National
Bank of Moldova

Inflation Report

August 2024

National Bank of Moldova
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Mission of the National Bank of Moldova

The National Bank of Moldova, as the central bank of the Republic of Moldova, is an autonomous public legal person, which establishes and promotes monetary and foreign exchange policy in the state, a fact stipulated in article 5 paragraph (1) letter a) of Law No. 548/1995 on the National Bank of Moldova.

Under the provisions of article 4 paragraph (1) of the Law No. 548/1995 on the National Bank of Moldova, the fundamental objective of the National Bank of Moldova is to ensure and maintain price stability. At the same time, article 4 paragraph (2) provides that, without prejudice to its fundamental objective, the National Bank shall aim to ensure the stability and viability of the banking system and support the general economic policy of the state.

The fundamental objective is achieved through the monetary policy framework associated with the direct inflation targeting regime.

The quantitative objective – the inflation target is to maintain inflation, as measured by the consumer price index, at 5.0% annually with a possible deviation of ±1.5 percentage points.

In this regard, the National Bank of Moldova has a wide and well-defined range of instruments through which it promotes monetary policy and ensures the achievement of the inflation target. These include open market operations – the main monetary policy instrument, and the ancillary instruments are the standing facilities, the required reserve ratio and interventions on the domestic foreign exchange market.

At the same time, in order to achieving the inflation target, the National Bank of Moldova steers the conditions on the money market by setting by the Executive Board the main indicator for the short-term interbank money market – the base rate.

The exchange rate regime implemented by the National Bank of Moldova is that of managed floating and, respectively, the interventions on the domestic foreign exchange market are used only to support the effects of the implementation of open market operations, to the extent that they will be necessary to achieve the inflation target and without influencing the fundamental trends of the exchange rate of the national currency. At the same time, the NBM reserves the right to carry out foreign exchange interventions in order to mitigate excessive exchange rate fluctuations, to stop speculative operations and to replenish international foreign exchange reserves, without prejudice to the achievement of the inflation target.

The monetary policy decision regarding the base rate, the standing facility rates and the required reserve ratio is taken by the Executive Board of the NBM on the basis of the analysis of the latest information on the macroeconomic situation in the Republic of Moldova and the external economic environment, the trend of macroeconomic indicators in the medium-term, as well as the short- and medium-term inflation outlook, provided by the Monetary Policy Department of the NBM.

In this respect, the Executive Board of the NBM meets eight times a year in ordinary monetary policy meetings according to the approved schedule. Four monetary policy meetings are associated with the Inflation Report, while the other four meetings are devoted to the assessment of the deviation risks to the inflation forecast. At the same time, the Executive Board of the NBM reserves the right to meet in extraordinary meetings.

Introductory note

The National Bank of Moldova appreciates the role of monetary policy transparency and predictability in strengthening institutional credibility and ensuring the inflation target.

*In this context, the **Inflation Report** is the main communication tool reflecting the latest analysis of the situation in the internal and external environment, developments in 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 and the risks and uncertainties associated with this projection.

The summaries of the minutes of the meetings of the Executive Board of the NBM regarding the promotion of the monetary policy are part of the Report and are published with a frequency of six months from the adoption of the decision in line with the Medium-term monetary policy strategy of the NBM (approved by the decision of the Council of Administration of the NBM no. 303 of December 27, 2012).

Statistical data have been taken from the National Bureau of Statistics, Ministry of Economic Development and Digitalization, Ministry of Finance, Eurostat, International Monetary Fund, National Agency for Energy Regulation, State Hydrometeorological Service.

Statistical information provided by international bodies, national statistical offices and central banks was also analyzed.

Some statistical data have been calculated by the National Bank of Moldova.

According to article 69 paragraph (2), the Inflation Report shall be submitted to the Parliament and the Government within 45 days after the end of the reporting quarter.

The Inflation Report, August 2024 was considered and approved for publication at the meeting of the Executive Board of the NBM on August 6, 2024.

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The Inflation Report, August 2024 is a translation of *Raport asupra inflației, august 2024* in Romanian. In case of discrepancies, the version of the Report in the original language prevails.

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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
CIS	Commonwealth of Independent States
CPI	Consumer price index
ECB	European Central Bank
EU	European Union
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
GVA	Gross Value Added
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
LB	Local budgets
LNG	Liquefied Natural Gas
MHIF	Mandatory Health Insurance Fund
MDL	Moldovan leu
MMBtu	Metric Million British Thermal Unit
MHIF	Mandatory health insurance fund
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+	The alliance between the Organization of the Petroleum Exporting Countries (OPEC) and a group of non-OPEC oil-producing countries.
PMI	Purghasing Manager’s Index
REER	Real effective exchange rate of the national currency
RUB	Russian ruble
SB	State budget
SS	State Securities

SSIB State social insurance budget

STA Single treasury account

USA United States of America

USD US Dollar

Summary

Inflation

From April to May 2024, the annual inflation rate continued its downward trend, temporarily leaving the range of ±1.5 percentage points from the 5.0% target in May and returning within it in June. In the second quarter of 2024, the annual inflation rate was lower than the value anticipated in the Inflation Report, May 2024. The annual inflation rate decreased from 3.9% in March 2024 to 3.3% in May 2024, thus falling below the lower limit of the inflation target variation range. This can also be attributed to the specific features of the transmission mechanism of monetary policy actions, the delayed implementation of certain budgetary expenditures, but also to the delay in the adjustment of some regulated tariffs. Subsequently, in June 2024, the annual CPI rate increased to 3.8%, thus returning to the above-mentioned range. At the same time, the average annual inflation rate amounted to 3.5% in the second quarter of 2024, about 0.8 percentage points lower than in the previous quarter. The downward trajectory of the annual inflation rate in the second quarter of 2024 was supported by subdued domestic demand, which exerted disinflationary pressures on prices. Disinflationary pressures continued to be driven by the trajectory of international food prices, but also by the domestic agricultural and industrial output prices, as well as by the reduction of some tariffs. In these conditions, inflationary pressures on the annual CPI inflation rate, during the reference period, were mainly supported by some adverse sectoral developments.

Recently, the downward trend in the annual rate of industrial prices has continued, thus paving the way for a moderation of their price pressures on some CPI subcomponents in the period ahead. In addition, domestic demand will continue to exert a disinflationary impact in the coming period, although this will be tempered by some tariff adjustments. The manner in which tariffs are adjusted, as well as the tense situation in the region and the risks of its escalation, keep the inflation outlook highly uncertain.

External environment

In its latest report[1], the IMF cautioned that the varied dynamics of economic activity, since the beginning of this year, have somewhat narrowed the output gap between economies, as cyclical factors diminish, and activity becomes better aligned with its potential. The persistence of high service prices is delaying progress towards disinflation, which complicates the normalization of monetary policy. Inflationary risks remain elevated, increasing the prospect of higher interest rates for longer periods amid escalating trade tensions, political and geopolitical uncertainties. Global activity and world trade strengthened at the beginning of the year, with trade being boosted by strong exports from Asia, particularly in the technology sector. In the United States of America, after a sustained period of strong performance, a sharper-than-expected slowdown in growth reflected moderating consumption and a negative contribution from net trade. In contrast, Europe saw some sectoral economic recoveries, notably an improvement in services activity. In China, the revival of domestic consumption in the first quarter was supported by what seemed to be a temporary pick-up in exports, which has belatedly regained its connection with last year's global demand growth.

International prices have shown low volatility in recent months and remain at relatively high levels. At the same time, the dissipation of the base year effect is reversing the upward trend in international quotations. In the region, the harvest could be jeopardized by poor agrometeorological conditions of this year, which have damaged some agricultural crops. In June 2024, the ECB reduced the monetary policy rate in an attempt to stimulate economic activity and in anticipation of a decrease in the annual inflation to the 2.0% target. At the same time, electoral changes in the European Union and expectations regarding the outcome of the November 2024 presidential elections in the USA determine the current trajectory of the EUR/USD exchange rate. Another factor driving fluctuations is the anticipation of the start of interest rate cuts by the FRS. It should be noted that the Russian ruble has appreciated recently due to new sanctions related to foreign exchange transactions and measures taken by the Russian authorities to stabilize the domestic market.

[1] IMF, World Economic Outlook Update July 2024

Economy

In the first quarter of 2024, the annual GDP dynamics returned to positive territory after the slight decline in the last quarter of the previous year. Thus, in the first quarter of 2024, GDP increased by 1.9% compared to the same period of 2023. This dynamics was insignificantly higher than that anticipated in the Inflation Report, May 2024. This development of economic activity was supported by the previous year's rich harvest in the agricultural sector, which had a positive impact on some branches at the beginning of this year, as well as by a positive impact from industry. Positive developments in the information and communication, accommodation and food services sectors are also worth mentioning. However, domestic demand continued to be modest, a fact signaled by subdued developments in household consumption and investment amid increased uncertainty in the region and despite the rise in household incomes. Less optimistic signals regarding economic activity are also confirmed by the negative trends in transportation, real estate transactions, but also by a decline in net taxes on products. At the same time, the seasonally adjusted series reflects a 2.5% GDP growth compared to the fourth quarter of 2023.

It should be noted that the NBS revised the annual rates for the previous periods. Thus, the values of -0.9% and 0.2% for the first and fourth quarters of 2023 have been revised to -0.4% and -0.2%, respectively. The revision of the rates did not change annual GDP growth in 2023 (0.7% compared to 2022). In this context, similar to the previous year, during this period the aggregate demand pressures on prices exerted a disinflationary impact.

Monetary policy

In the second quarter of 2024, excess liquidity amounted to MDL 10.0 billion, down by MDL 2.4 billion compared to the previous quarter.

In the second quarter of 2024, the M3 monetary aggregate recorded an annual growth rate of 15.7%. The main contribution was provided by the balance of deposits in the national currency.

During the second quarter of 2024, two meetings of the Executive Board of the National Bank of Moldova were held on monetary policy decisions. Following the assessment of the balance of internal and external risks and the inflation outlook in the short- and medium-term, the Executive Board of the National Bank of Moldova, at its meeting on May 7, 2024, decided to reduce the base rate applied to the main monetary policy operations by 0.15 percentage points, setting the level at 3.60% annually. The rates on overnight loans and deposits were lowered by the same magnitude, setting their levels at 5.60% and 1.60% annually, respectively.

At the same time, the required reserve ratio of the funds attracted in MDL and non-convertible foreign currency and that of the funds attracted in freely convertible foreign currency for two consecutive periods of reserve application was lowered to 29.0% and 39.0% of the calculation base, respectively. Subsequently, at the meeting on June 20, 2024, it was decided to maintain the base rate at the level of 3.60% annually.

Also, during the regular monetary policy meeting on August 6, 2024, the Executive Board of the National Bank of Moldova decided, by an unanimous vote, to maintain the base rate at the level of 3.60% annually, respectively, the rates on standing facilities were maintained. The required reserve ratio of funds attracted in MDL and non-convertible foreign currency and that of funds attracted in freely convertible foreign currency, remained unchanged at 29.0% and 39.0% of the calculation base, respectively.

This decision was taken in the context of the continued spillovers effects from previous monetary policy decisions, given the lags in their transmission. At the same time, the decision was influenced by the actual monetary conditions prevailing in the deposit, credit and foreign exchange markets, which indicated a favorable situation for ensuring that inflation remained within the variation range of ±1.5 percentage points of the 5.0% medium-term target. The cumulative monetary policy stimulus

measures, both the consecutive reduction of the base rate and the decrease of the required reserve ratio, will increase excess liquidity in the banking system by the end of this year. The current and projected volume of liquidity will allow banks to lend to economic agents and households, as well as to invest in state securities.

In the second quarter of 2024, on the national currency segment, the weighted average interest rates on new loans and on term deposits continued their downward trend under the impact of the cumulative monetary policy stimulus measures. Thus, the weighted average rate on loans amounted to 9.08% and that on deposits – 3.24%, decreasing by 4.1 and 4.05 percentage points, respectively, compared to the second quarter of 2023.

The average interest rates on the balance of loans in national currency decreased compared to the previous quarter by 0.35 percentage points, reaching 9.34% and on deposits by 0.79 percentage points to 4.01%. The average interest rates on loans and deposits in foreign currency decreased by 0.16 percentage points, reaching 6.61% and 2.04%, respectively.

Medium-term inflation projection

In the current forecasting round, the assumptions regarding the external environment reflect an uncertain situation with weak economic growth trends. As inflation in advanced economies has fallen to the levels targeted by their monetary authorities, monetary easing is expected to either begin or continue. At the same time, inflation has bottomed out in many emerging economies and given the intensification of inflationary pressures, a gradual shift in the monetary cycle is expected. Exchange rates will continue to be influenced by the differential between interest rates, geopolitical tensions and the outcome of the US presidential elections in November 2024. International oil and natural gas prices will remain at relatively high levels, but they will exhibit low volatility. Prices of metals and other agroindustrial raw materials will be affected by global demand, especially demand from China. Food prices will follow a slight upward trend due to the jeopardization of some harvests caused by adverse agrometeorological conditions of this year.

The annual inflation rate *will have a relatively stable trend for the whole forecast period*[2]. *Inflation will fluctuate slightly near the target of 5.0% and remain within the variation range throughout the forecast horizon. The maximum value will be recorded in the first quarter of 2025 and the minimum value in the second quarter of 2026. The annual growth rate of* core inflation *will continue to increase slightly in the first forecast quarter, after which it will decline until the third quarter of 2025 and then increase gradually towards the end of the forecast horizon*[3]. *The annual rate of* food prices *will have a slight upward trend until the third quarter of 2025, after which it will show a downward trend until the end of the forecast period. The annual rate of* regulated *prices will increase rapidly until the first quarter of 2025, after which it will decline over the next three consecutive quarters, and then remain stable until the end of the forecast horizon. The annual rate of* fuel *prices will have a relatively stable trend at low levels throughout the forecast period.*

Aggregate demand *will be negative for the entire forecast period due to dry conditions in the summer of 2024, the cumulative real appreciation of the national currency, and relatively weak external demand this year and early next year. The low real interest rate, the positive fiscal impulse, the rich agricultural harvest of fruits and vegetables in the second quarter of 2024, and the recovering external demand, which is expected to turn positive from the second quarter of 2025 until the end of the forecast horizon, will reduce the aggregate demand deficit.*

Real monetary conditions, *in general, will have a restrictive, albeit decreasing, effect on aggregate demand for the entire forecast period.*

The current forecast of inflation, *compared to the one in the Inflation Report, May 2024 has been revised downward for the second half of this year and upward from the second quarter of 2025 until*

[2] Third quarter of 2024 – second quarter of 2026

[3] Second quarter of 2026

the end of the comparable period[4]*. The current forecast for the annual rate of* core inflation *has been revised downward in the second half of this year and the first half of next year, and then upward until the end of the comparable period. The annual rate of* food prices *has been revised upward, predominantly, for the entire comparable period. The current forecast of the annual rate of* regulated *prices is revised upward for the entire comparable period, except for the third quarter of 2024 and the fourth quarter of 2025. The forecast for the annual rate of* fuel *prices was significantly lowered in the second half of this year and the first half of next year, being subsequently revised upward until the end of the comparable period.*

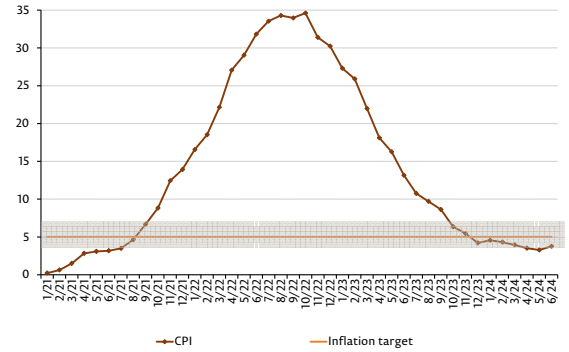
[4] Third quarter of 2024 – first quarter of 2026

Chapter 1

Inflation evolution

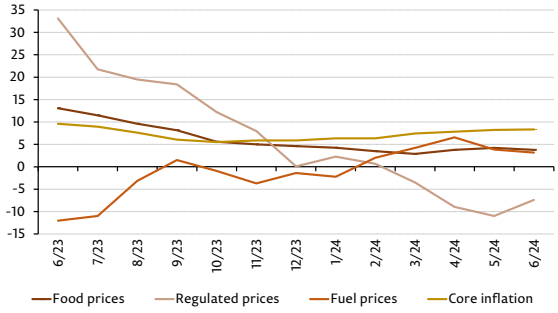
1.1 Consumer price index

Chart 1.1: Annual CPI rate (%)



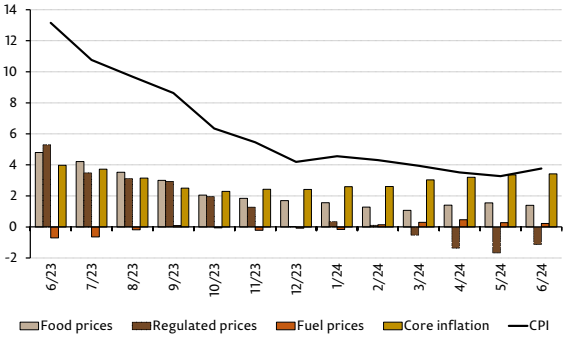
Source: NBS, NBM

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



Source: NBS

Chart 1.3: Annual inflation evolution (%) and contribution of subcomponents (percentage points)



Source: NBS, NBM calculations

From April to May 2024, the annual inflation rate continued the downward trend that started at the end of 2022, so that in May 2024 it was below the lower bound of the variation range of ±1.5 percentage points from the 5.0% inflation target. Subsequently, in June 2024 the annual inflation rate returned to the above-mentioned range. At the same time, in the second quarter 2024, the annual inflation rate was lower than anticipated in the Inflation Report, May 2024.

The annual inflation rate declined from 3.9% in March 2024 to 3.3% in May 2024, thus falling below the lower limit of the inflation target variation range. This can be attributed to the specifics of the transmission mechanism of monetary policy actions, the delayed realization of some budget expenditures, and the withholding of the adjustment of some regulated tariffs. Subsequently, in June, the annual CPI rate increased to 3.8%, thus returning to the above-mentioned range. At the same time, the average annual inflation rate amounted to 3.5% in the second quarter 2024, about 0.8 percentage points lower than in the previous quarter.

The downward trend of the annual inflation rate in the second quarter 2024 was supported by a modest domestic demand, which exerted disinflationary pressures on prices. Disinflationary pressures were further determined by the trajectory of international food prices, but also by domestic agricultural and industrial products prices, as well as by declines in certain tariffs. In these circumstances, inflationary pressures on the annual CPI rate during the reference period were mainly supported by some adverse sectoral developments.

In the CPI structure (Chart 1.2), the annual rate of regulated prices continued the downward trend of the previous periods until May 2024, after which it increased, but still remained in negative range. The annual rate of food prices, after the minimum value in March 2024, was on an upward trend until May 2024, after which it decreased slightly.

The annual rate of fuel prices increased in April 2024 and then moderated over the next two months. At the same time, the annual rate of core inflation has been on an upward trend in the second quarter of 2024.

The trajectory of the annual CPI inflation rate in the second quarter of 2024 was lower than anticipated in the previous forecast round (Inflation Report, May 2024), mainly due to the negative deviation in the forecast for the annual fuel price rate. In the following period, the annual CPI rate will remain within the inflation target range. The adjustment of tariffs, as well as the tense situation in the region along with the risks of its escalation, maintain the significant uncertainty on the inflation forecast.

Core inflation

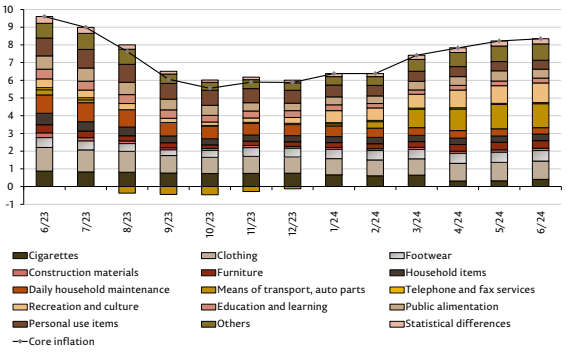
The annual core inflation rate continued the upward trajectory started at the beginning of 2024, recording a level of 8.4% in June, which is 0.9 percentage points higher than in March 2024.

According to estimates (Inflation Report, May 2024), aggregate demand continued to exert disinflationary pressures on the core inflation components in 2024. Similar to previous periods, cost pressures moderated. The increase in the annual core inflation rate can thus be attributed to adverse sectoral developments.

Structurally, the increase in the annual core inflation rate was mainly driven by the price dynamics of the "recreation and culture" subcomponent. Within them, prices for international tourist services increased by 57.9% in June 2024 compared to the corresponding month of the previous year, including on the background of higher air transportation ticket prices, and prices for recreation and sports services – by 27.4%. A more pronounced impact was also recorded by the subcomponents "clothing", "means of transport, auto parts", "public alimentation", the latter being also supported by the increase in food prices. At the same time, the price contributions of "footwear", "construction materials", "furniture", "household items", "education and learning" to the annual rate of core inflation were broadly similar to those of the previous quarter. As for the subcomponents "daily household maintenance", "personal use items", "cigarettes", pressures from these subcomponents have gradually lost some of their intensity.

The subsequent trend in the price dynamics of some important categories of goods and services included in core inflation, in the absence of supply-side imbalances, will continue to reflect the effect of modest domestic demand.

Chart 1.4: Contribution of subcomponents (percentage points) to annual core inflation dynamics (%)



Source: NBS, NBM calculations

Food prices

After a long period during which the annual rate of food prices has been on a downward slope, in the second quarter of 2024 it has reversed its trend.

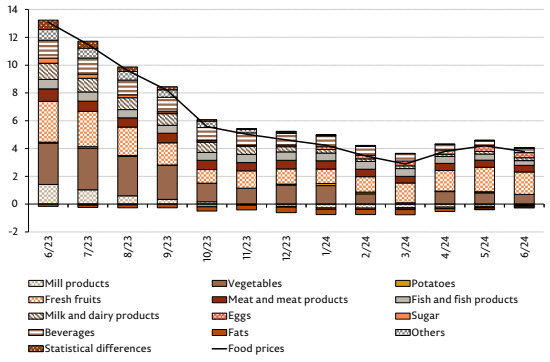
Thus, in the second quarter of 2024, an average rate of 3.9%, or 0.4 percentage points higher than in the first quarter of 2024, was recorded. Similar to previous periods, the groups "fresh fruits", "vegetables", "meat and meat products", "fish and fish products" and "eggs" contributed the most to the annual rate of food prices (Chart 1.5).

It should be noted that the marginal acceleration in the annual rate of food prices during the second quarter of 2024 was mainly driven by the increase in fresh fruits prices. At the same time, the lack of inflationary pressures on the international market, the absence of inflationary pressures through the exchange rate channel, the modest demand on the domestic market, the rich agricultural year (2023), as wells as favorable preconditions for the current summer fruit harvest contributed to the relatively modest rates of food price increases.

At the same time, the level of food prices on the international market is still below the levels recorded in the last two years (Chart 1.6). They have thus exerted disinflationary pressures on domestic prices. In the second quarter of 2024, the annual rate of food prices on the international market was -4.3%.

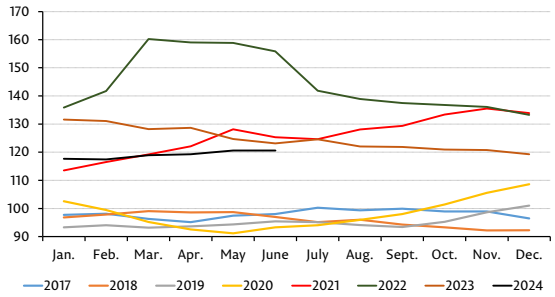
Over this period, the contribution from food prices to the formation of the annual total inflation rate increased by 0.1 percentage points to the level of 1.4 percentage points.

Chart 1.5: Contribution of components (percentage points) to annual food prices dynamics (%)



Source: NBS, NBM calculations

Chart 1.6: Evolution of the international food price index, FAO index



Source: FAO, NBM calculations

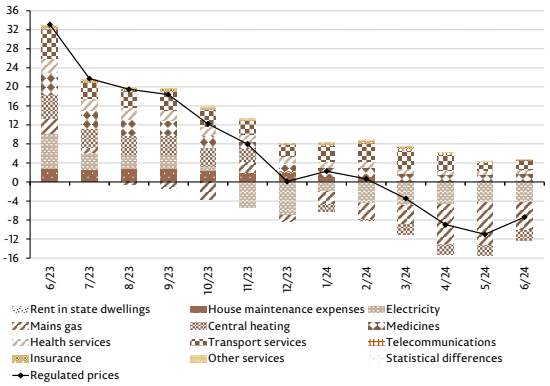
Regulated prices

In the second quarter of 2024, the annual rate of regulated prices continued the downward trajectory of previous periods, remaining negative throughout the quarter.

Thus, the annual rate of regulated prices amounted to -7.4% in June 2024, 3.9 percentage points lower than in March 2024. The annual average rate of regulated prices in the second quarter of 2024 was -9.1%, 8.9 percentage points lower than in the first quarter of 2024.

These dynamics were determined, on the one hand, by the adjustment of certain tariffs during the second quarter of 2024 and the effect of a high base period, but on the other hand, by the effects of the completion of the compensation program for energy resources for the population for the period November 2023 – March 2024 (Chart 1.7).

Chart 1.7: Evolution of regulated prices (%) and contribution of subcomponents (percentage points)



Source: NBS, NBM calculations

In this regard, with the end of the cold season in April 2024, the NBS reflected the actual tariffs (without compensation) for mains gas, central heating, and hot water. As a result, in April 2024, prices for mains gas, central heating and hot water preparation in the CPI increased by 15.2%, 41.7% and 43.5% respectively, compared to the previous period. However, given the effect of a high base period in April 2023, the subcomponents of mains gas and central heating generated a pronounced negative impact on the annual regulated price rate in the second quarter of 2024, contributing significantly to its downward trajectory. It should be noted that on March 19, 2024, ANRE approved the tariff for thermal energy delivered to consumers by S.A. "Termoelectrica" in the amount of MDL 2,138/Gcal (excluding VAT), MDL 636/Gcal less than the previous tariff, and the tariff for thermal energy delivered to consumers by S.A. "CET-Nord" in the amount of MDL 2,245/Gcal (excluding VAT), MDL 970/Gcal less than the previous tariff[5]. As a result, a part of the effect of these adjustments was reflected in April 2024 given the corrections related to the finalization of the compensation.

At the same time, on March 19, 2024, electricity tariffs were reduced. Thus, for end consumers served by S.A. "Furnizarea Energiei Electrice Nord" a tariff of 284 bani/kWh was set, and for those served by Î.C.S. "Premier Energy" S.R.L. a tariff of 234 bani/kWh (compared to 288 bani/kWh and 239 bani/kWh, respectively). As a result, this adjustment contributed to lower electricity prices in the CPI for both March 2024 and April 2024.

Subsequently, on May 3, 2024, ANRE's decision on the adjustment of the mains gas tariff for end consumers entered into force [6]. Thus, the mains gas tariff decreased by 9.2%, from MDL 14.46/cubic meter to MDL 13.13/cubic meter.

At the same time, prices related to the health subcomponent within the CPI also increased between April and May 2024, largely due to adjustments of tariffs for dental and medical laboratory services. Also, medicine prices, cumulatively over the quarter, increased by about 2.9%, continuing the upward trend of the recent period.

Also, during the second quarter of 2024 prices for transportation services increased due to higher prices for air services, as well as rail transportation services. The latter increased due to higher ticket prices for train travel on the Chisinau – Iasi route (from May 10, 2024[7]).

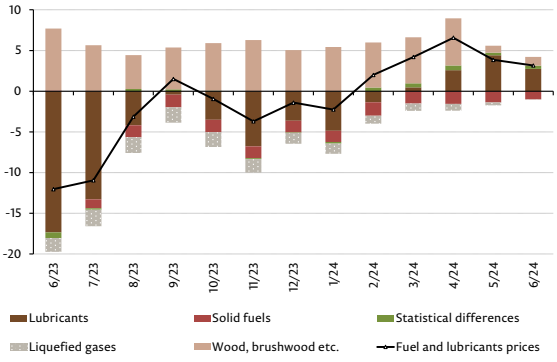
On July 23, 2024, by the decision of ANRE, the tariff for thermal energy supplied by S.A. "Termoelectrica" was reduced by about 14.7%, which will have corresponding effects on the tariff for central heating and hot water in July 2024 within the regulated prices. It should be noted that in July 2024, the NBS is to reflect the tariff adjustments in the Catalog of single tariffs for healthcare services provided by public institutions in the country. At the same time, there are several requests for the adjustment of water and sewerage tariffs in several localities in the country, which will support the increase of regulated prices in the coming period.

[5] https://anre.md/anre-a-micsorat-preturile-si-tarifele-pentru-energia-termica-si-energia-electrica-3-830

[6] https://anre.md/anre-a-micsorat-preturile-reglementate-pentru-furnizarea-gazelor-naturale-3-853

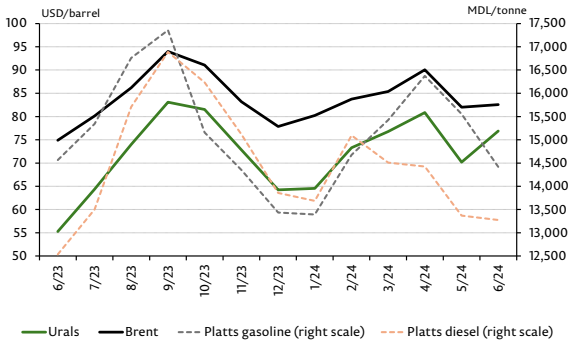
[7] https://tvrmoldova.md/article/27580aef94410890/creste-pretul-biletelor-pentru-calatoriile-cu-trenul-de-pe-cursa-chisinau-iasi.html

Chart 1.8: Contribution of components (percentage points) to the annual increase in fuel and lubricants prices (%)



Source: NBS, NBM calculations

Chart 1.9: Evolution of average Platts quotations and Urals and Brent oil prices



Source: ANRE, NBM calculations

Fuel and lubricants prices

The annual rate of fuel and lubricants prices continued its positive dynamics in the second quarter of 2024.

The annual rate of fuel and lubricants prices increased from 4.2% in March 2024 to 6.6% in April 2024, after which it eased to 3.2% in June 2024. The average annual rate of fuel and lubricants prices in the second quarter of 2024 was 4.5%, 3.2 percentage points higher than in the previous quarter (Chart 1.8).

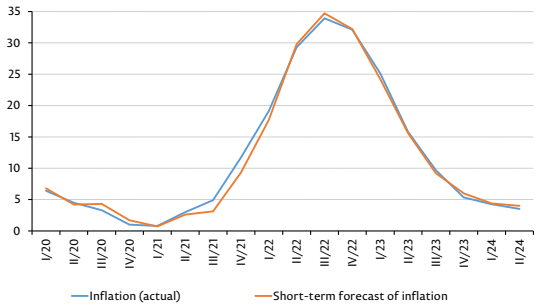
From April to June 2024, "lubricants" prices had a positive impact on the annual rate of fuel and lubricants prices. This was driven by gasoline and diesel prices set by PECO stations during that quarter. The price dynamics were supported by the average Platts quotations for gasoline and diesel, which amounted on average to around MDL 15,448.1/tonne and MDL 13,689.9/ tonne, respectively, in the reference quarter. Thus, average Platts quotations for gasoline increased by 6.5%, while average Platts quotations for diesel decreased by 5.1% compared to the first quarter of 2024 (Chart 1.9). The increase in gasoline prices was supported by the upward trend in the price of Brent crude oil, which was 2.1% higher compared to the previous quarter. Also, within the annual rate of fuel and lubricants prices, a positive impact was also determined by the dynamics of prices for "wood, brushwood etc.". However, it should be noted, that the prices of "solid fuels" and "liquefied gases" continued to exert a negative impact during second quarter of 2024.

1.2 Inflation evolution and short-term forecast assessment from the Inflation Report, May 2024

In the forecasting round of the Inflation Report, May 2024, the annual CPI rate was expected to remain within the inflation target range, to reach a level of 4.6% in June 2024 and an average value of 4.0% in the second quarter of 2024[8]. Inflation data for April-June 2024 indicate a lower trajectory than anticipated in the previous forecast round (Inflation Report, May 2024).

In the second quarter of 2024, the annual inflation rate amounted to 3.5% and was 0.5 percentage point lower than anticipated in the forecast of the Inflation Report, May 2024 (Table 1.1). This was mainly due to the negative deviation recorded for the fuel and lubricants prices forecast. Negative deviations from the forecast were also recorded for the forecast of regulated prices, core inflation and food prices, but these had a more modest impact on the total deviation. In this regard, in the second quarter of 2024, the annual rate of fuel and lubricants prices amounted to 4.5%, 4.7 percentage points below the previously anticipated level as a result of a lower trajectory of oil prices. Thus, in the period April-June 2024, the average price of oil (Brent) amounted to USD 84.87/barrel, while the average price anticipated in the Inflation Report, May 2024 for the second quarter of 2024 amounted to USD 90.1/barrel. At the same time, the annual rate of regulated prices was -9.1%, 0.5 percentage points lower than anticipated in the Inflation Report, May 2024, largely as a result of the decrease in the tariff for network gas at the beginning of May 2024. At the same time, the annual rate of core inflation was 8.1%, 0.1 percentage points below the expected figure, and the annual rate of food prices was 3.9%, 0.2 percentage points lower than the expected figure.

Chart 1.10: Annual rate of CPI (%)



Source: NBS, NBM

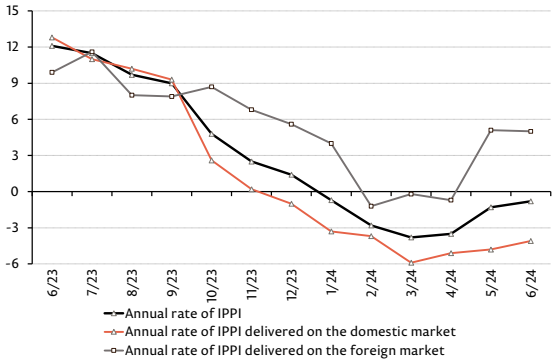
Table 1.1: The evolution and forecast of CPI and its components

	De facto Q II, 2024/ Q II, 2023 (%)	Forecast* Q II, 2024/ Q II, 2023 (%)	Deviation (De facto-forecast) (p.p.)
CPI	**3.5**	**4.0**	**-0.5**
Core inflation	8.1	8.2	-0.1
Food prices	3.9	4.1	-0.2
Regulated prices	-9.1	-8.6	-0.5
Fuel prices	4.5	9.2	-4.7

Source: NBS, NBM calculations
*Forecast from Inflation Report, May 2024

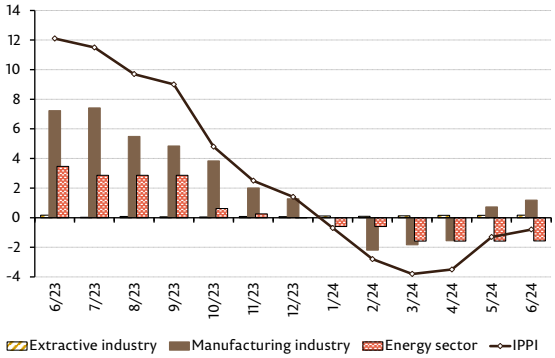
[8]Given the higher volatility of the monthly values, but also some possible measurement errors, which should normally not influence monetary policy decisions, the short-term inflation forecast is carried out on a quarterly basis. This value is an input into the medium-term inflation projection, which is similarly a quarterly projection and underpins monetary policy decisions. At the same time, it is reported in the Inflation Reports. However, the effective monthly CPI data, as they are 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 pronounced deviations from the forecast. Therefore, deviations between the actual data available for the months within the quarter and the short-term inflation forecast should be interpreted appropriately, also taking into account the assumptions/forecasts for the remaining months within the quarter.

Chart 1.11: Annual industrial price rate (%)



Source: NBS

Chart 1.12: Annual industrial price rate (%) and its components contribution classified by main branches (percentage points)



Source: NBS, NBM calculations

1.3 Industrial production prices

In the second quarter of 2024, the annual industrial price rate averaged -1.9%, thus moving into negative range for the second consecutive quarter.

In terms of structure, the annual price rate of products delivered on the domestic market was negative, while the price rate of products delivered on the external market returned to the positive range (Chart 1.11).

When analyzing the evolution of the annual rate of industrial prices by main sectors, a contraction is observed, driven by developments in the energy sector (Chart 1.12). Thus, during the analyzed period, the annual price rate in the energy sector stood at -24.1%, or 9.9 percentage points lower than in the first quarter of 2024. At the same time, in the second quarter of 2024, the annual rate of prices in the manufacturing industry returned to the positive level, registering an average level of 0.1%, 1.6 percentage points higher than in the previous quarter. In the second quarter of 2024, prices in the extractive industry rose by 8.3% in annual terms, contributing modestly to the total price dynamics in the industry.

Chapter 2

External environment

In its latest report[9], IMF cautioned that the varied dynamics of economic activity since the beginning of this year have somewhat narrowed the production gap between economies, as cyclical factors diminish and activity becomes better aligned with its potential. The persistence of high services prices delays progress in terms of disinflation, complicating the normalization of monetary policy. Inflationary risks remain high, raising the prospect of higher interest rates for longer periods, in the context of escalating trade tensions, political and geopolitical uncertainties. Global activity and world trade strengthened at the beginning of the year, with trade boosted by strong exports from Asia, particularly in the technology sector.

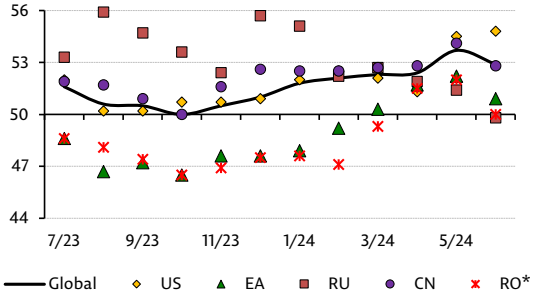
In the United States, after a sustained period of strong performance, a sharper-than-expected slowdown in growth reflected a moderation in consumption and a negative contribution from net trade. In contrast, Europe, saw some sectoral economic recoveries, notably an improvement in services activity. In China, the revival of domestic consumption in the first quarter was helped by what appeared to be a temporary increase in exports, which has belatedly regained its connection with last year's global demand growth.

International quotations have shown low volatility in recent months and remain at relatively high levels. At the same time, the dissipation of the base year effect is reversing the upward trend in the evolution of international quotations. In the region, the harvest could be jeopardized by the poor agrometeorological conditions of the current year, which have damaged some agricultural crops. In June 2024, the ECB reduced the monetary policy rate in an attempt to stimulate economic activity and in anticipation of a decrease in annual inflation to the 2.0% target. At the same time, electoral changes in the European Union and expectations regarding the outcome of the November 2024 presidential elections in the USA are shaping the current trajectory of the EUR/USD exchange rate. Another factor influencing currency fluctuations is the anticipation of the start of interest rate cuts by the FRS. It is worth mentioning that the Russian ruble has appreciated recently due to new sanctions related to foreign currency transactions and measures taken by the Russian authorities to stabilize the domestic market.

2.1 World economy, financial and commodities markets

PMI indexes continues to show an improvement in global economic activity, including in Romania and the euro area. From the perspective of the indexes analyzed in the chart 2.1, the economic activity in China and the USA is very satisfactory, as reflected in the official statistics. At the same time, the euro area economy has emerged from recession after several months, which indicates that the composite PMI for the 5th month is above the 50 reference threshold. Romania's industrial sector is also showing signs of improvement after several months of decline. A major change is seen in the economy of the Russian Federation, where the composite PMI has fallen for the first time in 17 months below the threshold level of 50, revealing a substantial negative

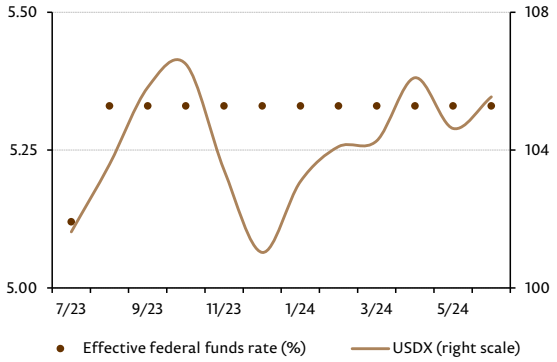
Chart 2.1: Developments of the PMI indexes



Source: Markit
* for Romania the manufacturing PMI index is presented

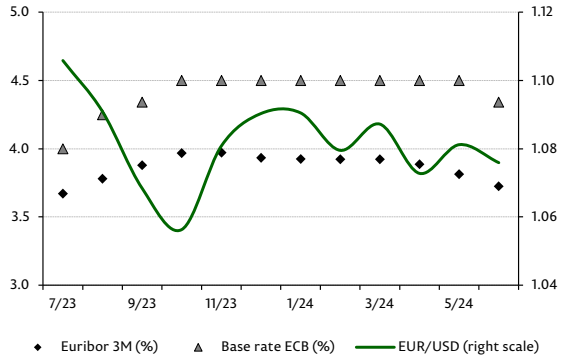
[9]IMF, World Economic Outlook Update July 2024

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



Source: FRS, Bloomberg
*DXY is an index calculated as the weighted geometric average of the US dollar's value 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: Developments of EUR/USD (monthly average) and interest rates in the euro area



Source: ECB

contribution from the services sector, while industrial production, possibly military-related production continues to contribute to economic growth.

In the current year, the ***US dollar*** has had a relatively stable development against other internationally circulating currencies, largely due to the maintenance of the FRS interest rate range of 5.25-5.5% for a long period (Chart 2.2). Discussions over the timing of the start of interest rate cuts by the FRS are influencing the daily volatility of the US dollar, especially as other advanced economies have started to ease monetary policy. The latest inflation figures show that US consumer prices stagnated in June 2024 compared with the previous month and were 3.0% higher than in June 2023. At the same time, the US unemployment rate rose to 4.1% in June 2024. Currently, financial markets anticipate that at the September 2024 meeting, the FRS will begin to cut rates albeit cautiously. Another factor affecting the US dollar's exchange rate is the discussions and expectations about the outcome of the US presidential elections in November 2024, which could substantially change current economic policies, especially those related to international trade.

The single European currency, has also followed a very stable trend since the beginning of this year, although with a slight depreciation trend (Chart 2.3), as annual inflation declined more rapidly to 2.5% in June 2024. Thus, at the meeting on June 6, 2024, the ECB decided to reduce the key interest rates by 25 basis points, after which they were maintained at the meeting on July 18. The next cut is expected by financial markets at the meeting in September 2024. At the same time, the single European currency fluctuated amid the uncertainty related to the elections in France. Marine Le Pen's far-right party leads by a smaller margin than expected, raising concerns about fiscal policy and the future of euro. The market was concerned that a significant result for Le Pen's National Rally would increase the likelihood of an expansionary fiscal policy, which would focus attention on the country's excessive fiscal accounts and further disrupt the prospects for the common currency. It is estimated that France's budget deficit this year will be 5.3% of economic output, already well above the 3% level allowed by European Union rules.

Since April 2024, ***Russian ruble*** has depreciated, unexpectedly returning to levels seen in June 2023. This move can be attributed to a combination of factors, including the closing of currency positions in response to the latest round of sanctions. At the same time, the main factor in the formation of the exchange rate of the Russian ruble, namely foreign trade has not changed. Another factor behind the appreciation of the exchange rate of the Russian ruble is the decline in foreign currency sales as part of the central bank's operations following the reduction of the requirement for mandatory sale of foreign currency earnings by exporters from 80 to 60%.

Oil quotations have fallen from the heights reached in April 2024, but the Brent quotation has nevertheless remained above USD 80/barrel. Oil quotations have fallen as rising oil inventories and weak economic data have stoked concern that global demand will remain weak, and that high inflation will force central banks to postpone interest rate cuts. Also, the decline in geopolitical risks has also reduced the risk premium in the formation of global oil quotations. At the meeting in June 2024, OPEC+ has announced

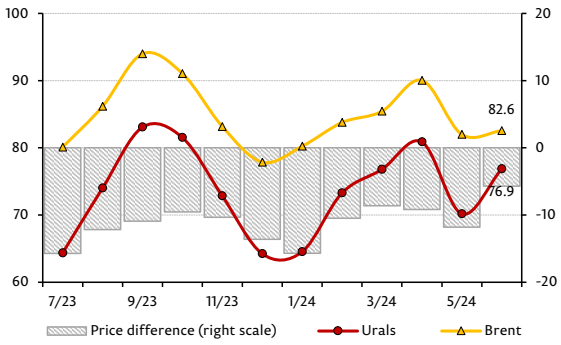
the extension of significant oil production cuts until 2025 to stabilize the market amid slow demand growth, rising interest rates and increased US oil production. However, the market reacted negatively to the news that OPEC+ members had extended their voluntary production cuts for only three months, meaning that oil supplies from the alliance will start to increase in the fall. It should be noted that in recent months the difference between Brent and Urals quotations has decreased significantly due to the ability to circumvent sanctions and high demand from China and India (Chart 2.4).

European natural gas prices have remained in the range of USD 300-400/1,000 cubic meters since the beginning of 2024. Europe entered the summer with natural gas storage at unusually high levels for this time of year. In addition, the region's slow economic recovery suggests that gas demand is likely to remain low. However, recent supply disruptions have raised questions about how quickly and expensively gas supplies will be available if consumption increases before next winter. Competition for supplying consumers in other parts of the world and geopolitical risks also increase Europe's vulnerability. For example, gas prices in Europe rose sharply in June 2024 due to supply disruptions in Norway amid the extension of planned seasonal maintenance, however prices continued to fall after the resumption of deliveries. At the same time, risks regarding gas supplies from Russia have eased after a new round of EU sanctions banned the transshipment of Russian LNG in the bloc's ports, while still allowing imports of fuel for consumption on the continent (Chart 2.5).

The dissipation of the base year effect leads to the reversal of the upward trend in international prices indexes. Thus, in all months of the second quarter of 2024, the international prices indexes for agricultural products, energy, metals and minerals recorded positive growth rates. In June 2024, prices of metals and minerals increased by 9.3%, energy by 9.0%, and agricultural products by 5.2%. At the same time, fertilizer prices continued to record negative growth rates, for example, in June 2024 this rate was -14.5% (Chart 2.6).

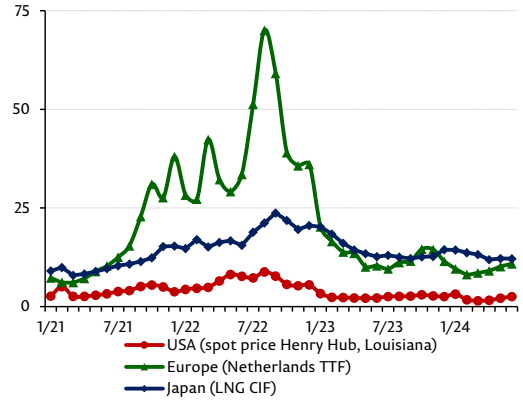
International food prices continued to rise on a monthly basis, and the annual growth rates are still negative, but increasingly close to zero. The FAO food price index was unchanged in June 2024 compared to its revised figure for May, as price increases in the vegetable oils, sugar and dairy products offset a decline in the cereal price index, while the meat index remained almost unchanged. Despite this consolidation after three consecutive monthly increases, the FAO index remained 2.1% lower than the value recorded a year ago and 24.8% below the peak reached in March 2022. Global export prices of all major cereal grains fell month-on-month, mostly reflecting seasonal pressure from ongoing harvests in the northern hemisphere. After a decline for two consecutive months, international palm oil prices rebounded in June 2024, mainly supported by a revival in global import demand as a result of increased price competitiveness. Meanwhile, international soybean and sunflower oil prices continued to rise, supported respectively by strong demand from the biofuels sector in the Americas and by reduced export availabilities in the Black Sea region. In June 2024, international butter quotations rose to the highest level in 24 months, supported by increased global demand for short-term deliveries, amid high retail sales and seasonally declining milk deliveries in

Chart 2.4: Development of oil quotations (USD/barrel)



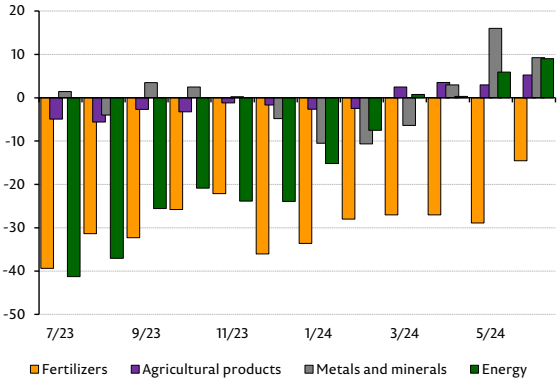
Source: World Bank, Ministry of Finance of the Russian Federation

Chart 2.5: International natural gas prices development (USD/MMBtu)



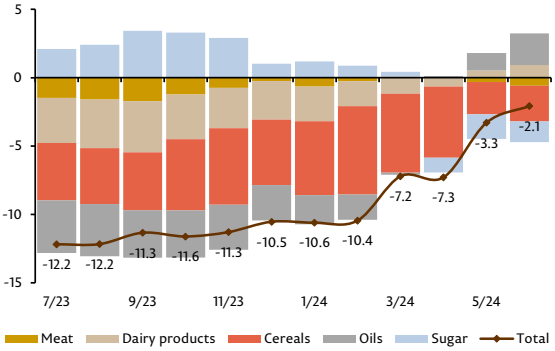
Source: World Bank

Chart 2.6: Annual growth rate of international prices indexes (%)



Source: World Bank, NBM calculations

Chart 2.7: Annual growth rate of international food prices (FAO index)(%)



Source: FAO, NBM calculation

Western Europe. In contrast, cheese prices saw a marginal decline, mainly due to a slowdown in global import demand for short-term deliveries. The decrease in international poultry meat prices was almost offset by moderate to slight increases in sheep, pork and beef prices. The decline in poultry meat prices was primarily driven by ample supplies from some major producing countries. In the meantime, international pork prices have increased slightly due to a steady pace of imports, further supported by seasonally active domestic sales, especially in North America. The increase in international sugar prices in June 2024 was mainly triggered by lower-than-expected results of the May harvest in Brazil. This has heightened concerns about the potential impact of prolonged dry weather conditions on sugar production in the coming months. Irregular monsoon rains in India, together with the downward revision of crop yield forecasts in the European Union, have also contributed to the general upward pressure on agricultural commodity prices (Chart 2.7).

2.2 Developments in important economies

In the first quarter of 2024, the gross domestic product of the ***United States*** increased by 0.3% compared to the previous quarter and by 2.9% from the level in the same period a year earlier (in seasonally adjusted terms). In the first half of 2024, USA industrial production stagnated compared to the same period of the previous year, and the unemployment rate rose to 4.1% in June 2024. Consumer prices stagnated in June 2024 compared with the previous month but were 3.0% higher than in June 2023. Even if the high level of inflation remains persistent and does not approach the 2.0% target of the FRS, the moderation in economic activity observed in macroeconomic statistics could induce the FRS to start easing the monetary policy.

In the first quarter of 2024, economic activity in the ***euro area*** increased by 0.3% compared to the previous quarter and by 0.4% compared to the same period of the previous year. In the first 5 months of this year, industrial production in the euro area contracted on average by 4.0%, including 5.3% in Germany, 3.3% in Italy and 0.2% in France. The unemployment rate in the euro area continued at historically low levels and stood at 6.4% in May 2024. Consumer prices experienced a more moderate growth in June 2024, with the harmonized annual inflation registering a positive monthly pace of 0.2% and a 2.5% increase on a year-on-year basis. The IMF estimates that the euro area economy has reached its lowest point and that the economic recovery will be underpinned by stronger consumption on the back of real wage growth, as well as higher investment due to the easing of financing conditions amid the gradual loosening of monetary policy this year. Ongoing deficiencies in production suggest a slower recovery in countries such as Germany.

Gross domestic product in ***China*** reached a positive pace of 5.3% in the first quarter of 2024. However, the economic structure is significantly unbalanced, with the supply side much stronger than the demand side. Risks are concentrated in real estate, local government debt, deflation, supply chain relocation and

geopolitics, but systemic financial risks are considered to be absent at this stage. Monetary and fiscal policy remain expansionary to support the recovery but prioritize fiscal stimulus amid weak market sentiment, as the transmission mechanism of monetary easing remains weak. Consumer prices in China in June 2024 decreased by 0.3% compared to the previous month and were 0.2% higher than in June 2023.

2.3 Developments in neighbouring economies and main trading partners

In the first quarter of 2024, gross domestic product in ***Romania*** grew by 0.4% (in seasonally adjusted terms) compared to the previous quarter, and by 1.6% on a gross basis compared to the same period of 2023. In the period of January-May 2024, industrial production in Romania contracted by 1.7% on the gross series and by 1.2% on the seasonally adjusted series compared to the same period in 2023. In June 2024, consumer prices in Romania increased by 0.2% compared to the price level in the previous month and by 4.9% compared to the price level in June 2023.

In the first quarter of 2024, the economy of the ***Russian Federation*** stagnated (in seasonally adjusted terms) compared to the previous quarter and grew by 5.4% compared to the same period in 2023. From January to May 2024, industrial production in the Russian Federation increased on an annual basis by 5.2% and retail trade by 9.3%. Against the backdrop of the cumulative effect of the depreciation of the Russian ruble, consumer prices in the Russian Federation continued to increase in June 2024 by 0.6% from the previous month and by 8.6% from June 2023.

In the first quarter of 2024, gross domestic product in ***Ukraine*** increased by 1.2% compared to the previous quarter (in seasonally adjusted terms) and in annual terms grew by 6.5%, but taking into account the destruction caused by the war, this growth is weak to reach pre-war production volumes. At the same time, statistics and forecasts for Ukraine’s economy continue to be very gloomy as the war drags on and has severely affected industrial infrastructure and shipping. For the period January-May 2024, merchandise exports were 1.7% higher, while merchandise imports were 8.3% higher compared to the same period of the previous year, and the export-import coverage ratio was 0.61. Consumer prices have started to rise, with monthly inflation of 2.2% in June 2024, and consumer prices in Ukraine increased by 4.8% compared to June 2023.

Chapter 3

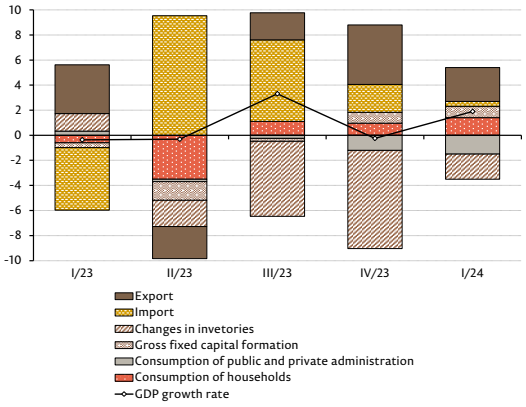
Economic developments

3.1 Demand

In the first quarter of 2024, the annual GDP growth returned to positive territory after the slight decline in the last quarter of the previous year. Thus, in the first quarter of 2024, GDP increased by 1.9% compared to the same period in 2023. These dynamics were slightly higher than anticipated in the Inflation Report, May 2024. The economic developments were supported by the abundant harvest in the agricultural sector from the previous year, which had a positive impact on several sectors at the beginning of the current year, as well as by a positive contribution from the industrial sector. At the same time, there were some positive developments in the information and communication sectors, as well as in the accommodation and food services industries. However, domestic demand continued to be moderate, as indicated by weak growth in household consumption and investment, amid increased uncertainty in the region and despite the rise in household incomes. Less optimistic signals regarding economic activity are also confirmed by the negative dynamics in transportation, real estate transactions, but also by a decrease in net taxes on products. At the same time, the seasonally adjusted data reflects a 2.5% GDP growth compared to the fourth quarter of 2023.

It should be noted that the NBS revised the annual GDP rates for the previous periods. Thus, the values of -0.9% and 0.2% for the first and fourth quarters of 2023 have been revised to -0.4% and -0.2%, respectively. At the same time, this revision did not change annual GDP growth in 2023 (0.7% compared to 2022). In this context, similar to the previous year, according to estimates, aggregate demand pressures on prices exerted a disinflationary impact during this period.

Chart 3.1: Contribution of demand components to GDP growth (percentage points)



Source: NBS, NBM calculations

In terms of uses (Chart 3.1), in the first quarter of 2024 household consumption continued the modest positive dynamics observed in previous periods. It recorded an increase of only 1.6% compared to the first quarter of 2023, thus generating a positive impact of 1.4 percentage points on GDP dynamics, despite the upward trend in real household incomes. In the first quarter of 2024, public administration final consumption decreased by 7.0%, with a negative impact of 1.4 percentage points on GDP dynamics. Investments, in the context of continued increased uncertainty in the region, had a negative impact of 1.1 percentage points on GDP dynamics. In the context of the rich harvest in agriculture in the previous year, exports in real terms increased by 1.0%, generating a positive impact of 0.4 percentage points. A positive impact (2.7 percentage points) on GDP dynamics in the first quarter of 2024 that mitigated some of the negative contributions mentioned above was driven by a 4.1% decline in imports.

Household demand for consumption

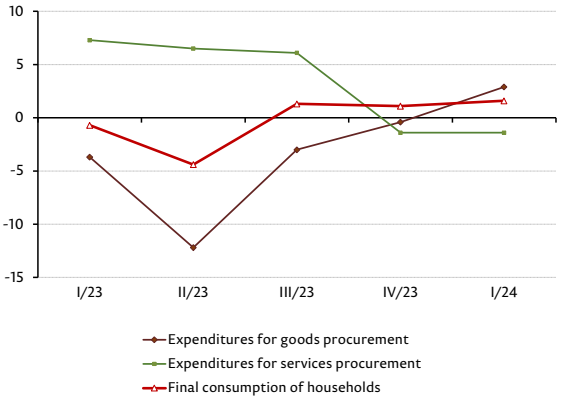
Annual dynamics of household consumption, although positive, remained modest at the beginning of the current year.

Thus, the annual growth rate of household final consumption reached 1.6%, 0.5 percentage points higher than in the fourth quarter of 2023. These dynamics of household consumption were supported by an increase in spending on goods by 2.9%, while spending on services decreased by 1.4% compared to the same period last year (Chart 3.2).

Most sources of household consumption financing recorded positive dynamics in the first quarter of 2024 (Chart 3.3).

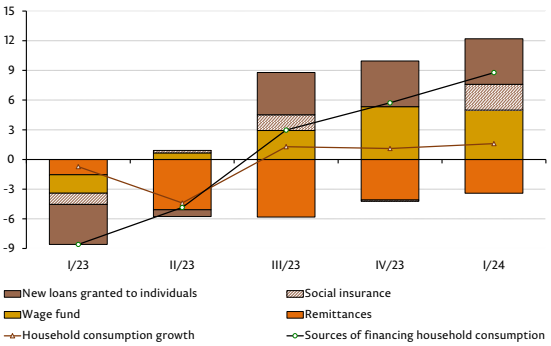
Thus, new loans granted to individuals, the wage fund and social insurance recorded pronounced growth rates during the first quarter of 2024, thus generating positive contributions to the dynamics of potential sources of household consumption financing. At the same time, remittances contracted significantly in the first quarter of 2024 compared with the same period of the previous year, mitigating the impact mentioned.

Chart 3.2: Developments in real terms of household final consumption (%, compared to the previous year)



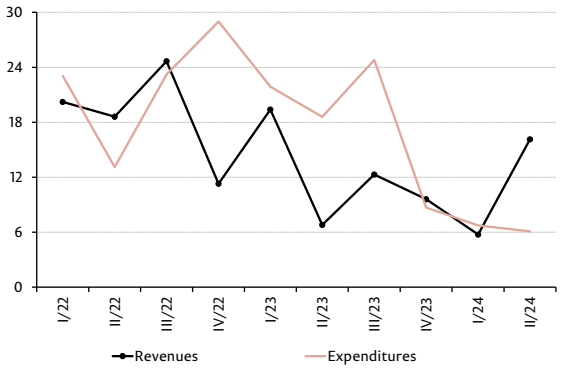
Source: NBS

Chart 3.3: Development of disposable income of the population (%, compared to the previous year) and subcomponents' contributions (percentage points)



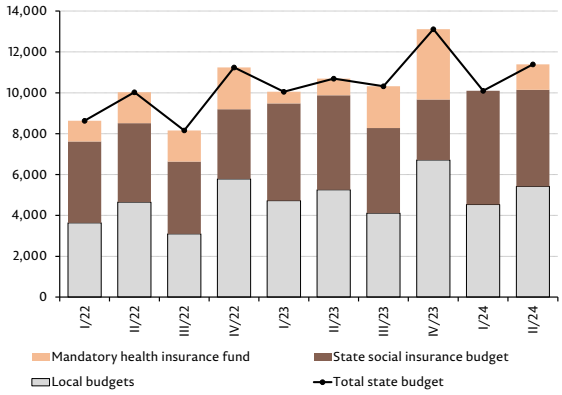
Source: NBS, NBM calculations

Chart 3.4: Public revenues and expenditure dynamics (%, compared to the previous year)



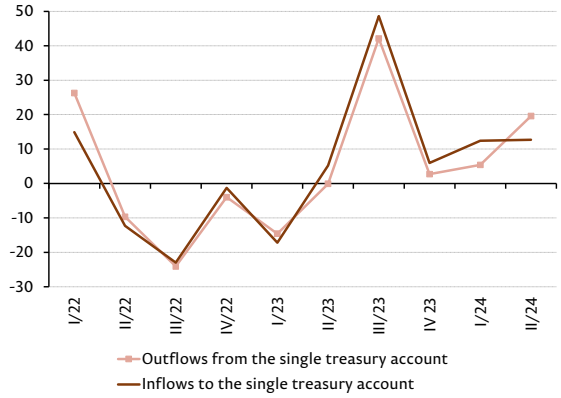
Source: Ministry of Finance

Chart 3.5: Development of budgetary transfers (MDL million)



Source: Ministry of Finance

Chart 3.6: Development of the single treasury account flows (%, compared to the previous year)



Source: NBM

Public sector

According to data provided by the Ministry of Finance, during the second quarter of 2024, the national public budget revenues amounted to MDL 26.8 billion, 16.2% above the level accumulated in the same period of 2023 (Chart 3.4). The major share of budget revenues was collected from taxes and duties, which accounted for 60.8%. The mandatory state social insurance contributions and mandatory health insurance premiums amounted to 31.7%, while the share of other revenues and grants represented 6.5% and 1.0%, respectively, in total budget revenues.

The national public budget expenditures in the second quarter of 2024 totaled MDL 30.0 billion, an increase of 6.1% compared to the same period of 2023. In total expenditures, the largest share was spent on social protection – 40.0%, education accounted for 18.1%, and healthcare – 13.5%.

It is worth mentioning that, during the reference period, transfers were made from the state budget (SB) to the state social insurance budget (SSIB), the mandatory health insurance fund (MHIF) and local budgets (LB) in the amount of MDL 11.4 billion, marking an increase of 6.5% compared to the same period in 2023. (Chart 3.5). The majority of the transfers were directed to local budgets – 47.6%, transfers to SSIB accounted for about 41.5%, and 10.9% of the total transfers were directed to the MHIF.

In this context, in the second quarter of 2024, the execution of the national public budget resulted in a deficit of 3.2 billion lei. In the same period of 2023, the execution of the national public budget resulted in a deficit of about MDL 5.2 billion. The balances of the national public budget accounts as of June 30, 2024, amounted to MDL 10.1 billion, of which MDL 1.1 billion were allocated to projects financed from external sources.

In the second quarter of 2024, the single treasury account (STA) was characterized by an increase in the annual pace of payments compared to the previous quarter (Chart 3.6). As a result of inflows and outflows, as of June 30, 2024, the STA balance amounted to approximately MDL 9.8 billion, recording an annual increase of 37.5% (Chart 3.7). At the same time, at the end of the reporting quarter, the balance on the government's foreign currency deposit account at the National Bank of Moldova amounted to the equivalent of MDL 1.0 billion, compared to MDL 1.3 billion as of June 30, 2023.

State debt

As of June 30, 2024, the balance of state debt of the Republic of Moldova amounted to about MDL 107.0 billion. Relative to GDP[10], this accounted for 34.2% (Chart 3.9). On an annual basis, the state debt registered a nominal increase of 7.1% (Chart 3.8) as a result of an increase in domestic state debt (with a major positive contribution of 7.0 percentage points) and external state debt recalculated in national currency (with a minor positive contribution of 0.1 percentage points). As of June 30, 2024, the national debt consisted of 59.1% external debt and 40.9% domestic debt.

As of June 30, 2024, the balance of external state debt amounted to approximately USD 3,526.6 million, higher than at the end of June 2023 by USD 72.9 million or 2.1%. When recalculated in national currency, the balance of external state debt reached about MDL 63.2 billion (20.2% of GDP[10]), (Chart 3.9).

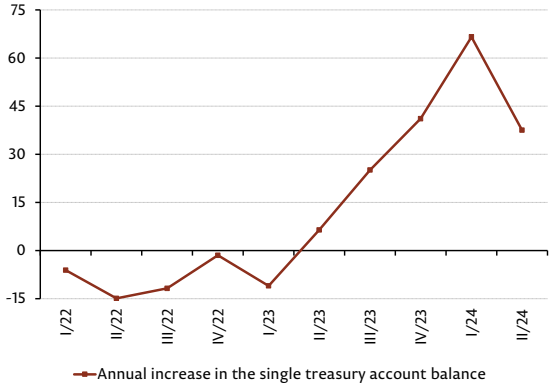
At the end of June 2024, the domestic state debt amounted to approximately MDL 43.8 billion (14.0% of GDP[10]), (Chart 3.9), higher than on June 30, 2023 by 19.0% (Chart 3.8). The increase in domestic state debt was driven by state securities (SS) issued on the primary market, the volume of which increased by 32.6%. As a result of these developments, the domestic debt was composed of SS issued on the primary market (68.5%), SS issued for the enforcement of state guarantees (26.8% of the total) and converted SS (4.7%).

Primary market of state securities (SS)

During the second quarter of 2024, the Ministry of Finance issued state securities totaling MDL 9,385.1 million, which is 3.6% less than the initial offering volume. Compared to the previous quarter, there was a 23.8% decrease in demand from licensed banks on the primary market of state securities (Chart 3.10). At the same time, the demand from banks exceeded the Ministry of Finance's offer by 30.0%, reaching MDL 12,707.6 million.

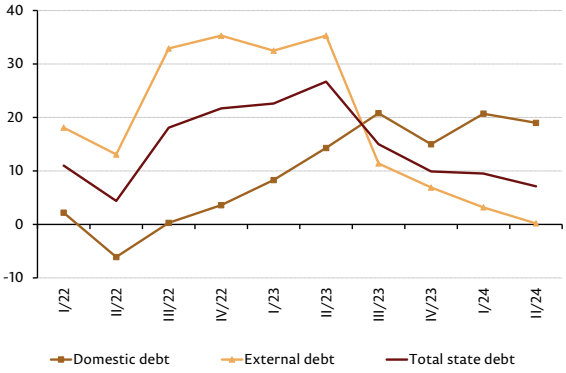
During the reporting period, the average effective interest rates on treasury bills with maturities of 91 days, 182 days, and 364 days declined compared to the previous quarter, decreasing by 0.4 percentage points, 0.6 percentage points, and 0.4 percentage points, respectively. Similarly, the average effective interest rates on government bonds with maturities of 2 years and 3 years declined compared to the first quarter of 2024 by 0.8 percentage point and 0.7 percentage point, respectively. As for the government bonds with a 7-year maturity in the second quarter of 2024, the average effective interest rates increased compared to the previous quarter by 0.3 percentage points.

Chart 3.7: Development of the single treasury account balance (%, compared to the previous year)



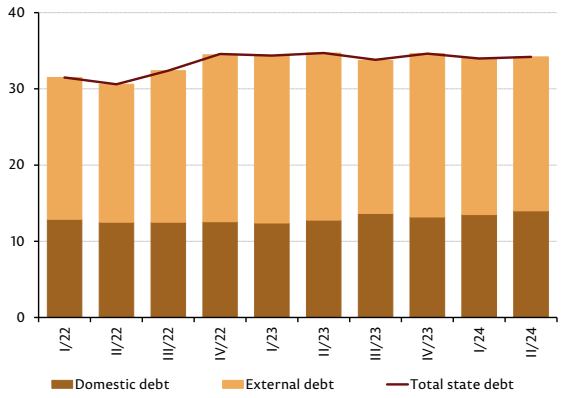
Source: NBM

Chart 3.8: Developments of the annual growth rate of state debt (%, end of the quarter)



Source: Ministry of Finance

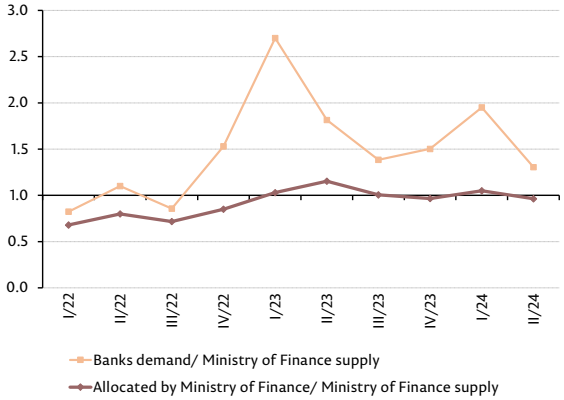
Chart 3.9: Share of state debt in GDP (%, end of quarter)



Source: Ministry of Finance

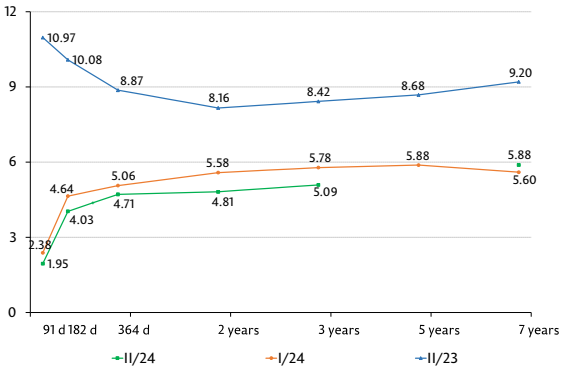
[10]GDP estimated by the NBM.

Chart 3.10: Supply and demand ratio on the primary market for state securities



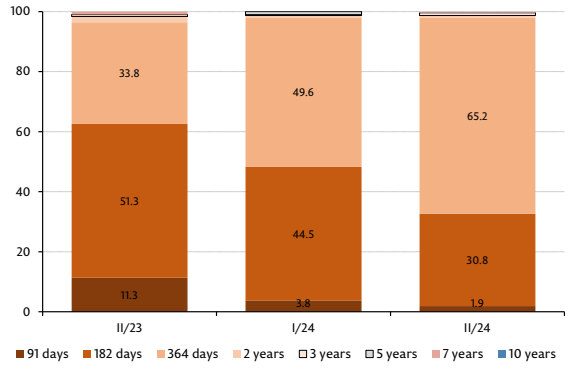
Source: NBM

Chart 3.11: SS yield curve (%)



Source: NBM

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



Source: NBM

During this period, banks continued to favor investments in securities with short-term maturities, while showing increased caution with regard to long-term liabilities, especially those with maturities of 7 years (Chart 3.11).

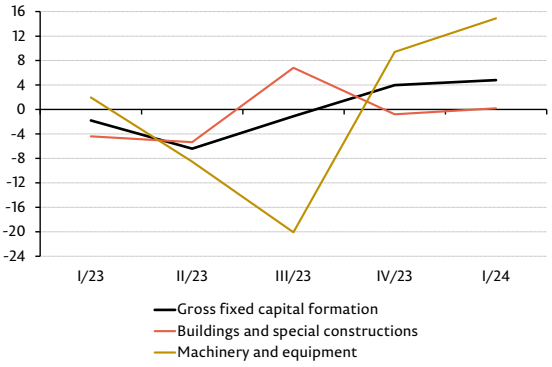
The structure of the portfolio of SS put into circulation during the reference period shows that the most requested SS were those with a maturity of 364 days, which accounted for 65.2% of total transactions, followed by 182-day treasury bills, whose share amounted to 30.8%, and the share of 91-day treasury bills was 1.9%. As for government bonds, the share of those with a maturity of 2 years amounted to 0.8%, that of government bonds with a maturity of 3 years – 0.9%, and government bonds with a maturity of 7 years had a share of 0.4% (Chart 3.12).

Investment demand

In the first quarter of 2024, the investment component made a negative contribution of -1.1 percentage points to the dynamics of economic activity.

This development was driven by the negative contribution of -2.0 percentage points caused by subcomponent of inventory changes. This was mitigated by the positive contribution of 0.9 percentage points from the 4.8% increase in gross fixed capital formation in the first quarter of 2024 compared to the same period of the previous year. The positive dynamics of gross fixed capital formation was supported by a 14.9% increase in investment directed towards "machinery and equipment" as well as a 0.2% increase in the subcomponent "buildings and special constructions" compared to the same period of 2023 (Chart 3.13).

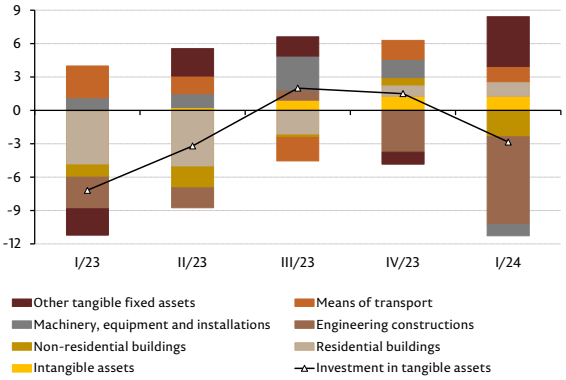
Chart 3.13: Annual investment dynamics (%)



Source: NBS

According to the operational data presented by the NBS, in the first quarter of 2024 investment in fixed assets decreased by 2.8%. By type of fixed assets, the decrease in investment in fixed assets was underpinned by the negative impact caused by the decrease in the following subcomponents: "engineering constructions" (-7.9 percentage points), "non-residential buildings" (-2.4 percentage points), and "machinery, equipment and installations" (-1.0 percentage points). This was mitigated by the positive impact of the dynamics of intangible fixed assets (by 1.3 percentage points) and of the evolution of tangible fixed assets in: "means of transport" (1.4 percentage points), "residential buildings" (1.3 percentage points), and "other tangible fixed assets" (4.5 percentage points), (Chart3.14).

Chart 3.14: Annual investment dynamics by type of fixed assets (%, real terms)



Source: NBS, NBM calculations

From the perspective of financing sources of investments in fixed assets for the first quarter of 2024, the following sub-components contributed to the negative dynamics of 2.8%: state budget funds (-1.1 percentage points), budgets of administrative-territorial units (-1.4 percentage points) and other sources (-8.8 percentage points). This impact was mitigated by the positive dynamics of investments from own funds, which contributed by 7.8 percentage points, and foreign investors' funds (0.7 percentage points), (Chart 3.15).

Net external demand[11]

Data on international merchandise trade presented by the NBS for the first five months of 2024 show a contraction in both exports and imports in the current year. Part of this negative trend can be attributed to lower prices for energy resources, but also to a decrease in the re-export of oil products to Ukraine.

[11]Quarterly data on the evolution of the Republic of Moldova's international merchandise trade, expressed in thousands of US dollars, have been used.

The annual export rate in the first quarter of 2024 recorded a level of -14.0% or 11.9 percentage points lower than in the fourth quarter of 2023. At the same time, data for the first two months of the second quarter of 2024 put the annual export rate at a slightly higher level (-12.7%). Exports to EU countries made a negative contribution to the dynamics of total exports this year, in contrast to the second half of the previous year, when the effect was the opposite (Chart 3.16). It should be noted that, as from 2024, Ukraine is no longer included in the Commonwealth of Independent States group, according to the 2023 edition of the European Union' Nomenclature. Thus, data comparability was deteriorated. As a result, the share of exports to the CIS countries decreased significantly from about 25.2% (in the first five months of 2023) to approximately 7.6% (in the first five months of 2024).

In terms of commodity group structure, the contraction in exports of mineral products[12] mainly caused the negative dynamics of total exports (Chart 3.17). At the same time, the recovery of the agricultural sector (in the second half of 2023), after the sharp contraction in 2022, has essentially contributed to the growth of agri-food exports in the second half of 2023, however in the first months of this year, there has been a marked slowdown in their growth rates.

Analyzing the evolution of exports by origin of products, a pronounced contraction in the first months of 2024 can be observed, driven by re-exports. It should be noted that, unlike in the second half of 2023 when exports of domestic products made a positive contribution to the dynamics of total exports, in the first half of 2024, their contribution disappeared (Chart 3.18).

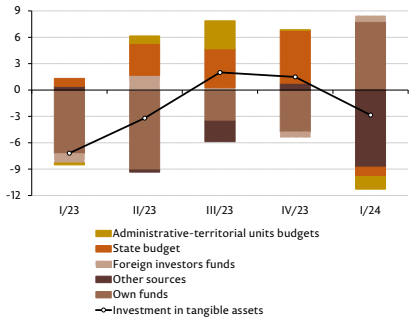
In the first quarter of 2024, the annual rate of imports was -6.6%, which is 2.3 percentage points higher than in the fourth quarter of 2023. At the same time, data for the first two months of the second quarter 2024 show positive dynamics. In terms of structure, the reclassification of Ukraine from the CIS group of countries influenced the comparability of data[13]. It should also be noted that imports from EU countries returned to positive growth after four consecutive quarters of negative growth rates (Chart 3.18).

By commodity groups, the revival of the annual rate of imports in the second quarter of 2024 was underpinned by the increase in imports of "vehicles, optical instruments, sound recorders and reproducers", "foodstuff and animal products, beverages, and fats", "chemical and wood products" and "metal, stone and ceramic articles" (Chart 3.20). At the same time, the import of "mineral products" made a pronounced negative contribution to the overall import dynamics due to the decrease in both the real volume, and the import price of energy resources.

[12]This phenomenon was driven by the sharp decline in international prices for energy resources and the steady reduction in the re-export of oil products to Ukraine.

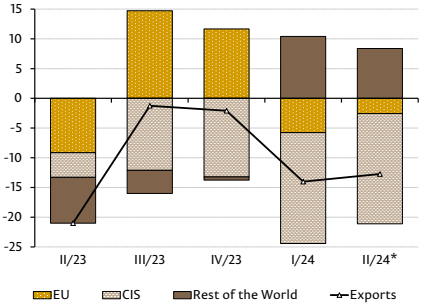
[13]The share of imports from CIS countries in the first five months of 2024 was 4.0%, or 17.1 percentage points lower than in the same period of 2023.

Chart 3.15: Annual investment dynamics by funding sources (%, real terms)



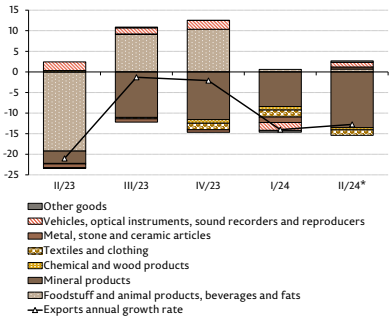
Source: NBS, NBM calculations

Chart 3.16: Development of the annual rate of exports (%) and contribution by categories of countries (percentage points)



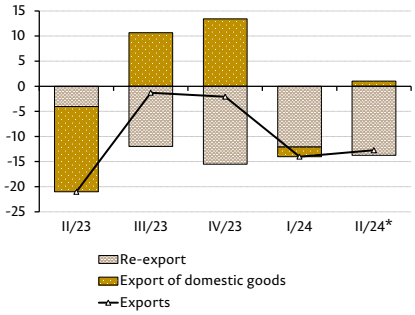
Source: NBS, NBM calculations
*April-May

Chart 3.17: Development of the annual rate of exports (%) and contribution of the components by commodity groups (percentage points)



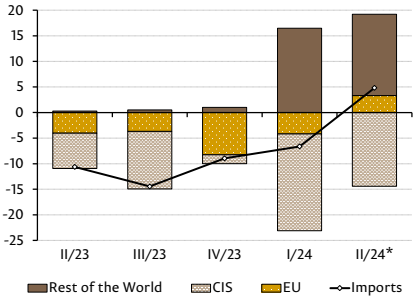
Source: NBS, NBM calculations
*April-May

Chart 3.18: Development of the annual rate of exports (%) and contribution by origin (percentage points)



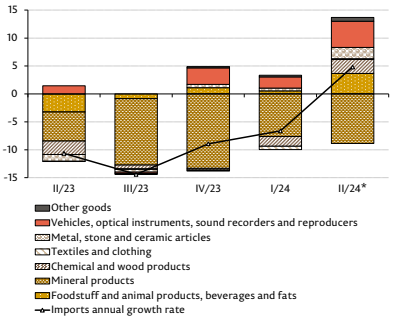
Source: NBS, NBM calculations
*April-May

Chart 3.19: Development of the annual rate of imports (%) and contribution by categories of countries (percentage points)



Source: NBS, NBM calculations
*April-May

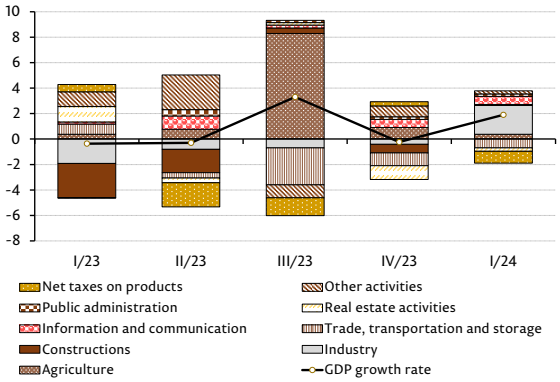
Chart 3.20: Development of the annual rate of imports (%) and contribution of the components by commodity groups (percentage points)



Source: NBS, NBM calculations
*April-May

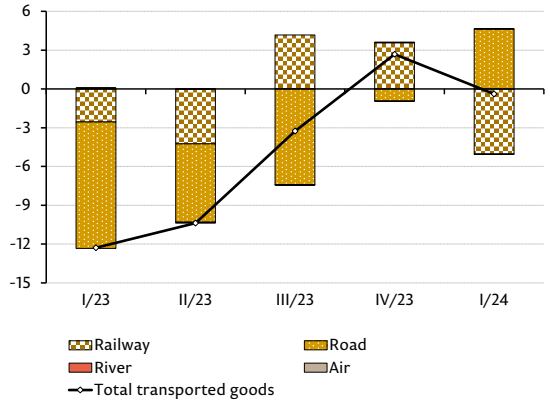
3.2 Production

Chart 3.21: Contribution of economy sectors to GDP growth (percentage points)



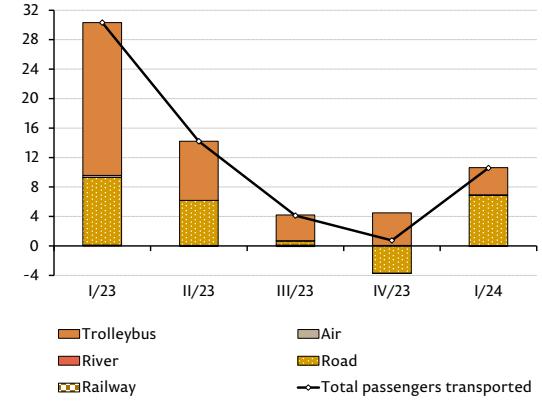
Source: NBS, NBM calculations

Chart 3.22: Development in goods transport (%, compared to the previous year)



Source: NBS

Chart 3.23: Development in passenger transport (%, compared to the previous year)



Source: NBS

By resource categories, GDP growth in the first quarter of 2024 was mainly driven by industrial growth. As a result, this subcomponent generated a positive contribution of 2.4 percentage points to GDP dynamics during the reference period (Chart 3.21).

Within it, the manufacturing industry increased by 13.0%, the energy sector – by 40.1%, and the extractive industry rose by 18.9% compared to the first quarter of 2023. At the same time, the gross value added (GVA) in the agricultural sector increased by 15.2%, generating a positive impact of 0.3 percentage points on GDP dynamics. GVA of the trade subcomponent[14] increased by 2.6%, generating a positive impact of 0.4 percentage points on GDP dynamics. In the information and communication sector, it increased by about 8.0%, with an impact of 0.6 percentage points. Positive developments, but with a more moderate impact, were also recorded in other sectors. Thus, GVA in accommodation and food service activities increased by 13.4%, and by 1.8% in the financial and insurance activities. In construction the increase was 1.5% with an impact of only 0.1 percentage points on GDP dynamics. Less optimistic signals regarding economic activity are, however, outlined by the negative dynamics of the transportation and storage subcomponent, real estate activities, but also by the decrease in net taxes on products. In this regard, GVA of the transportation and storage subcomponent decreased by 20.2%, with a negative impact of 1.2 percentage points on GDP dynamics. A negative contribution of -0.3 percentage points was caused by a decrease in real estate activities by 3.3%. Net taxes on products fell by 6.2%, contributing -1.0 percentage points to GDP dynamics.

Goods and passenger transport

The annual rate of the volume of goods transported in the first quarter of 2024 was -0.4%, 3.1 percentage points lower than that of the fourth quarter of 2023 (Chart 3.22).

This evolution was mainly driven by the 24.7% year-on-year decrease in the volume of goods transported by rail compared to the same period of the previous year. At the same time, the volume of goods transported by air decreased by 5.4%.

As for the volume of goods transported by road and river, it increased by 5.9% and 1.0% respectively, compared to the first quarter of 2023.

Positive results were recorded in the passenger transport sector in the first quarter of 2024. Thus, the annual rate of the number of passengers transported registered a level of 10.6%, which is 9.8 percentage points higher than in the fourth quarter of 2023 (Chart 3.23). This evolution was driven by the annual increase in

[14] Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles.

the number of passengers transported by road and trolleybuses by 22.3% and 5.4%, respectively, compared to the same period of the previous year. At the same time, the number of passengers transported by air increased by 5.8% compared to the first quarter of 2023.

The number of passengers transported by rail and river fell by 12.9% and 8.6% respectively.

Industrial production

In the first two months of the second quarter of 2024, the annual growth rate of the volume of industrial production registered an average of -0.1%, 2.4 percentage points lower than in the first quarter of 2024 (Charter 3.24).

This dynamic was driven by the moderation in the annual growth rate of output in the "production and supply of electricity, heat, steam, hot water and air conditioning" sector (from 11.6% in the first quarter of 2024 to -21.8% in the first two months of the second quarter of 2024). At the same time, the annual growth rate of the mining and quarrying industry increased from -11.9% in the first quarter of 2024 to 30.9% in the first two months of the second quarter of 2024. Additionally, the annual growth rate of manufacturing industry increased by 2.3 percentage points compared to the first quarter of 2024, reaching 2.4%.

Internal trade

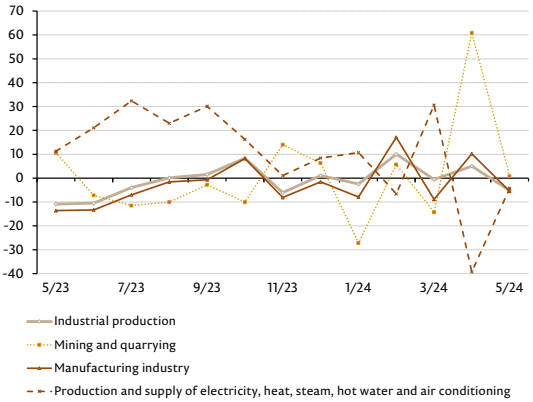
In the first two months of the second quarter of 2024, internal retail trade (based on VAT statements[15]) recorded an average increase of 22.0%, 10.0 percentage points higher than in the previous quarter (Chart 3.25). At the same time, internal wholesale trade (based on VAT statements) grew by an average of 10.7% in April-May 2024, 13.9 percentage points higher than in the first quarter of 2024.

Agricultural production

In the second quarter of 2024, total agricultural production increased by 2.4% compared to the same quarter of the previous year (Chart 3.26). This dynamic was supported by the increase in crop and livestock production of 13.2% and 0.1% respectively.

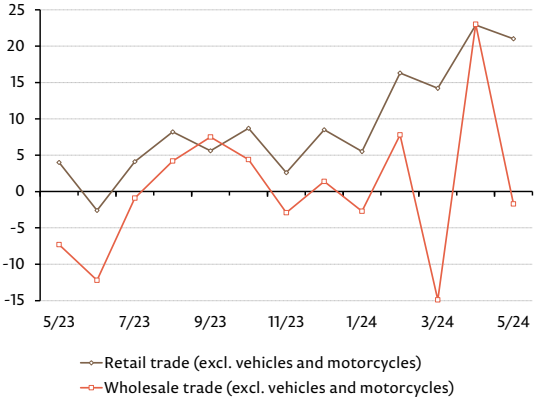
The increase of the production volume in the livestock sector[16] in the second quarter of 2024, was driven by the growth in the production of "cattle and poultry (live mass)". At the same time, milk and eggs production in the second quarter of 2024 decreased compared to the same quarter of the previous year.

Chart 3.24: Industry development in real terms (%, compared to the previous year)



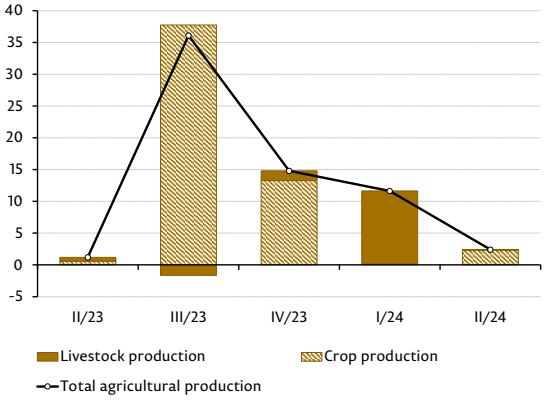
Source: NBS

Chart 3.25: Internal trade (based on VAT statements) (%, compared to previous year)



Source: NBS, NBM calculations

Chart 3.26: Annual rate of total agricultural production (%) and contribution by sectors (percentage points)



Source: NBS, NBM calculations

[15] https://statistica.gov.md/ro/statistici-privind-indicii-valorici-ai-vanzarilor-livrarilor-de-marfuri-si-servi-12_60432.html

[16] Comparable prices.

3.3 Labour market

Labour force

The annual dynamics of the economically active and employed population moderated towards the end of 2023 and shifted into the negative range in the first quarter of 2024. At the same time, the unemployment and underemployment[17] rates decreased compared to the first quarter of 2023.

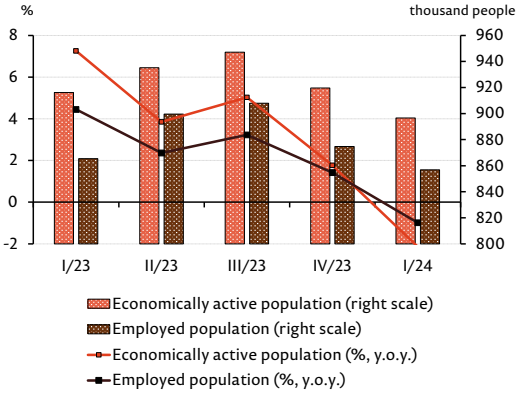
In the period January-March 2024, the labor force totaled 896.5 thousand people, 2.1% lower than in the first quarter of 2023. At the same time, the employed population amounted to 856.8 thousand people, 1.0% less than in the same period of 2023 (Chart 3.27).

Negative developments were recorded in industry (-13.6%), transportation and communication (-11.8%), agriculture (-7.5%), construction sector (-2.5%). At the same time, the increase in the employed population in the first quarter of 2024 was observed in the following sectors: trade – by 4.9%, social services – by 4.0% and other activities – by 16.0% (Chart 3.28).

In the first quarter of 2024, the number of unemployed persons was 39.7 thousand or 11.1 thousand people fewer than in the first quarter of 2023, and the unemployment rate was 4.4%, 1.1 percentage points lower than in the first quarter of 2023 (Chart 3.29).

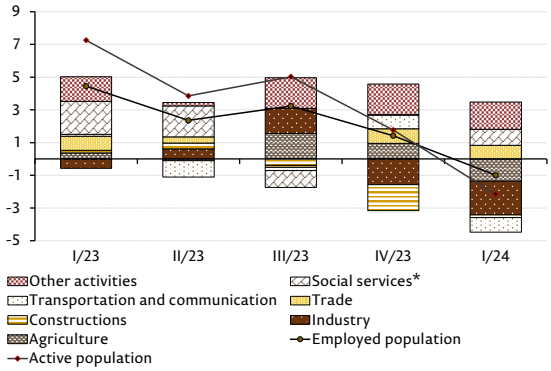
The underemployed population in the first quarter of 2024 decreased to 28.3 thousand people, from approximately 37.8 thousand people in January-March 2023, and the underemployment rate stood at 3.3%, 1.1 percentage points lower than in the first quarter of 2023.

Chart 3.27: Economically active and employed population



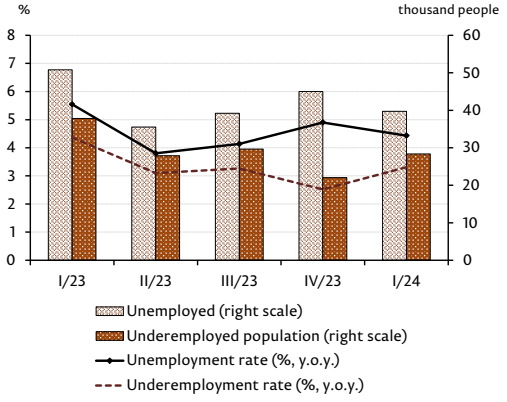
Source: NBS, NBM calculations

Chart 3.28: Contribution of sectors to the dynamics of the employed population (percentage points)



Source: NBS, NBM calculations
*Public administration, education, healthcare

Chart 3.29: Developments in unemployed and underemployed population



Source: NBS, NBM calculations

[17] Underemployed persons: individuals who had a job, whose total number of hours actually worked during the reference period was less than 40 hours per week, who were willing and available to work additional hours.

Wage fund

The annual dynamics of the wage fund in the economy slowed down at the beginning of the current year.

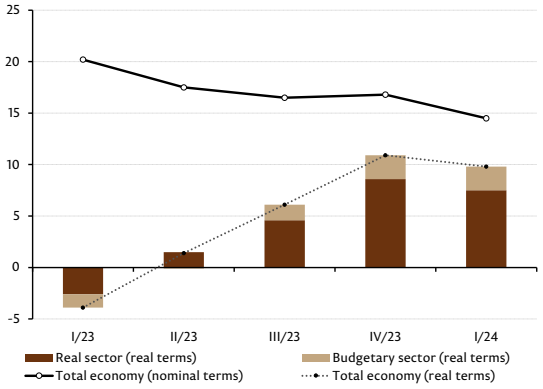
The wage fund in the economy increased by 14.5% compared to the first quarter of 2023, the dynamics being 2.3 percentage points lower than at the end of the previous year. The increase in the wage fund was mainly supported by developments in the trade sector, which contributed 2.4 percentage points, the healthcare and social care sector (1.8 percentage points), the industrial sector (2.1 percentage points), the education sector (1.7 percentage points), the information and communication sector (1.6 percentage points), and the public administration and defense sector (1.6 percentage points).

In real terms, adjusted for the CPI dynamics, the wage fund in the economy increased by 9.8% compared to the same period of the previous year. This dynamics of the wage fund in real terms was driven by positive developments in both the real and the budgetary sectors (Chart 3.30).

In the first quarter of 2024, the average number of employees in the national economy decreased by -0.1% compared with the first quarter of the previous year. The number of employees in the real sector increased by 0.1%, with a contribution of 0.1 percentage points, while the number of employees in the budgetary sector contracted by -0.6%, with a contribution of -0.2 percentage points (Chart 3.31).

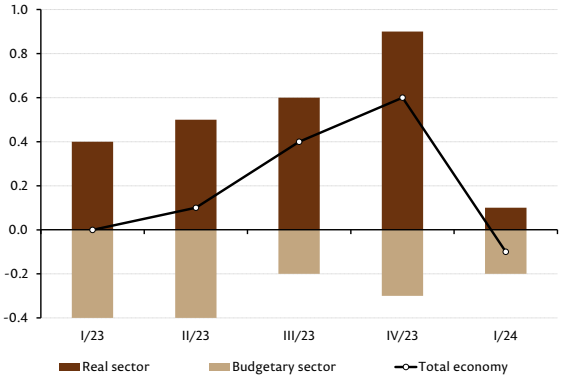
The distribution by sectors of the economy reveals more pronounced increases in the average number of employees, mainly in the following fields: accommodation and food service activities (14.3%), information and communication (5.1%), followed by administrative and support service activities (4.6%) and transportation and storage (3.0%). At the same time, a decrease in the number of employees is observed in agriculture, forestry and fishing (-4.8%), real estate activities (-4.6%), industry (-2.7%), financial and insurance activities (-1.5%) and education (-1.0%), (Chart 3.32).

Chart 3.30: Wage fund in the economy (%, compared to the previous year) and sectors' contributions (percentage points)



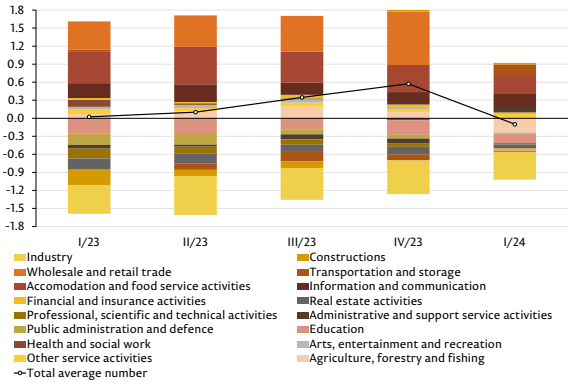
Source: NBS, NBM calculations

Chart 3.31: Average number of employees per economy (%, compared to the previous year) and sectors' contributions (percentage points)



Source: NBS, NBM calculations

Chart 3.32: Contribution of the sectors of the economy to the dynamics of the number of employees (%, compared to the previous year)

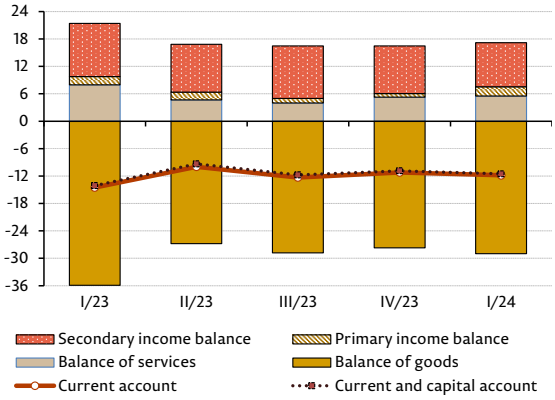


Source: NBS, NBM calculations

3.4 External sector

Current account

Chart 3.33: Current account share in GDP (%)



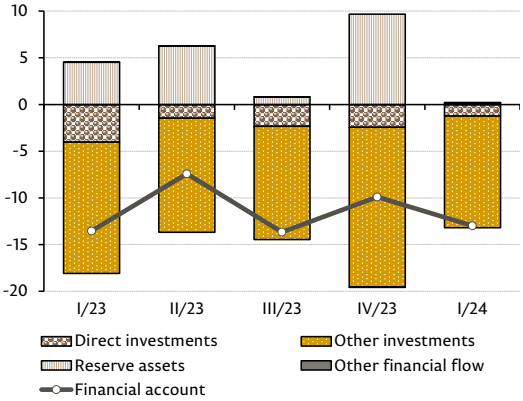
Source: NBM

In the first quarter of 2024, the current account deficit on the balance of payments increased by 0.6 percentage points compared to the previous quarter, reaching 11.8% as a share of GDP (Chart 3.33).

The increase in the balance of payments deficit occurred due to the rise in the component with a negative contribution – "balance of goods". At the same time, the components with a positive contribution – "secondary income balance" decreased, while "balance of services" and "primary income balance" increased during the reference period.

Financial account

Chart 3.34: Financial account share in GDP (%)

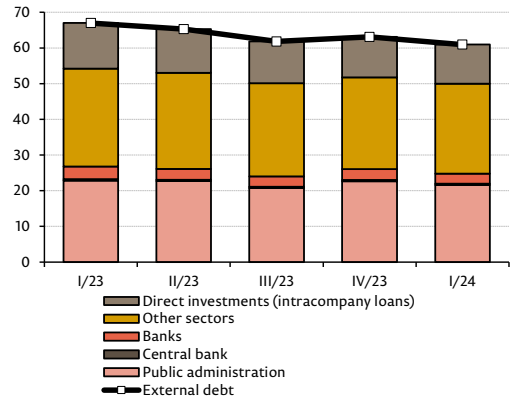


Source: NBM
Note: (-) – net capital inflows, (+) – net capital outflows

In the first quarter of 2024, the financial account as a share of GDP amounted to 13.0%, 3.1 percentage points higher than in the fourth quarter of 2023.

At the same time, variations in net financial flows were recorded in the structure, but the overall picture, compared to the previous quarters, did not undergo significant changes (Chart 3.34). Thus, in the first quarter of 2024, the "other investment" component recorded a prominent development, contributing to the significant increase in net inflows of financial assets[18]. It should be mentioned that the net inflow of direct investments as a share of GDP recorded a level of 1.2%, by 1.2 percentage points lower than in the fourth quarter of 2023. In the first quarter of 2024, there was a net accumulation of reserve assets (0.2% as a share of GDP).

Chart 3.35: External debt share in GDP (%)



Source: NBM

In the first quarter of 2024, the share of external debt in GDP stood at 60.9%, lower than in the fourth quarter of 2023 (Chart 3.35). There were no major changes in the external debt structure. Thus, similarly to previous periods, the largest share of total external debt as a share of GDP is held by economic agents[19] with 28.1%, followed by the government sector[20] with 21.9%, and direct investments with 11.0%.

[18] In the first quarter of 2024, the components "cash and deposits" and "trade credits and advances" contributed to the significant increase in net financial inflows as a component part of "other investments".

[19] Cumulative debt of "Banks" and "Other sectors"

[20] Cumulative debt of "Public administration" and "Central bank"

Chapter 4

Monetary policy

4.1 Monetary policy instruments

Money market interest rates development

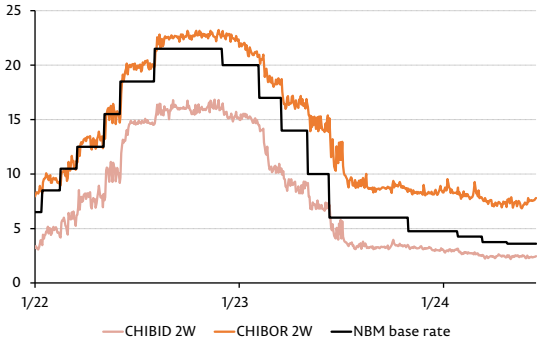
During the second quarter of 2024, the National Bank adjusted the monetary policy rate by 0.15 percentage points, thus lowering its level to 3.60% annually. The decisions were taken in view of the continued propagation of the monetary policy easing measures in the recent period and aim at anchoring inflation expectations in order to keep inflation within the target range in the medium-term.

The CHIBOR yield curve remained quasi-static during the second quarter of 2024, showing only slight changes in both directions, with a steeper upward trend towards the end of the quarter. Thus, the quotation CHIBOR 2W at the end of June was slightly higher (+0.28 percentage points) than on the last day of the previous quarter, constituting 7.80% (Chart 4.1).

The trajectory of interest rates on 91 days state securities reflected the Finance Ministry's intention to channel investors' resources into longer maturities of the SS, both by a decrease in the volume offered and by the rejection of some bids submitted in auctions. Thus, the value recorded during the second quarter of 2024 stagnated at 1.93%, slightly lower (-0.18 percentage points) than at the end of the first quarter of 2024.

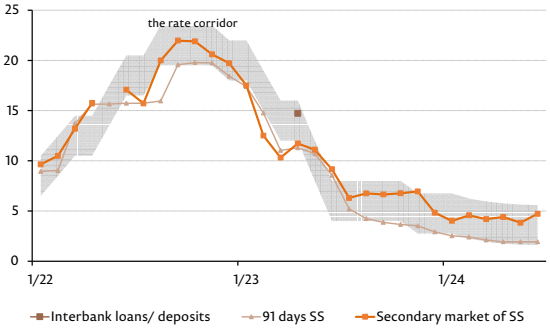
In the secondary segment of the state securities market, the average interest rate on transactions was 4.08% (-0.11 percentage points compared to the end of the first quarter of 2024), (Chart 4.2).

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



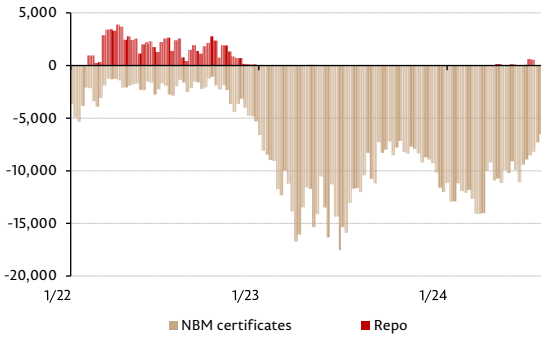
Source: NBM

Chart 4.2: Monthly development of the interest rate corridor (%)



Source: NBM

Chart 4.3: Development of the daily balance of sterilization operations (MDL million)



Source: NBM

Money market operations

Sales of NBM certificates (NBC)

The net debtor position of the NBM from the banking system was maintained during the quarter, but its value decreased compared to the previous period. The NBC's daily stock of placements contracted from a high of MDL 11,159.0 million at the beginning of the quarter to a low of MDL 6,529.4 million at the end of the quarter. This decline was also reflected in the average quarterly balance which declined by MDL 2,226.4 million from the first quarter of 2024 to MDL 9,507.6 million (Chart 4.3).

Repo operations

Repo liquidity disbursement operations were conducted on a weekly basis for 14 days at a fixed interest rate (base rate plus a margin of 0.25 percentage points) through the open market operations. The volume of liquidity delivered during the quarter amounted to MDL 895.0 million. The balance of repo operations recorded at the end of the management quarter was zero.

Standing facilities

During the second quarter of 2024, banks used both standing facilities offered by the NBM.

The total amount of overnight deposits placed with the NBM amounted to MDL 23,637.0 million, about 18.2% below the level of the previous quarter. At the same time, the average daily stock of these placements decreased to MDL 377.6 million (from MDL 400.4 million in the previous period). The amounts placed by banks ranged from a minimum of MDL 15.0 million to a maximum of MDL 5,800.0 million.

The total amount of overnight credits granted by the NBM to banks in the second quarter of 2024 amounted to MDL 2,370.0 million, up by 32.4% compared to the previous period. The average daily balance of overnight credits amounted to MDL 38.8 million.

Interest rates on standing facilities at the end of the second quarter of 2024 declined to 1.60% on overnight deposits and 5.60% on overnight credits, following the May rate change decision.

Required reserves

In the second quarter of 2024, the required reserve mechanism continued to perform monetary control and liquidity management functions in the banking system. The Executive Board of the National Bank of Moldova, at its meeting of May 7, 2024, decided to reduce the required reserve ratio from the funds attracted in MDL and non-convertible foreign currency and from the funds attracted in freely convertible foreign currency for two consecutive reserve maintenance periods to the levels of 29.0% and 39.0% of the reserve base, respectively.

During the quarter, the required reserve ratio from funds attracted in MDL and non-convertible foreign currency was decreased by

2.0 percentage points from 33.0% of the base to 31.0%, and the required reserve ratio from funds attracted in freely convertible foreign currency – from 43.0% to 41.0% of the base.

Required reserves in MDL maintained by banks in the period 16.06.2024 – 15.07.2024 amounted to MDL 24,027.3 million, which is MDL 603.4 million (-2.4%) less than in the period 16.03.2024 – 15.04.2024.

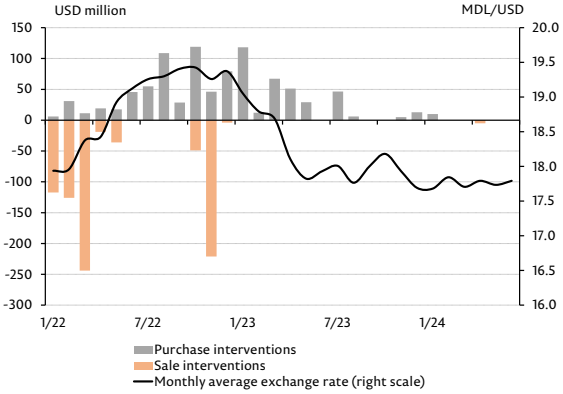
As regards required reserves from funds drawn in FCC, in the period of application 16.06.2024 – 15.07.2024 they amounted to USD 238.6 million and EUR 657.4 million. Compared with the period 16.03.2024 – 15.04.2024, both required reserves in USD and reserves in EUR decreased by 7.7% and 1.8%, respectively.

Interventions on the domestic foreign exchange market

The NBM intervened on the domestic foreign exchange market between April and June 2024 through foreign exchange sales.

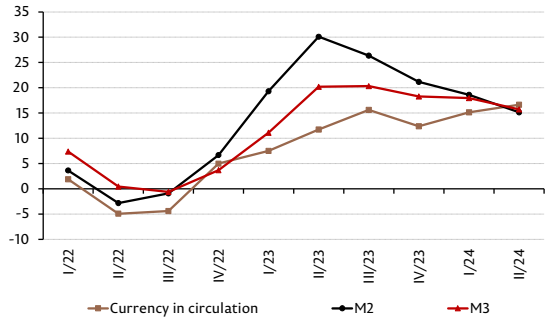
During the analyzed period, the volume of transactions of the National Bank of Moldova carried out on the interbank foreign exchange market against MDL, at the reporting date, amounted to USD 6.41 million, including sale transactions in the amount of USD 5.0 million, as well as foreign exchange conversions with the World Bank institutions (International Bank for Reconstruction and Development and International Development Association) in the amount of USD 1.41 million (Chart 4.4).

Chart 4.4: Development of the official MDL/USD exchange rate and volume of daily transactions of the NBM



Source: NBM

Chart 4.5: Change in monetary aggregates (%, annual growth)



Source: NBM

4.2 Monetary indicators dynamics

In the second quarter of 2024, the monetary aggregates M2 and M3 recorded more moderate growth rates, thus the monetary aggregate M2 recorded an annual growth rate of 15.1% (3.5 percentage points lower than in the first quarter of 2024), while M3 – an annual growth rate of 15.7% (2.2 percentage points lower than in the previous quarter). The annual growth rate of the monetary base moderated from the previous quarter by 0.9 percentage points to 11.1% annually (Chart 4.5).

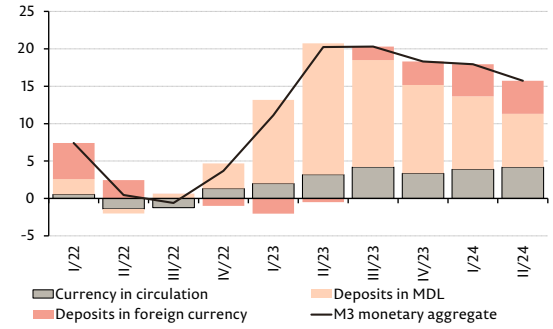
Money supply

The moderation in the growth of the monetary aggregate M3 during the second quarter of 2024 was caused by a decline in the contribution from deposits in national currency, partly offset by an acceleration in the growth of foreign currency deposits and currency in circulation. All this provided the monetary aggregate M3 with annual growth of 15.7% (Chart 4.6).

The balance of deposits in national currency increased by 14.4% annually, 6.1 percentage points below the level recorded in the previous quarter (Chart 4.8). This slowdown was caused by a decline in term deposits by individuals and a slower growth in sight deposits by legal entities.

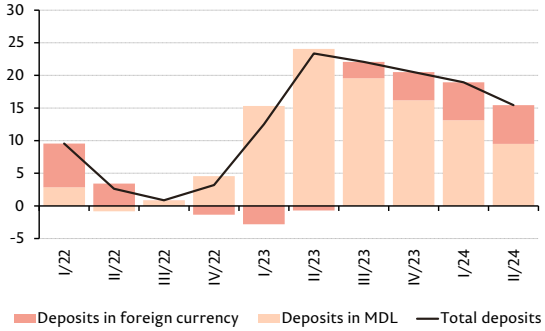
Deposits in foreign currency in the second quarter of 2024 expanded by 17.5% annually, 1.3 percentage points more than in

Chart 4.6: The dynamics of the monetary aggregate M3 (%, contribution of the components in annual growth)



Source: NBM

Chart 4.7: Dynamics of total deposits balance (%, contribution of the components in annual growth)

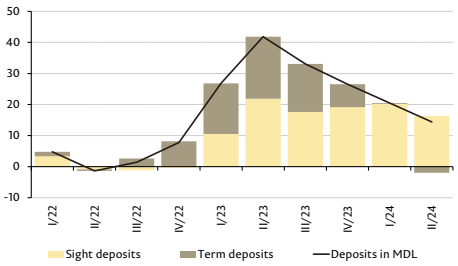


Source: NBM

the previous quarter, as a result of the acceleration in the pace of growth of sight deposits (Chart 4.11). The positive value of 19.2% of foreign currency term deposits was driven by a higher contribution of deposits from individuals (Chart 4.12). At the same time, sight deposits in foreign currency maintained their upward rate, growing by 16.1% annually. This positive trend is the result of an increase in individuals' sight deposits (Chart 4.13).

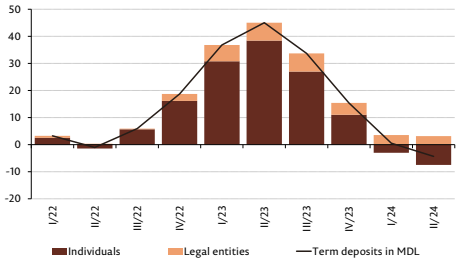
The growth rate of money in circulation at the end of the second quarter of 2024 increased by 1.5 percentage points compared with the end of the previous quarter, constituting 16.6% annually. The quarterly average contribution of money in circulation to M3 growth increased by 0.3 percentage points from its level in the first quarter of 2024 (Chart 4.6). The dynamics of money in circulation were determined by both the cash inflow of receipts and the cash outflow of releases at commercial banks. In the total receipts, the largest contribution was made by receipts from the component of receipts from the trade of consumer goods. At the same time, the main components of releases from commercial banks were: cash releases from ATMs and POS terminals.

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



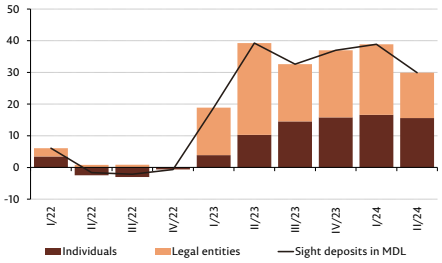
Source: NBM

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



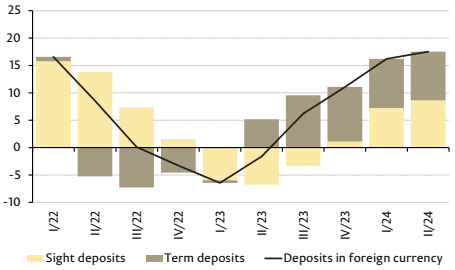
Source: NBM

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



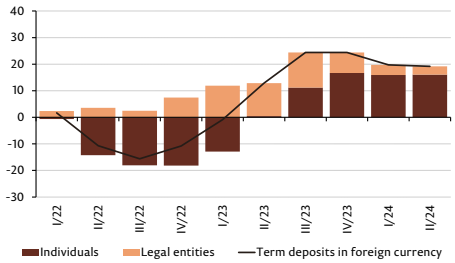
Source: NBM

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



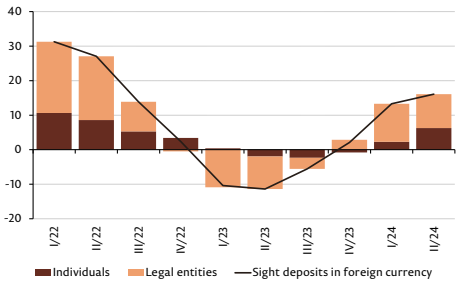
Source: NBM

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



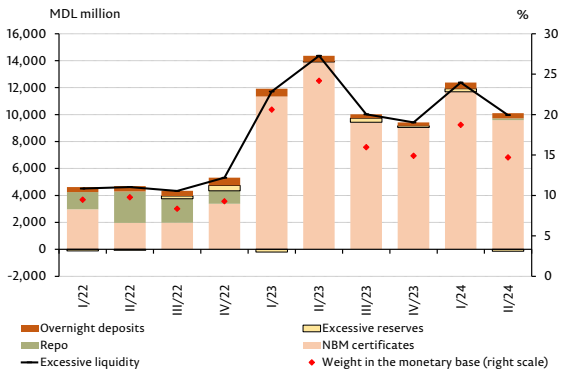
Source: NBM

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



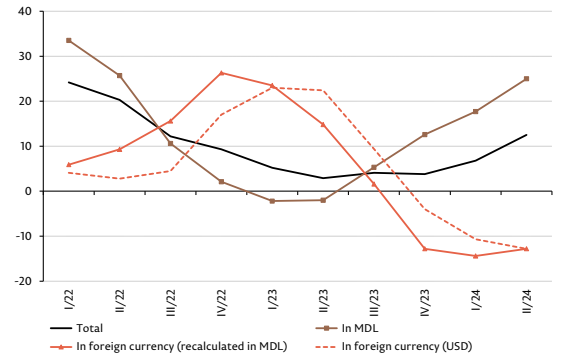
Source: NBM

Chart 4.14: Excess liquidity



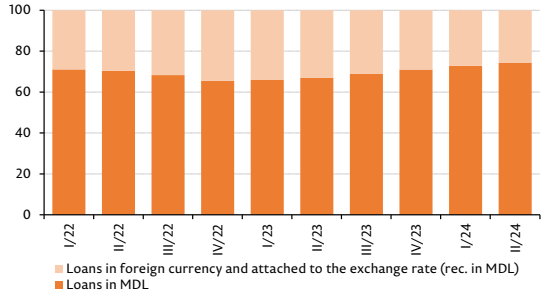
Source: NBM

Chart 4.15: Development of the loans balance (%, annual growth)



Source: NBM

Chart 4.16: Development of loans shares, by subcomponents in the total balance (%)



Source: NBM

Excess liquidity

In the second quarter of 2024, the average excess liquidity in the banking system decreased by MDL 2.4 billion. It should be noted that, compared to the second quarter of 2023, the volume of excess liquidity decreased by MDL 4.4 billion, reaching an average amount of MDL 9.97 billion (Chart 4.14).

Credit market

Development of loans balance granted by licensed banks[21]

At the end of June 2024, the total balance of loans granted by licensed banks recorded an annual increase of MDL 67,681.3 million, higher than at the end of the second quarter of 2023 by 12.5% (Chart 4.15). Growth was stimulated only by the component in national currency, whose annual dynamics continued its upward trend, reaching 25.0%. The annual trend of the balance of loans granted in MDL was influenced by the increase in the balance of loans granted to legal entities by 29.2% and to individuals by 22.1%. The increase in the MDL balance also increased the share of this component. Thus, the balance of loans granted in national currency accounted for 74.4% of the total balance of loans, higher than at the end of the second quarter of 2023 by 7.4 percentage points (Chart 4.16). It should be noted that the annual growth rate of the balance of loans in foreign currency and attached to the exchange rate remained negative (Chart 4.15).

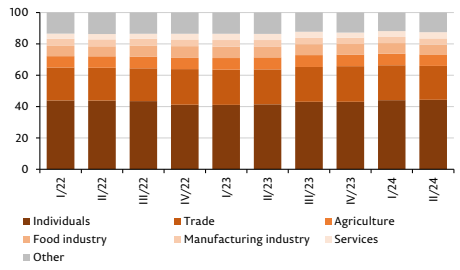
At the end of the second quarter of 2024, in the structure of the total portfolio of loans granted by licensed banks, the largest share, analogous to the previous quarters, was accounted for by loans granted to individuals (44.3%), followed by the share of loans granted to legal entities in the trade sector (21.7%), (Chart 4.17).

Development of new loans granted by the licensed banks

For the second quarter of 2024 as a whole, the annual dynamics of the total volume of new loans granted by licensed banks amounted to 32.7% (Chart 4.18), as lending in national currency continues to grow. New loans granted in MDL recorded an annual growth rate of 51.4%. The dynamization of loans granted in national currency was driven by the increase in loans granted to both legal entities and individuals (Chart 4.19), as a result of gradual reductions in interest rates (Chart 4.23). The major contributions came from the growth in loans granted to both individuals for consumption and real estate, and to legal entities in the trade sphere. The share of loans extended in domestic currency in the second quarter of 2024 amounted to 76.6% of total loans in the second quarter of 2024 compared to 67.1% in the second quarter of 2023. At the same time, new loans granted in foreign currency and attached to the exchange rate, analogous to the previous quarters, recorded negative annual rates (Chart 4.18).

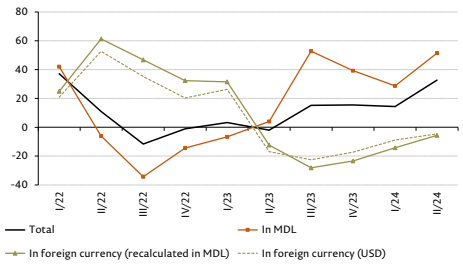
[21]The data analysis was carried out on the basis of reports ORD 01.06 "Interest rates related to the balance of loans and deposits" presented by licensed banks until July 11, 2024.

Chart 4.17: Loans balance structure (% in total)



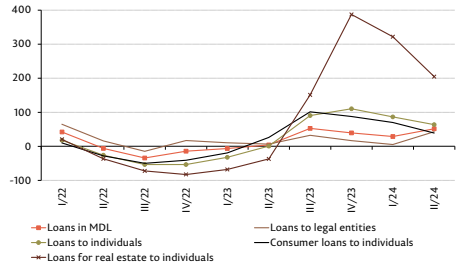
Source: NBM

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



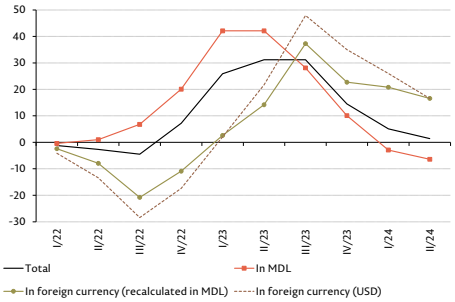
Source: NBM

Chart 4.19: Evolution of new granted loans in MDL (%, annual growth)



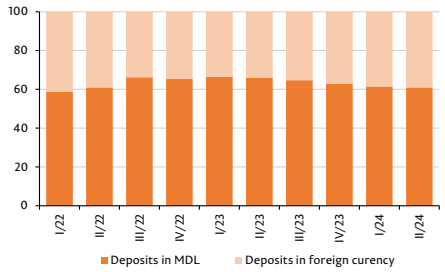
Source: NBM

Chart 4.20: Dynamics of term deposits balance (%, annual growth)



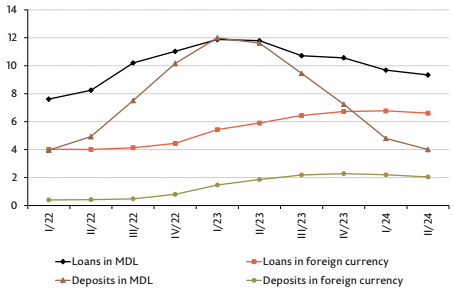
Source: NBM

Chart 4.21: Evolution of the share of term deposits on subcomponents in the total balance (%)



Source: NBM

Chart 4.22: Average interest rates on balance of loans and deposits (%)



Source: NBM

The market of term deposits accepted by licensed banks (deposit balance)[22]

At the end of the reporting quarter, the total balance of term deposits attracted by licensed banks amounted to MDL 45,265.4 million, higher than on June 30, 2023 by only 1.4% (Chart 4.20). The MDL component recorded a negative annual growth rate of 6.4%, as new term deposits decreased as a result of continued cuts in interest rates. The share of the balance of term deposits in MDL declined to 61.0% from 66.1% at the end of the second quarter of 2023 (Chart 4.21). It should be noted that the annual change in the balance of term deposits in foreign currency, recalculated in MDL, amounted to 16.6%.

Interest rates[23]

Base rate development

During the second quarter of 2024, two meetings of the Executive Board of the National Bank of Moldova were held on monetary policy. Following the assessment of the internal and external balance of risks, as well as of the short- and medium-term inflation outlook, the Executive Board of the National Bank of Moldova, at its meeting of May 7, 2024, decided to reduce the base rate applied to the main monetary policy operations by 0.15 percentage points to 3.60% annually. Subsequently, at the meeting of June 20, 2024, it was decided to maintain the base rate at 3.60% annually. These measures were aimed at easing disinflationary pressures by stimulating aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflationary expectations, in order to keep the inflation rate close to the target of 5.0% over the medium term, with a possible deviation of ±1.5 percentage points.

Interest rate development on loans balance

For the second quarter of 2024, the weighted average interest rate related to the balance of loans granted in MDL by licensed banks decreased compared to the second quarter of 2023 by 2.46 percentage points and amounted to 9.34% annually (Chart 4.22), as a result of continuous reductions in interest rates on new transactions. The weighted average interest rate related to the balance of loans in foreign currency was 6.61% annually, being higher than that of the second quarter of 2023 by 0.71 percentage points, but lower than that of the first quarter of 2024.

Deposit balance interest rate development

Over the reporting quarter as a whole, the weighted average interest rate related to the balance of time deposits in the national currency registered a more pronounced decrease than the rate on the loans segment (Chart 4.22). The weighted average interest rate related to the balance of term deposits in the national currency was 4.01% annually, being lower than that of the second quarter of

[22]Data analysis was based on the reports ORD 01.06 "Interest rates on balance of loans and deposits" submitted by the licensed banks up to July 11, 2024 and does not include sight deposits.

[23]The analysis of rates was carried out on the basis of reports ORD 01.06 "Interest rates related to the balance of loans and deposits" presented by licensed banks until July 11, 2024 and does not include rates on sight deposits.

2023 by 7.62 percentage points. At the same time, the weighted average interest rate related to the balance of term deposits in foreign currency was 2.04% annually, increasing compared to the second quarter of 2023 by 0.18 percentage points.

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

In the second quarter of 2024, in the national currency segment, weighted average interest rates on new loans and on term deposits continued to decline (Chart 4.23) including under the impact of the transmission mechanism of consecutive base rate cuts applied to the main monetary policy operations. Over the quarter as a whole, the weighted average interest rate on term deposits in MDL amounted to 3.24% annually, 4.05 percentage points lower than in the second quarter of 2023 (Chart 4.23). The weighted average interest rate on term deposits attracted in national currency from individuals continued to decrease (-4.39 percentage points compared to the second quarter of 2023) and amounted to 3.38% annually. Also, the weighted average interest rate on term deposits attracted from legal entities decreased, which amounted to 2.78% annually.

In the second quarter of 2024, the weighted average interest rate on new loans granted in national currency amounted to 9.08% annually, 4.10 percentage points lower than in the second quarter of 2023. The decline reflected the decrease in the weighted average interest rate on loans granted both to individuals (-4.25 percentage points) and to legal entities (-4.09 percentage points). At the same time, in the segment loans granted in foreign currency and attached to foreign exchange rates, the weighted average interest rate was 6.08% annualy, lower by 0.07 percentage points compared to the second quarter of 2023.

Nominal and real effective exchange rate developments

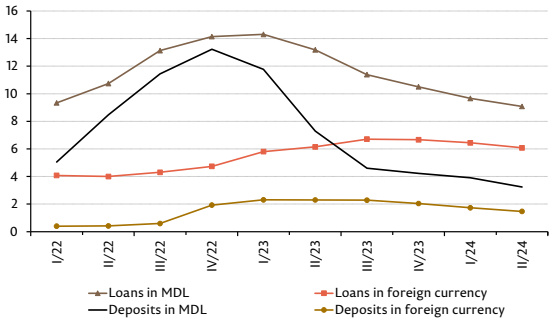
According to the values at the end of the second quarter of 2024, the nominal official exchange rate of the national currency decreased by 1.6% against the US dollar and by 0.9% against the euro compared with their levels recorded at the end of the previous quarter (Chart 4.24).

On average, the exchange rate of the Moldovan leu depreciated against the US dollar by 0.2% and appreciated by 0.7% against the euro, compared with the averages of the previous quarter.

As regards the evolution of the currencies of countries – main trading partners, in the second quarter, most of the currencies recorded more pronounced depreciations against the US dollar compared to the depreciation of 0.2% of the Moldovan leu, mainly, Turkish lira (-4.8%), Ukrainian hryvnia (-4.4%), Swiss franc (-3.6%), Hungarian forint (-1.8%), Bulgarian leva, euro and Romanian leu (-0.9% each), Chinese yuan renminbi (-0.8%), etc. At the same time, the Russian ruble appreciated insignificantly against the US dollar (+0.3%), (Chart 4.25).

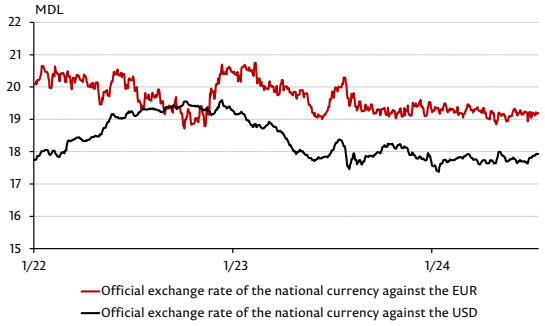
Under these conditions, in real terms, the Moldovan leu appreciated by 2.1% against the basket of currencies of countries – main trading partners of the Republic of Moldova (average of the second quarter of 2024 against the average of the first quarter of 2024). Romania (+0.7 percentage points) and Ukraine (+0.6

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



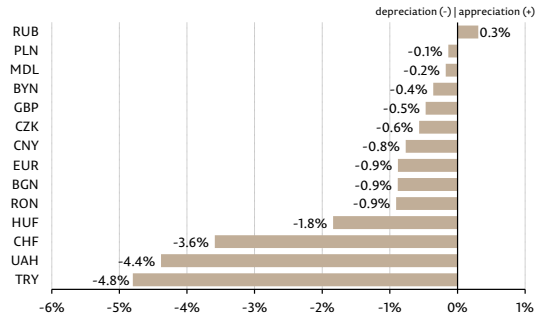
Source: NBM

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



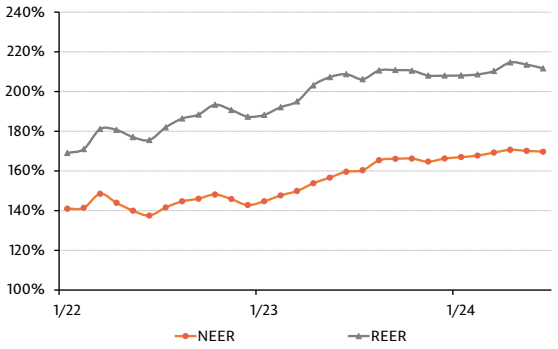
Source: NBM

Chart 4.25: Development of the currencies of countries – main trading partners in relation to the US dollar, average exchange rate in the second quarter of 2024/ first quarter of 2024 (%)



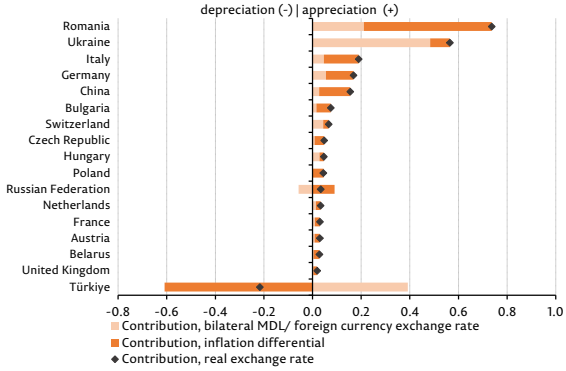
Source: NBM

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



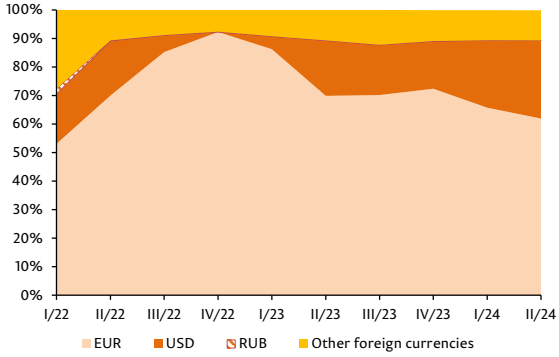
Source: NBM

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 2024



Source: NBM

Chart 4.28: Net supply of foreign exchange from individuals broken down by main currencies (currencies are recalculated in USD at constant average exchange rates)



Source: NBM

percentage points) made the largest contribution to the appreciation of the REER (Chart 4.27).

In the second quarter of 2024, overall, the local foreign exchange market was close to balance, but there were both periods when demand for foreign exchange prevailed and periods when the supply of foreign exchange prevailed, resulting in slight depreciation or appreciation pressures on the exchange rate, respectively.

The net supply of foreign exchange by individuals amounted to USD 779.7 million, up both in annual terms by 5.8% and by 29.4% compared with the previous quarter. The rise in supply from individuals was due to an increase in net transfers from abroad to individuals, according to data for the first two months of the quarter. In the structure of the net supply of foreign exchange from individuals, the single European currency continued to account for the largest share (62.0%[24]), (Chart 4.28).

The net demand for foreign exchange by economic agents continued to record high values – USD 828.2 million, with a pronounced positive dynamics compared to the previous quarter (+25.6%), and in annual terms recording a more moderate growth of 9.6% compared to the same period of the previous year.

The increase compared to the same period of the previous year was due to increased demand for foreign currency from importing companies in the trade in consumer goods, construction materials, industrial goods and pharmaceuticals, while the services sector saw higher sales of foreign currency to tourism service providers. Under these conditions, the coverage of net demand for foreign exchange by economic agents through the net supply of foreign exchange by individuals amounted to 94.1% over the reference period (Chart 4.29), compared with 91.4% in the previous quarter and 97.5% in the second quarter of 2023. The NBM intervened in the domestic foreign exchange market by selling foreign exchange amounting to only USD 5.0 million in the first month of the quarter to smooth exchange rate fluctuations.

The exchange rate of the Moldovan leu against the US dollar in dynamics was on a slightly depreciating trend. The depreciation trend was observed more pronounced in the third week of April and the second half of June on the backdrop of temporary increased demand from some importers. From the end of April 2024 until the first ten days of June, the exchange rate of the Moldovan leu against the US dollar reversed its previous downward trajectory, oscillating in a range with a lower limit of MDL 17.63 and an upper limit of MDL 17.82 per dollar.

The evolution of the official exchange rate of the Moldovan leu against the euro was also influenced by the developments of the single European currency against the US dollar on international markets. Exchange rate EUR/USD depreciated in the first half of April on the back of slowing inflation in the euro area, fueling investors' expectations that the ECB would cut its benchmark rate at its June 6 meeting, widening the spread between the rates on the single European currency and the US dollar. From the second half of April until the first ten days of June, the euro recovered the ground lost at the beginning of the month on the back of positive

[24]Share calculated by applying a constant rate.

developments in investor confidence, business climate and wage indicators in the euro area and Germany. At the same time, some high-frequency indicators in the US raised investor concerns about economic growth and debt sustainability. Since the second half of June, the EUR/USD exchange rate has been on a downward trend on the back of the results of the European Parliament elections, which resulted in losses for centrist parties in several countries and were followed by the dissolution of the French legislature.

Under these conditions, the euro ended the second quarter of 2024 with a depreciation of 0.7% against the US dollar compared with the end of the previous quarter.

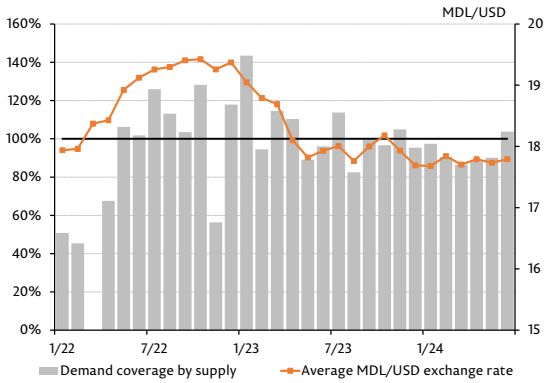
At the end of the quarter under review, the balance of official reserve assets amounted to USD 5,288.6 million (Chart 4.30), down by USD 104.6 million (-1.9%) compared with the end of the first quarter of 2024. Official reserve assets decreased mainly on the back of external public debt service payments and net outflows related to foreign currency reserve requirements of licensed banks.

In terms of foreign exchange inflows related to external financial assistance, the largest disbursements came from the European Investment Bank in the form of a loan totaling EUR 14.8 million (equivalent to USD 15.9 million) within the "Livada Moldovei" and "Preparation of waste management projects".

The World Bank has disbursed loans totaling USD 10.5 million in projects for education reform, public health system strengthening, regional and local development, land registration and valuation, modernization of government services, improving competitiveness, etc. The European Commission has provided grants amounting to EUR 3.6 million (equivalent to USD 3.9 million), the largest amount being under the Horizon Europe program. Financial assistance in the form of loans and grants totaling USD 1.5 million has also been provided by the IFAD, capacity building programs for rural transformation.

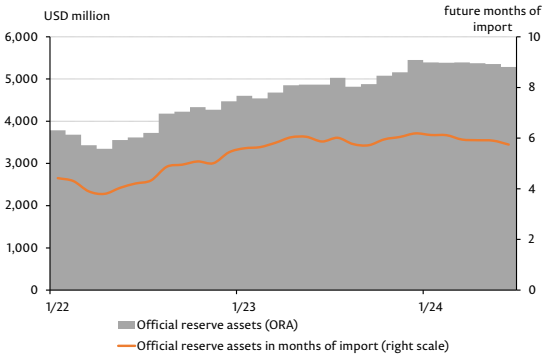
As at the end of the second quarter of 2024, official reserve assets continued to provide a sufficient level of coverage of imports of commodities and services (5.7 months of future imports[25]).

Chart 4.29: Net sales coverage degree by net supply and exchange rate dynamics



Source: NBM

Chart 4.30: Development of official reserve assets expressed in months of imports of commodities and services (BPM6)



Source: NBM – based on actual data and updated forecast

[25] Calculated on the basis of IMF forecast of imports of commodities and services.

Chapter 5

Forecast

5.1 External assumptions

In the current round of forecasting, the assumptions on the external environment present an uncertain environment with weak economic growth trends. With inflation in advanced economies having fallen to the levels targeted by monetary authorities, monetary easing is expected to start or continue. At the same time, inflation has bottomed out in many emerging economies and, with proinflationary pressures intensifying, a gradual change in the monetary cycle is on the way. Exchange rates will continue to be influenced by interest rate differentials, geopolitical tensions and the outcome of the US presidential elections in November 2024. International oil and gas prices will remain at relatively high levels, but they will exhibit low volatility. Prices of metals and other agro-industrial commodities will be affected by global demand, especially demand from China. Food prices will follow a slightly upward trend due to the jeopardization of some harvests by adverse agro-meteorological conditions this year

Table 5.1: Expected development in external variables (annual average)

	2024	2025
Economic growth in the euro area (%)	0.7	1.4
Economic growth in the Russian Federation (%)	3.1	1.7
Average annual inflation in the euro area (%)	2.4	2.0
Average annual inflation in the Russian Federation (%)	7.3	4.7
EUR/USD	1.08	1.09
USD/RUB	91.0	95.8
Brent oil prices (USD/barrel)	84.7	80.9
International food prices growth (%)	-4.2	0.9

Source: Bloomberg, Consensus Forecast, NBM calculations

In the table 5.1 the values of the main external assumptions assumed in the Inflation Report, August 2024 forecast round are stated, with a subsequent description of these assumptions.

Euro area economy will continue to grow close to potential, with the positive outcome in services offsetting losses in manufacturing. Gross domestic product in the euro area is forecast to grow by 0.7% in 2024 and by 1.4% in 2025 in the current forecast round. The pick-up in economic growth in the second half of 2024 in the euro area will be influenced by the easing of monetary policy by ECB further, amid easing proinflationary pressures. Anticipated level of ***harmonized inflation*** in euro area is of 2.4% in 2024 and 2.0% in 2025, in line with the ECB.

In ***Russian Federation***, economic growth will be supported by the industrial sector, in particular the military sector, and will be affected by the downturn in the services sector. Overall in 2024, economic growth in the Russian Federation is expected to reach 3.1% in 2024, after which it will moderate to 1.7% in 2025. Oil export revenues will contribute to higher budget revenues, especially as oil prices remain at high levels and the Brent/Urals differential has reached its lowest level since the start of the war in Ukraine. Although the Russian rouble has recently appreciated against the backdrop of the Bank of Russia's internal measures on currency transactions, this will not have a disinflationary impact, but will, on the contrary, further increase price increases amid speculation and growing difficulties for imports. So the Bank of Russia will miss its target again this year and ***inflation*** will reach an average of 7.3%, after which it is expected to gradually decline to an average of 4.7% in 2025. At the next monetary policy meeting, the Bank of Russia is expected to raise its policy rate by 200 basis points, from 16.0% to 18.0%.

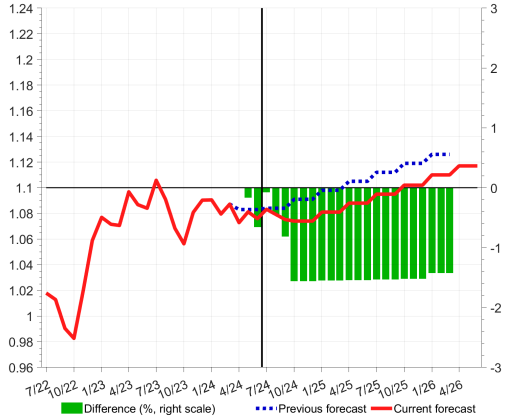
The EUR/USD parity will also have a low volatility as factors work in both directions It is anticipated that both the FRS and the ECB will cut interest rates, which will somehow keep the interest rate differential relatively constant. At the same time, the EUR/USD will continue to be affected by geopolitical tensions as well as the outcome of the US Presidential elections in November 2024. In the current forecast round, EUR/USD is expected to average 1.08 in 2024 and 1.09 in 2025 (Chart 5.1).

The recent appreciation of ***Russian ruble*** led to a revision of the parity forecast in the current forecasting round USD/RUB from 93.3 to 91.0 in 2024 and from 96.7 to 95.8 in 2025. It should be noted that the parity of the Russian rouble against other internationally traded currencies is managed by domestic measures taken by the Bank of Russia such as the obligation to sell part of its export revenues in response to sanctions imposed by the West.

Taking into account oil prices, which have shown low volatility in recent months, expectations for the oil price in the current round have not changed significantly compared to previous ones. Thus, over the forecast horizon, it is anticipated that ***Brent quotation*** will average USD 84.7/barrel in 2024 and USD 80.9/barrel in 2025. Oil prices will be mainly influenced by the policy of OPEC+ on the quantity of oil supplied on the world market. At the same time, risks related to the tensions in the Middle East will contribute to an increase in the risk premium associated with the formation of oil selling prices. Last but not least, developments in the world economy, namely demand from major consuming countries such as China and India, will be another factor in oil price movements (Chart 5.2).

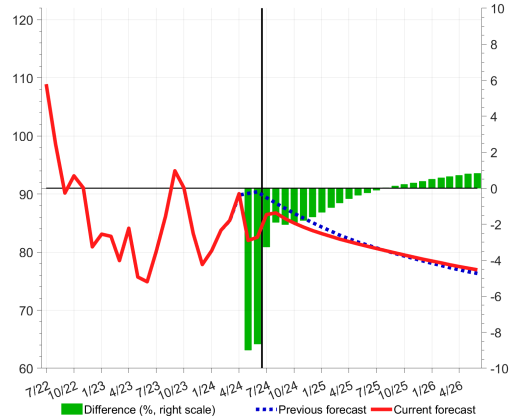
Food market conditions have not changed significantly in recent months. The supply of agricultural products is satisfactory and prospects for this year's harvest look promising. Temporary shocks can be attributed to the effects of the El Niño phenomenon, in particular on crops in the equatorial and southern hemisphere. Thus, in the current forecast round it is expected that ***international food prices*** will continue to fall by an average of 4.2% in 2024 and then increase by 0.9% in 2025 (Chart 5.3).

Chart 5.1: Exchange rate assumption EUR/USD



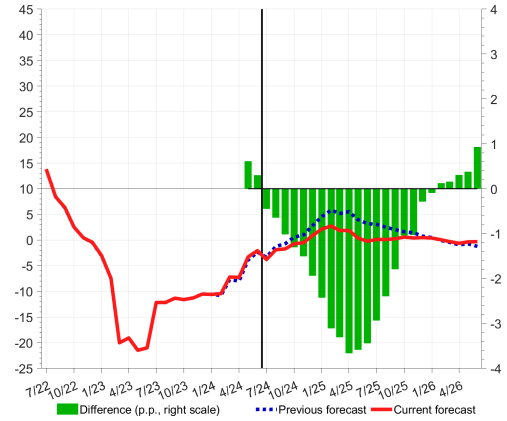
Source: BCE, Consensus Forecast, NBM calculations

Chart 5.2: International Brent oil price assumption (USD/barrel)



Source: Bloomberg, NBM calculations

Chart 5.3: International food price assumption (%)



Source: FAO, Bloomberg, NBM calculations

5.2 Internal environment

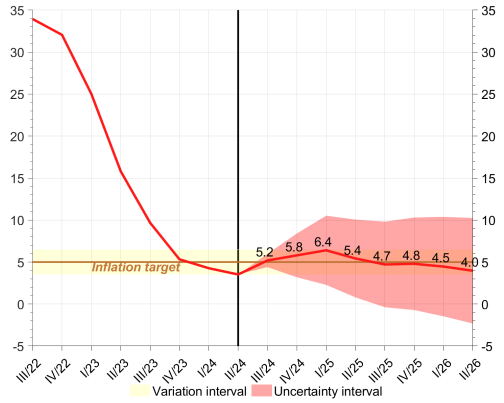
Inflation

The annual inflation rate will have a relatively stable trend over the forecast period[26]. Inflation will oscillate slightly close to the target of 5.0% and remain within the vatiation range over the forecast horizon. The maximum will be recorded in the first quarter of 2025 and the minimum in the second quarter of 2026 (Chart 5.4).

The positive pace of the annual inflation rate will be due to contributions from ***core inflation***, the ***food prices***, ***regulated*** prices, and less from ***fuels*** prices (Chart 5.5).

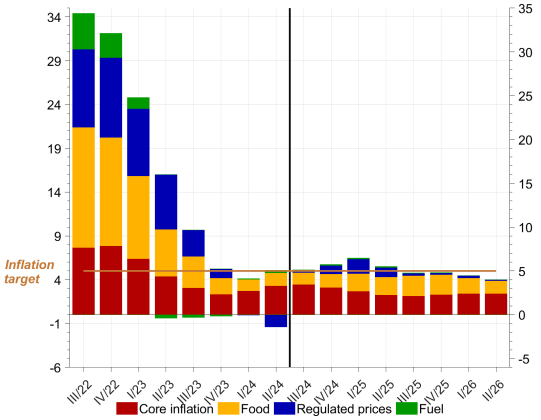
[26]Third quarter of 2024 – second quarter of 2026

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



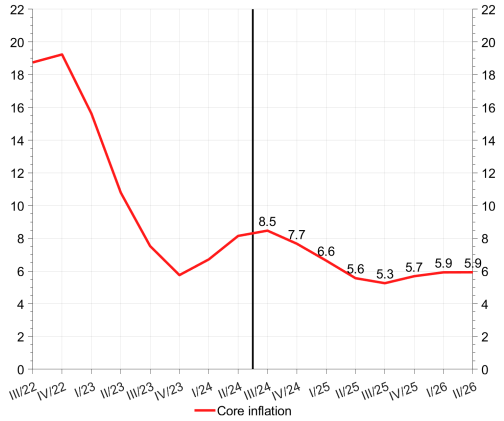
Source: NBS, NBM calculations

Chart 5.5: CPI decomposition (%, percentage points, compared to the previous year)



Source: NBS, NBM calculations

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



Source: NBS, NBM calculations

The presence of such factors as (1) the impact of dry conditions in the summer of 2024 on food prices through the first half of 2025, (2) the positive rate of imported inflation, except in the third quarters of 2024 and the second quarter of 2026, (3) the relatively low base in the first half of the current year, (4) the anticipated adjustments in the third quarter of 2024 to a number of tariffs and services, (5) the adjustment of excise taxes in early 2025 and 2026 will cause the annual inflation rate to increase slightly.

At the same time, (1) the pronounced disinflationary domestic demand over a large part of the forecast horizon, (2) the decline in international oil prices over the entire forecast horizon, except for the third quarter of 2024, (3) the negative rate of imported inflation in the third quarter of 2024 and the second quarter of 2026, and (4) the relatively high base in the current year will dampen the increase in the annual rate and contribute to its slight decline.

The annual inflation rate for the forecast period will record the maximum value of 6.4% in the first quarter of 2025 and the minimum value of 4.0% in the second quarter of 2026.

Average annual inflation will be 4.7% and 5.3% this year and next year, respectively.

The annual rate of core inflation will continue to increase modestly in the first quarter of the forecast horizon, after which it will decline until the third quarter of 2025, after which it will increase slightly towards the end of the forecast horizon[27] (Chart 5.6).

The downward trajectory of core inflation will be driven by (1) markedly disinflationary domestic demand over much of the forecast horizon, (2) the relatively high base in the current year, and (3) a slowdown in imported inflation until the end of the current year.

At the same time, (1) the relatively low base in the fourth quarter of 2024 and (2) the excise tax adjustment in early 2025 and 2026 will dampen the decline in the annual rate and help it to rise toward the end of 2025 and early 2026.

Average annual core inflation will be 7.7% and 5.8% in 2024 and 2025 respectively.

Annual food price rate will trend slightly upward until the third quarter of 2025, after which it will trend downward until the end of the forecast period (Chart 5.7).

The upward trajectory of the annual rate of food prices will be influenced by (1) the positive rate of imported inflation in the second half of this year and into next year, and (2) the impact of dry conditions in the summer of 2024 on food prices through the first half of 2025.

Negative domestic demand over the entire forecast horizon, (2) the negative pace of imported inflation in the first half of 2026, and (3) the relatively high base in 2025 will dampen the increase in the annual rate.

[27] Second quarter of 2026

Average annual food price inflation will be 3.8% and 5.9% in 2024 and 2025, respectively.

The annual rate of regulated prices will increase rapidly until the first quarter of 2025, after which it will decline for the next three consecutive quarters, after which it will remain stable until the end of the forecast horizon (Chart 5.8).

The annual rate will be driven by anticipated third-quarter 2024 adjustments to a range of rates and services, as well as the low base.

Rising costs, on the one hand, and insufficient adjustment of tariffs for these services over long periods are the main factors behind high regulated price increases.

The decline in the annual rate of regulated prices in the second quarter of 2025 for three consecutive quarters will largely be due to the effect of the high annual base.

In the third quarter of 2024, the ANRE's decision of July 23, 2024 adjusted the thermal energy tariff. Also in the third quarter of 2024, the increase in water and sewerage prices was considered in the context of requests for tariff increases in several localities in the country. At the same time, in July 2024 the increase in tariffs for medical services is to be reflected.

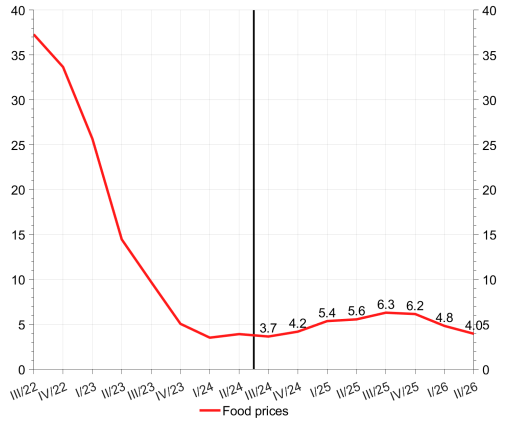
The average annual rate of regulated prices will be -0.5% and 5.1% in 2024 and 2025, respectively.

The annual rate of fuel prices will follow a relatively stable trend at low levels throughout the forecast period (Chart 5.9).

The relatively stable trend in the annual rate of fuel prices will be driven by counterbalancing negative and positive factors. Factors with negative impacts include (1) negative domestic demand, (2) declining international oil prices over the entire forecast horizon except for the third quarter of 2024, (3) negative imported inflation momentum from the second quarter of 2025 through the end of the forecast horizon. At the same time, the factors with a positive impact are (1) the adjustment of excise taxes in early 2025 and 2026 and (2) the positive pace of imported inflation for the second half of the current year and the first quarter of 2025.

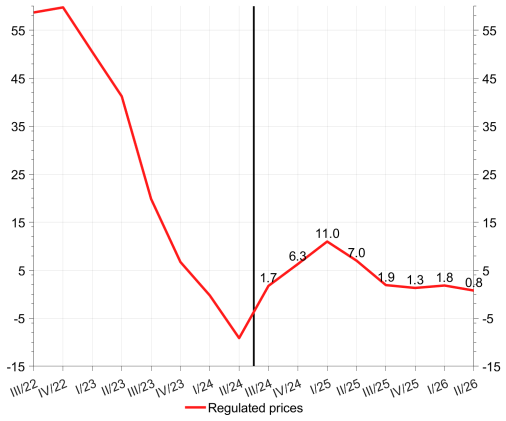
The average annual fuel prices will be 2.0% and 0.9% in 2024 and 2025, respectively.

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



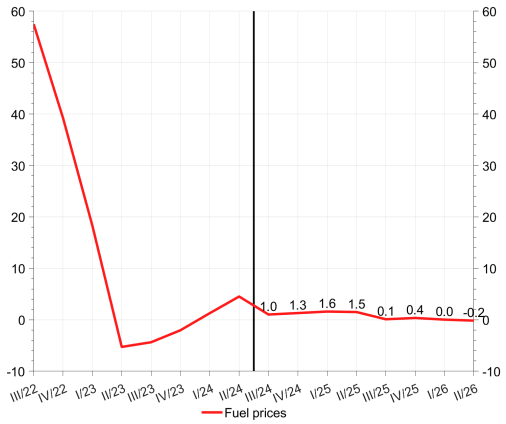
Source: NBS, NBM calculations

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



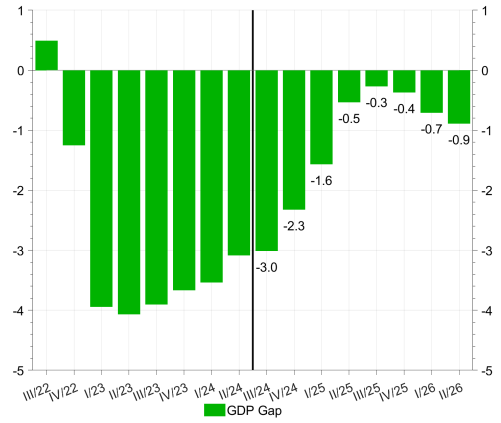
Source: NBS, NBM calculations

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



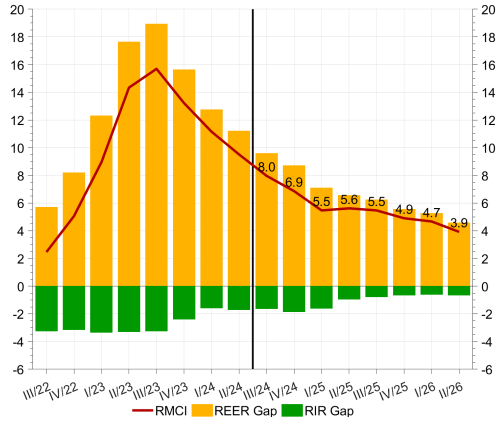
Source: NBS, NBM calculations

Chart 5.10: GDP deviation (%)



Source: NBM calculations

Chart 5.11: Real monetary conditions index and decomposition



Source: NBM calculations

Demand

Aggregate demand will be negative for the entire forecast period due to dry conditions in the summer of 2024, cumulative real appreciation of the domestic currency, and relatively weak external demand in the current year and early next year. Low real interest rates, positive fiscal impulse, rich agricultural harvest of fruits and vegetables in the second quarter of 2024 and recovering external demand, thereafter, positive from the second quarter of 2025 until the end of the forecast horizon will narrow the aggregate demand deficit (Chart 5.10).

The main factors influencing the decline in aggregate demand are: (1) relatively weak external demand in the current year and early next year, (2) the decline in real remittances for 2024, (3) the dry conditions in the summer of 2024, (4) the restrictive effects of the cumulative real appreciation of the domestic currency.

The recovery of aggregate demand will be driven by (1) the further transmission of monetary policy stimulus, primarily through the interest rate channel, (2) the revival of household consumption financing sources in real terms, (3) the positive fiscal impulse, (4) the rich agricultural harvest of fruits and vegetables in the second quarter of 2024, (5) recovering and positive external demand from the second quarter of 2025 and until the end of the forecast horizon.

The real effective exchange rate deviation, although declining, will continue to be restrictive on aggregate demand. At the same time, the real interest rate will stimulate domestic demand throughout the forecast horizon. External demand will have a negative impact on domestic demand this year and early next year. From the second quarter of 2025 until the end of the forecast horizon, it will have a positive impact on domestic demand.

Monetary policy

Real monetary conditions will generally be restrictive, albeit easing, on aggregate demand over the entire forecast period (Chart 5.11).

Monetary policy through the effective real exchange rate will be restrictive, but through the real interest rate it will show a stimulating character throughout the forecast horizon.

The impulses as a result of the NBM's previous monetary policy measures – the reduction of the NBM rates and the release of liquidity for the banking system by reducing the required reserve ratio, are to be transmitted in the medium term to the real economy and to inflation, in the end.

Real exchange rate developments will reduce the deviation of the real effective exchange rate from its balance level, thereby reducing the restrictive effects on aggregate demand. Over the forecast horizon, a decreasing trend in the restrictiveness of the real effective exchange rate deviation is anticipated.

5.3 Comparison of forecasts

The current inflation forecast compared with that in the Inflation Report, May 2024, has been revised downwards for the second half of this year and upwards from the second quarter of 2025 until the end of the comparable period[28] (Chart 5.12).

Increase for the whole comparable period of ***food*** prices, except for the third quarter of 2024, of the forecast for ***regulated*** prices over the whole comparable period, except for the third quarter of 2024 and the fourth quarter of 2025, and less of the forecast of ***fuel*** prices and of ***core inflation*** in the second half of next year and the first quarter of 2026 will lead to an upward revision of the current forecast of the annual inflation rate. The downward revision of the forecast for ***fuel*** prices and of ***core inflation*** in the second half of this year and the first half of next year, of forecast for ***regulated*** prices in the third quarter of 2024 and in the fourth quarter of 2025 and less of the forecast of ***food*** prices in the third quarter of 2024 will revise down the current forecast for the annual inflation rate (Chart 5.13).

The higher projection of the annual inflation rate forecast is driven by (1) the impact of dry conditions in the summer of 2024 on food prices in the first half of 2025, (2) the expectation of less restrictive aggregate demand over the entire comparable period, (3) the expectation of some tariff increases in the third quarter of 2024, (4) a higher forecast of external energy prices over the entire comparable period.

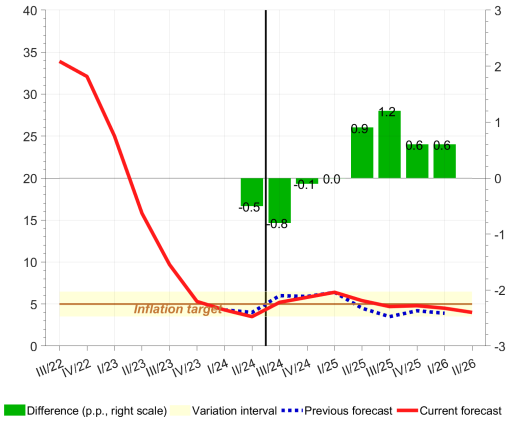
However, (1) a lower forecast for international oil prices in the second half of this year and the first half of next year, (2) a lower path for imported inflation in the second half of next year and in the first quarter of 2026, (3) a declining near-term forecast (4) lower international food prices throughout the comparable period, (5) a decline in some tariffs in the third quarter of 2024, (6) lower actual inflation than anticipated in the previous quarter, and (7) a lower anticipated adjustment to excise taxes, mitigated the upward revision to the current forecast and led to the decline in the second half of this year.

The average annual inflation rate has been reduced by 0.3 percentage points for 2024 and increased by 0.7 percentage points for 2025.

The current forecast for the annual rate of core inflation has been revised downwards in the second half of this year and the first half of next year and upwards thereafter until the end of the comparable period (Chart 5.14).

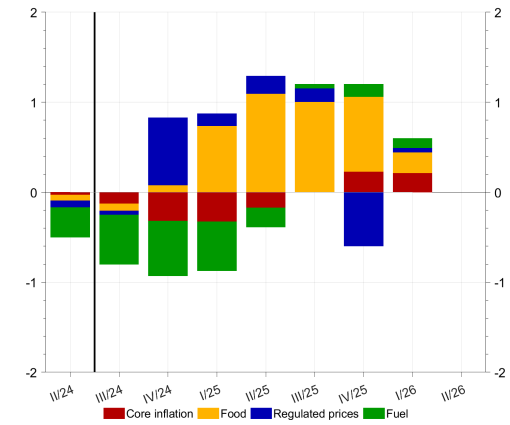
The lower projection of the current forecast relative to the previous one is driven by (1) a declining short-term forecast, (2) lower actual inflation than anticipated in the previous quarter, and (3) a lower anticipated adjustment in excise taxes. The anticipation of (1) less restrictive aggregate demand over the entire comparable period

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



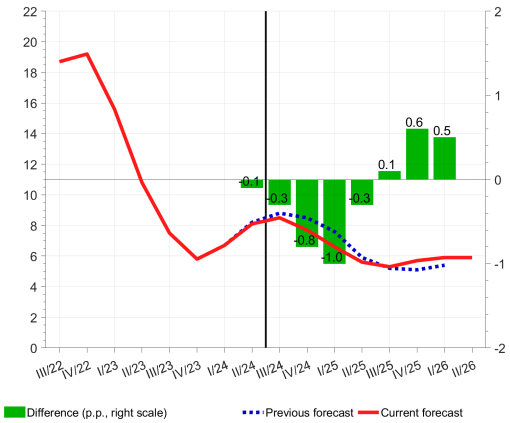
Source: NBS, NBM calculations

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



Source: NBM calculations

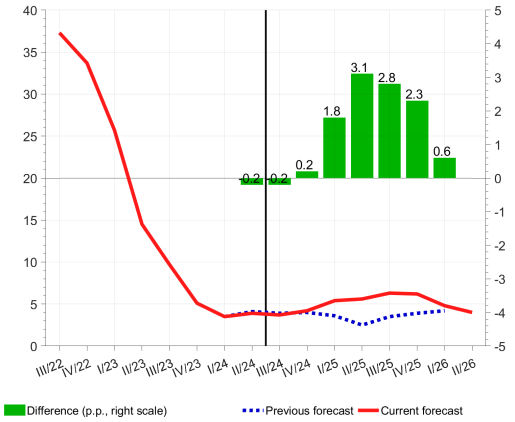
Chart 5.14: Core inflation (%, compared to the previous year, percentage points)



Source: NBS, NBM calculations

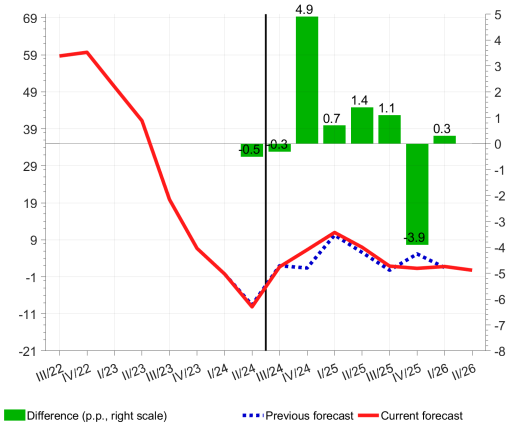
[28] Third quarter of 2024 – first quarter of 2026

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



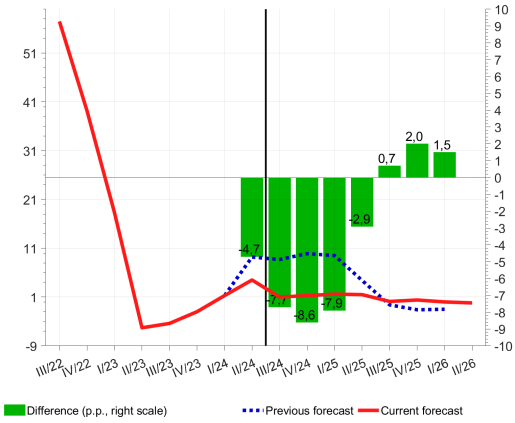
Source: NBS, NBM calculations

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



Source: NBS, NBM calculations

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



Source: NBS, NBM calculations

and (2) a higher trajectory for imported inflation over the entire comparable period, except for the fourth quarter of 2025 and the first quarter of 2026, has dampened the downward revision to the current forecast.

The forecast for the average core inflation rate has been lowered by 0.4 percentage points for 2024 and by 0.1 percentage points for 2025.

The annual growth rate of food prices was revised upwards predominantly over the whole comparable period (Chart 5.15).

The higher rate of the current forecast relative to the previous one is driven by (1) the anticipation of less restrictive aggregate demand throughout the comparable period, (2) the impact of dry conditions from the summer of 2024 through the first half of 2025, and (3) higher imported inflation in the first quarter of 2025.

At the same time, (1) lower international food prices over the whole comparable period and (2) lower actual inflation than previously anticipated are factors that have dampened the upward revision of the current forecast.

The average food prices forecast has been lowered by 0.1 percentage point for 2024 and raised by 2.5 percentage points for 2025.

The current forecast of the annual rate of regulated prices is revised upwards over the entire comparable period, except for the third quarter of 2024 and the fourth quarter of 2025 (Chart 5.16).

Anticipated rate increases in the third quarter of 2024, (2) a larger increase for some rates and services, and (3) a higher forecast of external energy prices for the entire comparable period, have caused the current forecast of regulated prices to be revised upward. Decreases in some rates in the third quarter of 2024, mitigated the upward revision to the current forecast.

The forecast of the average rate of regulated prices has been raised by 1.0 percentage points for 2024 and lowered by 0.2 percentage points for 2025.

The forecast for the annual growth rate of fuel prices was significantly lowered in the second half of this year and the first half of next year and revised upwards thereafter until the end of the comparable period (Chart 5.17).

The lower forecast for the annual rate of fuel prices is conditioned by (1) lower actual inflation for the previous quarter, (2) a lower forecast for international oil prices in the second half of the current year and the first half of next year, (3) a smaller anticipated excise tax adjustment. Anticipation of less restrictive aggregate demand over the entire comparable period mitigated the downward revision of the current forecast.

The forecast for the average fuel prices rate has been lowered by 5.3 percentage points for 2024 and by 1.9 percentage points for 2025.

5.4 Risks and uncertainties

External sector

- ***Potential for significant changes in economic policy following this year's elections.*** These potential changes imply risks of fiscal disorder that will worsen public debt dynamics, negatively affecting long-term yield curves and increasing protectionism. Trade tariffs, together with the expansion of industrial policies globally, may generate damaging cross-border chain reactions and trigger retaliatory shocks, leading to a costly race to the bottom in economic growth. In contrast, policies that promote multilateralism and faster implementation of macrostructural reforms could boost supply growth and productivity, with positive effects on the global economy (uncertainty).
- ***Geopolitical uncertainties.*** Currently, armed conflicts continue between Ukraine and Russia and between Israel and the Gaza Strip, affecting international trade, long-term labor productivity and the destruction of the capital factor (uncertainty).
- ***Risks of increased trade or geopolitical tensions.*** The lack of progress in moderating services prices and price pressures stemming from renewed trade or geopolitical tensions could lead to a return to higher inflation. Persistent inflation in the services sector is also related to real wage growth, taking into account that labor represents a large share of costs in the sector. Escalating trade tensions could further increase short-term risks to inflation by raising the cost of imported goods along the supply chain. Bumps along the remaining path of disinflation could destabilize the return to price stability if short-term expectations rise as a result of unanticipated inflation data (inflationary).
- ***The prospect of higher interest rates and for a longer period.*** The prolonged appreciation of the US dollar resulting from the interest rate differential could disrupt capital flows and impede the planned easing of monetary policy, which could have a negative impact on economic growth. Persistently high interest rates could further increase borrowing costs and affect financial stability if fiscal improvements do not offset higher real rates against a backdrop of lower potential growth (disinflationary).

Real sector

- ***Uncertainties about the timing and magnitude of tariff adjustments for regulated services.*** The medium-term inflation forecast is based on a price trajectory for regulated services that corresponds to certain assumptions regarding the prices of energy resources at the international and regional level, as well as regarding other indicators relevant to the respective sector. However, since tariffs for some regulated services have a considerable

economic impact on the population, the timing of their adjustment may be driven not only by economic factors, but also by the pursuit of social or political objectives by the decision-makers involved. Therefore, the timing and magnitude of tariff adjustments cannot be estimated with sufficient confidence (uncertainty).

- ***Decrease in the number of consumers in Moldova.*** The military conflict in Ukraine has led to massive population outflows from Ukraine. Part of this population is in the Republic of Moldova and contributes directly to the increase in consumption. Their return to their country of origin or their departure to other regions would lead to lower demand on the domestic market (uncertainty, disinflationary).
- ***Vulnerability of domestic fruit and vegetable prices to weather conditions in the coming period.*** According to the experience of recent years, the prices of domestic fruits and vegetables are strongly affected by adverse weather conditions, such as frosts, heavy rainfall, droughts, both because of impediments in their cultivation and because of the costs associated with harvesting, transportation, storage, but also their marketing in the country's marketing outlets. The maintenance of higher than normal temperatures observed this summer and the lack of sufficient precipitation necessary for the cultivation of fruits and vegetables could cause food prices to rise above forecasts in the coming period (inflationary).
- ***Uncertainties about agricultural production in 2024 and 2025.*** This year's and next year's agricultural harvest and food prices on the domestic market will depend to a large extent on the agrometeorological conditions during that period. In this way, developments in the agricultural sector, and hence the trajectory of food prices for the years 2024 and 2025, continue to be marked by uncertainty. If the agricultural harvest is jeopardized (dry conditions, late frosts), the GDP growth rate for the current year will be lower than anticipated. A smaller agricultural harvest will generate higher inflationary pressures on food prices (uncertainty).
- ***The possible escalation of the conflict in the Middle East will support higher prices for energy and other CPI products.*** Rising international and regional oil prices will push up domestic fuel prices and create the conditions for higher prices for other energy resources and the adjustment of some tariffs locally. At the same time, the maintenance or escalation of tensions in the region will support increases in transportation costs and, as a result, in final prices for other goods (inflationary).

Monetary and public sectors

- ***Monetary transmission mechanism.*** The changes in monetary conditions slowly propagate on the rates of new loans in MDL, this leads to the procrastination of decision making by economic agents and households on new loans. At the moment, the transmission channels of monetary policy actions, i.e. the interest rate channel and the credit channel, are functioning poorly, leading to the amplification over time of the effects of monetary policy actions on the national economy (disinflationary).

- ***External funding.*** Increasing the flow of foreign loans and grants allows faster implementation of reforms in the national economy and creates additional stimulus on inflation. Estimates indicate, in the medium term, a decline in the financing of the state budget balance from external sources due to reduced flows for budget support. Thus, it is planned to allocate external sources mainly for the implementation of capital investment projects. External financing will stimulate the continued growth of excess liquidity in the banking system, which will have a positive impact on aggregate demand, the exchange rate of the national currency and generate additional inflationary pressures. At the same time, the degree of realization of existing and externally financed projects remains low, which implies that the disbursement of funds for the development of various sectors of the national economy is delayed (uncertainty).
- ***Fiscal impulse.*** In the context of the recent crises faced by the Republic of Moldova, public finances are under significant pressure. The budgetary projections for the current and next year are based on the assumption of a declining budget deficit, but also of more modest financing from external and internal sources. The government will have to strengthen efforts to ensure the financing and sustainability of public finances, while safeguarding the execution of budgetary obligations in the social area. The risk to the financing of the state budget could result in insufficient fiscal stimulus to revive the economy more rapidly and mitigate the consequences of the recent crises (disinflationary).

Chapter 6

Monetary policy decisions

Summary of
the Executive Board meeting of the National Bank of Moldova of 14.12.2023
on the promotion of monetary policy

The meeting chaired : by Mr. Octavian Armasu, Governor – Chairman of the Executive Board
Attendees: Executive Board members – Mr. Vladimir Munteanu, First Deputy Governor – Deputy Chairman of the Executive Board, Mrs. Tatiana Ivanicichina – Deputy Governor, Mr. Constantin Schendra – Deputy Governor
Rapporteur: Mr. Radu Cuhal – Director of the Monetary Policy Department
Guests: Mr. Natan Garstea, Mrs. Natalia Sirbu – Advisors to the Governor, Mrs. Renata Turcanu – Deputy Director of the Department – Director of the Risk Supervision and Reporting Division, Financial Markets Department, Mrs. Valentina Rusu – Director of the Legal Department, Mrs. Alina Boboc – Director of the Communication and Financial Education Division

In the beginning of the meeting of the Executive Committee, the floor was given to Mr. Radu Cuhal to present the new macroeconomic information that largely confirms the validity of the latest forecast.

Regarding the domestic inflationary process, Mr. Cuhal pointed out that annual inflation has come down within the target range to 5.5% in November 2023, slightly lower than expected. Mr. Cuhal mentioned that the deviation was caused, mostly, by the regulated prices and those of food products.

Mr. Cuhal highlighted that the restrictive monetary policy measures taken by the National Bank, in a year and a half, until the end of last year, contributed significantly to the decrease in inflation.

In the following, Mr. Cuhal presented the information regarding the external environment. The attendees of the meeting noted that inflationary pressures have weakened in advanced economies and annual inflations are approaching the target levels. The euro area economy stagnated in the third quarter, on the edge of recession, as a result of the energy crisis and the tightening of monetary policy. Mr. Cuhal noted that oil prices continued to fall due to weak demand and increased non-OPEC supply, despite OPEC+'s recent decision to cut production. It was highlighted that the price of natural gas has stabilized in recent months, and those of raw materials have continued to decrease.

In the discussion associated with national economic activity, Mr. Cuhal noted that the latest data confirm expectations for economic activity in the third quarter of 2023. EB members noted that in September, imports and net transfers to resident individuals decreased by 17.0% and 18.3%, respectively, on an annual basis. Social payments fell by 13.8% annually in October, largely due to the base effect. Payroll funds rose in real terms by only 6.2% annually in the third quarter of 2023. Thus, the attendees of the meeting noted that domestic demand remains weak. At the same time, exports, wholesale trade, retail trade and industry increased.

Subsequently, Mr. Cuhal presented the monetary conditions, highlighting that interest rates on new loans and deposits in MDL also declined in November as a result of the cumulative monetary policy stimulus. The EB members noted that, according to the operational data, the weighted average rate on deposits in MDL amounted

to 4.30% and that on loans – 10.58%, down by 9.31 and 3.62 percentage points, respectively, compared to November 2022. The lower rates led to an increase in the volume of new loans in MDL and a decrease in deposits. Interest rates on loans and deposits in foreign currency showed different trends: for loans – continued to increase, and for deposits – decreased.

Following the meeting, Mr. Cuhal presented the deviation risks to the inflation forecast, stressing that the balance of risks is equally-distributed while uncertainties remain pronounced. The main sources are the tense situation in the region and in the Middle East, the adjustment of energy tariffs and the reflection of their compensation in the statistics, higher external costs that will have a delayed impact on domestic costs, the updating of health care tariffs that have been under pressure for several years. The attendees of the meeting noted that interest rates in advanced economies are expected to come down as inflationary pressures ease and inflation moves towards target levels. Low commodity and energy price volatilities are expected.

In this context, the measures proposed in the draft decision regarding the actions of the NBM to promote monetary policy, presented by Mr. Cuhal, were to maintain the base rate and the interest rates on the permanent facilities at the current levels.

Thus, following the deliberations, the NBM Executive Board decided, by unanimous vote, to maintain the base rate applied to the main short-term monetary policy operations at the level of 4.75% annually. Interest rates on overnight loans and deposits were maintained at 6.75 and 2.75% annually, respectively.

The Executive Board emphasized that the NBM aims to maintain monetary conditions to further stimulate aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflationary expectations.

At the end of the meeting, the EB members emphasized that the NBM will continue to closely monitor the inflationary process, assessing the associated risks and uncertainties, and the future decisions of the Executive Board will depend on the renewed inflation outlook.

The decision adopted by the NBM Executive Board by unanimous votes:

1. **The base rate applied to the main short-term monetary policy operations is maintained at the level of 4.75% annually.**
2. **Interest rates are maintained:**
   a) **to the overnight loans, at the level of 6,75% annually;**
   b) **to the overnight deposits, at the level of 2,75% annually.**

EB members voting results

FOR – 4 AGAINST – 0

Chairman of the Executive Board **Secretary of the Executive Board**

Octavian ARMASU **Sergiu SURDU**

Summary of
the Executive Board meeting of the National Bank of Moldova of 06.02.2024
on the promotion of monetary policy

The meeting chaired: by Mrs. Anca-Dana Dragu, Governor – Chairman of the Executive Board
Attendees: Executive Board members – Mr. Vladimir Munteanu, First Deputy Governor – Deputy Chairman of the Executive Board, Mrs. Tatiana Ivanicichina – Deputy Governor, Mr. Constantin Schendra – Deputy Governor
Guests: Mr. Daniel Savin – Director of Financial Markets Department, Mrs. Valentina Rusu – Director of Legal Department, Mrs. Alina Boboc – Director of the Communication and Financial Education Division

Mr. Radu Cuhal was given the floor at the beginning of the meeting of the Executive Board on monetary policy, and presented the latest macroeconomic developments both in the internal and external environment, the new medium-term forecast, as well as the risks and uncertainties identified at the time of the Inflation Report, February 2024. Mr. Cuhal emphasized that the current forecast is broadly in line with the trends previously projected.

Considering the recent evolution of inflation, Mr. Cuhal noted that annual inflation fell to 4.2% in December 2023, or 4.4 percentage points from September, being slightly lower than expected. Mr. Cuhal emphasized that the insignificant deviation of the actual inflation from the forecast was mainly caused by the unexpected drop in the electricity tariff in November and the reflection in the statistics of the compensations granted to the population for energy resources during the cold period of the year.

In this context, Mr. Cuhal emphasized that the restrictive monetary policy measures adopted by the NBM at the right time, from the summer of 2021 until the end of 2022, together with the appreciation of the Moldovan leu and the decrease in regional prices for energy resources and food products, contributed significantly to the decrease in inflation.

During the discussions related to the external environment, the attendees of the meeting found that the world economy evolved fragmented at the beginning of 2024. It was mentioned that the US economy is in a better situation than that of the euro area, where fiscal consolidation represents a risk for revival of economic activity. Mr. Cuhal highlighted the extent of the housing crisis in China, with repercussions on the securities and corporate bond market. The wars in Ukraine and Palestine continue. EB members noted that Yemeni rebel attacks on shipping in the Red Sea, as well as the US and allied response, had disrupted navigation through the Suez Canal. Traders have to go around Africa and therefore logistics and transport costs have increased. Mr. Cuhal emphasized that in advanced economies annual inflations have fallen towards the targets set by central banks, but monetary authorities are in no hurry to reduce interest rates due to pronounced risks and uncertainties. It has been warned that high interest rates and structural changes in recent years in world trade are keeping economic growth low.

In the following, Mr. Cuhal presented information on national economic activity, emphasizing that it increased by 2.6% annually in the third quarter of 2023. The attendees of the meeting highlighted that this increase was largely due to, the rich harvest that led to increased exports and decreased imports of agri-food products. Consumption and investment fell due to insignificant growth in real incomes of the population and high uncertainty in the region. Therefore, EB members found that domestic demand is still weak. From the supply side, the financial sector, communications, social services, construction and real estate transactions performed positively, while industry, trade, transport and net product taxes contracted.

At the same time, it was noted that according to the operational data published by the NBS for November 2023, mixed trends in economic activity are observed. Export and retail trade grew in nominal terms by 6.7 and 2.3%, respectively. Imports, industrial production, wholesale trade decreased by 14.7, 6.1 and 3.5% respectively. In terms of sources of consumption financing, transfers to individuals decreased by 12.8% annually.

In the continuation of the meeting, Mr. Cuhal presented the monetary conditions, highlighting that the excess liquidity in the banking sector amounted to MDL 9.4 billion and decreased by MDL 0.6 billion in the fourth

quarter of 2023 compared to the previous quarter. At the same time, the EB members signaled that, according to the operational data, the average amount of excess liquidity amounted to MDL 12.7 billion in January 2024. The annual growth of the monetary aggregate M3 in the fourth quarter of 2023 amounted to 18.3%, largely on account of deposits in MDL. Mr. Cuhal revealed that interest rates on new loans and deposits in domestic currency continued to decline in the fourth quarter of 2023, including as a result of the cumulative monetary policy stimulus. Thus, the weighted average rates on loans amounted to 10.50% and on deposits – 4.23%, decreasing by 3.64 and 9.0 percentage points, respectively, compared to the fourth quarter of 2022.

Later, Mr. Cuhal presented the new inflation forecast, stressing that weak external demand is expected and external inflation will come down towards the targets set by central banks. Monetary policy rates will fall more slowly than expected. Mr. Cuhal noted that the US dollar will depreciate slightly due to its declining attractiveness amid lower interest rates and continued debt cap debates. Consumer demand in China and Europe and tensions in the Middle East emerge as the biggest risks to oil prices. Natural gas prices are expected to be relatively stable, while food prices are expected to rise slightly.

Under these conditions, the annual inflation rate is expected to hover around the target of 5.0%, remaining within the range of ±1.5 percentage points over the next eight quarters. The dynamics will be largely due to all components. Aggregate demand will be disinflationary throughout the forecast period due to weak external demand, weak consumption financing and tight monetary conditions. It has been warned that the rich harvest in 2023 and the positive fiscal impulse from the second quarter of 2025 onwards will dampen the decline in aggregate demand.

Discussions also turned to average annual inflation figures, which will be around 4.7% this year and 4.5% next year respectively.

EB members noted that the trends anticipated in previous rounds remain broadly valid. The inflation forecast was lowered slightly for the first quarter of 2024 and raised for the remainder of the comparable period. The core and regulated price inflation forecasts have been raised, mainly on account of increases in excise taxes and the re-estimated impact of reflecting the impact of compensation payments to the population for energy resources during the cold period of the year, respectively. Food and fuel price forecasts have been lowered.

Mr. Cuhal revealed that the risks and uncertainties of the forecast remain high. From the external environment, sources such as the tensions in the Middle East, the duration of the blockade of the transport routes in the Red Sea, the war in Ukraine, the temporary supply shocks, the prices of food products, the continuation of the decline in economic activity in the euro area, the timing of the start of the relaxation of monetary policy measures in region and globally, as well as a possible geopolitical setup after the 2024 elections, which could lead to a change in economic policies. Among the main internal uncertainties are the adjustment of tariffs, the modification of weights in the CPI basket, the way of reflecting in statistics the compensations for energy resources granted to the population during the cold period of the year, the flow of refugees, weather conditions and the future harvest.

In the continuation of the meeting, the draft decision was presented on the actions of the NBM to promote the monetary policy. The measures proposed by Mr. Cuhal were to reduce the base rate and interest rates on permanent facilities by 0.5 percentage points each and to maintain reserve requirements at current levels.

Thus, based on the analyzes and findings, the Executive Board of the NBM decided, with a unanimous vote, to reduce the base rate applied to the main short-term monetary policy operations to the level of 4.25% annually, as well as to reduce the rates of interest on loans and overnight deposits up to the level of 6.25 and 2.25% annually, respectively. At the same time, the EB members decided to maintain the norm of mandatory reserves from funds raised in Moldovan lei and in non-convertible currency at the level of 33.0% of the calculation base, and the norm of mandatory reserves from funds raised in freely convertible currency – at the level of 43.0% of the calculation base.

At the same time, the NBM Executive Board approved for publication The Inflation Report, February 2024.

The Executive Board emphasized that the adopted decision contributes to strengthening the performance of maintaining inflation for the third consecutive month within the target range, by further stimulating aggregate demand, currently disinflationary, including by encouraging consumption, balancing the national economy and

anchoring inflationary expectations.

Additionally, EB members reiterated that the NBM will continue to closely monitor the inflation process, assessing the associated risks and uncertainties, and future decisions will be aimed at maintaining inflation within ±1.5 percentage points of the 5.0% target, a level considered optimal for the growth and economic development of the Republic of Moldova in the medium term.

Decision adopted by the Executive Board of the NBM with unanimous votes:

1. **The base rate applied to the main short-term monetary policy operations is set at 4.25% annually.**
2. **Interest rates are set:**
   a) **to the overnight loans, at the level of 6.25% annually;**
   b) **to the overnight deposits, at the level of 2.25% annually.**
3. **There are maintained the required reserve ratio from MDL and non-convertible foreign currency funds at the current level of 33.0% of the base.**
4. **There are maintained the required reserve ratio from freely convertible foreign currency funds at the current level of 43.0% of the base.**

EB members voting results

FOR – 4 AGAINST – 0

Chairman of the Executive Board **Secretary of the Executive Board**

Anca-Dana DRAGU **Sergiu SURDU**

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