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Monetary Policy

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Monetary Policy Decision, 05.02.2025

The Executive Board of the National Bank of Moldova, at its meeting on 5 February 2025, adopted by unanimous vote the following decision:

1. **to establish the base rate applied to the main short-term monetary policy operations at 6.50 percent annually.**
2. **to set the interest rates as follows:**
   a) on overnight loans, at the level of 8,50 percent annually;
   b) on repo operations, at the level of 6,75 percent annually;
   c) on overnight deposits, at the level of 4,50 percent annually.

The Executive Board of the NBM, at its monetary policy meeting, decided to increase the base rate by 0.9 percentage points, taking into account the following information:

- *The signing of the Letter of Intent between the Government of the Republic of Moldova and the European Commission on the granting of an extended support package to strengthen the resilience and energy independence of our country. This support package also aims to mitigate the impact of the adjustment of electricity and natural gas tariffs on consumer prices.*
- *The need to mitigate the second-round effects caused by the change in regulated tariffs in December 2024 and January 2025 on inflation, and to anchor inflation expectations with the aim of bringing the annual rate of the consumer price index within the variation range of ±1.5 percentage points from the inflation target of 5.0 percent annually within a reasonable timeframe.*
- *Increasing uncertainties regarding the developments of the world economy and trade flows in the current global context.*

In order to further calibrate the optimal monetary policy measures for bringing inflation back within the target range, the National Bank of Moldova will develop the medium-term inflation forecast, taking into account the details of the extended support package provided by the European Union.

Annual inflation continued the upward trajectory started in the second half of 2024. Thus, in December 2024, the annual inflation rate amounted to 6.97 percent, increasing by 1.54 percentage points from the previous month and exceeding the upper limit of the variation corridor of ±1.5 percentage points from the 5.0 percent target. Also, in the fourth quarter of 2024, the average annual inflation rate was 5.9 percent, 0.9 percentage points higher than in the previous quarter. The higher evolution of the annual inflation rate in the fourth quarter of 2024 was driven by some adverse sectoral developments, including the dynamics of regulated prices and the dry conditions in the previous summer. It is worth noting that moderate domestic demand continued to exert a disinflationary impact on the annual inflation rate during the reference period.

External environment. The global economy continues to evolve in a fragmented way with risks and uncertainties related to international trade. The significant appreciation of the US dollar is creating

inflationary pressures in emerging countries and especially in import-dependent countries. Thus, the dispersion of disinflationary pressures and the emergence of inflationary pressures signal a shift in global monetary cycles and create expectations that interest rates will cease falling and even begin to rise. European economies continue to grow at a limited pace due to the consequences of the 2022 energy crisis, with the industrial sector being the hardest hit. It is worth noting that the price of natural gas on the European market has risen significantly, exceeding USD 500/1 000 cubic meters, both due to the depletion of reserves caused by the very low temperatures during this period and as a result of the halt in natural gas transit from Russia through Ukraine. Oil prices have also increased since January 2025, following the introduction of new economic sanctions against Russian oil product tankers. International food prices have likewise started to rise in the context of increasing consumer demand and rising transportation and logistics costs.

Economic activity contracted by 1.9 percent annually in the third quarter of 2024. This trend was mainly driven by the negative impact of net external demand. This effect was, however, partly offset by domestic demand, both from the household sector, in the context of an increase in real disposable income, and from economic agents. Nevertheless, according to estimates, domestic demand is still projected to remain moderate.

Operational data published by the NBS for the first two months of the fourth quarter of 2024 point to the possibility of GDP a contraction during that period as well. Thus, the annual export rate decreased by 7.6 percent, while the annual import rate continued its positive trend, registering 10.6 percent. In the period of October-November 2024, industrial production recorded a negative rate of 6.1 percent, while retail and wholesale trade increased by 11.9 percent and 9.6 percent, respectively.

Monetary conditions. In the fourth quarter of 2024, interest rates on new loans and deposits in domestic currency continued their downward trend, also as a result of the cumulative monetary policy stimulus measures. Thus, the weighted average rates on loans amounted to 8.26 percent and on deposits - 3.16 percent, decreasing by 2.24 and 1.07 percentage points, respectively, compared to the fourth quarter of 2023.

The consecutive decline in interest rates led to a 48.8 percent increase in the volume of new loans in MDL in the fourth quarter of 2024. This trend was driven by an increase in loans granted both to individuals for consumption and real estate purchases, and to legal entities in the trade, agriculture, construction, and energy sectors.

In the context of the need to develop the medium-term inflation forecast, which takes into account the recent support provided by the EU to the Republic of Moldova to mitigate the impact of the increase in regulated tariffs, the National Bank of Moldova, during the Executive Board meeting on 5 February 2025, modified the publication schedule [1] of the Inflation Reports for 2025. Thus, the Inflation Report for February 2025 will be published on 25 February 2025.

The next meeting of the Executive Board of the NBM on monetary policy will take place on 20 March 2025, according to the approved schedule [2].

NBM Interest rates [3]

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