https://doi.org/10.1016/j.econlet.2017.06.042>
 15. **Gelain, P., & Lopez, P.** (2023). A DSGE model including trend information and regime switching at the ZLB. Federal Reserve Bank of Cleveland Working Paper No. 23-35. <https://doi.org/10.26509/frbc-wp-202335>
 16. **Granata, L.** (2020). Mundell-Fleming trilemma: Evolution in emerging markets. LUISS University. <https://tesi.luiss.it/29391/> Retrieved April 29, 2025.
 17. **Holló, D., Kremer, M., & Lo Duca, M.** (2012). CISS – A Composite Indicator of Systemic Stress in the Financial System. ECB Working Paper Series No. 1426. <https://www.econstor.eu/handle/10419/153859>
 18. **Holston, K., Laubach, T., & Williams, J. C.** (2023, May 19). Measuring the natural rate of interest after COVID-19. Federal Reserve Bank of New York. Retrieved April 28, 2025, from https://www.newyorkfed.org/medialibrary/media/research/economists/williams/HLW_2023
 19. **International Monetary Fund.** (2025). Global financial stability report: April 2025 (pp. 11–12). <https://www.imf.org/en/Publications/GFSR/Issues/2025/04/22/global-financial-stability-report-april-2025>
 20. **Ma, C.** (2020). Financial stability, growth and macroprudential policy. *Journal of International Economics*, 122, 103259. <https://doi.org/10.1016/j.jinteco.2019.103259>
 21. **Mendicino, C., Nikolov, K., Suarez, J., & Supera, D.** (2018). Bank capital in the short and in the long run. Wharton School, University of Pennsylvania. Retrieved April 28, 2025, from https://www.cemfi.es/~suarez/Mendicino-Nikolov-Suarez-Supera_Short-Long_July_2018.pdf
 22. **Montes-Rojas, G.** (2019). Multivariate quantile impulse response functions. *Journal of Time Series Analysis*, 40(5), 739–752. <https://doi.org/10.1111/jtsa.12452>
 23. **Romer, C. D., & Romer, D. H.** (2023, April). Does monetary policy matter? The narrative approach after 35 years (NBER Working Paper No. 31170). National Bureau of Economic Research. Retrieved April 29, 2025, from https://www.nber.org/system/files/working_papers/w31170/w31170.pdf
 24. **Wang, L.** (2023). Central bank asset purchases, banks' risky security holdings and profitability: Macro and micro evidence from Japan and the U.S. *International Review of Economics & Finance*, 89, 363–384. <https://doi.org/10.1016/j.iref.2023.04.022>
 25. **White, H., Kim, T. H., & Manganelli, S.** (2015). VAR for VaR: Measuring tail dependence using multivariate regression quantiles. *Journal of Econometrics*, 187(1), 169–188. <https://doi.org/10.1016/j.jeconom.2015.02.004>
 26. **Zehri, C., Madjd-Sadjadi, Z., & Saleh Iben Ammar, L.** (2024). Asymmetric impacts of U.S. monetary policy on emerging markets: Contagion and macroeconomic determinants. *Journal of Economic Asymmetries*, 29, e00354. <https://doi.org/10.1016/j.jeca.2024.e00354imf>

Сдана/Հանձնվել է՝ 07.08.2025

Рецензирована/Գրախոսվել է՝ 13.08.2025

Принята/Ընդունվել է՝ 19.08.2025