14.12.2023

Monetary policy decision, 14.12.2023

The Executive Board of the National Bank of Moldova, at its meeting on 14 December 2023, adopted by unanimous vote the following decision:

1. To maintain the base rate applied to the main short-term monetary policy operations at the level of 4.75% annually.
2. To maintain the interest rates:
   a) on overnight loans, at the level of 6.75% annually;
   b) on overnight deposits, at the level of 2.75% annually.

The decision of the NBM aims to maintain monetary conditions conducive to further stimulating aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflation expectations.

We reiterate that the NBM closely monitors the inflationary process, assessing the associated risks and uncertainties, and that future decisions by the Executive Board will depend on the renewed inflation outlook.

New macroeconomic information broadly confirms the validity of the previous forecast.

Annual inflation fell to the target range of 5.5 percent in November 2023, slightly lower than expected. The deviation was mainly due to regulated prices and food prices.

The restrictive monetary policy measures taken by the NBM for a year and a half, until the end of the last year, significantly contributed to the decrease in inflation.

External environment: In advanced economies, inflationary pressures have eased, and annual inflation rates are approaching targeted levels. The economy of the euro area stagnated in the third quarter, teetering on the brink of recession as a result of the energy crisis and the tightening of monetary policy. The price of oil continued to decline due to weak demand and increased non-OPEC supply, despite the recent decision by OPEC+ to cut production. Natural gas prices have stabilized in recent months, while commodity prices have largely continued to decrease.

Economic Activity: The latest data confirms expectations regarding economic activity in the third quarter of 2023. In September, imports and net transfers to resident individuals decreased by 17.0 percent and 18.3 percent annually, respectively. Social payments decreased by 13.8 percent annually in October, largely due to the base effect. The wage fund increased in real terms by only 6.2 percent annually in the third quarter of 2023. Consequently, domestic demand remains weak. On the other hand, exports, wholesale and retail trade, and industry have all experienced growth.

Monetary Conditions: Interest rates on new loans and deposits in MDL decreased in November as a result of cumulative monetary policy stimuli. According to operational data, the average weighted rate on MDL deposits was 4.30 percent, and on loans - 10.58 percent, representing a decline of 9.31 and 3.62 percentage points, respectively, compared to November 2022. The decrease in interest rates led to an increase in the volume of new loans in MDL and a decrease in deposits. Interest rates on foreign currency loans and deposits showed different trends: for loans, they continued to rise, while for deposits, they decreased.

Forecast Update: The balance of risks in the inflation forecast is balanced, with a slight short-term pro-inflationary bias. Uncertainties remain pronounced. The main sources include the tense situation in the region and the Middle East, adjustments to tariffs for energy resources, and the statistical reflection of compensations for these adjustments. Higher external costs are expected to have a delayed impact on domestic costs, and the updating of tariffs for medical services, which has been accumulating significant pressures for several years. In advanced economies, interest rates are expected to be lowered due to the easing of inflationary pressures and the alignment of inflation towards targeted levels. Low volatility in commodity prices and energy resources is anticipated.

The next meeting of the Executive Board of the NBM on monetary policy promotion will take place on 6 February 2024, according to the approved calendar [1].

Evolution of the NBM interest rates [2]

See also

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