



Inflation Report

No. 3, AUGUST 2021

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Note

The report was elaborated based on the latest macroeconomic information from the internal and external environment.

Statistical data were taken from the National Bureau of Statistics, Ministry of Economy and Infrastructure, Ministry of Finance, Eurostat, International Monetary Fund, National Energy Regulatory Agency, State Hydrometeorological Service.

Likewise were selected certain statistical data provided by the international community and by the Central Banks of the neighboring states.

The calculation of the statistical data was carried out by the National Bank of Moldova.

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Pursuant to the provisions of art. 4 para. (1) of Law no. 548/1995 on the National Bank of Moldova (republished in the Official Gazette of the Republic of Moldova, 2015, no. 297-300, art. 544, with subsequent amendments) the fundamental objective of the National Bank of Moldova is to ensure and maintain price stability.

This objective is achieved in the light of the monetary policy framework associated with the direct inflation targeting regime. The quantitative target is to maintain inflation, measured by the consumer price index at 5.0% per year with a possible deviation of ± 1.5 percentage points.

*National Bank of Moldova appreciates the role of transparency and predictability of monetary policy in strengthening institutional credibility and ensuring inflation target. In this context, the **Inflation Report** is the main communication tool, which reflects the latest analyzes of the situation in the internal and external environment, the evolution of the inflation process and economic activity, along with aspects related to the conduct of monetary policy.*

At the same time, the Report incorporates the inflation forecast for the eight-quarter horizon, as well as the risks and uncertainties associated with this projection.

Summaries of the minutes of the meetings of the NBM Executive Board on the promotion of monetary policy are part of the Report, which are published six months after the decision in accordance with the NBM's medium-term monetary policy strategy (approved by the Decision of the Executive Board of the National Bank of Moldova no. 303 of December 27, 2012).

According to art. 69 para. (2) the Inflation Report shall be submitted to Parliament and the Government within 45 days of the end of the quarter.

The Inflation Report no. 3, August 2021 was discussed and approved at the meeting of the NBM Executive Board on July 30, 2021.

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List of acronyms

ANRE	National Agency for Energy Regulation
CHIBOR	Average interest rate at which the contributors banks are available to lend funds in MDL to other banks, on the interbank monetary market
CPI	Consumer Price Index
ECB	European Central Bank
EUR	Single European Currency
FAO	Food and Agriculture Organization of the United Nations
FCC	Freely convertible currency
FRS	Federal Reserve System
GDP	Gross Domestic Product
HoReCa	Hotel, Restaurant and Catering
IMF	International Monetary Fund
MEI	Ministry of Economy and Infrastructure of the Republic of Moldova
MDL	Moldovan leu
NBC	Certificates issued by the National Bank of Moldova
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
NEER	Nominal effective exchange rate of the national currency
OPEC+	OPEC cooperation with oil producers outside OPEC in an attempt to reduce production and increase the price of oil
REER	Real effective exchange rate of the national currency
RUB	Russian ruble
SS	State Securities
UAE	United Arab Emirates
USD	US Dollar

Summary

In the second quarter of 2021, the annual inflation rate continued, according to previous expectations, the upward trajectory started in the first part of the current year. Thus, it increased from 1.5% in March 2021 to 3.2% in June 2021. At the same time, the inflation data for the period April-June 2021 show a higher trajectory than anticipated in the previous round of forecasts.

During the reference period, inflationary pressures were driven by rising oil prices, which led to an acceleration in domestic fuel prices. At the same time, the modest harvest for some crops from the previous year, the increase in import prices and the intensification of cost pressures supported the increase in food prices on the local market and a more pronounced impact on the annual CPI rate in April, and May 2021. Rising commodity prices and exchange rate dynamics have led to higher prices for core inflation subcomponents. Supply pressures are also fueled by aggregate domestic demand from the perspective of recovering the consumption of the population amid the acceleration of the wage fund, the volume of new loans granted, remittances in favor of individuals.

The first half of 2021 can be characterized by the resumption of the activity of the world economy in the conditions of post-pandemic problems that represent new challenges for the world economy. The most obvious and, at the same time, difficult challenge is the significant increase in prices, largely associated with supply factors. This situation makes it difficult to continue to promote incentive policies to recover consumer demand. Therefore, the reactions of the monetary authorities are dispersed, some preferring to continue the rhetoric on the short-term nature of the increase in pro-inflationary pressures, and others acting decisively to reduce the monetary stimulus or even tighten monetary conditions. Also, the further increase in oil prices presents a significant degree of uncertainty. Problems within OPEC jeopardize outcome of agreement to gradually reduce oil production limitation. At the same time, policies to reduce carbon emissions greatly cap the price aspired to by oil producers. It should be noted that, amid improved harvest prospects in the northern hemisphere, in June 2021 there was for the first time in 12 months a 2.5% decrease in the FAO index for agri-food products, but the annual rate of 33.9% remains significantly high. The outlook for economic growth by region has periodically been damaged by the emergence of new COVID-19 strains, which have forced countries to reintroduce quarantine restrictions. At the same time, the vaccination process is proceeding at a slow but somewhat optimistic pace to allow the resumption of HoReCa activity. It should be noted that in this segment there are also significant price increases.

Following the negative dynamics of the previous year, at the beginning of this year the annual pace of GDP entered positive territory despite the adverse impact of pandemic restrictions and negative effects on the agricultural sector in 2020. Thus, in the first quarter of 2021 GDP was 1.8% higher than the level of the same period of 2020, the respective dynamics being higher than anticipated in the Inflation Report no. 2. However, according to previous estimates, the effect of aggregate demand on prices continued to be negative, but of a smaller magnitude. At the same time, the seasonally adjusted series reflects a 2.5% increase in GDP compared to the fourth quarter of 2020. The positive dynamics of GDP was mainly determined by the acceleration of investments, the consumption of the population generating a more modest positive impact, and the net export being in negative territory. Exports, in the context of a modest external demand, of some restrictions related to COVID-19 in the region, but also of a smaller harvest, continued the negative dynamics from the beginning of 2020. The increase in domestic demand, especially investment-oriented, was accompanied by an acceleration in imports. On the supply side, positive developments were recorded in industry, construction, real estate and communications. The agricultural sector continued to reflect the consequences of adverse conditions in the previous year. The decline in economic activity against the background of the impact of COVID-19 restrictions from the previous year led to the continuation of the negative dynamics of the economically active population and the employed population. Most of the operational indicators on the dynamics of economic activity in April and May 2021 registered a sharp acceleration, outlining preconditions for a positive dynamics of GDP in the second quarter of 2021.

At the same time, according to the operative data for April-May t.y. a recovery of economic activity is emerging at the level up to the pandemic. Thus, in January-May 2021 compared to January-May 2019 there is an increase in industrial production, turnover of enterprises with main retail activities and turnover of enterprises providing services to the population, such as and the import of goods and services.

In the period April-June 2021, the revenues of the national public budget recorded increases, being by 30.2% above the level recorded in the similar period of 2020. National public budget expenditures increased, being 23.5% above the level recorded in the second quarter of 2020. At the same time, on the market of state securities allocated during the second quarter of 2021, the interest rates remained practically at the level registered in the previous quarter.

In the second quarter of 2021, excessive liquidity amounted to 5.5 billion lei, decreasing compared to the previous quarter by 0.8 billion lei.

Monetary aggregates in the second quarter of 2021 registered a positive dynamic in annual terms. At the same time, the main contribution to this development was largely determined by the change in the volume of deposits in national currency and currency in circulation.

During the second quarter of 2021, three meetings of the Executive Board of the National Bank of Moldova on monetary policy decisions took place. Following the assessment of the balance of internal and external risks and the short and medium-term inflation outlook, the Executive Board of the National Bank of Moldova, at its meetings of April 5, 2021, April 30, 2021 and June 8, 2021, decided to maintain the base rate applied to major operations of monetary policy at the level of 2.65% annually (level set on November 6, 2020).

The average interest rates related to the balance of loans in the national currency decreased by 0.23 percentage points, and those related to the balance of deposits decreased by 0.14 percentage points. Average interest rates on loans and foreign currency deposits also continued their downward trend.

New forecast round for faster growth in external demand and pro-inflationary pressures. This is due to the improvement of economic indicators, the positive feelings of international market participants, but also the persistence of high quotations for oil, raw materials and agri-food products. The low volatility of the main currencies of international circulation is determined by the constant message of postponing the limitation of the monetary stimulus. On the other hand, in emerging economies rates are constantly rising, a reaction to the persistence of pro-inflationary pressures in recent months.

Annual inflation rate will increase rapidly by the third quarter of 2022, then decreasing towards the end of the forecast horizon. Although, in the third quarter of 2021, the annual inflation rate will be below the lower limit of the range of variation, at the beginning of next year it will exceed the upper limit and will return in the interval only at the beginning of 2023.

It is important to note that the inflationary process will be persistent and will not be temporary. The scenario described is based on the hypothesis of a slightly positive fiscal impulse but close to zero from an inflationary point of view for the years 2022-2023.

The return to the end of the inflation forecast horizon in the range of target variation is conditioned by a multitude of factors. At the same time, the current medium-term forecast has been prepared on the basis of relatively limited information and in the event of new pro-inflationary or disinflationary factors, the inflation trajectory will be revised accordingly.

The annual rate of *core inflation* will have an upward trend until the first half of next year, thereafter declining towards the end of the forecast period¹. The annual rate of *food prices* will increase significantly by the third quarter of 2022, and starting with the end of 2022 will decrease for the rest of the forecast period. The annual rate of *regulated prices* will increase sharply to high levels by the middle of next year, and will decline rapidly at the end of the forecast period. The annual rate of *fuel prices* will be high in the first two consecutive quarters of the forecast horizon, and from 2022 onwards it will decrease considerably for the rest of the forecast period.

¹Quarter III 2021 - Quarter II 2023

Aggregate demand will be fully recovered from the beginning of the forecast period, but will stabilize around its non-inflationary level in the face of a positive fiscal momentum, the revival of external demand and the recovery in agriculture this year, on the one hand, and in monetary conditions restrictive, on the other hand.

Real monetary conditions will be restrictive over the entire forecast period, having a negative impact on aggregate demand.

Based on the above, there is a need in the next period for the proper synchronization of macroeconomic policies, in particular fiscal and monetary policies.

The current *inflation* forecast, compared to the previous inflation report, has been revised upwards over the entire comparable period².

The adjustment of the forecast is based on the following factors: the superiority of actual inflation compared to expectations for the previous quarter, the stronger trend of recovering domestic and external aggregate demand, the upper trajectory of external inflation, the higher forecast of international food and oil prices.

Thus, compared to the previous forecast, in which supply shocks were shown as the main pro-inflationary factors in the medium term, starting with the end of the second quarter of 2021 inflationary pressures are already sharply amplified by the increase in aggregate demand.

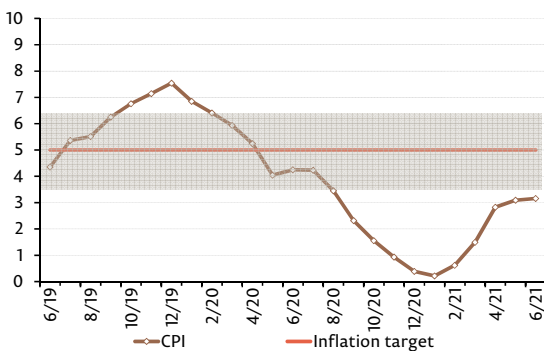
The current forecast for the annual rate of *core inflation* has been increased over the entire comparable period. The annual rate of *food prices* has been revised upwards for the comparable period, except for the third quarter of 2021. The current forecast for the annual rate of *regulated prices* is relatively similar during the first three consecutive quarters of the comparable period, but has been revised upwards for the rest of the period. The forecast of the annual rate of *fuel prices* was increased until the second quarter of 2022 and decreased towards the end of the comparable period.

²Quarter III 2021 - Quarter I 2023

Chapter 1

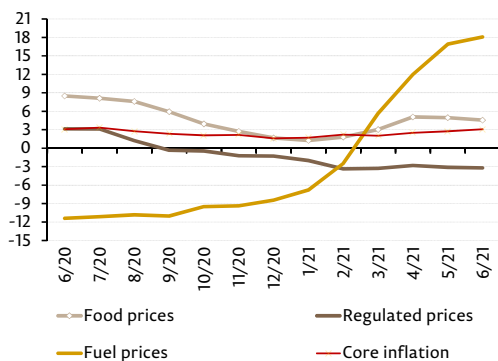
Inflation development

Chart 1.1: The annual rate of the CPI (%)



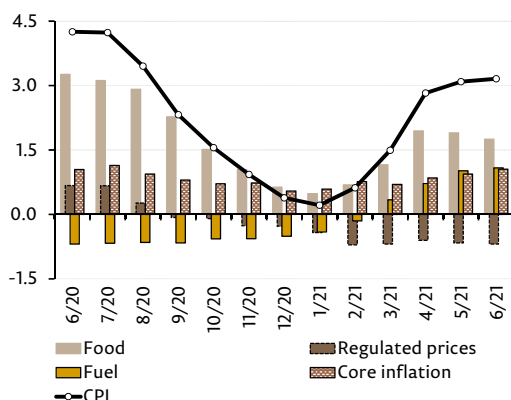
Source: NBS, NBM

Chart 1.2: The annual rate of the main subcomponents of the CPI (%)



Source: NBS

Chart 1.3: The evolution of the annual inflation (%) and subcomponents contribution (p.p.)



Source: NBS, NBM calculus

1.1 Consumer Price Index

In the second quarter of 2021, the annual inflation rate continued, according to previous expectations (Inflation Report No. 2, 2021), the upward trajectory started in the first part of the current year, mainly due to rising oil prices on the international market and the impact generated by the increase in costs on some subcomponents of the CPI. However, during that period, the annual inflation rate continued to fall below the inflation target range. Domestic demand, according to estimates, continued to have a disinflationary impact, but of a significantly smaller magnitude. Between April and June 2021, the annual inflation rate continued the upward trend observed in the first months of the year. Thus, it increased from 1.5% in March 2021 to 3.2% in June 2021. However, it continued to be placed below the lower limit of 5.0% \pm 1.5 percentage points. At the same time, the average annual inflation rate in the second quarter of 2021 was 3.0%, 2.2 percentage points higher than in the previous quarter. During the reference period, inflationary pressures were determined by the rise in oil prices, the depreciation of the exchange rate, which led to the acceleration of fuel prices in the domestic market. At the same time, the modest harvest for some crops from the previous year, the increase in import prices and the intensification of cost pressures supported the increase in food prices on the local market and a more pronounced impact on the annual rate of CPI in April and May 2021. At the same time, the increase in the prices of some raw materials and the dynamics of the exchange rate determined the increase of the prices of some subcomponents related to the core inflation (construction materials, means of transport). On the other hand, those pressures continued to be mitigated by negative domestic demand in the context of the effects of the COVID-19 pandemic on the domestic economy. However, it is estimated that they have lost intensity. At the same time, a negative impact on the average annual inflation rate in the second quarter of 2021 continued to be exerted by the decrease in the annual rate of regulated prices (Chart 1.2) as a result of the adjustment of the electricity tariff in February 2021. In the next period, the upward trajectory of the annual CPI rate will continue, mainly in the context of cost pressures. At the same time, the subsequent dynamics of the CPI remain marked by the uncertainty of the timing and magnitude of some tariff adjustments, but also by the impact of weather conditions on food prices on the domestic market.

Core inflation

In the second quarter of 2021, core inflation continued the upward trajectory started at the beginning of the current year, registering an average level of 2.8% or 0.8 percentage points higher than in the previous quarter (Graficul 1.4).

The gradual relaxation of the restrictions related to the pandemic crisis was reflected on the dynamics of economic activity. The prospect of improving the pandemic situation has diminished from previous disinflationary pressures related to demand for core inflation.

In structure, the most significant contributions to the dynamics of core inflation in the second quarter of 2021 went to the segments "means of transport", subcomponent "others" (especially "renting apartments"), "cigarettes", "building materials", "recreation and culture".

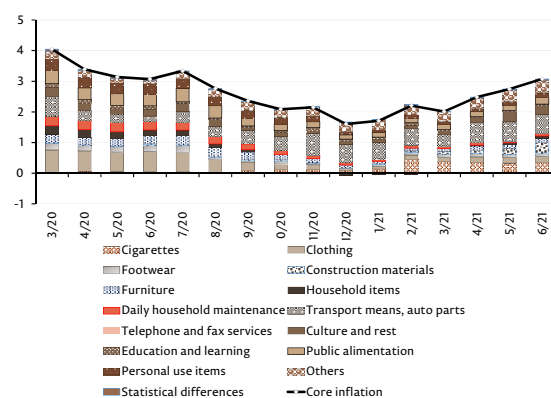
The means of transport show an increased volatility towards the exchange rate dynamics. Much of the positions monitored in this category of NBS depend on the MDL/USD and MDL/EUR quotes. Thus, the depreciation of the national currency against both the single European currency (by 1.7%) and the US dollar (by 1.9%) supported the increase in the annual rate of core inflation. Holding old stocks of cigarettes could explain, to some extent, the prolongation of the effect of changes in fiscal policy since the beginning of 2021 on the increase in excise duties on tobacco products. And the recreation and culture segment attests to essential price increases. In the context of limiting the accommodation capacity of tourist units and with the beginning of the holiday season, the price of tourist service packages has increased considerably. At the same time, the increase in the prices of raw materials at regional level has supported the increase in prices for construction materials in the internal market.

In June 2021, in the annual dynamics of core inflation (3.1%) upward developments were recorded by all groups of goods, the most significant being recorded in "building materials" (10.8%), "cigarettes" (7.4%), "means of transport, auto parts" (7.0%).

Food prices

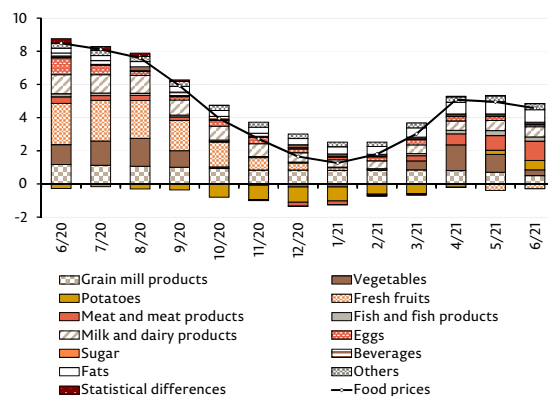
During the second quarter of 2021 an acceleration of the annual rate of food prices was recorded. Thus, it stood at an average level of 4.9% or 2.9 percentage points higher than in the first quarter of 2021. The record of an upward trend in the annual rate of food prices in the second quarter of 2021 was largely due to the acceleration of price growth in the groups "vegetables", "potatoes", "meat and meat preparations" and "fats" (Chart 1.5). The acceleration of the annual food price rate was mainly due to supply-side shocks. Maintaining higher levels of potato and vegetable prices was due to lower-than-normal temperatures and heavy rainfall during the quarter, thus creating some less favourable preconditions for ripening, developing and

Chart 1.4: The subcomponents contribution (p.p.) to the annual rate of core inflation (%)



Source: NBS, NBM calculus

Chart 1.5: The components contribution (p.p.) to the annual rate of food prices (%)



Source: NBS, NBM calculus

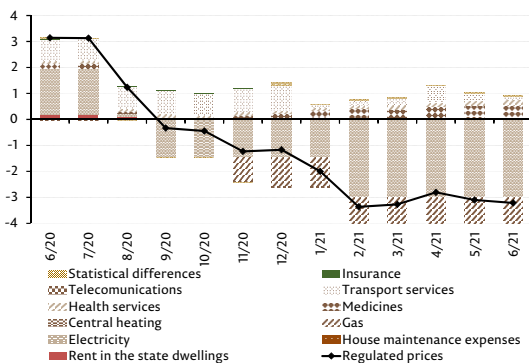
collecting these categories of products. At the same time, the increase in prices for products related to the groups "meat and meat preparations" and "fats" occurred against the background of a poor harvest in 2020, which led to the adjustment of prices for raw materials (sunflower and live meat)³. It is worth mentioning that on the international market in the first months of 2021 there was a sharp increase in oil and meat prices, which amplified inflationary pressures on prices for these categories of products traded on the domestic market. At the same time, the depreciation of the exchange rate, the increase in transportation costs and unit labour costs can be considered among the main factors that have amplified inflationary pressures from costs.

On the international market, food prices during the second quarter of 2021 registered a sharp upward trajectory. In the second quarter of 2021, their annual rate recorded an average level of 35.4%, being 17.9 percentage points higher than in the first quarter of 2021.

In the second quarter of 2021, the contribution of food prices to the formation of the annual inflation rate increased by 1.1 percentage points to 1.9 percentage points.

Regulated prices

Chart 1.6: The components contribution (p.p.) to the annual rate of regulated prices (%)



Source: NBS, NBM calculus

The annual rate of prices for regulated goods and services has evolved relatively steadily. Thus, it amounted to -3.2% in June 2021, being only 0.1 percentage points higher than in March 2021. At the same time, the average annual rate of regulated prices in the second quarter of 2021 was -3.0%, being 0.1 percentage points lower than in the first quarter of 2021. That dynamic was largely due to the lack of tariff adjustments for major components in the regulated prices during the second quarter of 2021.

At the same time, there were some fluctuations in the prices of medicines and air travel for international passengers during the quarter. Also, between April and June 2021, there were increases in tariffs for medical analysis services provided by laboratories and radiology and dental centers, the impact of which was minor on regulated prices.

Within the annual rate of regulated prices a significant impact in the second quarter of 2021 continued to be exerted by the adjustment of the electricity tariff of January 26, 2021⁴ and grid gas from 28 October 2020⁵.

³Traditionally in dry years (poor agricultural harvest) the population sacrifices a large part of the livestock due to lack of feed (or high costs of procuring them). Consequently, in the fourth quarter of the year we are witnessing an increase in the supply of meat and a decrease in prices for live meat, respectively. In the next year, as a result of the decrease in livestock / the decrease in the supply of meat, we are witnessing a correction in the direction of increasing meat prices.

⁴<http://www.anre.md/anre-a-aprobat-micsorarea-preturilor-pentru-energia-electrica-3-214>

⁵<http://www.anre.md/anre-a-aprobat-preturile-reglementate-pentru-furnizarea-gazelor-naturale-de-catre-sa-moldovagaz-in-contextul-obligatiei-de-serviciu-public-3-190>

Fuel prices

The upward trajectory of the annual rate of fuels prices continued in the second quarter of 2021, in the context of rising oil prices and the dynamics of the exchange rate between April and June 2021. Thus, the annual rate of fuel and fuel prices increased from 5.7% in March 2021 to 18.1% in June 2021 under the influence of rising fuel prices, but also the subcomponent "liquefied gases" (Chart 1.7).

The average annual rate of fuel and fuel prices in the second quarter of 2021 was 15.7%, 16.9 percentage points higher than in the first quarter of 2021. This development was mainly due to the increase in "fuel" prices as a result of the increase in petrol and diesel prices by PECO stations during that quarter, which was supported by the increase in international oil prices in the second quarter of 2021, but and the depreciation of the national currency against the US dollar. In this respect, the average oil price (Urals) was 66.8 USD/barrel, being 12.2% higher than in the first quarter of 2021, and the MDL/USD exchange rate depreciated by 1.9% in reference period. At the same time, during the second quarter of 2021, the prices of "liquefied gases" and "wood" etc. have had a positive impact on the annual rate of fuels prices. In the next period, fuel and fuel prices are marked by increased uncertainty caused both by the volatility of oil prices on the international market, but also by the impact of the new Methodology for calculating and applying prices to petroleum products⁶.

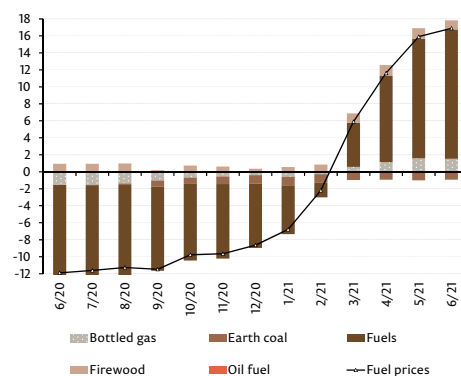
1.2 Comparison of the forecast in the Inflation Report no. 2, 2021 with the evolution of inflation in the second quarter of 2021

In the forecast round of April 2021, the continuation of the ascending trajectory of the annual inflation rate and the registration of an average value of 2.6% in the second quarter of 2021 was anticipated⁷. Inflation data for April-June 2021 show a higher trajectory than expected in the previous round of forecasts.

⁶<https://www.anre.md/metodologia-de-calcul-si-aplicare-a-preturilor-la-produsele-petoliere-a-intrat-in-vigoare-3-281>

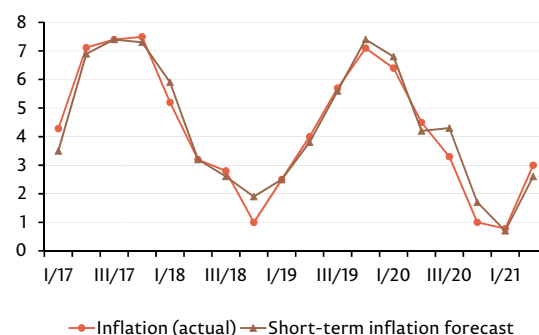
⁷Given the higher volatility of monthly values, but also some possible measurement errors, which normally should not influence monetary policy decisions, the short-term inflation forecast is made on a quarterly basis. This value is an input of the medium-term inflation projection, which similarly has a quarterly frequency and is the basis for monetary policy decisions. At the same time, this is communicated in the inflation reports. However, the actual monthly CPI data, as published by the NBS during the quarter, are analyzed and compared with the short-term forecast for the whole quarter to assess whether the main anticipated assumptions are confirmed or whether there is a risk of deviations pronounced from the forecast. Therefore, the deviations between the actual data available for the months of the quarter and the short-term inflation forecast must be interpreted accordingly, taking into account the assumptions/expectations for the remaining months of the quarter.

Chart 1.7: The components contribution (p.p.) to the annual rate of fuel prices (%)



Source: NBS, NBM calculus

Chart 1.8: The evolution and short-term forecast of CPI (% , yoy)



Source: NBS, NBM forecast

Table 1.1: The evolution and forecast of CPI and its components

	De facto	Forecast	Deviation
	Q II, 2021/ Q II, 2020	IR 2, 2021* Q II, 2021/ Q II, 2020	(De facto- forecast)
	(%)	(%)	(p.p.)
CPI	3.0	2.6	0.4
Core inflation	2.8	2.3	0.5
Food prices	4.9	4.4	0.5
Regulated prices	-3.0	-3.1	0.1
Fuel prices	15.7	14.5	1.2

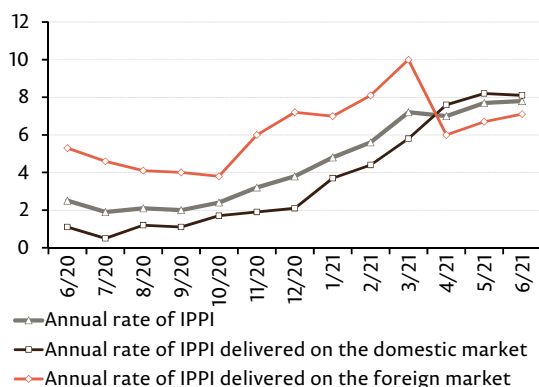
Source: NBS, NBM calculus

*IR 2, 2021 - Inflation Report no. 2, 2021

In the second quarter of 2021, the annual inflation rate was 3.0% and was 0.4 percentage points above the forecast level (Table 1.1). This deviation was mainly due to the deviation of the food price forecast and core inflation. Thus, the annual rate of food prices was 0.5 percentage points higher than the value of 4.4% anticipated in the previous round of forecasts. In part, this situation could be attributed to seasonal fluctuations. Thus, in the current year the temperatures in May and April were lower compared to the similar period of the previous year, which would have delayed the growth of some agricultural crops and their commercialization on the domestic market. However, it is also worth noting a more pronounced impact from the costs associated with the previous year's modest harvest on the food price forecast. The average annual rate of core inflation in the second quarter of 2021 was 2.8%, being 0.5 percentage points higher than the figure anticipated in the Inflation Report no. 2. This may be associated with a more pronounced increase in cigarette prices and the prices of imported construction materials. At the same time, a deviation of 1.2 percentage points was recorded for the forecast of fuel prices, due to a higher trajectory of oil prices on the regional and international market. Thus, in the second quarter of 2021 the average price of oil (Urals) was 66.84 USD/barrel, being 7.3% higher than anticipated in the Inflation Report no.2 (62.3 USD/barrel). In the case of regulated prices, the deviation of the actual data from the forecast figures was minor (0.1 percentage points).

1.3 Industrial production prices

Chart 1.9: The annual rate of prices in industry (%)



Source: NBS

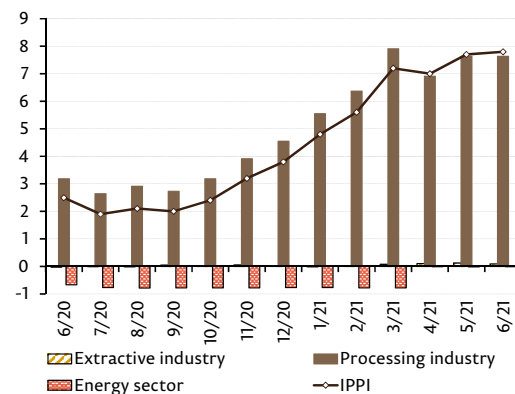
During the second quarter of 2021, the annual rate of prices in industry recorded an upward trend, thus exerting inflationary pressures on some subcomponents of the CPI.

In the second quarter of 2021, the annual rate of prices in industry recorded an average level of 7.5%, or 1.6 percentage points higher than in the first quarter of 2021. In the structure, the annual rate of prices for products delivered on the domestic market had an upward trajectory, and that of prices for products delivered on the foreign market moderated (Chart 1.9).

Analyzing the evolution of the annual rate of prices in industry by main branches, it can be seen that, similar to previous periods, the major contribution to the formation of the annual rate is made by the manufacturing industry (Chart 1.10). Thus, the annual rate of prices in the manufacturing industry increased by 0.9 percentage points to the level of 8.1% in the second quarter of 2021. The increase in the annual rate of prices in the manufacturing industry was largely due to the increase in prices in the "food industry", in the "manufacture of beverages" and in the "manufacture of electrical equipment".

It should be noted that the upward dynamics of prices in the food industry were determined by the increase in prices for the groups "manufacture of vegetable and animal oils and fats" and "production, processing and preservation of meat and meat products". As a result, inflationary pressures on the components of these sectors within the CPI were reported during the quarter under review. At the same time, prices in the extractive industry increased by 5.5%, generating a tiny contribution to the dynamics of prices in the industry. In the second quarter of 2021, the annual rate of prices in the energy sector recorded an average level of -0.1%, generating a negligible contribution to the dynamics of the annual rate of prices in industry.

Chart 1.10: The annual rate of prices in industry (%) and the contribution of its components categorised by main branches (p.p.)



Source: NBS, NBM calculus

Chapter 2

External environment

2.1 World economy, financial and commodity markets

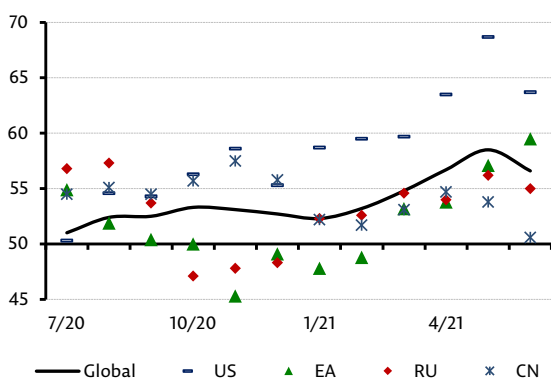
The first half of 2021 can be characterized by the resumption of the activity of the world economy in the conditions of post-pandemic problems that represent new challenges for the world economy. The most obvious and, at the same time, difficult challenge is the significant increase in prices, largely associated with supply factors. This situation makes it difficult to continue to promote incentive policies to recover consumer demand. Therefore, the reactions of the monetary authorities are dispersed, some preferring to continue the rhetoric on the short-term nature of the increase in proinflationary pressures, and others acting decisively to reduce the monetary stimulus or even tighten monetary conditions.

Also, the further increase in oil prices presents a significant degree of uncertainty. Problems within OPEC jeopardize outcome of agreement to gradually reduce oil production limitation. At the same time, policies to reduce carbon emissions greatly cap the price aspired to by oil producers.

It should be noted that against the background of the improvement of the harvest prospects in the northern hemisphere, in June 2021 there was for the first time in 12 months a decrease of 2.5% of the FAO index for agri-food products, but the annual rate of 33.9% remains significant high. The outlook for economic growth by region has periodically been damaged by the emergence of new COVID-19 strains, which have forced countries to reintroduce quarantine restrictions. At the same time, the vaccination process is proceeding at a slow pace, but somewhat optimistic to allow the resumption of the activity of the HoReCa field. It should be noted that in this segment there are also significant price increases.

PMI indices reflect a relatively satisfactory economic outlook in the analysed economies (Chart 2.1). Since the beginning of 2021, the global composite PMI index has been rising (except for June) and above the reference level of 50. At the end of the second quarter of this year, the US economy ranked first in terms of production growth in the entire industry, followed closely by Ireland, Spain and the United Kingdom. The euro area economy has progressed gradually, with the composite PMI reaching a 15-year high (59.5). In comparison, Asia's larger economies have not

Chart 2.1: Evolution of PMI composite indexes



Source: Markit

pered so well. Economic growth in China, reflected in the PMI index, has slowed to its lowest level in 14 months (50.6), while economic activity has contracted in both Japan and India. Brazil, Russia and Australia recorded increases above the reference level of 50.

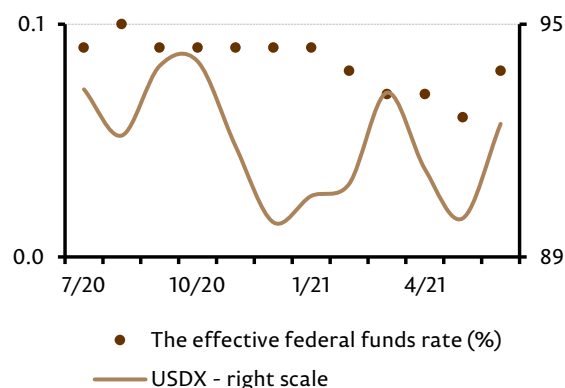
The US dollar had increased volatility in the second quarter of 2021, **USD index** decreasing in April and May, subsequently increasing significantly in June. The depreciation of the US dollar is due to the maintenance of the ultra-adaptive policy of the Federal Reserve which causes investors to refocus on high-risk assets. On the other hand, the appreciation of the US dollar was driven by Joe Biden’s USD 4 trillion stimulus plan and as mixed US labour market data eased pressure from the Federal Reserve to raise interest rates faster. The median forecast updated at the last FRS meeting suggests two increases in the federal funds rate by the end of 2023. At the same time, FRS increased the forecast for US GDP growth for 2021 to 7.0% and maintained the forecast for 2022 of 3.3%. It should be noted that since March 2020, FRS has maintained the target range for the federal funds rate at 0.00-0.25% and the volume of the asset purchase program at USD 120 billion per month (Chart 2.2).

The average of the second quarter of 2021 of **parity EUR/USD** remained practically at the level of the previous quarter, the monthly volatility being very low due to the counterbalancing of the factors. Factors such as the recovery of the euro area economy and the advancement of the vaccination process have contributed to the appreciation of the European single currency. The depreciation of the euro, especially in June 2021, is based on the monetary policy divergence between the European Central Bank and the US Federal Reserve. At the same time, ECB Chief Economist Philip Lane said it was premature to discuss concluding emergency procurement needed to manage the COVID-19 pandemic (Chart 2.3).

In the second quarter of 2021, the **Russian ruble** appreciated by an average of 0.2% against the US dollar, ranging from a monthly depreciation of 2.3% in April 2021 to an appreciation of 2.7% and 2.1% in May and June. The evolution of the Russian ruble in April 2021 was determined by geopolitical tensions and new sanctions against Russia by the US. President Joe Biden has banned US financial institutions from participating in the initial public offering of Russian ruble-denominated sovereign bonds on June 14, 2021. Since 2019, US banks have been banned from participating in the primary market of US dollar-denominated sovereign bonds. The easing of the geopolitical situation towards the end of April and the June meeting in Geneva between the presidents of the USA and the Russian Federation determined the appreciation of the Russian ruble. The Russian ruble was also appreciated following the continued tightening of monetary policy by the Bank of Russia to counter pro-inflationary pressures and the decision of the Ministry of Finance of the Russian Federation to reduce daily foreign exchange purchases under the budget rule. Another factor in the appreciation of the Russian ruble in recent months has been the rise in oil and other commodities prices (Chart 2.4).

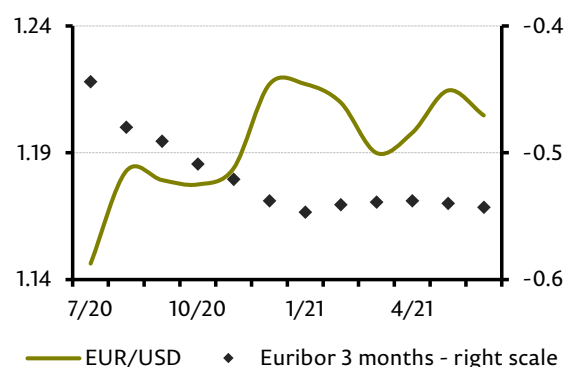
The average price of Urals brand oil in the second quarter of 2021 was 66.8 USD/barrel, up 12.1% from the previous quarter and 2.2 times higher than the second quarter of 2020 (Chart 2.4). The gradual steady rise in oil prices has been fuelled by continued OPEC+ efforts to limit oil production (Chart 2.5) in line

Chart 2.2: Evolution of the USD index (DXY)* in the context of FRS monetary policy



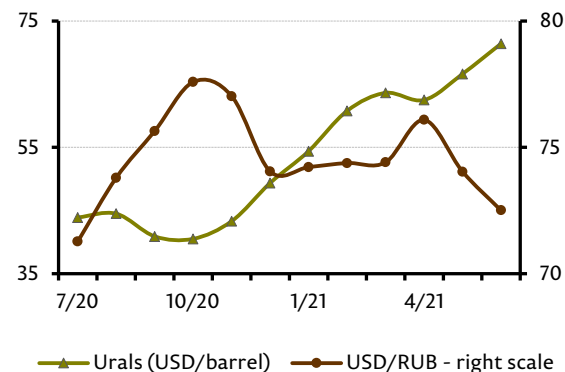
Source: FRS, Bloomberg
 *DXY is an index calculated by the weighted geometric mean of the value of the US dollar against a basket of foreign currencies: euro – 57.6%, Japanese yen – 13.6%, pound sterling – 11.9%, Canadian dollar – 9.1%, Swedish krona – 4.2%, Swiss franc – 3.6%

Chart 2.3: The evolution of EUR/USD (monthly average) and interest rates in the euro area



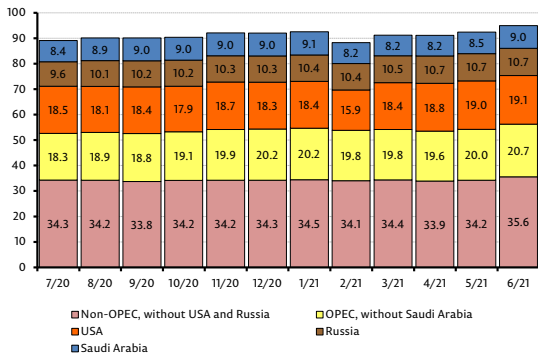
Source: ECB, Eurostat

Chart 2.4: The evolution of USD/RUB under the Urals price development



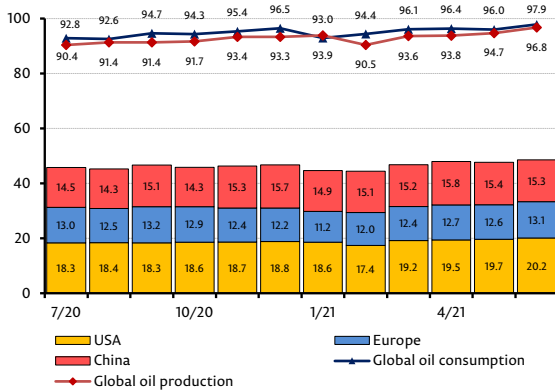
Source: Central Bank of the Russian Federation, Ministry of Economic Development of the Russian Federation

Chart 2.5: The global oil offer (millions of barrels per day)



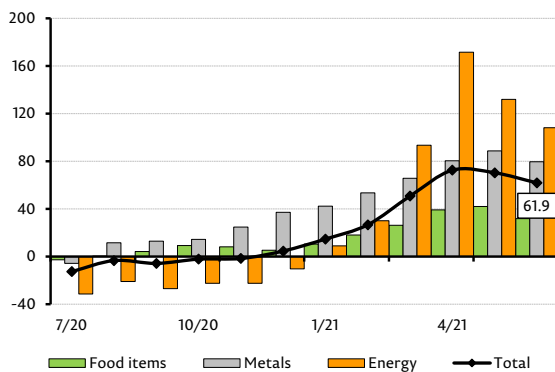
Source: USA Energy Information Administration

Chart 2.6: World oil consumption (millions of barrels per day)



Source: US Energy Information Administration

Chart 2.7: Annual growth rate of world prices (IMF indices) (%)



Source: IMF, NBM calculations

with evolving global oil demand (Chart 2.6). The oil market has responded positively to the success of mass vaccination programs in the US and Europe, as well as the mitigation of the COVID-19 outbreak in India. At the same time, the demand for oil in the USA has grown rapidly, as the country approaches the seasonal peak of consumption of petroleum products, which has led to a reduction in oil and gasoline reserves. Oil prices fall slightly after serious progress is reported in negotiations to resume Iran nuclear deal.

Uncertainties in the oil market have recently increased following the failure of the OPEC+ talks on continuing to limit oil production. According to reports, all OPEC+ members have supported an increase in oil production since August 2021, with the exception of the UAE, which insists on changing its benchmark for lowering oil production from 3.17 to 3.8 million barrels per day. Subsequently, UAE and OPEC+ reached a preliminary agreement on new quotas for oil production, and on 18 July 2021 the members of the OPEC+ alliance overcame differences of opinion and agreed, starting in August 2021, to increase oil production with 400 thousand barrels per day each month until they return the remaining 5.8 million barrels per day. Saudi Arabia and the UAE have reached a compromise in which the latter have received half of what they demanded: new oil production in the UAE has been increased from 3.17 to 3.5 million barrels per day.

International quotations on raw materials and food products continued to intensify pro-inflationary pressures, albeit to a slightly decreasing extent. According to IMF, in June 2021, the total index of international quotations was 3.9% higher than in May 2021 and 61.9% higher than in June 2020. In monthly terms, the IMF food index fell by 4.0% , the industrial metals index rose by 3.4% and the energy index by 10.6%. In annual terms, the IMF food index increased by 31.9%, the industrial metals index by 79.7%, and the energy index by 108.3% (Chart 2.7).

According to the World Food and Agriculture Organization, in June 2021, the monthly rate of the **FAO index** fell by 2.5% for the first time in the last 12 months. The decline in June reflected a decline in prices for vegetable oils (-9.8%), cereals (-2.6%) and, to a lesser extent, dairy products (-1.0%), which offset higher quotations for meat (+2.1%) and sugar (+0.9%). After rising for 12 consecutive months, international prices for palm, soybean and sunflower oils fell sharply in June, mainly due to good yields in producing countries and declining global import demand. A favourable overall outlook supported by improved prospects for more cereal producers has outpaced upward pressure on grain prices in recent months. International quotations for most dairy products in the FAO index fell, supported by a rapid decline in global import demand and a slight increase in stocks, especially in Europe. On the contrary, quotations for all types of meat represented in the FAO index increased mainly due to strong demand for global imports, with the increase in imports from some East Asian countries offsetting the slowdown in Chinese meat purchases. Uncertainties about the impact of adverse weather conditions on crop yields in Brazil, the world’s largest sugar exporter, have put upward pressure on sugar prices. Also, the recent rise in oil prices and the appreciation of the Brazilian real against the US dollar have provided additional support for global sugar prices. It should be noted that, in annual terms, world food prices remain on average 33.9% higher (Chart 2.8).

2.2 The evolution of important economies

In the first quarter of 2021, the gross domestic product of **United States of America** increased by 1.6% (in seasonally adjusted terms) compared to the previous quarter and by 0.4% compared to the level of the same period of the previous year. In the first half of 2021, industrial production in the US increased by an average of 5.9 compared to the first half of 2020. In June 2021, the unemployment rate in the US increased by 0.1 percentage points, to 5.9%. Annual inflation in the US accelerated to 5.4% in June 2021, the highest level of consumer price growth since the 2008 financial crisis.

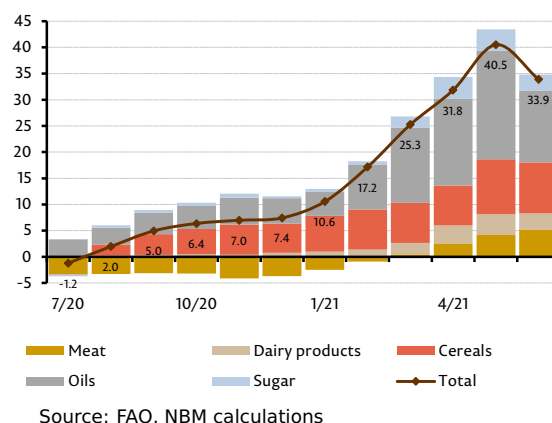
Due to the worsening epidemiological situation caused by COVID-19 and the tightening of quarantine restrictions, in the first quarter of 2021, gross domestic product in **euro area** contracted by 0.3% (in seasonally adjusted terms) compared to the fourth quarter 2020 and by 1.3% compared to the first quarter of 2020. In the first 5 months of 2021, industrial production in the euro area increased by 12.1% compared to the same period last year, of which in Germany by 8.0%, France by 12.1% and Italy by 20.8%. The latest published data show that in May 2021, the unemployment rate in the euro area fell to 7.9% and the harmonized index of consumer prices increased by 0.3% compared to the previous month and 1.9% compared to June 2020. The increase in annual inflation to the level of 2.0% targeted by the ECB leads market participants to wait for the gradual cessation of the monetary stimulus related to COVID-19.

2.3 Evolution of economies in the neighboring countries and in the main trade partner countries

In the first quarter of 2021, the gross domestic product of **Romania** increased by 2.9% (in seasonally adjusted terms) compared to the previous quarter, and compared to the similar period of the previous year, the gross series decreased of 0.2%. In January-May 2021, industrial production increased compared to the same period of the previous year by 16.9% on the gross series. In June 2021, consumer prices increased by 0.3% compared to the previous month's price level and by 3.9% compared to the June 2020 price level. Although the level of annual inflation exceeded the corridor of 1.5-3.5% targeted by the NBR, according to the projection related to the Inflation Report no.2, 2021, inflation is expected to return in the target range in the first quarter of 2022.

In the first quarter of 2021, the economy of **the Russian Federation** contracted by 0.3% (in seasonally adjusted terms) compared to the previous quarter and by 0.7% compared to the same period last year. Cumulatively, between January and May 2021, industrial production in the Russian Federation increased by 3.2%. Against the background of the depreciation of the Russian ruble, annual inflation was above the level set by the Bank of

Chart 2.8: Annual growth rate of world food prices (FAO index) (%)



Russia in November 2020, and in June reached a significantly high level of 6.5%. Thus, after the beginning of the year the Bank of Russia increased four times the rate of monetary policy from the level of 4.25% cumulated to 6.5%.

In the first quarter of 2021, gross domestic product in **Ukraine** contracted by 1.1% (in seasonally adjusted terms) compared to the fourth quarter of 2020 and by 2.0% in annual terms. In the first 5 months of 2021, industrial production increased by 2.2%, and production in construction and agriculture contracted by 6.1% and 4.5%, respectively. Inflation continued to accelerate in June 2021, with consumer prices rising in Ukraine by 0.2% from the previous month and by 9.5% from June 2020. Amid rising proinflationary pressures, the National Bank of Ukraine increased its base rate in March 2021 by 0.5 percentage points and in April 2021 by 1.0 percentage points, to a cumulative level of 7.5%.

Chapter 3

Economic developments

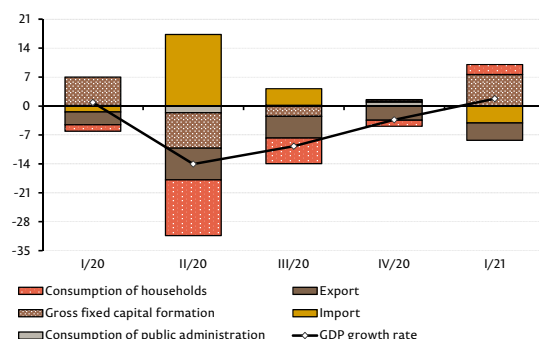
3.1 Demand

Following the negative dynamics of the previous year, at the beginning of this year the annual pace of GDP entered positive territory, despite the adverse impact of pandemic restrictions and the negative effects of the agricultural sector in 2020. Thus, in the first quarter of 2021, GDP was 1.8% higher than in the same period of 2020, the respective dynamics being higher than anticipated in the Inflation Report no. 2. Supply pressures are also fueled by aggregate domestic demand from the perspective of recovering the consumption of the population amid the acceleration of the wage fund, the volume of new loans granted, remittances in favor of individuals. Seasonally adjusted series reflects 2.5% increase in GDP compared to the fourth quarter of 2020. The positive dynamics of GDP was mainly determined by the acceleration of investments, the consumption of the population generating a more modest positive impact, and the net export being in negative territory.

From the perspective of uses (Chart 3.1), economic growth was mainly determined by the acceleration of the investment component. In this way, the gross capital formation generated a contribution of 7.6 percentage points to the GDP dynamics. Most of it (4.7 percentage points) was attributed to the "change in inventories" subcomponent, while "gross fixed capital formation" contributed 2.9 percentage points as a result of its increase of 14.2% compared to the first quarter of 2020. After the negative dynamics of the previous periods, at the beginning of the current year the consumption of households increased by 2.8% compared to the first quarter of 2020, in the context of increasing the disposable income of the population, but also the relaxation of lending conditions. In this way, in the first quarter of 2021, the salary fund continued the pronounced positive dynamics signaled at the end of the previous year. At the same time, the monetary policy measures of the previous year led to a decrease in credit rates and an increase in lending volumes, which favored both domestic consumption and investment. The negative effects of pandemic restrictions and COVID-19 uncertainty continued to be an impediment to the evolution of household consumption.

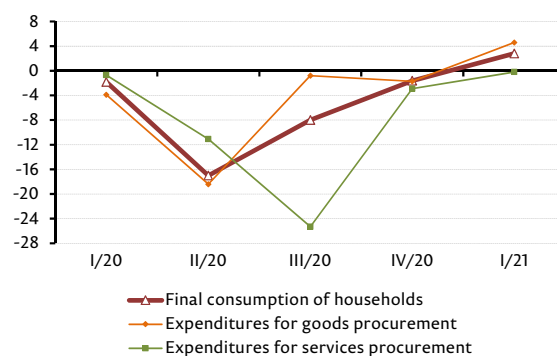
After the positive dynamics pronounced at the end of the previous year, the final consumption of the public administration decreased by 1.1%. The export of goods and services, in the conditions of a modest external demand, of some restrictions related to COVID-19 in the region, but also of a smaller harvest, continued the negative

Chart 3.1: The contribution of demand components to GDP growth (p.p.)



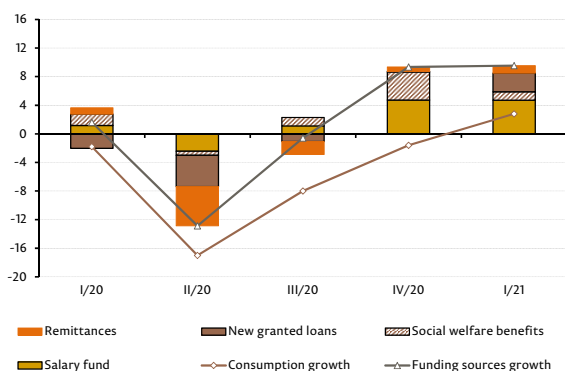
Source: NBS, NBM calculus

Chart 3.2: Evolution in real terms of the final consumption of households' (% , yoy)



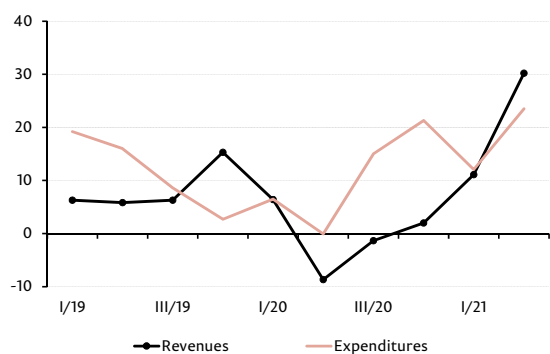
Source: NBS

Chart 3.3: Evolution of personal disposable income (% , yoy) and subcomponents' contribution (p.p.)



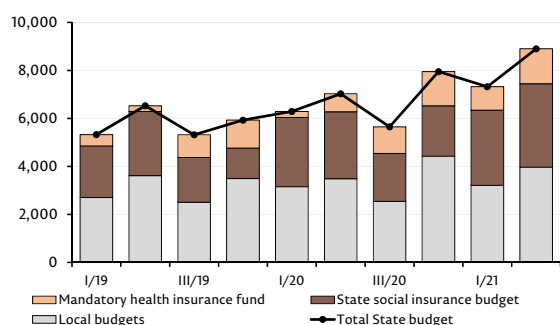
Source: NBS, NBM calculus

Chart 3.4: The dynamics of public revenues and expenditures, (% , yoy)



Source: Ministry of Finance

Chart 3.5: The evolution of budget transfers (lei million)



Source: Ministry of Finance

dynamics, registering a decrease of 12.3% in real terms compared to first quarter 2020. The increase in domestic demand, especially investment-oriented, was accompanied by an acceleration of imports, which were 7.1% higher than in the same period last year. Thus, among the factors that supported the positive dynamics of GDP at the beginning of this year can be mentioned the decrease of interest rates, the increase of credit volume, the depreciation of the exchange rate, the increase of budgetary expenditures, which had a positive effect on the dynamics of economic activity.

Consumer demand of the population

After the negative dynamics of the previous year, the consumption of households registered a positive evolution in the first quarter of 2021. Thus, the annual rate of final consumption of households was 2.8%, 4.4 percentage points higher compared to the fourth quarter of 2020. The respective dynamics of household consumption was supported by the increase in expenditures for the purchase of goods by 4.6%, while the expenditures for the procurement of services decreased by 0.2% compared to the same period of the previous year (Chart 3.2).

The increase in household consumption was supported by the increase in its disposable income. In this way, the possible main sources of financing the consumption of the population showed a positive dynamic in the first quarter of 2021 (Chart 3.3). The salary fund and the new loans granted to the population registered a pronounced upward dynamics at the beginning of the current year, generating significant contributions to the estimation of the indicator on the disposable income of the population. At the same time, a positive impact, but of a smaller magnitude, was also determined by the dynamics of remittances and social payments. On the other hand, an adverse effect on population consumption dynamics continues to be exerted by the restrictions and uncertainty associated with COVID-19.

Public sector

According to the data provided by the Ministry of Finance, in the second quarter of 2021 the revenues of the national public budget were accumulated in the amount of 18.2 billion lei, by 30.2% more than the revenues accumulated in the same period of 2020 (Chart 3.4). The major part of the budget revenues was accumulated from the account of taxes and fees, which had a share of 64.3%. Compulsory insurance contributions and premiums accounted for 30.3%, and the share of other revenues and grants accounted for 5.2% and 0.3% of total budget revenues, respectively.

The expenditures of the national public budget, in the second quarter of 2021, totaled 21.1 billion lei, registering an increase of 23.5% compared to the similar period of 2020. Of the total expenditures, the largest share was spent on social protection (36.9%), 18.4% was allocated for education, and 16.7% for health care.

It should be noted that in the second quarter of 2021, transfers from the state budget (SB) were granted to the state social insurance budget (SSIB), the mandatory health insurance fund (MHIF) and local budgets (LB), amounting to 8.9 billion lei (increasing by 26.6% compared to the similar period of 2020

(Chart 3.5)). The majority of transfers were directed to local budgets, about 44.6% of total transfers, followed by transfers to SSIB, about 39.0%, MHIF benefiting from a more modest funding of 16.4%.

In this context, in the second quarter of 2021, the execution of the national public budget resulted in a deficit of 2.9 billion lei. In the second quarter of 2020, the execution of the national public budget resulted in a deficit of 3.1 billion lei. The balances of the accounts of the national public budget as of June 30, 2021 amounted to 9.6 billion lei.

Evolution of the single treasury account

The evolution of movements in the single treasury account (STA), in the second quarter of 2021, was characterized by an increase in the pace of payments compared to the previous quarter and the second quarter of 2020 (by 31.1 percentage points above the same period last year) (Chart 3.6). As a result of the evolution of inflows and outflows, the balance of STA increased compared to the end of the previous quarter, amounting to about 7.9 billion lei on June 30, 2021, at the same time, registering an annual increase of 65.2% (Chart 3.7).

In addition, it should be mentioned that, at the end of the second quarter of 2021, the Government's foreign currency deposit accounts with the National Bank of Moldova were equivalent to about 4.6 billion lei, 0.5 billion lei more than at the end of the previous quarter.

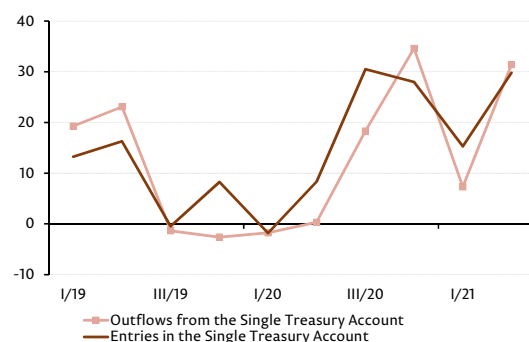
State debt

As of June 30, 2021, the balance of state debt of the Republic of Moldova totaled 75.6 billion lei, compared to GDP it was 34.8% (Chart 3.9). In annual terms, the government debt increased by 26.0% (Chart 3.8), due to the increase, with equal contributions of 13.0 percentage points, of the recalculated domestic and external government debt in the national currency. The state debt, as of June 30, 2021, consisted of the external state debt in the proportion of 54.6% and the internal state debt in the proportion of 45.4%.

As of June 30, 2021, the balance of foreign government debt amounted to US dollars 2,295.6 million, higher than that of June 30, 2020 by about US dollars 355.2 million or 18.3%. Recalculated in domestic currency, the balance of external government debt amounted to about 41.3 billion lei (19.0% in GDP⁸) (Chart 3.9).

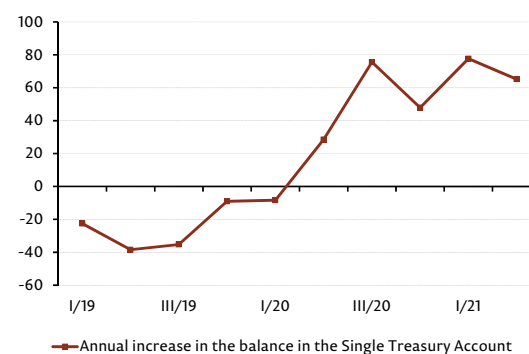
As of June 30, 2021, the domestic government debt amounted to 34.3 billion lei (15.8% of GDP⁸) (Chart 3.9), higher than in the same period of the year previous by 29.2% (Chart 3.8). The increase in domestic government debt was determined by state securities (SS) issued on the primary market, whose volume increased by 68.4% compared to the same period of 2020. As a result of these developments, at the end of June 2021, the domestic debt consisted of SS issued on the primary market (57.2%), SS issued for the execution of state guarantees (36.8% of the total) and converted SS (6.0%).

Chart 3.6: Evolution of single treasury account flows (% , yoy)



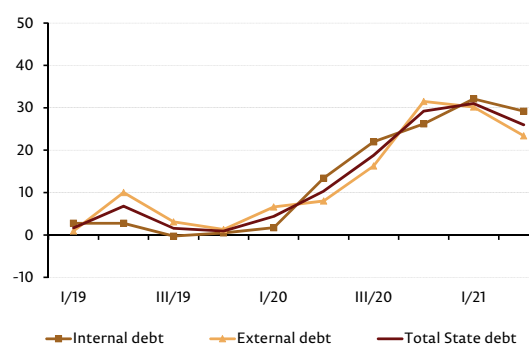
Source: NBM

Chart 3.7: The evolution of the single treasury account balance (% , yoy)



Source: NBM

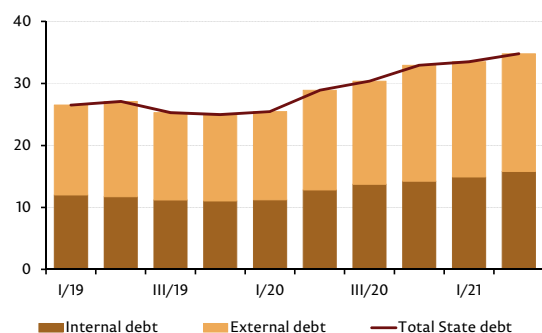
Chart 3.8: Evolution of government debt (% , yoy)



Source: Ministry of Finance

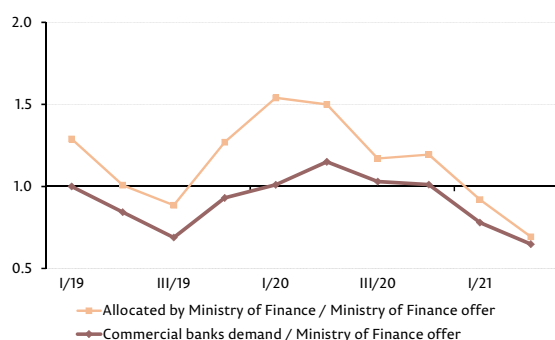
⁸GDP estimated by the NBM.

Chart 3.9: The ratio of government debt in GDP (% , end of the quarter)



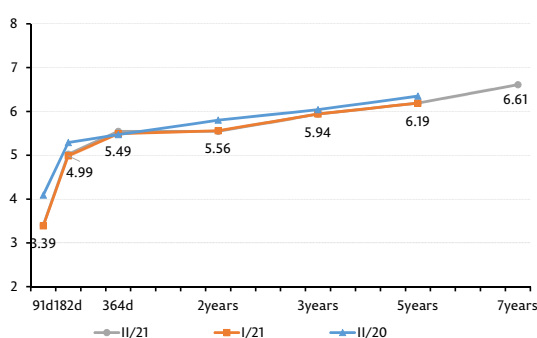
Source: NBM

Chart 3.10: The demand and supply ratio on the primary market of state securities



Source: NBM

Chart 3.11: SS yield curve (%)



Source: NBM

Primary market of state securities (SS)

During the second quarter of 2021, the Ministry of Finance put into circulation state securities with a total value of 8,192.7 million lei, 35.2% less than the volume of the initial offer. It should be noted that the volume of the offer of the Ministry of Finance increased by 60.1% compared to the previous quarter and 2.9 times compared to the offer in the second quarter of 2020. At the same time, on April 21, 2021, the Ministry of Finance put into circulation government bonds with a maturity of 7 years, which is a major step towards completing the yield curve. They will serve as a benchmark for long-term pricing of instruments and will contribute to the development of the capital market. The demand of banks was 30.7% lower than the offer of the Ministry of Finance, amounting to 8,758.9 million lei (Chart 3.10).

During the reporting period, the average effective interest rates on all treasury bills and government bonds remained virtually at the level recorded in the previous quarter, except for the 364-day treasury bill which increased by 0.1 percentage points. 7-year government bonds were traded at an average effective rate of 6.61% (Chart 3.11).

The structure of the SS portfolio put into circulation during the reference period shows that the most popular SS were those with a maturity of 364 days, which accounted for 41.4% of total transactions, followed by 182-day treasury bills, whose share was 39.4%, and the share of 91-day treasury bills was 14.1%. It should be noted that the shares of government bonds with a maturity of 2 years and 3 years constituted 2.0% and 1.4%, respectively. The share of government bonds with a maturity of 5 years and 7 years was 0.9% each (Chart 3.12).

Investment demand

In the first quarter of 2021, the investment component generated a pronounced positive impact on the dynamics of economic activity, thus contributing to GDP growth by 7.6 percentage points. The evolution was determined by the increase of gross fixed capital formation by 14.2%, which generated a contribution of 2.9 percentage points to GDP growth. It should be noted that the increase in the annual rate of gross fixed capital formation was determined by the dynamics of investments oriented in "machinery and equipment" and "constructions", which increased by 21.0 and 11.7%, respectively (Chart 3.13). At the same time, the change in inventories generated a positive contribution of 4.7 percentage points to the GDP dynamics.

According to the operative data presented by the NBS, in the first quarter of 2021, the annual growth rate of investments in tangible fixed assets⁹ increased by 13.9%. Thus, the increase in investments in "machinery, equipment, transmission installations" and "means of transport" by 37.7 and 15.0%, respectively, mainly determined the positive dynamics of investments in tangible fixed assets (Chart 3.14).

In the first quarter of 2021 there was a sharp acceleration in the annual rate of sources of investment financing, which increased

⁹As of January 1, 2017, the statistical questionnaire 2-INV definitions used, methods of calculation and presentation of indicators) with the provisions of the new National Accounting Standards, which entered into force on 1 January 2015.

by 14.8% in the period under review. It should be noted that the increase in investment financing sources was determined by the dynamics of the groups "other sources"¹⁰, "funds of foreign investors", "state budget" and "budget of administrative-territorial units" (Chart 3.15). As in previous periods, own funds remain the main source of financing investments in fixed assets (63.4% in the first quarter of 2021).

Net foreign demand¹¹

In the first half of 2021, a revival of economic activity at the regional level was outlined against the background of the relaxation of the restrictive measures related to the COVID-19 pandemic. As a consequence, it had a positive impact on the dynamics of the foreign trade of the Republic of Moldova, during the reference period. At the same time, the annual rate of imports grew sharply as a result of the revival of consumption by the population and the manufacturing industry. On the other hand, the record of a modest agricultural harvest in 2020 created preconditions for the sharp decline in exports of agri-food products, which contributed to the moderation of the annual growth rate of exports in the first half of 2021. In the first two months of the second quarter of 2021 there was a return to the positive level of the annual rate of export of domestic products.

The annual rate of exports in the first quarter of 2021 recorded a level of 1.4% or 4.6 percentage points higher than in the fourth quarter of 2020. At the same time, the data for the first two months of the second quarter of 2021 show an even more pronounced acceleration (by 36.0 percentage points) of the annual rate to the level of 37.4%. The acceleration of the annual export rate in the first half of 2021 was mainly due to the evolution of exports to EU countries. At the same time, exports to CIS countries and those classified as "Rest of the World" had a positive but negligible impact in the first five months (Chart 3.17).

It should be noted that the sharp decrease in the volume of agricultural production in 2020 negatively affected the export of "food, animal feed, beverages and fats", both at the end of 2020 and in the first half of 2021 (Chart 3.18). At the same time, in the first months of 2021, in the direction of increasing the annual export rate, it influenced the export of "vehicles, optical and sound recording or reproducing apparatus", "textiles and clothing" and "articles of metals, stones or ceramics".

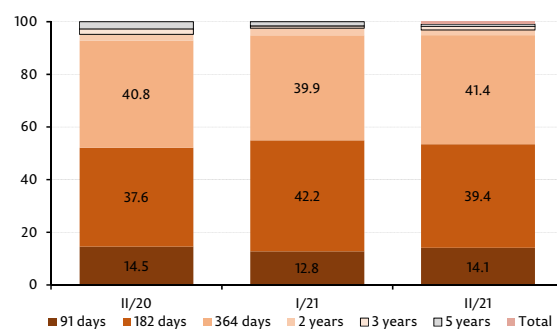
Analyzing the evolution of exports by origin of products, it can be seen that the placement of the annual rate of exports in the positive level in the first quarter of 2021 was determined by the positive dynamics of re-exports, as opposed to exports of domestic products contracted annually. At the same time, the sharp revival of exports in the second quarter of 2021 is supported by both domestic exports and re-exports (Chart 3.19).

In the first quarter of 2021, the annual rate of imports was 13.6%, 12.7 percentage points higher than at the end of 2020. At the

¹⁰This group also includes domestic loans and borrowings. In the first quarter of 2021, they increased by 34.2%, generating a contribution of 3.1 percentage points to the increase in sources of investment financing.

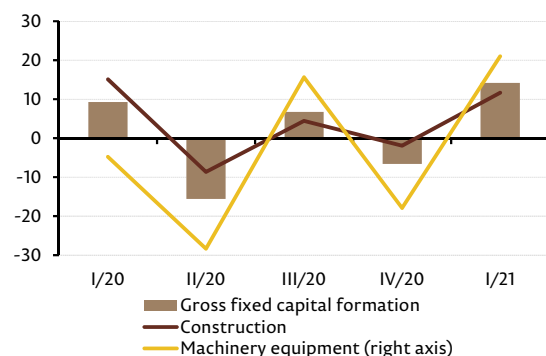
¹¹Quarterly data on the evolution of the foreign trade of the Republic of Moldova, expressed in thousands of US dollars, were used.

Chart 3.12: Structure of SS allocated on the primary market (%)



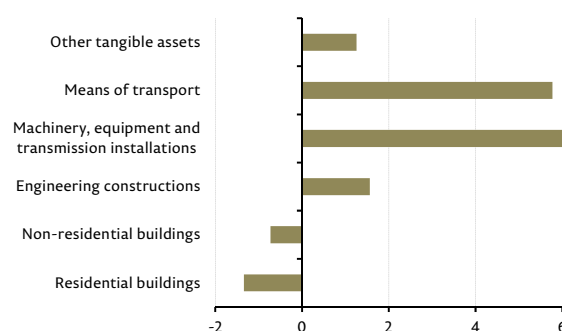
Source: NBM

Chart 3.13: The annual dynamics of investments (%)



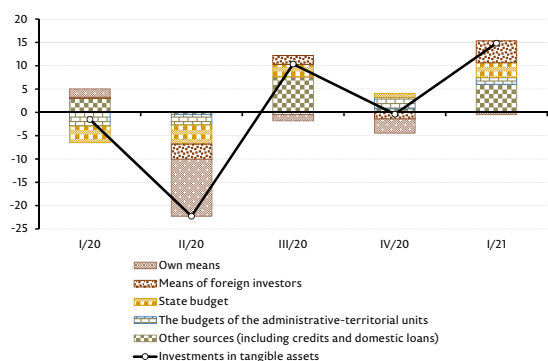
Source: NBS

Chart 3.14: Components' contribution to increase of investment in tangible assets in the first quarter of 2021 (p.p.)



Source: NBS, NBM calculus

Chart 3.15: The annual investment dynamics by funding sources (% , in real terms)

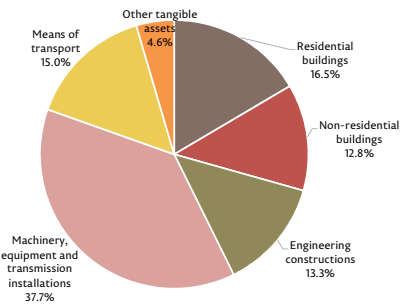


Source: NBS, NBM calculus

same time, the data for the first two months of the second quarter of 2021 show an even more pronounced acceleration of the annual rate of imports to the level of 83.0%, being 69.4 percentage points higher than in the first quarter of this year. The recording of positive rates of the annual rate of imports during the analyzed period was determined by their evolution from all categories of countries (Chart 3.20). At the same time, in the period January-May 2021 there is an increase in the import of goods and services by 13.3% compared to the period January-May 2019.

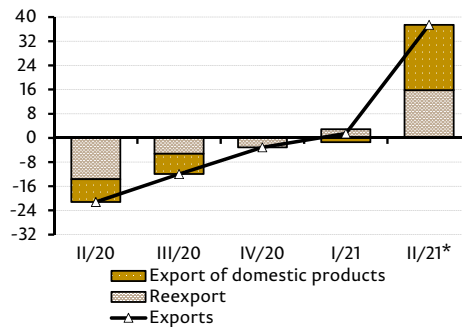
By groups of goods (Chart 3.21), the increase in the annual rate of imports in the first two months of the second quarter of 2021 was influenced by the increase in imports of "vehicles, optical and sound recorders", "chemical industry products and woodworking machinery", "mineral products", "articles of metals, stones or ceramics" and "foodstuffs, animal drinks, beverages and fats".

Chart 3.16: Investment structure on types of tangible assets in the first quarter of 2021 (%)



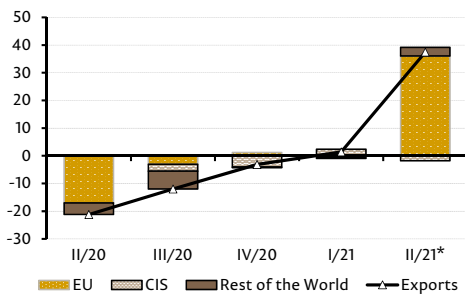
Source: NBS

Chart 3.19: Evolution of exports annual rate (%) and contribution by origin (p.p.)



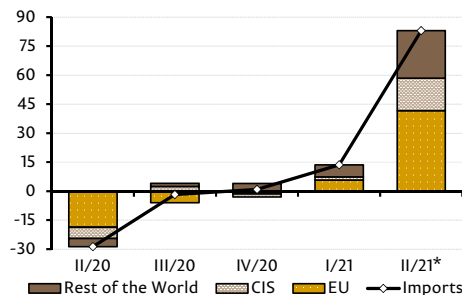
Source: NBS, NBM calculus
*Apr.-May

Chart 3.17: Evolution of exports annual rate (%) and contribution by categories of countries (p.p.)



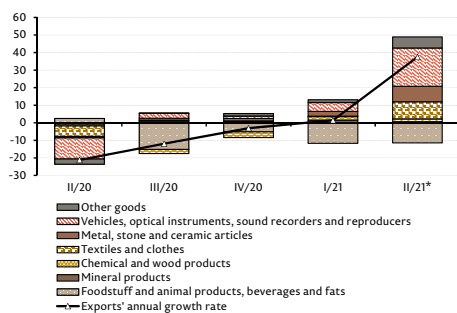
Source: NBS, NBM calculus
*Apr.-May

Chart 3.20: Evolution of imports annual rate (%) and contribution by categories of countries (p.p.)



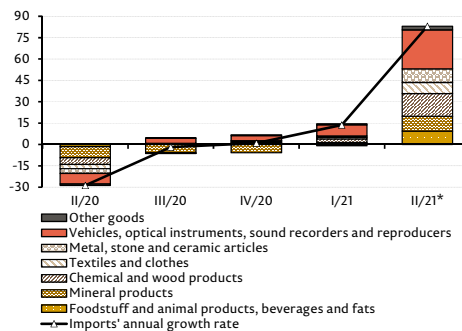
Source: NBS, NBM calculus
*Apr.-May

Chart 3.18: Evolution of exports annual rate (%) and components' contribution by groups of goods (p.p.)



Source: NBS, NBM calculus
*Apr.-May

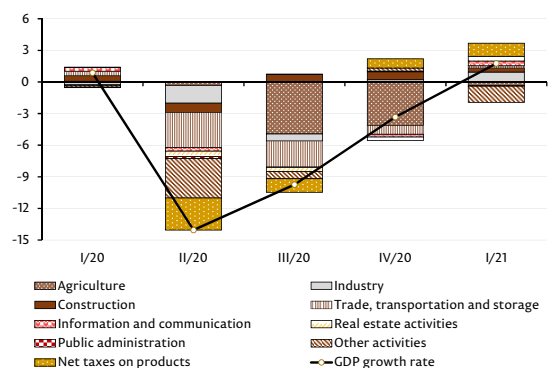
Chart 3.21: Evolution of imports annual rate (%) and components' contribution by groups of goods (p.p.)



Source: NBS, NBM calculus
*Apr.-May

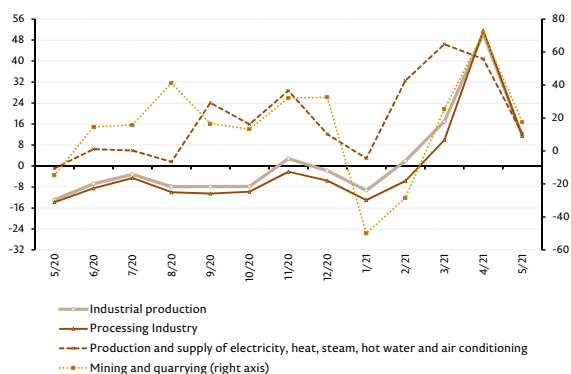
3.2 Production

Chart 3.22: The contribution of economic sectors to GDP growth (p.p.)



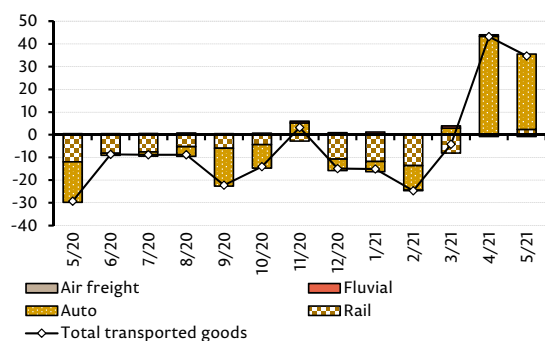
Source: NBS, NBM calculus

Chart 3.23: Evolution in real terms of industry (% , yoy)



Source: NBS

Chart 3.24: Evolution of goods transport (% , yoy)



Source: NBS

By categories of resources, GDP growth at the beginning of this year was mainly supported by the dynamics of industry, construction, real estate and communications. The agricultural sector continued to reflect the consequences of adverse conditions in the previous year.

In this way, the gross value added of the industrial sector increased by 6.1% and thus determined a positive impact of 0.9 percentage points on GDP dynamics (Chart 3.22). Gross value added for the construction sector increased by 5.5%, generating a positive contribution of 0.4 percentage points. Real estate transactions increased by 5.0%, while the gross value added obtained in the information and communications sector increased by 6.5%, generating an impact of 0.4 percentage points on GDP dynamics. Net taxes on products increased by 8.6%, generating a contribution of 1.2 percentage points to GDP dynamics.

The positive impact of the sub-components mentioned above has been mitigated by the dynamics of the agricultural sector and the sub-component "other activities". Gross value added in the agricultural sector, in the context of the negative effects generated by the modest harvest of the previous year, registered a decrease of 13.9%, generating a negative impact of 0.5 percentage points on the dynamics of GDP. Gross value added in the financial and insurance sectors contracted by 7.4%, having a negative impact of 0.3 percentage points on GDP dynamics. Following the negative developments in previous periods, gross value added under the sub-component "trade, transport and storage"¹² remained practically at the level of the previous year.

Most of the operational indicators available in April and May 2021 accelerated, outlining the outlook for a strong positive GDP growth in the second quarter of 2021. At the same time, according to the operative data for April-May t.y. a recovery of economic activity at the level up to the pandemic is outlined.

Thus, in the first two months of the second quarter of 2021, the annual growth rate of industrial production recorded an average level of 31.0%, being by 27.8 percentage points higher than in the first quarter of 2021 (Chart 3.23). This dynamic was determined by the increase of the annual rhythm of the manufacturing industry (from -2.9% in the first quarter of 2021 to 31.5% in the first two months of the second quarter of 2021). At the same time, the annual pace of production volume in the extractive industry in April-May 2021 increased by 62.3 percentage points compared to the first quarter of 2021, to 44.6%. At the same time, the annual rate of "production and supply of electricity and heat, gas, hot water and air conditioning" decreased (from 27.3% in the first quarter of 2021 to 26.6% in the first two months of the second quarter 2021). **At the same time, according to the estimates in the period January-May**

¹²Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles; transport and storage; accommodation and catering activities.

2021, compared to the period January-May 2019, there is an increase in industrial production by 4.4%.

A sharp acceleration in the first two months of the second quarter of 2021 was recorded for the annual freight rate. Thus, the average annual rate of volume of transported goods registered a level of 38.9%, being 53.6 percentage points higher than in the first quarter of 2021 (Chart 3.24). At the same time, between January and May 2021, the railway, road, river and air transport companies transported 5.7% more goods compared to the similar period of 2020. This development was determined by the increase in annual terms of the volume of goods transported by road by 15.7%. At the same time, the volume of goods transported by river and air increased by 33.5 and 20.0%, respectively, compared to the same period of the previous year, while the volume of goods transported by rail decreased by 28.9%.

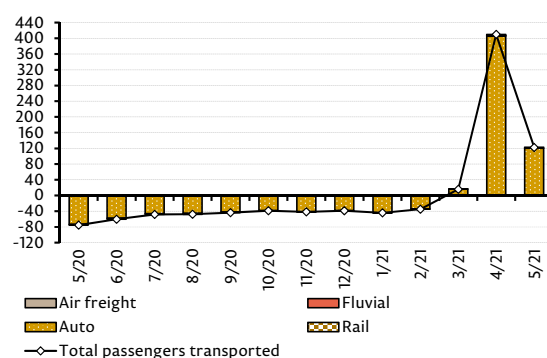
A similar situation was witnessed for passenger transport in the first two months of the second quarter of 2021. Thus, the average annual rate of passengers carried was 266.1%, 287.1 percentage points higher than in the first quarter of 2021 (Chart 3.25). At the same time, in January-May 2021, 5.5% more passengers were transported compared to the similar period of 2020. This evolution was determined by the increase in annual terms of the number of passengers transported by river and road by 48.6 and 6.1%, respectively. At the same time, the number of passengers transported by rail decreased by 27.4% compared to the same period last year, and the number of passengers transported by air decreased by 14.7%.

At the same time, in the first two months of the second quarter of 2021, the turnover of the enterprises with main retail activity registered a pronounced positive dynamics. Thus, in the reference period, it recorded an increase of 42.1%, being 32.6 percentage points higher than in the previous quarter (Chart 3.26). At the same time, the turnover of the enterprises with main activity of market services provided to the population registered, between April and May 2021, an increase of 149.1%, being by 115.6 percentage points higher than in the first quarter of 2021. At the same time, in the period January-May 2021 compared to the period January-May 2019, it is estimated that there is an increase in turnover of enterprises with main retail activities of 24.3%, and the turnover with services provided to the population increased by 40.6%.

At the same time, between April and May 2021, the turnover of enterprises with main wholesale activity recorded a pronounced increase of 33.2%, being by 39.2 percentage points higher than in the first quarter of 2021 (Chart 3.27). The turnover of the enterprises with main activity of market services provided to the enterprises registered, in the reference period, an increase of 44.5%, being by 41.6 percentage points higher than the annual rate of the previous quarter.

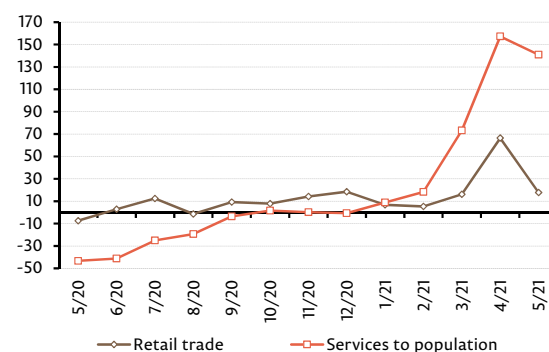
In the second quarter of 2021, global agricultural production decreased by 10.2% compared to the level of the same quarter of the previous year (Chart 3.28). The respective dynamics was determined by the decrease of the vegetal and the animal production by 23.6 and 6.7%, respectively. The reduction in vegetable production is mainly due to the delay compared to the

Chart 3.25: Evolution of the transport of passengers (% , yoy)



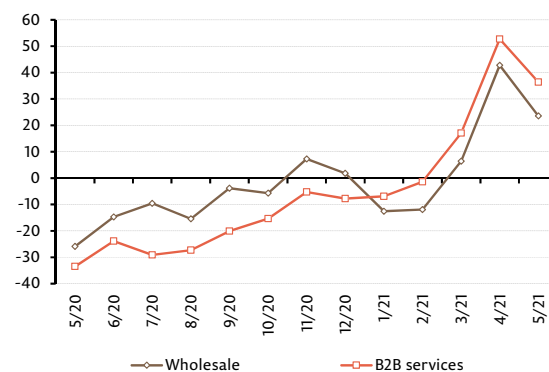
Source: NBS

Chart 3.26: The evolution of domestic trade in real terms (% , yoy)



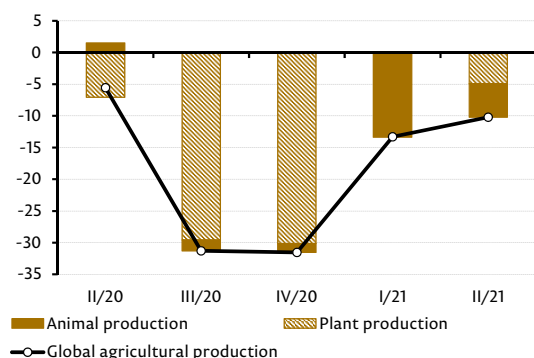
Source: NBS

Chart 3.27: The evolution of wholesale trade (deflated by annual CPI) (% , yoy)



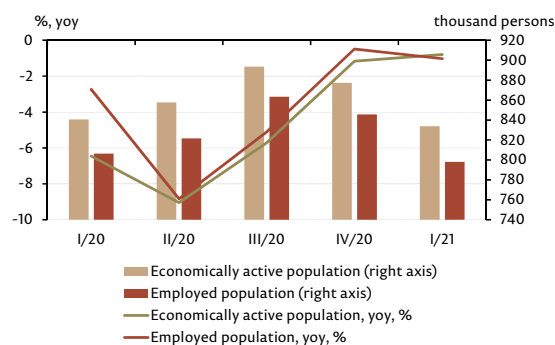
Source: NBS

Chart 3.28: Annual rate of global agricultural production (%) and sectoral contribution (p.p.)



Source: NBS, NBM calculus

Chart 3.29: Economically active population and employed population (%)



Source: NBS, NBM calculus

previous year in the harvesting of cereals and other agricultural crops, as a result of the signaling during the quarter of inhomogeneous weather after the thermal regime and with more precipitation.

The contraction of the production volume in the livestock sector¹³ in the analyzed period was determined by the decrease of milk, eggs and "cattle and poultry (live mass)" production.

3.3 Labour market

Labour force

The negative dynamics of the economically active and employed population continued at the beginning of this year against the background of the impact of the restrictions of COVID-19 and of the modest economic activity, the trade being the most affected branch. At the same time, the unemployment rate, as well as the underemployment rate registered an ascending dynamic.

In the first quarter of 2021, similar to previous periods, the negative dynamics of the labour force and the employed population continued. Thus, in January-March 2021, the economically active population was 833.9 thousand people, being 0.8% lower than in the same period of 2020. At the same time, the employed population was 798.1 thousand people, being 1.0% lower than in the first quarter of 2020 (Chart 3.29). It should be mentioned that the negative dynamics of the respective indicators has been registered during the last years.

By subcomponents, the decrease in the number of the employed population in the first quarter of 2021 was attested in trade, public administration and social services¹⁴, in the transport and communications sector and in industry. In this way, the employed population related to trade¹⁵ decreased by about 6.3%, and that related to social services by about 4.5%. The number of people employed in the transport and communications sector registered a contraction of 3.8%, and the number of those employed in industry decreased by 0.3%. On the other hand, positive developments at the beginning of this year were attested in the construction sector, agriculture and in the component "other activities". Thus, the number of people employed in construction and in the agricultural sector increased by 14.8 and 1.8%, respectively, compared to the first quarter of 2020. At the same time, the population employed in the sub-component "other activities" increased by 6.2% (Chart 3.30).

Similar to the previous period, at the beginning of the current year the underemployed population registered a slightly upward dynamics. Thus, the underemployed population increased from 33.4 thousand in October-December 2020 to 33.5 thousand people

¹³Comparable prices.

¹⁴Public administration, education, health and social assistance.

¹⁵Wholesale and retail trade; Accommodation and public catering activities.

in January-March 2021, and the underemployment rate was 4.2% or 0.2 percentage points higher than from the fourth quarter of 2020. During the reference period, the number of unemployed was 35.8 thousand people or 4.0 thousand people more than in the first quarter of 2020, and the unemployment rate was 4.3%, 0.7 percentage points higher than in quarter IV 2020 (Chart 3.31). At the same time, the number of unemployed and the unemployment rate were higher (by 1.6 thousand people and 0.2 percentage points, respectively) than the values recorded in the similar period of the previous year.

Salary fund

The annual dynamics of the economy wage fund in the first quarter of 2021 continued the positive evolution initiated in the previous quarter, with a slight moderation of the growth rate.

In the first quarter of 2021, the wage fund by economy increased by 10.8%, and in real terms, deflated by CPI, it increased by 9.9% compared to the same period last year. This evolution was made against the background of the positive contribution both from the dynamics of the remuneration fund from both the real and the budgetary sector (Chart 3.32).

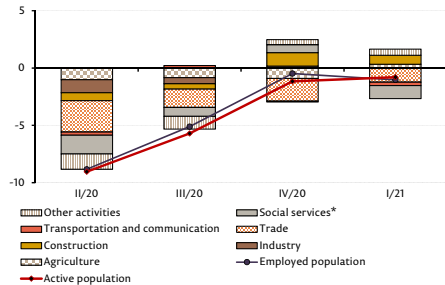
The salary fund for the medical system continued to make the largest contribution to the positive dynamics of the salary fund, in the context of supporting and appreciating the effort of the medical staff in the fight against the COVID-19 pandemic. On the other hand, the most significant decreases in the salary fund were recorded in the sector of accommodation and public catering activities (partial forced cessation of HoReCa units, part-time work), agriculture, forestry and fishing (due to the decrease average number of employees and reduction of the average salary).

In the first quarter of 2021, the annual dynamics of the number of employees in the economy continued to register a negative growth, but of a smaller magnitude. The average number of employees in the national economy was 0.2% lower than in January-March 2020. The respective dynamics was generated by the decrease by 0.4% of the number of employees in the real sector. At the same time, the number of employees in the budget sector increased by 0.6% (Chart 3.33).

The distribution by sectors of the economy shows more pronounced decreases in the average number of employees, mainly in the agriculture, forestry and fishing sector (-8.5%), in accommodation and public catering activities (-21.2%), in industry (-1.8%). There is a positive trend in the construction, information and communications sector, wholesale and retail trade, where the number of employees increased by 12.3%, 11.8% and 2.4%, respectively (Chart 3.34).

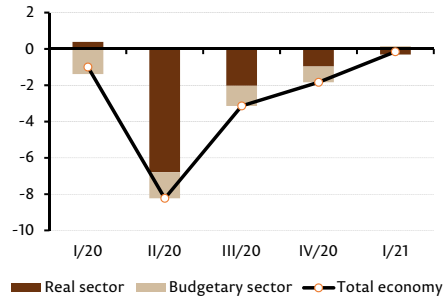
In the first quarter of 2021, the estimated annual labour productivity rate in the industrial sector increased to 5.1%. At the same time, the annual dynamics of the average real wage in the industrial sector increased to 3.8%. In this context, the annual rate of unit labor costs in industry decreased by 1.3% (Chart 3.35).

Chart 3.30: The contribution of the sectors to the dynamics of the employed population (p.p.)



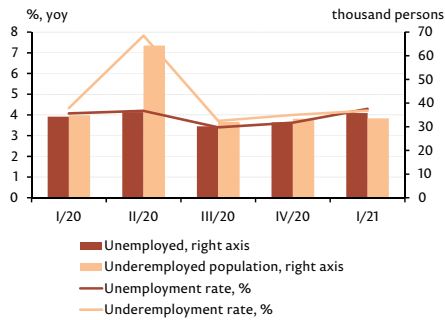
Source: NBS, NBM calculations
* Public administration, education, health and social assistance

Chart 3.33: Average number of employees in the economy (% , yoy) and sector contributions (p.p.)



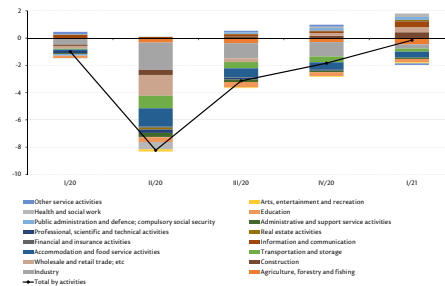
Source: NBS, NBM calculations

Chart 3.31: Evolution of the unemployed and the underemployed population



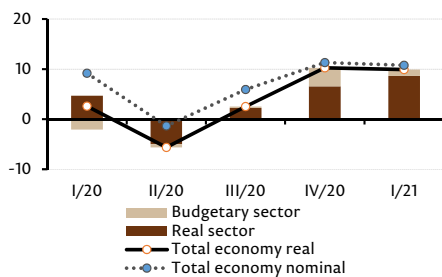
Source: NBS, NBM calculations

Chart 3.34: The contribution of the economy sectors to the dynamics of the number of employees (% , yoy)



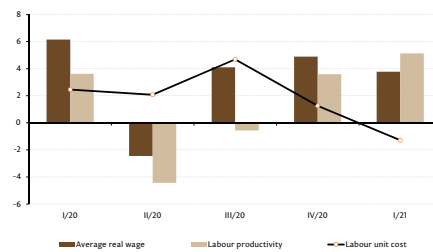
Source: NBS, NBM calculations

Chart 3.32: Wage fund in the economy (% , yoy) and sector contributions (p.p.)



Source: NBS, NBM calculations

Chart 3.35: Real average wage and labour productivity in industry (% , yoy)



Source: NBS, NBM calculations

3.4 External sector

Current Account

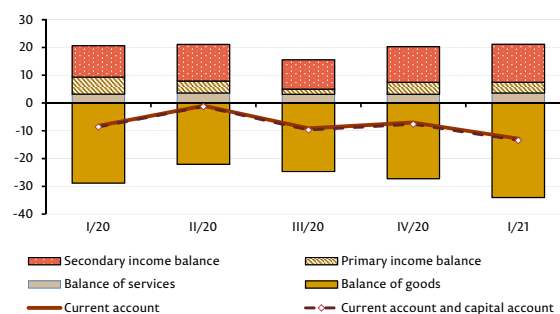
In the first quarter of 2021, the current account deficit of the balance of payments increased by 5.8 percentage points compared to the previous quarter, accounting for 12.8% as a share of GDP (Chart 3.36). The increase in the balance of payments deficit was due to the increase in the negative contribution component – the "balance of goods". At the same time, the components with a positive contribution – the "balance of services" and the "balance of secondary income", increased, while the "balance of primary income" decreased during the reference period.

Financial Account

In the first quarter of 2021, the financial account, as a share in GDP, recorded a level of 11.7% or 3.6 percentage points decreasing compared to the fourth quarter of 2020. It should be noted that the recording of significant net capital inflows in relation to GDP was determined by the change recorded in the "other investments" component (Chart 3.37). Thus, the net flow of "other investments", as a share in GDP, recorded a level of 9.9%. At the same time, the flow of direct investments in the first quarter of 2021 was in a slight increase (1.8% as a share of GDP). At the same time, reserve assets declined by 0.8% as a share of GDP.

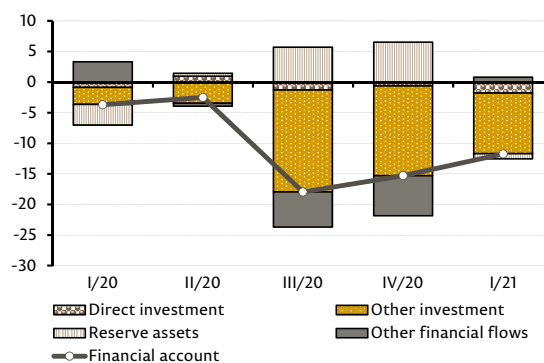
The share of external debt in GDP in the first quarter of 2021 decreased by 1.9 percentage points to 68.0% (Chart 3.38). No significant changes were recorded in the structure of external debt, so similar to previous periods, the major share in total external debt is held by economic agents¹⁶ 33.2% to the government sector¹⁷ is 19.2% and investment – 15.6%.

Chart 3.36: Current account share in GDP (%)



Source: NBM

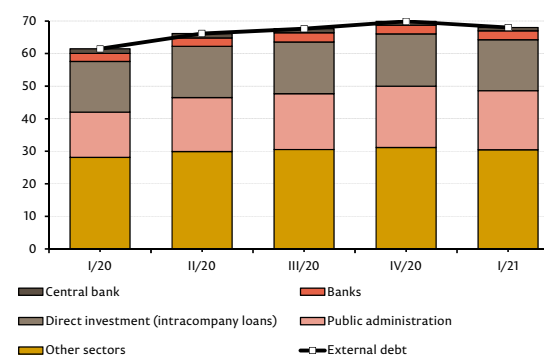
Chart 3.37: Financial account share in GDP (%)



Source: NBM

Note: (-) – net capital inflows, (+) – net capital outflows

Chart 3.38: Share of external debt in GDP (%)

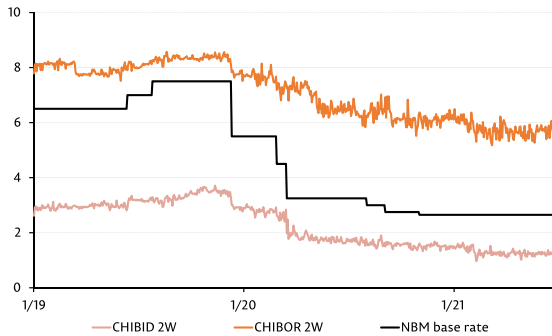


Source: NBM

¹⁶Cumulative debt of "Banks" and "Other sectors".

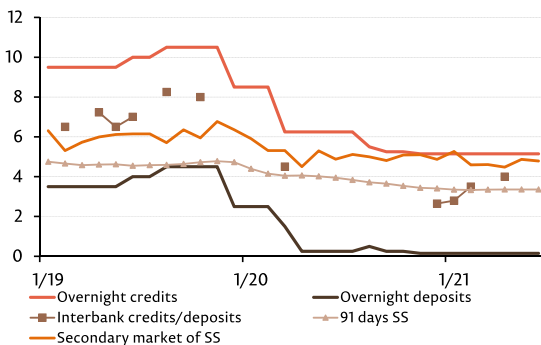
¹⁷Cumulative debt of "General government" and "Central bank".

Chart 4.1: The average monthly reference rates on the interbank market and the base rate of the NBM (%)



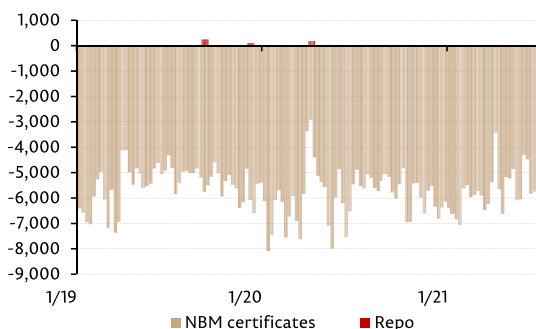
Source: NBM

Chart 4.2: The monthly evolution of the interest rate corridor (%)



Source: NBM

Chart 4.3: The daily balance evolution of sterilisation operations (MDL million)



Source: NBM

Chapter 4

Monetary policy

4.1 Monetary policy instruments

Interest rate policy

The need to maintain the previously adopted stimulus monetary conditions and the consolidation of the NBM's position in support of the economic recovery have determined the maintenance of the monetary policy interest rate to 2.65% in April-June 2021.

The yield curve CHIBOR remained quasi-stable during the second quarter of 2021, with only slight changes in both directions. Thus, the CHIBOR 2W quotation at the end of June was insignificantly higher than that recorded on the last day of the previous quarter, amounting to 5.97% (Chart 4.1).

The interest rate on state securities with a maturity of 91 days increased marginally at the beginning of the quarter and remained at 3.36% until the end of the second quarter of 2021 (Chart 4.2).

The quarterly average of the yield related to the sale-purchase operations on the secondary market of state securities amounted to 4.70%, being lower than in the previous quarter (-0.07 percentage points), accompanied by a decrease in the average term weighted to maturity from 285 days to 252 days.

Money market operations

Sales of NBM certificates (NBC)

The NBM conducted weekly NBC placement auctions, with a maturity of 14 days and with the announcement of the maximum interest rate equivalent to the base rate of NBM. For the whole of the second quarter of 2021, the weighted average rate of liquidity absorption operations was 2.65% per year.

The daily stock of NBC investments was characterized by a higher level of volatility compared to the previous quarter, varying during the quarter between the minimum value of 3,427.1 million lei and the maximum value of 6,618.7 million lei. The average quarterly balance of NBC amounted to 5,231.4 million lei (-905.2 million lei compared to the first quarter of 2021) (Chart 4.3).

Repo operations

Repo liquidity repurchase operations were carried out weekly, for a period of 14 days at a fixed interest rate (base rate plus a margin of 0.25 percentage points), through the no-limit auction procedure, in accordance with the calendar of monetary policy operations for year 2021. The volume of liquidity delivered was 26.0 million lei. The balance of repo operations recorded at the end of the management quarter was zero.

Standing facilities

Between April and June 2021, the NBM maintained monetary policy rates at the same level: 5.15% annually for overnight loans and 0.15% annually for overnight deposits.

During the period under review, the banks used both the overnight deposit facility and the overnight credit facility.

The total volume of overnight investments amounted to 14,383.0 million lei, which indicates an average daily balance of 193.4 million lei, lower than in the previous quarter by about 20.3%. The amounts placed varied between the minimum of 25 million lei and the maximum of 950 million lei.

The total amount of overnight loans granted to banks by the NBM for the whole of the second quarter of 2021 amounted to 760 million lei, the average daily balance being about 9.0 million lei.

Required reserves

The reserve requirement mechanism continued to exercise the functions of monetary control and liquidity management in the banking system.

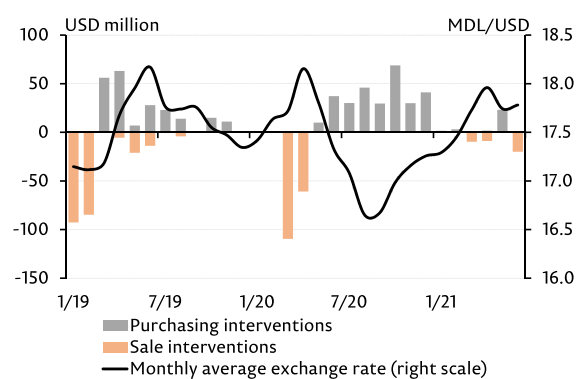
During the second quarter of 2021, in order to relax monetary policy, the NBM reduced the reserve requirement of funds attracted in Moldovan lei and in non-convertible currency by 4.0 percentage points, from 30.0% of the calculation base to the level of 26.0%. In this sense, during the application period June 16 – July 15, 2021, the required reserves in MDL amounted to 12,058.1 million lei, lower volume by 1,356.7 million lei (-10.1%) compared to the period March 16 – April 15, 2021.

Regarding the required reserves from the means attracted in freely convertible currency (FCC), their norm remained at the same level, of 30.0% of the calculation base. Thus, in the application period June 16 – July 15, 2021, the required reserves in FCC amounted to 137.5 million US dollars and 335.7 million euro. Compared to March 16 – April 15, 2021, required reserves in US dollars decreased by 0.8% and reserves in euro increased by 3.1%.

Interbank money market

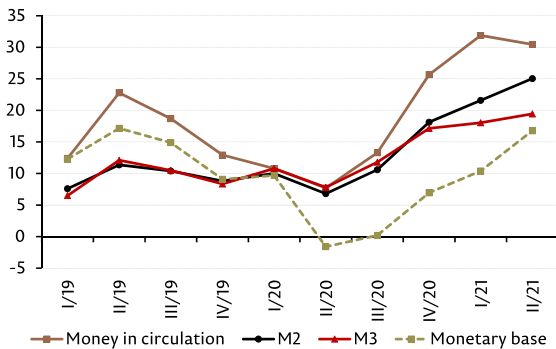
The excess liquidity pursued in the banking system continues to keep the interbank credit/ deposit market passive. The volume of interbank transactions registered in the second quarter of 2021 amounted to 97.0 million lei at an average interest rate of 4.0% annually, the term of transactions being overnight.

Chart 4.4: Evolution of the official MDL/USD exchange rate and the volume of daily transactions of the NBM, second quarter of 2021



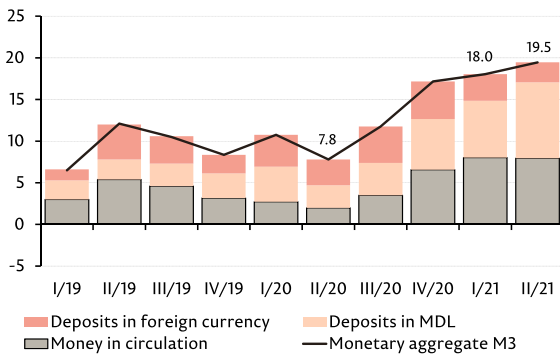
Source: NBM

Chart 4.5: Changing monetary aggregates (% annual growth)



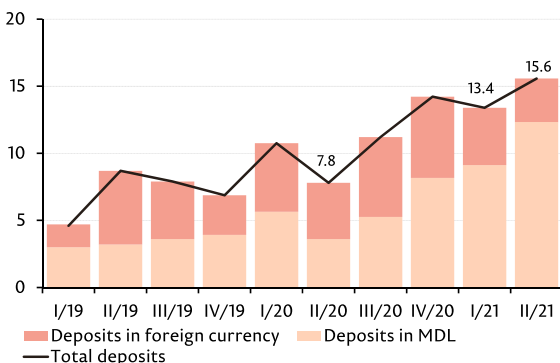
Source: NBM

Chart 4.6: Dynamics of the M3 monetary aggregate (% comp. contrib. in annual growth)



Source: NBM

Chart 4.7: Dynamics of the total balance of deposits (% comp. contrib. in annual growth)



Source: NBM

Interventions on the domestic foreign exchange market

NBM intervened on the domestic foreign exchange market between April and June 2021, both through purchases and sales of foreign currency.

During the analyzed period, the volume of transactions of the National Bank of Moldova performed on the interbank foreign exchange market against Moldovan lei, at the date of the currency, amounted to 54.24 million US dollars, including sales transactions amounting to 29.00 million US dollars, purchase transactions in the amount of 23.00 million US dollars, as well as currency conversions with the institutions of the World Bank (International Bank for Reconstruction and Development and the International Development Association) in the amount of 2.24 million US dollars (Chart 4.4).

4.2 Dynamics of monetary indicators

In the second quarter of 2021, the dynamics of monetary aggregates was positive, continuing the upward trend, the quarterly average in annual terms being 25.0% for the monetary aggregate M2 (by 3.5 percentage points above the level of the first quarter of 2021) and 19.5% for M3 (1.4 percentage points more than in the previous quarter). The monetary base increased compared to the second quarter of 2020, with the quarterly average in annual terms being 16.8% (Chart 4.5).

Money supply

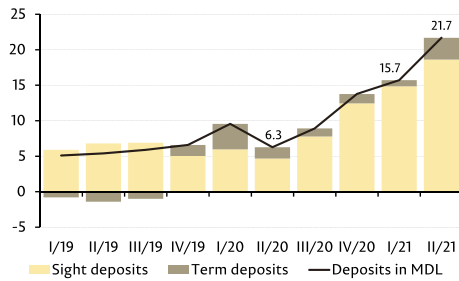
The acceleration of the annual growth rate of the M3 monetary aggregate compared to the previous quarter was determined by the evolution of deposits in national currency, at the same time the contribution from foreign currency deposits and money in circulation was more temperate (Chart 4.6).

The evolution of deposits in national currency (Chart 4.8) was mainly determined by the increase in demand deposits, but also of term deposits of both individuals and legal entities (Chart 4.10).

The component of foreign currency deposits developed more moderately compared to the previous quarter due to the more modest increase in demand deposits due to the decrease in demand deposits of legal entities (Chart 4.11). The time foreign currency deposits increased as a result of the increase in time deposits of individuals (Chart 4.12).

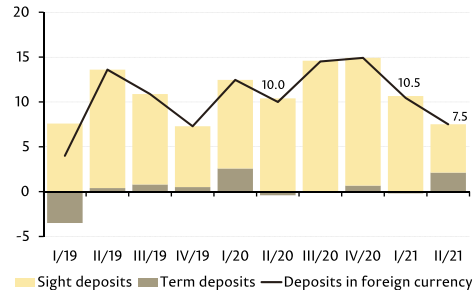
The growth rate of money in circulation at the end of the second quarter of 2021 decreased by 0.2 percentage points compared to the end of the previous quarter, amounting to 29.5%. The average quarterly contribution of money in circulation to M3 growth decreased by 0.1 percentage points compared to the level recorded in the first quarter of 2021. The dynamics of money in circulation was determined by the faster growth of the cash flow of issues compared to the cash flow of cash in the homes of commercial banks. Of the total receipts, the largest share was the receipts from the sale of consumer goods and the receipts on the current accounts and deposit accounts of individuals. At the same time, regarding the releases from the vaults of commercial banks, the main components were: the releases for the purchase of foreign currency from individuals and the releases of cash from ATMs and POS-terminals.

Chart 4.8: Dynamics of the balance of deposits in MDL (% comp. contrib. in annual growth)



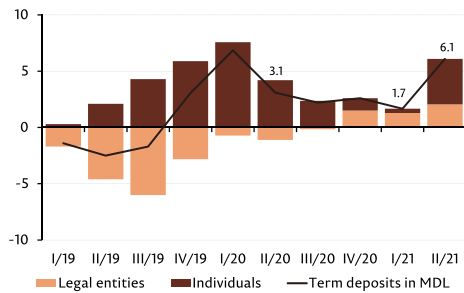
Source: NBM

Chart 4.11: Dynamics of the balance of deposits in foreign currency (% comp. contrib. in annual growth)



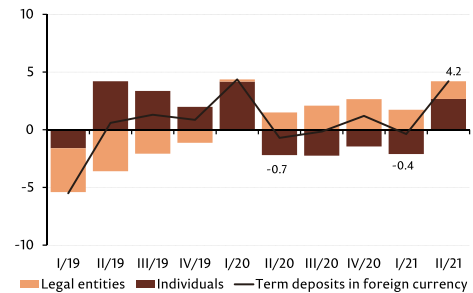
Source: NBM

Chart 4.9: Dynamics of the term deposits balance in MDL (% comp. contrib. in annual growth)



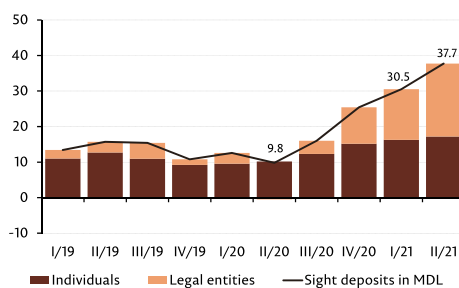
Source: NBM

Chart 4.12: Dynamics of the term deposits balance in foreign currency (% comp. contrib. in annual growth)



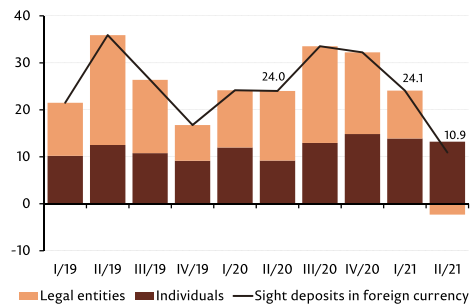
Source: NBM

Chart 4.10: Dynamics of the sight deposits balance in MDL (% comp. contrib. in annual growth)



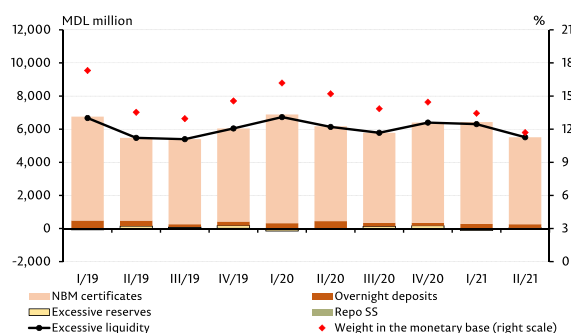
Source: NBM

Chart 4.13: Dynamics of the sight deposits balance in foreign currency (% comp. contrib. in annual growth)



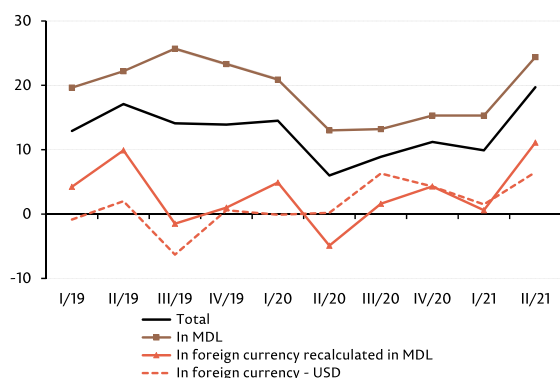
Source: NBM

Chart 4.14: The excessive liquidity



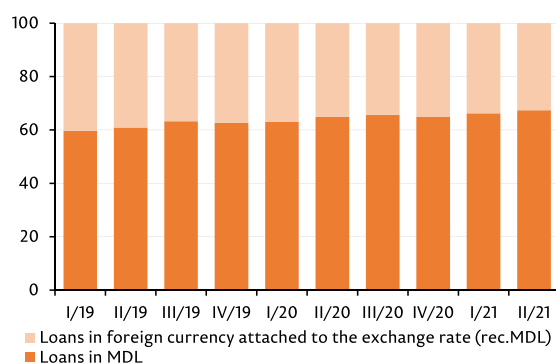
Source: NBM

Chart 4.15: Evolution of the loan balance (% annual increase)



Source: NBM

Chart 4.16: Evolution of the loans weights on subcomponents in the total balance (%)



Source: NBM

Excessive liquidity

During the second quarter of 2021, excessive liquidity in the banking system decreased by 794.9 million lei. It should be mentioned that compared to the second quarter of 2020, the volume of excessive liquidity also decreased on average by 626.1 million lei (-10.2% annually), registering the average value of 5.5 billion lei (Chart 4.14).

Credit market

Evolution of the balance of loans granted by licensed banks¹⁸

At the end of the second quarter of 2021, the total balance of loans granted by licensed banks recorded a positive annual increase (Chart 4.15) and amounted to 48,537.2 million lei, higher than at the end of the second quarter of 2020 by 19.7% (with a positive contribution from the balance of loans granted in national currency of 15.8 percentage points). The share of the balance of loans granted in the domestic currency accounted for 67.4% of the total balance of loans, which led to a decrease in the dollarization of the balance of loans by 1.2 percentage points compared to the first quarter of 2021 (Chart 4.16).

On June 30, 2021, the balance of loans granted in domestic currency by licensed banks registered an annual growth rate of 24.4%, with the contribution from the increase in the balance of loans to individuals of 17.1 percentage points, and from loans granted to legal entities of 7.3 percentage points. In turn, the balance of credits in MDL granted to individuals registered an annual increase of 29.6%, and the share of these credits constituted 60.1% of the balance of credits in MDL.

During the analyzed period, in the structure of the total loan portfolio granted by the licensed banks, the highest share, analogous to the previous quarters, went to loans granted to individuals (41.6%), followed by the share of loans granted in trade (22.0%) (Chart 4.17).

Evolution of new credits granted by licensed banks

In the second quarter of 2021, the total volume of new loans granted by licensed banks was by 48.9% higher than in the second quarter of 2020 (Chart 4.18). This increase was influenced by the positive evolution of loans granted both in domestic currency and in foreign currency, recalculated in MDL. The volume of new loans granted in the domestic currency by licensed banks registered an annual increase of 58.9%. The share of loans granted in the domestic currency accounted for 74.7% of total loans granted in the second quarter of 2021 by licensed banks. At sectoral level, the volume of loans granted in MDL to individuals, during the analyzed quarter, exceeded the amount of loans granted to legal entities.

The annual dynamics of loans granted to individuals in the second quarter of 2021 advanced about 2.5 times compared to the second quarter of 2020 and by 51.2% compared to the first quarter of 2021, recording historical maximum volumes. The largest share in these loans was consumed by consumer loans (62.3%). Loans for real estate have also increased, due to the declining trend in nominal interest rates and the government's "First Home" program.

¹⁸The data analysis was performed based on the reports ORD 01.06 "Interest rates related to the balance of loans and deposits" submitted by licensed banks until July 13, 2021.

Market of term deposits accepted by licensed banks (balance of deposits)¹⁹

At the end of the second quarter of 2021, the total balance of term deposits attracted by licensed banks registered an annual increase of 8.8%, as a result of the increase in the balance of term deposits in both lei and foreign currency recalculated in MDL (Chart 4.19).

The major component, in the total balance of time deposits attracted by licensed banks, was the balance of deposits in MDL (Chart 4.20). At the end of the second quarter of 2021, the share of the balance of time deposits attracted in the domestic currency accounted for 58.8% of the total balance of term deposits, increasing by 0.4 percentage points compared to the first quarter of 2021. Respectively, the dynamics of the degree of dollarization of the balance of time deposits decreased (Chart 4.20). It should be noted that, at the end of the reporting quarter, term deposits attracted in MDL from individuals held a share of 87.5% of the total balance of deposits in MDL.

Interest rates²⁰

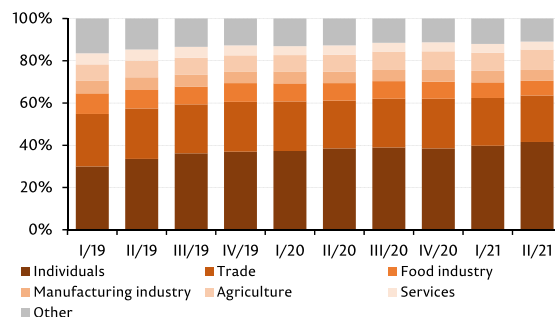
Evolution of the base rate

During the second quarter of 2021, three meetings of the Executive Board of the National Bank of Moldova on monetary policy decisions took place. Following the assessment of the balance of internal and external risks and short- and medium-term inflation prospects, the Executive Board of the National Bank of Moldova, at its meetings of April 5, 2021, April 30, 2021 and June 8, 2021, decided to maintain the base rate applied to major operations of monetary policy at the level of 2.65% annually (level set on November 6, 2020). These decisions aimed at fostering a monetary climate capable of reviving lending and saving activity, along with further adapting the domestic economic environment to the volatility and uncertainty of the external macroeconomic situation, with the aim of anchoring inflationary expectations, restoring and keeping inflation close to target of 5.0% over the medium term, with a possible deviation of ± 1.5 percentage points.

Evolution of the interest rate on the balance of loans

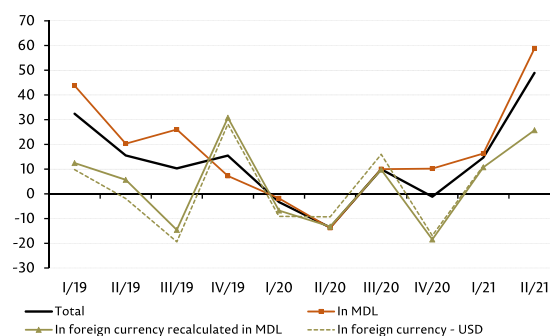
For the period April-June 2021, the weighted average interest rate on the balance of loans granted in MDL by licensed banks was 7.21% annually, lower than in the first quarter of 2021 by 0.23 percentage points (Chart 4.21). This dynamic was determined by the decrease of interest rates on the balance of loans granted in MDL to both legal entities and individuals.

Chart 4.17: Loan balance structure (% in total)



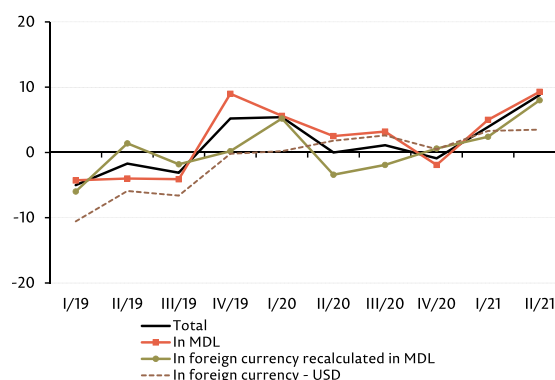
Source: NBM

Chart 4.18: Evolution of new granted loans (% annual growth)



Source: NBM

Chart 4.19: Deposit balance dynamics (% annual growth)

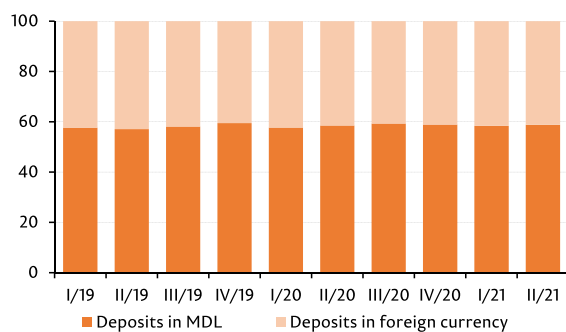


Source: NBM

¹⁹The data analysis was performed on the basis of the reports ORD 01.06 "Interest rates related to the balance of loans and deposits" submitted by licensed banks until July 13, 2021 and does not include demand deposits.

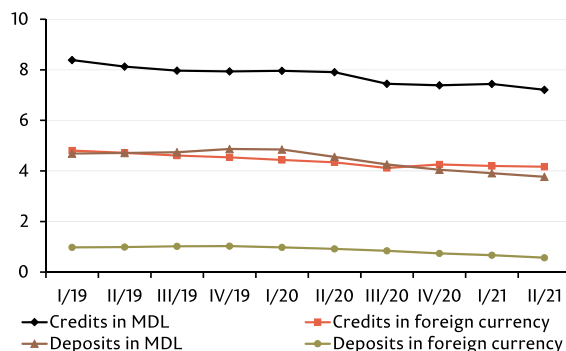
²⁰The analysis of the rates was performed on the basis of the reports ORD 01.06 "Interest rates related to the balance of loans and deposits" presented by the licensed banks until July 13, 2021 and does not include the rates on demand deposits.

Chart 4.20: Evolution of the share of term deposits on subcomponents in the total balance (%)



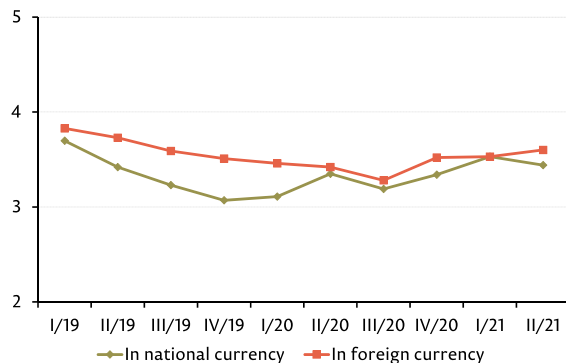
Source: NBM

Chart 4.21: Average interest rates on balance of loans and deposits (%)



Source: NBM

Chart 4.22: The evolution of the banking margin on loan and deposit balances (p.p.)



Source: NBM

For the whole of the second quarter of 2021, the weighted average interest rate on the balance of foreign currency loans recalculated in MDL was 4.17% annually, lower than in the first quarter of 2021 by 0.03 percentage points (largely due to the decrease in the weighted average interest rate on the balance of foreign currency loans granted to legal entities, whose share was 96.7%, analogous to previous quarters).

Evolution of the interest rate related to the balance of deposits

The weighted average interest rate on the balance of deposits in national currency was 3.77% annually and decreased compared to the second quarter of 2020 by 0.79 percentage points and 0.14 percentage points compared to the first quarter of 2021 (Chart 4.21). The weighted average interest rate on the balance of time deposits attracted in foreign currency decreased by 0.35 percentage points compared to the end of the second quarter of 2020 and by 0.09 percentage points compared to the first quarter of 2021, amounting to 0.57% annually.

Evolution of banking margin

In the second quarter of 2021, bank margins (calculated as the difference between the weighted average interest rates on loan balances and the weighted average interest rates on deposit balances) on the national currency segment registered slight decreases, while the foreign currency subcomponent increased slightly in the first quarter 2021 (Chart 4.22).

Evolution of interest rates on new loans and deposits granted/ attracted by licensed banks

As a result of the monetary policy decisions for the period 2020-2021 and the situation on the money-foreign exchange market in the second quarter of 2021, the weighted average interest rate on new time deposits in the national currency decreased (Chart 4.23). For the whole of the second quarter of 2021, the weighted average interest rate on deposits in MDL was 3.27% annually, lower than in the second quarter of 2020 by 0.45 percentage points and in the first quarter of 2021 by 0.31 percentage points. The weighted average interest rate on new loans in national currency in the second quarter of 2021 was 6.88% per year, lower than in the second quarter of 2020 by 1.44 percentage points and in the first quarter of 2021 by 0.51 percentage points.

Evolution of the nominal and real effective exchange rate

According to the values at the end of the second quarter of 2021, the official nominal exchange rate of the national currency appreciated by 0.2% against the US dollar, while the exchange rate against the euro depreciated by 1.3% compared to the end of the previous quarter (Chart 4.24).

On average, the exchange rate of the Moldovan leu depreciated against the US dollar by 1.9%, and against the euro – by 1.7%, compared to the averages of the previous quarter.

In the second quarter, in average values, most of the currencies of the countries – main trading partners of the Republic of Moldova included in the REER basket appreciated against the US dollar. In particular, the Belarusian ruble strengthened by 1.6%, the Hungarian forint by 1.5%, the Czech koruna by 1.4%, the pound sterling and the Ukrainian hryvnia by 1.3% etc. On the other hand, the Turkish lira depreciated against the US dollar by 13.8%, the Romanian leu – by 1.1%, the Swiss franc – by 0.9%, the euro – by 0.2% (Chart 4.25).

Under these conditions, in real terms, the Moldovan leu depreciated insignificantly, by 0.1%, against the currency basket of the countries – main trading partners of the Republic of Moldova (average of the second quarter of 2021 compared to the average of the first quarter of 2021). The higher contributions to the REER depreciation made by Ukraine (0.4 percentage points), Russia (0.2 percentage points), Belarus (0.1 percentage points) were largely offset of the real appreciation against the currency of Turkey (0.7 percentage points) and Romania (0.2 percentage points) (Chart 4.27).

In the second quarter of 2021, on the local interbank foreign exchange market, the foreign exchange deficit registered in the previous quarter persisted, as both the net supply of foreign currency from individuals and the net demand for foreign currency from economic agents increased in an alert pace.

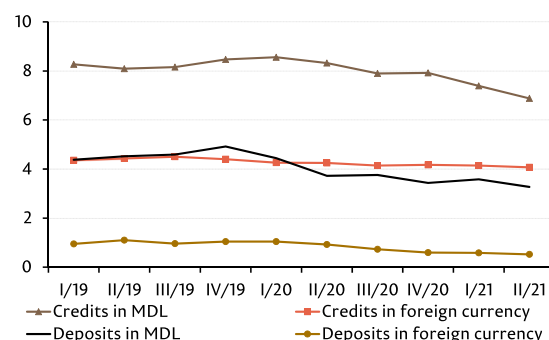
The net supply of foreign currency by individuals amounted to 693.0 million dollars, increasing both in annual terms – by 60.8% and compared to the previous quarter – by 25.0%. The robust growth rate of transfers from abroad in favor of individuals continued to be the main factor in the positive dynamics of their net supply. According to the data for the first two months of the quarter, transfers from abroad increased by 26.3% compared to the same period of the previous year and by 30.6% compared to the previous quarter.

In the structure of the net supply of foreign currency from individuals, the majority share continued to belong to the single European currency (75.7%) (Chart 4.28).

At the same time, the net demand for foreign currency from economic agents registered an advance of 68.1% in annual terms and 23.7% compared to the previous quarter to the level of 754.0 million US dollars. Compared to the same period in 2020, when the economy operated under the constraints imposed by the emergency situation, the net demand from importers of energy resources increased the most, due to higher prices for petroleum products on international markets and the revival of domestic consumption.

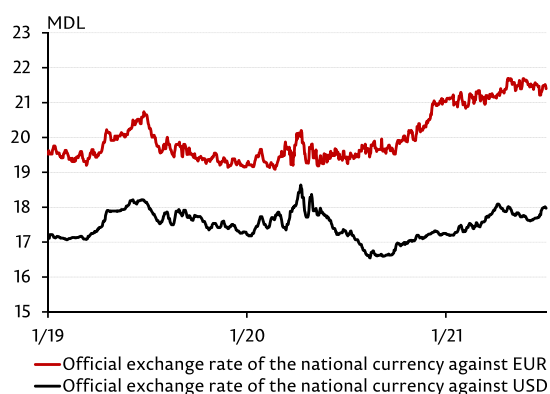
Demand from various categories of importers of various consumer goods, cars, equipment, construction materials, pharmaceuticals and tourism companies also increased, reflecting the deterioration of the trade deficit, which, according to preliminary data for the first two months of the quarter, exceeded more than twice that recorded in the similar period of the previous year.

Chart 4.23: Average interest rates on new volume of loans and deposits (%)



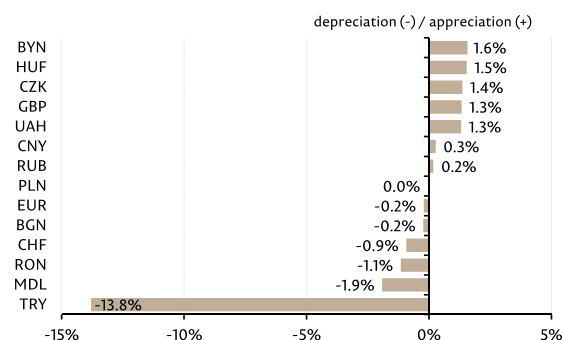
Source: NBM

Chart 4.24: Fluctuations in the official exchange rate of the Moldovan leu against the US dollar and the euro



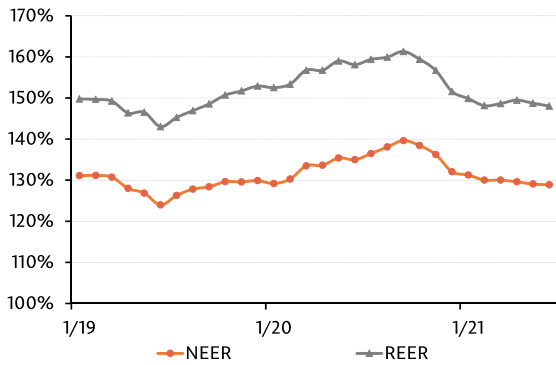
Source: NBM

Chart 4.25: The evolution of countries' currencies – main trading partners against the US dollar (average exchange rate Q2 2021/ Q1 2021, %)



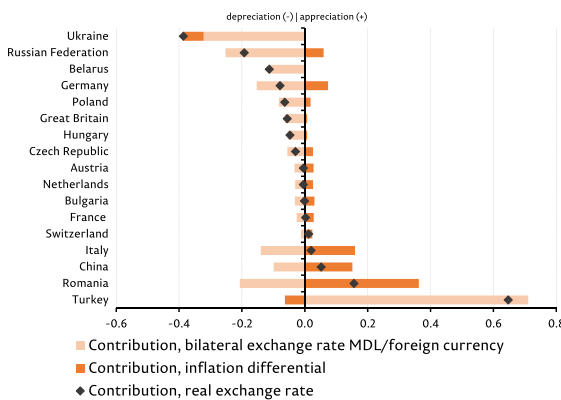
Source: NBM

Chart 4.26: Dynamics of the nominal effective exchange rate (NEER) and real effective exchange rate (REER) of MDL calculated on the basis of the share of countries – main trading partners (Dec.2000-100%)



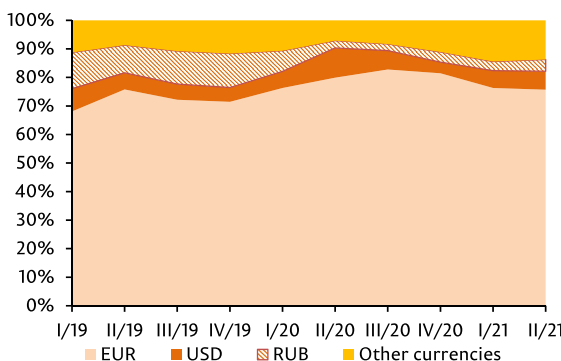
Source: NBM

Chart 4.27: Contribution of the countries – main trading partners of the Republic of Moldova to the change in the real effective exchange rate in the second quarter of 2021



Source: NBM

Chart 4.28: The net supply of foreign currency from individuals disaggregated by major currencies (the currencies are recalculated in USD at the average constant exchange rate)



Source: NBM

The coverage of the net demand for foreign currency by economic agents through the net supply of foreign currency from individuals amounted to 91.9% in the second quarter of 2021 compared to 91.0% in the previous quarter and 96.1% in the second quarter of 2020 (Chart 4.29). Under these conditions, the NBM intervened through net foreign exchange sales on the local foreign exchange market in the amount of 6.0 million US dollars²¹.

During the first two months of the quarter, the exchange rate of the Moldovan leu against the US dollar followed an appreciation trend, with some exceptions, especially in the second half of April and the first half of May, when were observed short-term reversals of the trend. These short periods of depreciation largely coincided with periods of increased demand for foreign currency from importers of energy resources. In May, after four consecutive months of shortage of foreign exchange on the local market, the degree of coverage of demand by supply registered supra-unit values, its growth being driven by some inflows related to foreign direct investment.

In June, the exchange rate of the leu against the dollar showed a trend of depreciation, which was slower in the first half of the month and faster in the second half. In the last weeks of the quarter there was an increase in demand from importers of consumer goods, cars, equipment and tourist services.

The dynamics of the official exchange rate of the Moldovan leu against the euro was also influenced by the evolutions of the single European currency against the US dollar on international markets. In April-May, the US dollar depreciated against the euro and other major currencies amid investor expectations of an earlier recovery in the global economy as the population’s vaccination rates accelerated.

After a stabilization of the EUR/USD exchange rate in the first half of June, there was a sharp appreciation of the dollar against the euro in the second half of the month, after FRS, in the context of inflationary pressures, surprised investors by announcing that during 2023 it will make two rate increases, previously stating that they will not take place earlier than 2024.

Thus, during the second quarter, compared to the end of the previous one, the US dollar depreciated by 1.4% against the single European currency.

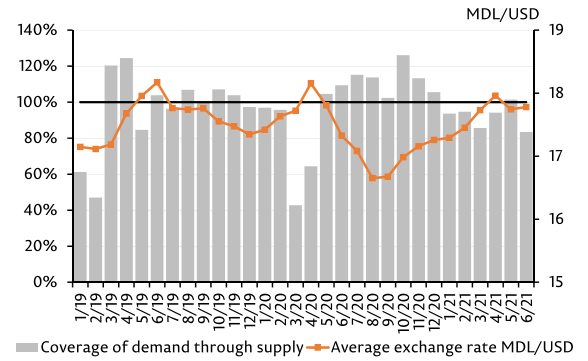
At the end of the second quarter of 2021, the balance of official reserve assets amounted to 3,774.4 million US dollars (Chart 4.30), with 66.7 million US dollars (+1.8%) more compared to the end of March. This increase was mainly due to external financing inflows. The largest disbursements were recorded in the form of loans as budget support and in investment projects in response to COVID-19 from the Development Bank of the Council of Europe and the World Bank institutions in the total amount of 55.2 million euro (equivalent to US dollars 65.7 million).

²¹Volume calculated at the currency date.

These institutions also disbursed loans in other investment projects, such as the project "Ambulance insurance" – US dollars 8.6 million (equivalent to 7.1 million euro) from the Council of Europe Development Bank, "Livada Moldovei" project – US dollars 9.0 million (equivalent to 7.4 million euro) from the European Investment Bank, local road rehabilitation project – 3.8 million US dollars from the World Bank institutions, rural resilience program – 2.8 million US dollars from the International Fund for Agricultural Development etc.

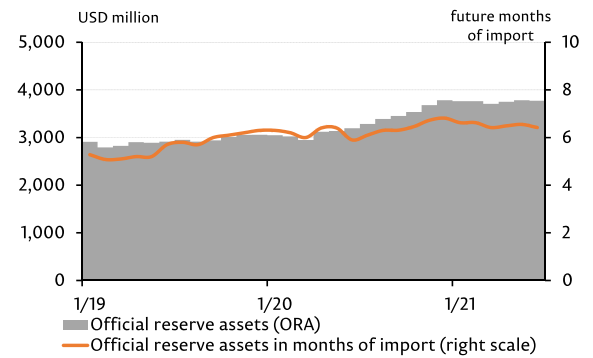
According to the situation at the end of the second quarter of 2021, official reserve assets continued to provide a sufficient level of coverage of imports of goods and services (6.4 months of future imports²²).

Chart 4.29: Net sales coverage through the net supply and dynamics of the official exchange rate



Source: NBM

Chart 4.30: Evolution of official reserve assets expressed in months of import of goods and services (MBP6)



Source: NBM – based on updated actual and forecast data

²²Calculated based on the latest available import forecast, prepared by MEI.

Chapter 5

Forecast

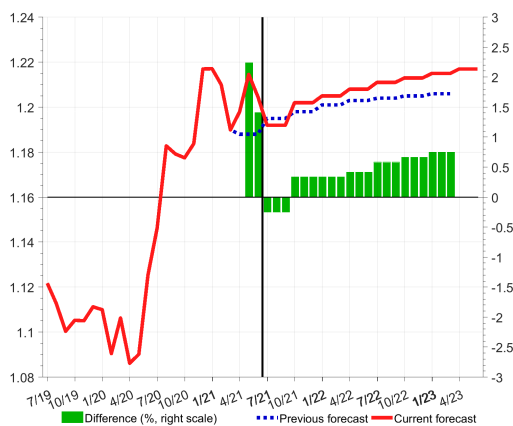
5.1 External hypotheses

Table 5.1: Expected evolution of external variables (annual average)

	2021	2022
Economic growth in the euro area, %	4.6	4.4
Economic growth in the Russian Federation, %	3.3	2.7
Average annual inflation in the euro area, %	1.9	1.4
Average annual inflation in the Russian Federation, %	5.9	4.2
EUR/USD	1.20	1.21
USD/RUB	73.4	71.1
Urals brand oil prices (USD/barrel)	67.9	67.8
International food prices growth, %	24.1	3.5

Source: Consensus Economics, Bloomberg, NBM calculus

Chart 5.1: The evolutionary scenario of the EUR/USD exchange rate



Source: ECB, Consensus Economics, NBM calculus

New forecast round for faster growth in external demand and pro-inflationary pressures. This is due to improved statistics and positive sentiment among international market participants, as well as the persistence of high quotations for oil, raw materials and agri-food products. The low volatility of the main currencies of international circulation is determined by the constant message of postponing the limitation of the monetary stimulus. On the other hand, in emerging economies rates are constantly rising, a reaction to the persistence of pro-inflationary pressures in recent months. Thus, in the table 5.1 are stated the values of the main external hypotheses admitted within the round of forecasts related to the Inflation Report no. 3, 2021, with their subsequent description.

The forecast for the growth of the euro area economy has increased from 4.2 to 4.6% for 2021 and from 4.3 to 4.4% for 2022. Recent statistics show that the economic recovery in the euro area is faster than expected. At the same time, the advancement of the vaccination process, the reduction of the number of new infections and the lifting of quarantine restrictions have contributed to the increase of hopes in the business sector, especially those in the field of HoReCa. The increase in the annual inflation rate in the euro area to 2.0% in May 2021 led to an increase in the value of the average annual inflation forecast by 0.3 percentage points to 1.9% for 2021 and by 0.1 percentage points to at 1.4% for 2022. It should be noted that at the last meeting the ECB maintained interest rates and the volume of asset purchases.

The increase in oil prices, external demand for raw materials and the moderation of geopolitical tensions have led to an increase in the outlook for the Russian Federation's economy. In the current forecast round it is anticipated that in 2021 the gross domestic product of the Russian Federation will increase by an average of 3.3% and in 2022 by 2.7%. Compared to the previous forecast round, the anticipated values of the gross domestic product of the Russian Federation were increased by 0.4 and 0.1 percentage points, respectively. The increase of pro-inflationary pressures against the background of international trends, but also of the depreciation of the Russian ruble in recent months has led to an increase in the average annual inflation forecast in the Russian Federation to 5.9% for 2021 (+0.8 percentage points) and to 4.2% for the year 2022 (+0.4 percentage points).

Maintaining constant monetary conditions by FRS and ECB, even though annual inflation in the US peaked at 5.4% in June 2021, and harmonized inflation in the euro area reached the target level

of 2.0% in May 2021, helped stabilize the volatility of the US dollar and the single European currency. Thus, in the current forecast round, the expected value of the EUR/USD parity for 2021 remained at 1.20, and for 2022 it increased from 1.20 to 1.21 (Chart 5.1).

The moderation of geopolitical tensions after the meeting of the presidents of the USA and the Russian Federation in June 2021, the constant increase of oil quotations and the tightening of monetary conditions by the Bank of Russia contributed to the appreciation of the Russian ruble. Thus, it is anticipated that in 2021, the Russian ruble will trade against the US dollar on average by 73.4 against the US dollar and on average by 71.1 in 2022. Compared to the previous report, the USD/RUB parity forecast decreased by 0.8 and 0.1%, respectively.

The increase of oil quotations over 70 USD/barrel determined the increase of the forecasted value for the year 2021 from 61.0 to 67.9 USD/barrel (+11.3%) and for the year 2022 from 58.8 to 67.8 USD/barrel. Controlled growth in oil production under the OPEC+ agreement causes futures contracts to follow a weak backward trajectory from the spot price. On July 18, 2021, after overcoming the differences, OPEC+ decided to increase the monthly by 400 thousand barrels per day until the total elimination of the current limit of oil production of 5.8 million barrels per day (Chart 5.2).

Although in June 2021 the FAO index fell by 2.5% for the first time in 12 months, the increases in April and May 2021 contributed to the increase in the forecast. Thus, in the current forecast round it is anticipated that international food prices will increase in 2021 on average by 24.1%, which is an increase of 1.1 percentage points over the previous forecast round. For 2022, international food prices are expected to increase by an average of 3.5%, an increase of 2.5 percentage points over the previous forecast round. Although the harvest in some categories is expected to be very good this year, the problem of restoring the pre-pandemic trade logistics chain remains (Chart 5.3).

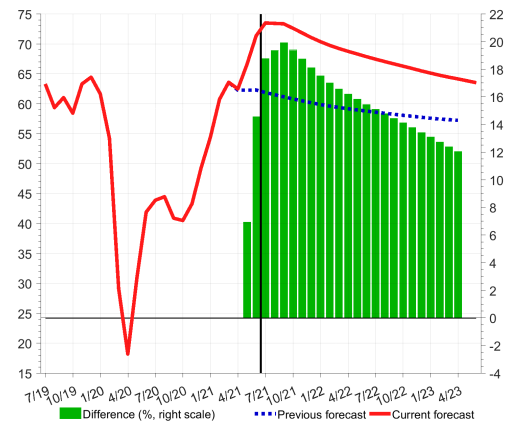
5.2 Internal environment

Inflation

The annual inflation rate will increase rapidly until the third quarter of 2022, then decreasing towards the end of the forecast horizon. Although, in the third quarter of 2021, the annual inflation rate will be below the lower limit of the range of variation, at the beginning of next year it will exceed the upper limit and will return in the interval only at the beginning of 2023 (Chart 5.4).

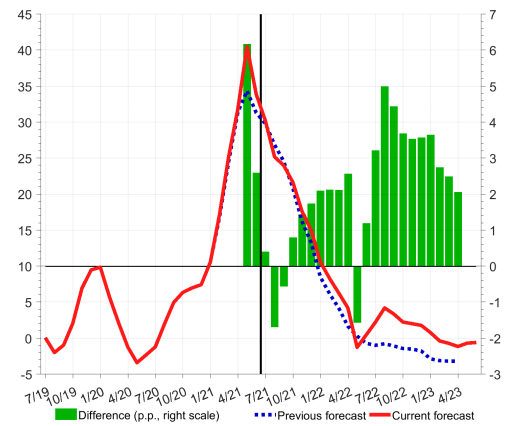
The upward trend in the annual inflation rate is largely due to core inflation and food prices and less to fuel and regulated prices. The negative impact of regulated prices in the second half of this year will mitigate the increase in the annual inflation rate (Chart 5.5).

Chart 5.2: The evolutionary scenario of the Urals brand oil world prices (USD/barrel)



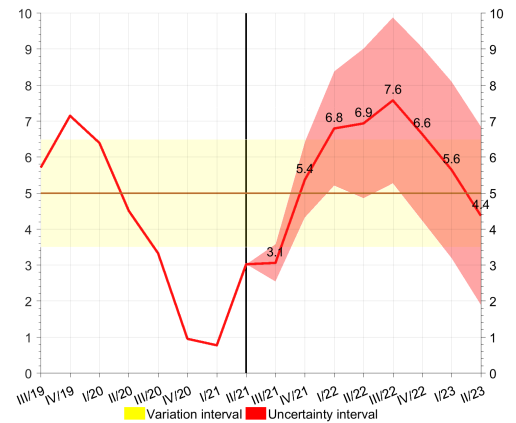
Source: Ministry of Economic Development of the Russian Federation, Bloomberg, NBM calculus

Chart 5.3: International price assumption for food (%)



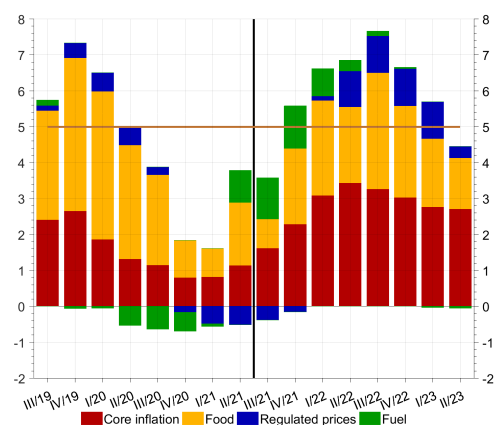
Source: FAO, Bloomberg, NBM calculus

Chart 5.4: CPI with uncertainty range (% compared to the previous year)



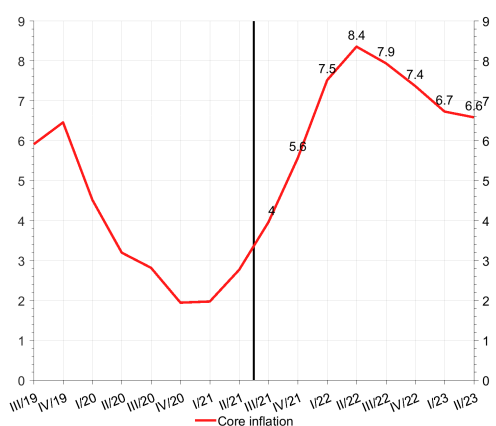
Source: NBS, NBM calculus

Chart 5.5: Decomposition of CPI (% percentage points, compared to the previous year.)



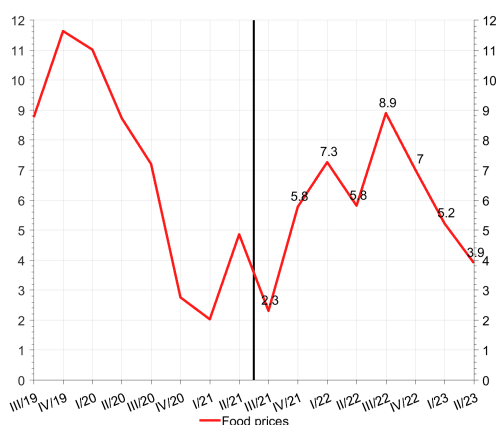
Source: NBS, NBM calculus

Chart 5.6: Core inflation (% compared to the previous year)



Source: NBS, NBM calculus

Chart 5.7: Food prices (% compared to the previous year)



Source: NBS, NBM calculus

Positive impact of factors such as (1) high-rate imported inflation in the second half of this year, (2) full recovery in domestic demand, (3) adjustment of excise duties, (4) effects of strong seasonal products, (5) increase tariffs, (6) the slight depreciation of the national currency until the beginning of next year and (7) the effect of the low annual base will increase the annual inflation rate by the third quarter of 2022. In the downward phase, (1) the subsequent appreciation of the national currency, (2) the decrease in imported inflation, (3) the stabilization of international oil prices and (4) food prices over the entire forecast horizon will be the negative impact factors that will lead to reduce the annual inflation rate starting with the fourth quarter of 2022.

The annual inflation rate will register a minimum value of 3.1% in the third quarter of 2021 and a maximum value of 7.6% in the same quarter next year.

The average annual inflation will be 3.1% and 7.0% this year and next year, respectively.

The annual rate of core inflation will have an upward trend until the first half of next year, then declining towards the end of the forecast period²³(Chart 5.6).

The increase in the annual rate of core inflation will be due to (1) the increase in imported inflation by the end of the current year, (2) the slight depreciation of the national currency until the beginning of next year, (3) the recovery of domestic demand with proinflationary effects, (4) the increase in aggregate demand, (5) the effect of the low annual base, (6) the adjustment of excise duties from the beginning of next year. Decrease in inflation imported from next year (1), (2) early appreciation of the national currency starting with the second quarter of 2022, (3) the current base high will be the factors that will change the trend of core inflation starting with the third quarter of 2022, so this diminishing towards the end of the forecast horizon. The adjustment of excise duties from the beginning of 2023 will mitigate the downward revision of the annual rate of core inflation.

The average annual rate of core inflation will be 3.6% and 7.8% in 2021 and 2022 respectively.

The annual pace of food prices will increase significantly by the third quarter of 2022 and from the end of 2022 will decrease for the rest of the forecast period (Chart 5.7).

The upward trend in the annual rate of food prices will be conditioned by (1) the advance of domestic demand, (2) the slight depreciation of the national currency until the beginning of next year, (3) the effect of the prices of highly seasonal products, (4) the adjustment of excise duties from the beginning of next year. On the other hand, its downward trend will be due to (1) the decrease in the annual rate of international food prices over the entire forecast period, (2) the decrease in imported inflation, (3) the anticipated appreciation of the exchange rate starting with the second half next year and (4) the effect of the high annual base. The effect of the prices of highly seasonal products and the adjustment of excise duties from the beginning of 2023 will mitigate the decrease of the annual rate of food prices.

²³Quarter III 2021 – Quarter II 2023

The average annual rate of food prices will be 3.8% and 7.2% in 2021 and 2022 respectively.

The annual rate of regulated prices will increase sharply to high levels by the middle of next year, and will decline rapidly at the end of the forecast period (Chart 5.8).

The increase in the annual rate of regulated prices will be largely due to the anticipated price increases (1) for 20% and 5% for mains gas in the second quarter of 2022 and in 2023, respectively (2) for district heating and (3) electricity in the second quarter of 2022 by 10% each, (4) medicines, (5) other regulated prices with a minor weight over the entire forecast period and (6) the effect of the low annual base. The rapid decline at the end of the forecast period will take place as a result of the subsequent non-change of tariffs on the basis of a high annual basis.

The average annual rate of regulated prices will be -2.3% and 4.8% in 2021 and 2022, respectively.

The annual rate of fuel prices will be high in the first two consecutive quarters of the forecast horizon and, starting in 2022, will decrease considerably for the rest of the forecast period (Chart 5.9).

The high annual rate will be determined by (1) the accumulated increase in international oil prices, (2) the effect of the low annual base, (3) the slight depreciation of the national currency until the beginning of next year. The subsequent decline in the annual rate of fuel prices will be due (1) to the effect of the high annual base, (2) the slightly downward trend in international oil prices over the entire forecast horizon. Excise duty adjustments in early 2022 and 2023 will alleviate the annual slowdown.

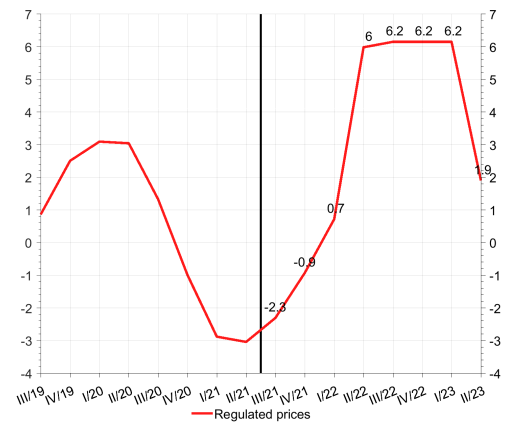
The average annual rate of fuel prices will be 13.3% and 5.1% in 2021 and 2022, respectively.

Demand

Although the average quarterly aggregate demand had a disinflationary impact on inflation, at the end of the second quarter of 2021 it became pro-inflationary. From the third quarter onwards, aggregate demand will be fully recovered, but will stabilize around its non-inflationary level under restrictive monetary conditions, on the one hand, a positive fiscal momentum, a revival of external demand and a recovery in agriculture this year, on the other hand (Chart 5.10).

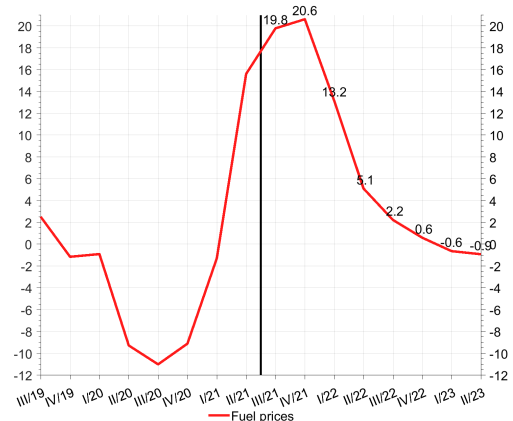
The negative deviation of the real effective exchange rate over the entire forecast horizon will show restrictive effects on aggregate demand, but the stimulating nature of the real interest rate during this period, except for the fourth quarter of 2021 and first of 2022, will stimulate the return of domestic demand.

Chart 5.8: Regulated prices (% , compared to the previous year)



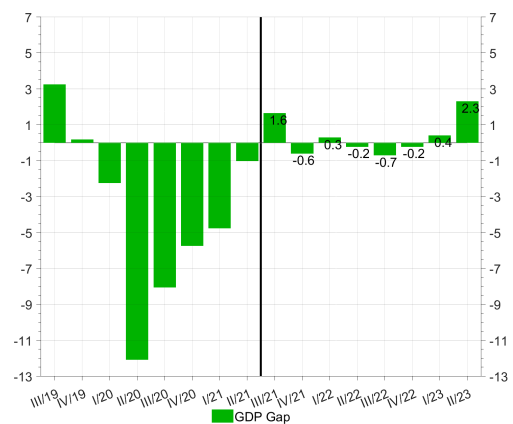
Source: NBS, NBM calculus

Chart 5.9: Fuel prices (% , compared to the previous year)



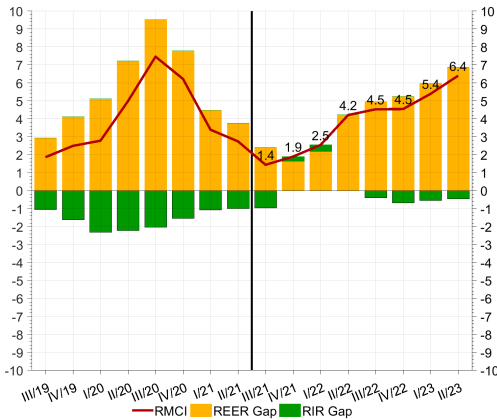
Source: NBS, NBM calculus

Chart 5.10: GDP deviation (%)



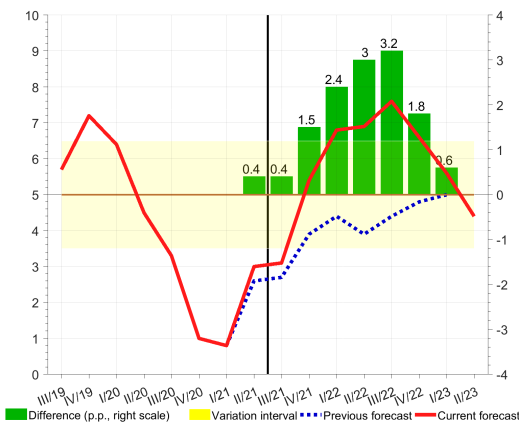
Source: NBM calculus

Chart 5.11: The index of the real monetary conditions and decomposition



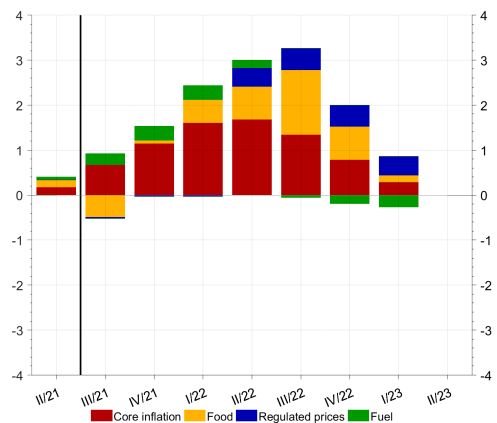
Source: NBM calculus

Chart 5.12: CPI (% compared to the previous year, percentage points)



Source: NBS, NBM calculus

Chart 5.13: Decomposition of the difference between forecasts (percentage points)



Source: NBM calculus

Monetary policy

Real monetary conditions will be restrictive over the entire forecast period, with a neutral impact on aggregate demand (Chart 5.11). Monetary policy through the real effective exchange rate will be restrictive over the entire forecast horizon. Through the real interest rate, monetary policy will be stimulating throughout the forecast period, except for the end of this year and the beginning of next year, where it will be slightly restrictive.

The nominal depreciation of the Moldovan leu in the first half of this year and the appreciation of the currencies of some economic partners contributed to an insignificant depreciation in real terms, thus correcting part of the accumulated imbalance of the real effective exchange rate that still has restrictive effects on aggregate demand. During the first two consecutive quarters of the forecast, it is anticipated that the deviation of the real exchange rate will be restrictive, but decreasing, subsequently increasing towards the end of the forecast period.

5.3 Comparison of forecasts

The current inflation forecast, compared to the previous inflation report, has been revised upwards over the entire comparable period²⁴ (Chart 5.12).

The upper projection of the annual inflation rate forecast is largely due to upward revisions to the core inflation forecast and food prices and less to regulated prices and fuel prices. The decline in the annual rate of food prices in the third quarter of 2021, as well as in fuel prices over the last three consecutive quarters of the comparable period, dampened the upward revision of the current forecast (Chart 5.13).

The average annual inflation rate increased by 0.6 percentage points for 2021 and by 2.6 percentage points for 2022.

The current forecast for the annual core inflation rate has increased over the entire comparable period (Graficul 5.14).

The upper projection of core inflation is determined by (1) higher-than-expected actual inflation for the previous quarter, (2) an upward trend in aggregate demand, (3) a higher external inflation trajectory, and (4) anticipation of a slightly more depreciated nominal rate during the first two consecutive quarters of the comparable period. On the other hand, the anticipation of a more appreciable exchange rate trajectory starting with the first quarter of 2022 attenuated the upward revision of the forecast for the annual core inflation rate.

The forecast of the average core inflation rate was increased by 1.3 percentage points for 2021 and by 3.4 percentage points for 2022.

²⁴Quarter III 2021 – Quarter I 2023

The annual rate of food prices was revised upwards for the comparable period, except for the third quarter of 2021 (Chart 5.15).

In the short term, the lower forecast of food prices is driven by higher-than-expected performance in agriculture. At the same time, for the rest of the forecast period, the increase in the forecast is caused by (1) a higher aggregate demand compared to the previous one (2) by a higher forecast of international food prices. Anticipation of a more appreciable exchange rate starting with the second quarter of 2022 attenuated the upward revision of the annual food rate forecast.

The forecast of the annual rhythm of food prices was decreased by 0.1 percentage points for 2021 and increased by 2.4 percentage points for 2022.

The current forecast of the annual rate of regulated prices is relatively similar during the first three consecutive quarters of the comparable period, but has been revised upwards for the rest of the period (Chart 5.16).

The higher projection of the annual rate of regulated prices, starting with the second quarter of 2022, is determined by a higher trajectory of international oil prices, which implies an increase in the forecast of the import price of natural gas over the entire comparable period. Respectively, in the current forecast, an increase in the tariff for grid gas by 20% and 5% was anticipated in the second quarter of 2022 and in 2023 and an increase in the tariff for district heating by 10.0%, compared to the forecast previous²⁵.

The forecast of regulated prices is similar for 2021 and increased by 2.1 percentage points for 2022.

The forecast for the annual rate of fuel prices was high until the second quarter of 2022 and lowered towards the end of the comparable period (Chart 5.17).

The higher projection of the annual rate of fuel prices is determined by (1) higher-than-expected effective inflation for the second quarter of 2021, (2) a higher forecast of international oil prices, (3) a higher aggregate demand in the report with the previous one, (4) a slightly more depreciated trajectory of the exchange rate during the first two consecutive quarters of the comparable period. The anticipation of a more appreciable exchange rate starting with the first quarter of 2022 attenuated the upward revision of the forecast of the annual rhythm of fuel prices, and for the last three quarters it conditioned even a decrease.

Fuel price forecast increased by 2.7 percentage points for 2021 and by 1.0 percentage points for 2022.

Chart 5.14: Core inflation (% , compared to the previous year, percentage points)

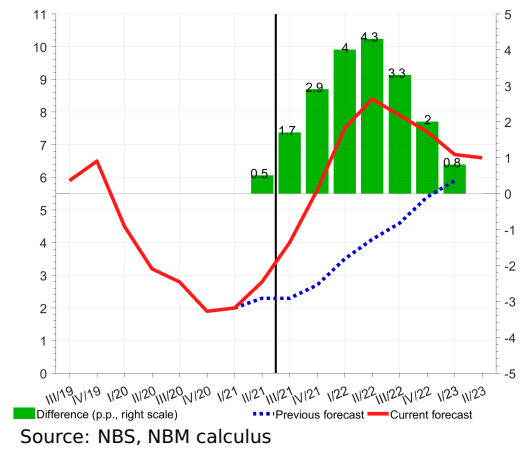


Chart 5.15: Food prices (% , compared to the previous year, percentage points)

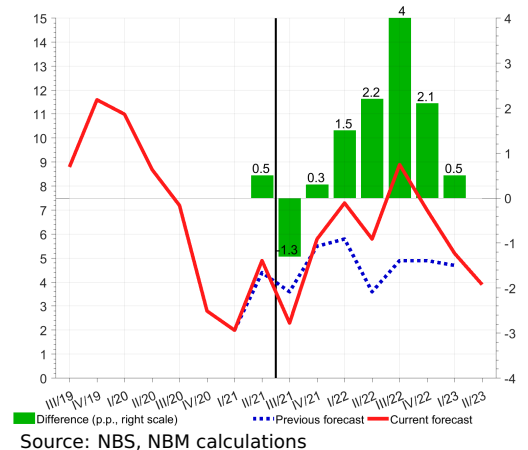
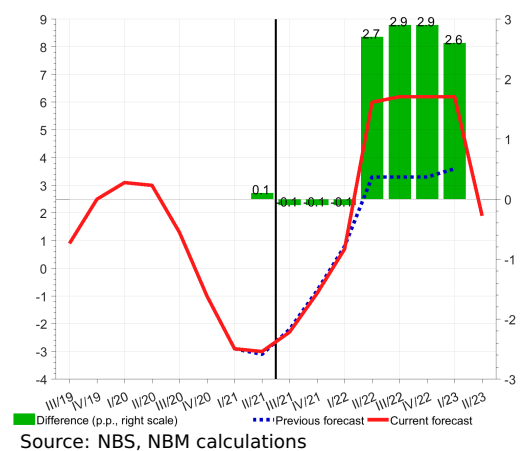


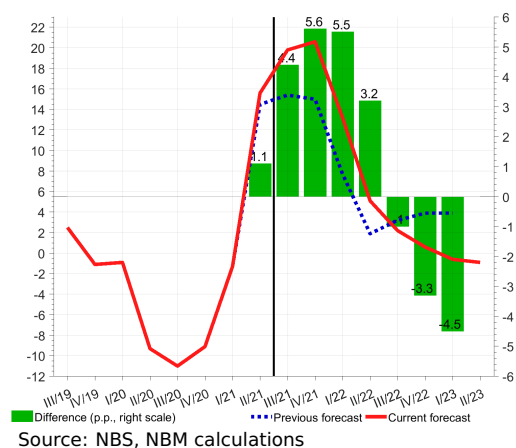
Chart 5.16: Regulated prices (% , compared to the previous year, percentage points)



²⁵Inflation Report no.2, May 2021

5.4 Risks and uncertainties

Chart 5.17: Fuel prices (% , compared to the previous year, percentage points)



External sector

- Accelerating pro-inflationary pressures in the context of consumer demand.** In recent months, international commodity prices and global service tariffs have skyrocketed, boosting pro-inflationary pressures in most economies. Against the background of still weak consumption after the pandemic crisis, pro-inflationary conditions have hampered monetary decision makers. There is already a migration of decisions towards tightening monetary conditions, which will temper the post-pandemic economic recovery. The severity of the risk is also amplified by the maintenance of high prices for a relatively long period of time, which diminishes the hopes that the situation was a short-term shock (pro-inflationary).
- The fragmented growth of the world economy.** The pace of vaccination is the key factor in economic recovery in countries and regions. In richer economies, the vaccination process is quite advanced, which has allowed some countries to already reduce quarantine restrictions and relaunch activities in the field of retail and the HoReCa segment. Poor economies have limited access to vaccine procurement and depend on their distribution through the COVAX platform. Thus, the vaccination process in these countries is progressing very difficult, which determines the maintenance of quarantine restrictions and respectively the postponement of the relaunch of the affected activities. At the same time, the emergence of new strains and local outbreaks causes the economic recovery to be delayed, which further contributes to the fragmentation of world economic growth (disinflationary).
- The fragile stability of the world oil market.** Even if OPEC+ recently managed to reach a consensus (increase by 400 thousand barrels per day, monthly, starting with August 2021 until the current limit of 5.8 million barrels per day will be consumed), there is a risk that in future meetings to again disturb the balance reached. Iran's oil exports are also expected to resume in the coming months, following recent positive negotiations. At the same time, the increase in oil prices leads to an increase in oil production from US shale wells. Thus, the increase in oil production faster than the global recovery and the increase in oil consumption could lead to a decrease in oil prices (uncertainty).

Real sector

- Uncertainties about agricultural production in 2022.** The harvest of 2022, respectively, the prices for food products on the domestic market will depend, to a large extent, on the agro-meteorological conditions of the current year and next year. If the estimates for this year's harvest are optimistic in the context of favorable conditions so far, developments in

the agricultural sector and, therefore, the trajectory of food prices for next year is marked by a pronounced uncertainty (uncertainty).

- **Vulnerability of prices for local fruits and vegetables to weather conditions in the near future.** According to the experience of recent years, the prices of local fruits and vegetables are largely affected by adverse weather conditions such as dry weather, heavy rainfall, etc., the costs associated with harvesting, transporting, storage, but also their sale at points of sale in the country. In the event of significantly different temperatures than normal or heavy rainfall, this would result in an increase in food prices over the coming months (pro-inflationary).
- **Uncertainties about the timing and magnitude of the tariff adjustment for regulated services.** The medium-term forecast of inflation is based on a trajectory of prices for regulated services that corresponds to certain assumptions about the prices of energy resources at international and regional level, as well as about other indicators relevant to the respective sector. However, given that tariffs for some regulated services have a considerable economic impact on the population, the timing of their adjustment can be based not only on economic factors but also on the pursuit of social or political objectives by the decision makers involved. Therefore, the timing and magnitude of the tariff adjustments cannot be estimated with a sufficient degree of confidence. At the same time, in the context of the increase in prices for energy resources internationally and regionally during the last quarters, for the average forecast horizon, certain preconditions for adjusting tariffs to some subcomponents of regulated prices are outlined (uncertainty, pro-inflationary).
- **Duration, intensity of the COVID-19 pandemic and impact on the domestic economy.** The risks induced by the pandemic crisis have decreased in the context of starting immunization campaigns. Thus, the relaxation of the restrictions related to the pandemic crisis were positively reflected on the dynamics of economic activity. However, uncertainty remains about the evolution of the virus and the development of new strains of the virus. At the same time, the slow pace of the vaccination process leads to the maintenance of restrictions and, respectively, the postponement of the resumption of activity in some sectors to the maximum capacity. If restrictive measures are continued for a longer period or even new restrictions are introduced, domestic demand will be more modest than anticipated, and the impact on inflation will be more disinflationary (disinflationary).
- **Modification of the methodology for calculating and applying prices to petroleum products.** In June 2021 ANRE approved the new methodology for setting fuel prices. Thus, the selling price of each consignment of fuel is set by each economic operator at a level which may not exceed its maximum price, which is determined on the basis of the average value of the average Platts quotations and the official average exchange rate of the national currency for 14 days prior to the day of import (at the same time, the final price includes: VAT, excise duties and commercial margin). The impact of these changes creates uncertainties for domestic prices in the near future (uncertainty).

- **Risk of underestimating the short-term forecast of the CPI.** Given that the short-term inflation forecast was prepared in early July, the increased volatility of oil prices in recent times, and the change in the methodology for calculating oil prices, there is a risk of a higher CPI trajectory than anticipated (pro-inflationary).
- **Risk of underestimating GDP dynamics for the second quarter and for the second half of 2021.** Assuming that the GDP dynamics estimate was followed by the publication of macroeconomic indicators with a strong positive trajectory for May 2021, there is a risk of underestimating this indicator and, as a result, a more pronounced pro-inflationary risk on aggregate demand and prices (pro-inflationary).

Monetary and public sectors

- **External financing.** Following the results of the early parliamentary elections, the flow of external credit and grants is expected to increase considerably, which will allow for faster implementation of reforms in the national economy and create additional incentives for aggregate demand and inflation. At the same time, the increase in external financing will lead to an issue not covered by the national currency, in the medium and long term, which will have an impact on the inflationary process (pro-inflationary).
- **A possible increase in excessive liquidity in the banking sector.** As a result of the monetary issue during the period 2020-2021 following the interventions of the NBM on the domestic foreign exchange market and the anticipated external financial assistance in future periods, in addition, the continuous increase of excessive liquidity in the banking system will be stimulated. As a consequence, this surplus will in the short term have a positive impact on aggregate demand, on the exchange rate of the national currency and may generate additional inflationary (pro-inflationary) pressures. At the same time, an increase or maintenance of a level of excessive liquidity at the current level will diminish the effects of the increase in the base rate.
- **Increasing the minimum pension.** Currently, the minimum pension in the Republic of Moldova is below the subsistence minimum of the population. One of the objectives announced by the governing political party is to increase the minimum pensions to the level of 2,000 lei per month per person. This initiative will allow the absolute poverty line to be exceeded and will give further impetus to domestic demand. The approximate costs of this initiative will amount to 4.3 billion lei annually (pro-inflationary).
- **The evolution of the national currency.** Given the non-specific seasonal behavior of the national currency exchange rate in the current quarter, there is a risk of deviating from actual inflation from its forecast trajectory in the current forecast round (uncertainty).

Chapter 6

Monetary policy decisions

Summary of the meeting of the Executive Board of the National Bank of Moldova of 09.12.2020 on monetary policy

The meeting was chaired by: Mr. Octavian Armașu, Governor – Chairman of the Executive Board

The following were present: members of the Executive Board – Mr. Vladimir Munteanu, First Deputy Governor – Deputy Chairman of the Executive Board, Mr. Aureliu Cincilei – Deputy Governor

Rapporteur: Mr. Radu Cuhal – Director of the Monetary Policy Department

Guests: Mr. Daniel Savin – Director of the Financial Markets Department, Ms. Diana Avtudov – Deputy Director of the Banking Supervision Department, Mr. Ion Veveriță – Director of the Reporting and Statistics Department, Mr. Andrei Rotaru – Director of the Economic and Applied Research Department, Ms. Alina Boboc – Head of the Communication and Press Service

Mr. Radu Cuhal presented to the NBM Executive Committee the Report on the assessment of the risk of deviating from the inflation forecast, prepared on the basis of recent data and information from the external and internal environment.

The discussions of the members of the Executive Board began with the determination and evaluation of the events that emerged after the forecast round in October, emphasizing that, in general, the main hypotheses, conclusions and assumptions associated with the Inflation Report no.4, 2020 were confirmed. At the same time, they found that the statistical data published after the forecast round in October this year implies the persistence of the risk of a downward deviation of the inflation forecast.

In this context, they referred to the evolution of the inflationary process, noting that the annual inflation rate in October 2020 continued the downward trajectory, but with a more pronounced magnitude than expected, registering 1.6%. It was noted that the deviation from actual inflation from the forecast is mainly due to the negative impact of food prices, which increased by 3.9% in annual terms, being 1.5 percentage points lower than expected in the Inflation Report no.4, 2020. Reference was also made to the other subcomponents of inflation, noting that core inflation and regulated prices registered in October 2020 levels practically identical to those forecast, and fuel prices had a slightly higher evolution than expected.

In these discussions, the EC members noted that this deviation, together with the more pronounced reduction in the gas tariff in the network, conditions the prospects of a short-term deviation of inflation. At the same time, it has emerged that in the context of disinflationary pressures from aggregate demand and import prices there is a risk of a lower inflation trajectory for 2021 as well.

Subsequently, the discussions focused on economic activity, EB members stressed that economic conditions are still affected by the impact of the pandemic, as confirmed by the negative developments in operational indicators for August-September 2020, published after the forecast round in October, although there was a moderation in the negative growth rates during that period. At the same time, it was emphasized that the national economy is substantially affected by the negative developments in the agricultural sector, agricultural production contracting by 31.3% in July-September compared to the same period of the previous year. During the discussions, attention was also paid to remittances from abroad to individuals, noting that in the third quarter of 2020 their annual rate recorded a pronounced positive dynamics, registering the level of 48.1% in September 2020. Analyzing the situation on the labor market, the EC members found that the wage fund by economy increased by 5.9% in the

third quarter of 2020, the average monthly salary increased by 9.3% and the average number of employees decreased by 3.1% compared to the third quarter of 2019.

Next, the EB members commented on the situation on the credit and deposit market, emphasizing that against the background of monetary policy measures and excess liquidity in the banking system, the weighted average interest rate on new deposits attracted in lei recorded an uneven trend in September 2020 – the first three weeks of November 2020, with negative contributions from the change in interest rates, except for the third week of November, when it amounted to 3.79%. At the same time, starting with October 2020, the weighted average interest rate on new loans granted in the national currency decreased to the level of 7.78% in the third week of November.

In the ensuing discussions, EB members referred to the main risks to the inflation forecast, noting those associated with the more pronounced disinflationary impact of import prices and the sharper decline in the network gas tariff compared to their anticipations in the round of forecast for October 2020.

Following the assessment of the quantified risk of deviating from the inflation forecast published in the Inflation Report no.4, 2020, the EB members stressed that the annual inflation rate will be lower than expected for the entire forecast horizon. At the same time, it was mentioned that in the fourth quarter of 2020 the average annual inflation rate will register a lower value than the one estimated in the Inflation Report no.4, 2020, with the risk of lowering the annual inflation level at the end of the current year in the vicinity of the level of 0.0%.

At the same time, EC members stressed the need for continuous monitoring of the external and internal macroeconomic situation and reiterated that in due course, without prejudice to its fundamental objective of ensuring price stability, the NBM will come up with measures associated with maintaining sufficient liquidity of licensed banks, thus supporting a viable and stable banking system.

Thus, in order to ensure inflation in the range of ± 1.5 percentage points from the inflation target of 5.0% in the medium term, taking as a benchmark the assessment of the risk of deviating from the inflation forecast and the periodicity of propagation of previously adopted monetary policy impulses, the Executive Board of the NBM unanimously adopted the following decision:

- 1. The base rate applied to the main short-term monetary policy operations is maintained at the current level of 2.65% annually.**
- 2. Interest rates are maintained:**
 - a) to overnight loans at the current level of 5.15% annually;**
 - b) to overnight deposits at the current level of 0.15% annually.**

Voting results

PRO – 3

AGAINST – 0

ABSTAINED – 0

Chairman of the Executive Board

Secretary of the Executive Board

Octavian ARMAȘU

Sergiu SURDU

Summary
of the meeting of the Executive Board of the National Bank of Moldova of 29.01.2021
on monetary policy

The meeting was chaired by: Mr. Octavian Armașu, Governor – Chairman of the Executive Board

The following were present: the members of the Executive Board – Mr. Vladimir Munteanu, First Deputy Governor – Deputy Chairman of the Executive Board, Mr. Ion Sturzu – Deputy Governor, Mr. Aureliu Cincilei – Deputy Governor

Rapporteur: Mr. Radu Cuhal – Director of the Monetary Policy Department

Guests: Mr. Natan Garștea – Advisor to the Governor, Ms. Natalia Sîrbu – advisers to the governor, Mr. Daniel Savin – Director of the Financial Markets Department, Mr. Constantin Șchendra – director of the Banking Supervision Department, Mr. Ion Veveriță – Director of the Reporting and Statistics Department, Mr. Andrei Rotaru – Director of the Economic and Applied Research Department, Ms. Alina Boboc – Head of the Communication and Press Service

The meeting of the NBM Executive Board started with the presentation of Mr. Radu Cuhal regarding the evaluation and analysis of the latest available information from the external and internal environment, the trends and perspectives of the main macroeconomic indicators. At the same time, the new inflation forecast for the next eight quarters was presented.

Assessing the external macroeconomic situation, EC members noted that the fourth quarter of 2020 resulted in continued global economic decline, but with prospects for economic recovery and improved consumer and investor sentiment amid vaccine development. At the same time, it was pointed out that in the international oil and food markets there has been an upward trend in prices.

In discussions related to the domestic macroeconomic environment, EB members referred to the dynamics of the inflationary process, outlining that the annual inflation rate in the fourth quarter of 2020 evolved according to estimates, continuing the downward trajectory since the beginning of this year and registering 0.4% in December 2020 compared to 2.3% in September 2020, remaining within ± 1.5 percentage points of the inflation target of 5.0%. It was found that this development was due to lower food prices and core inflation under the impact of disinflationary pressures generated by domestic demand amid COVID-19 restrictions, lower import prices and unfavorable weather conditions. At the same time, it was emphasized that the decrease in regulated prices in the context of the adjustment of the tariff for gas in the network from the end of October 2020 supported the downward trend of annual inflation.

Subsequently, the discussions focused on domestic economic conditions, noting that in the third quarter of 2020 the economy of the Republic of Moldova evolved according to the latest forecast published by the NBM, remaining in negative territory, but with less pronounced rates compared to the previous quarter contracting by 9.7% in real terms compared to the similar period of the previous year. It was mentioned that this dynamic was caused by the decrease in the annual rate of final consumption of households by -8.0% amid the reduction of disposable income of the population and the postponement of household spending in the context of uncertainties caused by the pandemic. Investments and exports continued to have a negative impact on economic growth, which was mitigated by the negative dynamics of imports. At the same time, it was emphasized that gross fixed capital formation and final consumption of general government recorded positive developments. EB members stressed that the decline in most sectors of the national economy supported the contraction of economic activity in the third quarter of 2020, and unfavorable weather conditions that significantly affected the volume of agricultural production, in addition, contributed to the decrease in GDP. EB members also referred to the operational indicators for the first two months of the fourth quarter of 2020 provided by the NBS, noting that they are showing a negative dynamic, but of a more attenuated intensity, thus signaling a slight recovery in economic activity.

EB members spoke on labor market developments, noting that it was still influenced by the contraction of economic activity, along with the effect of COVID-19 restrictions. In this regard, they referred to the economically active and employed population, which in the third quarter of 2020 recorded a negative dynamics of 5.7% and 5.1%, respectively, in annual terms. At the same time, it was highlighted that the salary fund on the economy recorded a recovery, increasing by 2.5% in real terms, and the average number of employees decreased by 3.1% compared to the third quarter of 2019.

EB members have assessed that, in the context of previously adopted monetary policy measures and the

context of the money and foreign exchange markets, the weighted average interest rate on new loans in national currency decreased in the fourth quarter of 2020 compared to the corresponding period of 2019 with 0.55 percentage points and accounted for 7.92% annually. At the same time, it was emphasized that the lending process was revived for the second consecutive quarter, with the volume of new loans granted in the national currency increasing by 10.2% in annual terms.

In the ensuing discussions, EB members referred to the current forecast, noting that the forecasts associated with the evolution of the external environment have improved against the assumptions of gradual recovery of the world economy and the main foreign trade partners of the Republic of Moldova in the absence of risks, emphasizing their implications for the domestic situation by favoring domestic demand and influencing price developments.

During the meeting it was emphasized that the elaboration of the new forecast round was carried out on the basis of the available information flow associated with the analysis and forecast cycle. With reference to the forecasted trend of the annual inflation rate, it was mentioned that it will decrease in the current quarter, and starting with the second quarter of 2021 it will register a slightly upward trend, so that by the end of the forecast horizon it will return close to the inflation target. It was pointed out that during the current year the annual inflation rate will remain below the lower limit of the variation interval, and starting with the first quarter of 2022 it will return to the interval and will remain in the lower level during the next year. The average annual inflation will register the level of 1.8% and 4.4% in 2021 and 2022, respectively.

EB members noted persistent disinflationary pressures from aggregate demand, which will be negative but partially recovering over the forecast horizon (I quarter 2021 – IV quarter 2022). In this regard, the factors that conditioned the sharp decrease in aggregate demand were mentioned – anti-epidemic measures, significant decrease in external demand, unfavorable agrometeorological conditions, real appreciation of the national currency, and worsening climate and expectations for business and households. At the same time, EC members also referred to the factors that will contribute to the partial recovery of aggregate demand, including increasing external demand, improving monetary conditions, improving consumer and business sentiment, returning to agriculture after a dry year, along with incentives anticipated public finances this year.

During the meeting, special attention was paid to the events that emerged after the elaboration of the forecast, such as the timing and magnitude of the adjustment of tariffs and regulated prices for electricity by ANRE, other than anticipated in the forecast round. These were decreased by about 8.0-10.0% on January 26 this year, compared to 3.0% starting April 2021, as anticipated in the forecast. Under these conditions, the EC members noted the increase in disinflationary pressures on the evolution of the consumer price index in the next period and, respectively, the increase in the risk of the decline in the current forecast.

Analyzing the balance of risks to inflation, EB members noted the prevalence of disinflationary ones, mainly reflected in the duration, intensity of the pandemic, its repercussions on the national economy and, respectively, the period needed to recover. At the same time, the disinflationary risk associated with a possible appreciation of the national currency amid a lower demand for foreign currency was highlighted compared to previous periods conditioned by the moderate growth of imports along with the likely increase in exports due to the increase in agricultural production this year, as well as the partial revival of remittances compared to the previous year and the possible depreciation of the US dollar against other currencies. At the same time, they also referred to the potential disinflationary effect that will arise from the changes operated by the NBS on the weights of the groups and subgroups within the CPI basket.

The discussions of the EC members also focused on the external financing perspectives of the national public budget, finding that its partial lack would lead to a decrease in budget expenditures and, respectively, to a decrease of the fiscal impulse with negative impact on aggregate demand, thus outlining another disinflationary risk.

Following the analysis and findings made at the meeting, the NBM Executive Board decided to maintain the base rate, the rates for permanent facilities and the required reserves at current levels. It was noted that the decision aims at creating monetary conditions that would contribute to the return of inflation in the range of ± 1.5 percentage points from the inflation target of 5.0% in the medium term. At the same time, it was stressed that monetary conditions will continue to be conducive to supporting domestic demand, the lending process and supporting economic activity in the context in which monetary policy stimulus measures adopted in the second half of the previous year are set to spread, as a landmark being their transmission gaps.

At the meeting, the NBM Executive Board reviewed and approved the Inflation Report no.1, 2021. The document contains recent analyzes of the situation in the internal and external environment associated with the

inflationary process, economic activity, the conduct of monetary policy. It also includes the new forecast, along with the associated risks and uncertainties.

At the end of the meeting, EB members stressed the need for continuous monitoring of the internal and external macroeconomic situation, reiterating that in due course, without prejudice to its fundamental objective of ensuring price stability, the NBM will come with measures associated with maintaining sufficient liquidity in licensed banks, thus supporting a viable and stable banking system.

Decision adopted by the Executive Board of the NBM by unanimous vote:

- 1. The base rate applied to the main short-term monetary policy operations is maintained at the current level of 2.65% annually.**
- 2. Interest rates are maintained:**
 - a) to overnight loans at the current level of 5.15% annually;**
 - b) at overnight deposits at the current level of 0.15% annually.**
- 3. The norm of required reserves from the means attracted in Moldovan lei and in non-convertible currency is maintained at the current level of 32.0% of the calculation base.**
- 3. The norm of required reserves from the means attracted in freely convertible currency is maintained at the current level of 30.0% of the calculation base.**

The Executive Board of the NBM approved for publication the Inflation Report no.1, 2021.

Voting results

PRO – 4

AGAINST – 0

ABSTAINED – 0

Chairman of the Executive Board

Octavian ARMAȘU

Secretary of the Executive Board

Sergiu SURDU

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