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ISBN 978-9975-169-23-3
ISBN 978-9975-169-25-7 (PDF)

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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, May 2024 was considered and approved for publication at the meeting of the Executive Board of the NBM on May 7, 2024.

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

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List of acronyms

AI	Artificial Intelligence
ANRE	National Agency for Energy Regulation
CIS	Commonwealth of Independent States
CPI	Consumer price index
ECB	European Central Bank
EU	European Union
EUR	European single currency
FAO	Food and Agriculture Organization of the United Nations
FCC	Freely convertible currency
FRS	Federal Reserve System
GDP	Gross Domestic Product
GIE	Gas Infrastructure Europe
GVA	Gross Value Added
IFAD	International Fund for Agricultural Development
LB	Local budgets
MHIF	Mandatory Health Insurance Fund
MDL	Moldovan leu
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	Purchasing Manager's Index
REER	Real effective exchange rate of the national currency
RUB	Russian ruble
SSIB	State social insurance budget
STA	Single treasury account
TRY	Turkish lira
USD	US Dollar

Summary

Inflation

The restrictive conduct of monetary policy promoted during 2021-2022 has conditioned the return, in October 2023, and the maintenance of inflation within the variation range of ± 1.5 percentage points from the medium-term target of 5.0%. Thus, in the first three months of this year, the annual inflation rate continued the downward trend that started at the end of 2022. At the same time, in the first quarter of 2024, the annual inflation rate was marginally lower than it was anticipated in the Inflation Report, February 2024. The annual inflation rate declined from 4.2% in December 2023 to 3.9% in March 2024. It increased to 4.6% in the first month of this year, after which it resumed the trend observed during the previous year. As a result, similar to the fourth quarter of 2023, the annual inflation rate was within the variation range of ± 1.5 percentage points from the medium-term target of 5.0%. At the same time, the average annual inflation rate amounted to 4.3% in the first quarter of 2024, by about 1.1 percentage points lower than in the previous quarter. The downward trajectory of inflation at the beginning of this year and its maintenance within the variation range of ± 1.5 percentage points from the medium-term target of 5.0% in the first quarter of 2024 was supported by a modest domestic demand, which exerted disinflationary pressures on prices, amid mediocre real disposable income growth of the population and uncertainty in the region. Disinflationary pressures continued to be driven by the trajectory of food prices on the international market, but also by the effects of the previous year's rich harvest. A certain impact was generated by the decrease in some utility tariffs in the first part of the year, as well as by the effects of compensations granted to the population for energy resources during the cold period of the year. At the same time, inflationary pressures in the first three months of this year were driven by the adjustment of fiscal policy and by some adverse sectoral shocks.

In the recent period, the downward trend in the annual rate of industrial prices has continued, thus paving the way for a moderation of their pressures on the prices of some subcomponents of the CPI in the period ahead. In addition, domestic demand will continue to exert a disinflationary impact, which will be mitigated by the effect of the end of the period of tariff compensation for the population. The way tariffs are adjusted, the tense situation in the region and the risks of its escalation keep the inflation forecast highly uncertain.

External environment

The beginning of 2024 in the world economy was characterized by heightened geopolitical tensions and persistent inflationary pressures. Oil prices rose substantially in the early months of 2024 due to OPEC+ controls on production volumes, the avoidance of Red Sea navigation by oil tankers, and heightened tensions in the Middle East. Inflationary pressures have proved more persistent, in particular core inflation pressures, reducing financial markets' expectations of a rapid decline in interest rates. For example, in the USA in March 2024, the annual inflation rose to 3.5%, which shifted expectations of the first FRS interest rate cut from June to November 2024. Food prices on the international market have reversed the downward trend and are on a slight upward trend. Natural gas prices have also periodically risen due to increased purchases in Asia, which has contributed to a decrease in supply for Europe. Gas stocks in Europe, however, remain at peak levels after a mild winter season and falling industrial gas consumption. Economic growth continues to be globally dispersed. For example, statistical data shows that the US economy is in good shape, which will allow the FRS to maintain high rates for a while longer. In Europe, the economic growth is weak after the constant crises of recent years. In the region, the economic growth continues to be disrupted by the aftermath of the war in Ukraine.

Economy

In the fourth quarter of 2023, the GDP recorded an insignificant annual increase, which was only 0.2% higher than in the same period of the previous year. The modest dynamics of the economic activity was mainly supported by the rich harvest in the agricultural sector in 2023, which created conditions for increased exports of agricultural products. At the same time, some developments in the communications, social services, accommodation and food services sectors should also be mentioned. However, domestic demand is weak, signaled by a non-essential increase in household consumption and investments, in the context of a mediocre real income growth and increased uncertainty in the region. Less optimistic signals regarding the economic activity are also confirmed by the negative dynamics of industry, construction, trade and transportation. At the same time, the seasonally adjusted series reflects a zero GDP dynamics compared to the third quarter of 2023. The National Bureau of Statistics revised the annual rates for the previous periods. Thus, the values of -2.4%, -2.2%, and 2.6% for the first, second, and third quarters have been revised upward to -0.9%, -0.3%, and 3.3%, respectively. As a result, the GDP increased by 0.7% in 2023 compared to 2022. In this context, similar to the previous year, aggregate demand pressures on prices exerted a disinflationary impact.

Monetary policy

In the first quarter of 2024, excess liquidity amounted to MDL 12.3 billion, up by MDL 2.8 billion compared to the previous quarter.

The M3 monetary aggregate, in the first quarter of 2024, grew at an annual rate of 17.9%. The main contribution is provided by the balance of deposits in national currency.

During the first 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 internal and external balance of risks and the inflation outlook in the short- and medium-term, the Executive Board of the National Bank of Moldova, at its meetings on February 6, 2024 and March 21, 2024, decided to lower the base rate applied to the main monetary policy operations by 0.50 percentage points consecutively, up to the level of 3.75% annually.

At the same time, during the regular monetary policy meeting on May 7, 2024, the Executive Board of the National Bank of Moldova adopted by an unanimous vote the decrease of the base rate applied to the main short-term monetary policy operations by 0.15 percentage points, setting the level at 3.60% annually. Rates on overnight loans and deposits were lowered by the same magnitude, setting the levels at 5.60% and 1.60% annually, respectively. At the same time, the required reserves ratio of funds attracted in MDL and non-convertible foreign currency and that of funds attracted in freely convertible foreign currency for two consecutive periods of application of reserves was lowered to 29.0% and 39.0% of the calculation base, respectively.

This decision was taken in the context of a gradual adjustment of monetary policy in order to continue to stimulate lending and support domestic aggregate demand by encouraging consumption and investments, balancing the national economy and anchoring inflationary expectations, with the aim of keeping inflation within the variation range from the medium-term target.

In the first quarter of 2024, within the national currency segment, weighted average interest rates on new loans and on term deposits continued to decrease, also under the impact of the transmission mechanism of the consecutive base rate cuts applied to the main monetary policy operations. Thus, the weighted average rate on loans amounted to 9.66% and that on deposits to 3.91%, down by 4.63 and 7.85 percentage points, respectively, compared with the first quarter of 2023.

Average interest rates on the balance of loans in national currency recorded decreases compared to the previous quarter by 0.88 percentage points, down to the level of 9.69%, and on deposits – by 2.44 percentage points, down to the level of 4.80%. Average interest rates on loans and deposits in foreign currency had remained practically at the same levels.

Medium-term inflation projection

The current round of forecast anticipates that external demand will remain moderate compared to historical averages, and external inflation will continue to fall towards the levels targeted by the monetary authorities. Interest rates in the region and globally will fall, but not as rapidly as anticipated. The US dollar will continue to appreciate as a result of the continued high levels of FRS interest rates, the satisfactory performance of the US economy relative to other economies, but also the increased attractiveness of the US dollar amid heightened geopolitical tensions worldwide. The Russian ruble will continue to depreciate due to the rebalancing of purchasing power parity, but also increasing difficulties in circumventing economic sanctions and working with new outlet markets. Oil prices on the international market will remain at high levels due to geopolitical tensions, but also the extension of the OPEC+ agreement to limit oil production by 2.2 million barrels per day until June 2024, which could create a significant shortage of oil on the world market in the second half of 2024. Natural gas prices will continue to be susceptible to the smallest supply shocks, and food prices on the international market will increase moderately compared to the highs of previous years, due to ample supply in some segments.

In the current round of forecast, the inflation risks identified are associated with heightened tensions in the Middle East and possible temporary supply shocks on the food price formation on the international market. At the same time, situations such as the mutual destruction by drone strikes of energy production and processing capacities in the context of the war in Ukraine, the monetary policy of the FRS and the geopolitical configuration after the 2024 elections are also taken into account.

The annual inflation rate will continue to slightly decline in the first quarter of the forecast, then it will increase until the beginning of the next year, after which it will decrease insignificantly until the end of the forecast horizon¹, except in the fourth quarter of 2025, when it will increase only slightly. Over the forecast horizon², the annual inflation rate will oscillate close to the target of 5.0% and remain within the variation range. The annual core inflation rate will continue on an upward trajectory during the first two quarters of the forecast period, after which it will decline towards the end of the forecast period, except in the last quarter, when it will slightly increase. The annual rate of food prices will follow a relatively stable trend throughout the forecast period. The annual rate of regulated prices will continue to decline in the first quarter of the forecast, after which it will trend upward until the beginning of the next year, followed by a steady decline until the end of the forecast horizon, except in the fourth quarter of 2025, when it will increase insignificantly. The annual growth rate of fuel prices will continue its upward trend until the end of this year, after which it will decline towards the end of the forecast horizon.

The negative aggregate demand, over the entire forecast horizon, will be, largely, due to tight real monetary conditions and, to a lesser extent, the negative impact of external demand. The positive fiscal impulse over the same period will mitigate the downward revision of domestic demand.

Real monetary conditions will be restrictive on the aggregate demand throughout the forecast period.

The current inflation forecast, relative to that in the Inflation Report, February 2024, has been revised insignificantly upward for the comparable period³, except for the second quarter of 2024, where it is similar, and the third quarter of 2025, where it is lower. The annual rate of core inflation has been revised upward throughout the comparable period, except for the last quarter. The current forecast for the annual rate of food prices has been increased over the entire comparable period, except for the second quarter of 2025, where it is lower. The annual rate of regulated prices is revised downward for the entire comparable period, except for the second and fourth quarters of 2025. The forecast for the annual rate of fuel prices has been increased until the second quarter of 2025 and decreased towards the end of the comparable period.

¹First quarter of 2026

²Second quarter of 2024 – first quarter of 2026

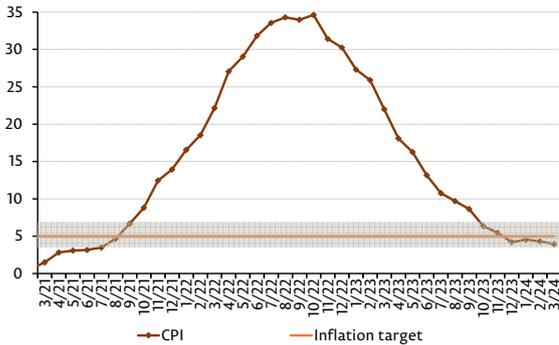
³Second quarter of 2024 – fourth quarter of 2025

Chapter 1

Inflation evolution

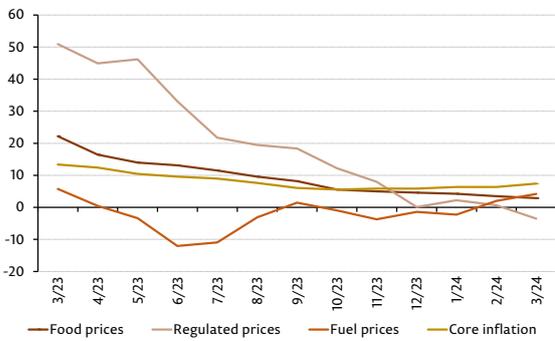
1.1 Consumer price index

Chart 1.1: Annual CPI rate (%)



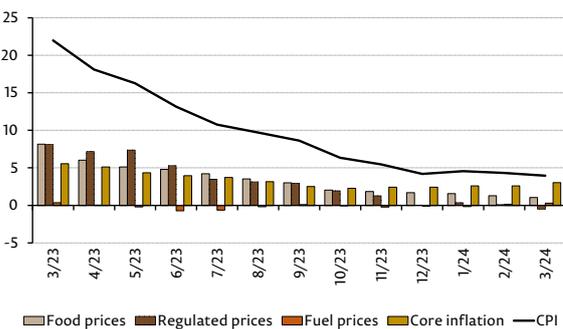
Source: NBS, NBM

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

In the first three months of this year, the annual inflation rate continued the downward trend that started at the end of 2022 and, similar to the previous quarter, was within the inflation target range. At the same time, in the first quarter of 2024, the annual inflation rate was marginally lower than anticipated in the Inflation Report, February 2024.

The annual inflation rate decreased from 4.2% in December 2023 to 3.9% in March 2024. It increased to 4.6% in the first month of this year, after which it resumed the trend observed during the previous year. As a result, similar to the fourth quarter of 2023, the annual inflation rate was within ± 1.5 percentage points of the 5.0% inflation target. At the same time, the average annual inflation rate amounted to 4.3% in the first quarter of 2024, about 1.1 percentage points lower than in the previous quarter.

The downward trajectory of inflation at the beginning of this year and its maintenance in the range of ± 1.5 percentage points from the 5.0% inflation target in the first quarter of 2024 was supported by subdued domestic demand, which exerted disinflationary price pressures, amid mediocre real disposable income growth and uncertainty in the region. Disinflationary pressures also continued to be driven by the trajectory of food prices on the international market, but also by the effects of the previous year's bumper harvest. Some impact was also determined by the decline in some utility tariffs in the first part of the year, as well as by the effects of compensations offered to the population for energy resources in the cold period of the year. On the other hand, some inflationary pressures in the first three months of the current year were driven by the adjustment of fiscal policy and some adverse sectoral shocks. In the structure of the CPI (Chart 1.2), the annual rate of food and regulated prices continued the downward trend of previous periods. At the same time, the annual rate of core inflation and fuel price has followed an upward trend in the first three months of this year.

The trajectory of the annual CPI rate in the first quarter of 2024 was lower than that anticipated in the previous forecasting round (Inflation Report, February 2024) due to the negative deviation in the forecast of the annual rate of regulated prices, largely as a result of the delayed adjustment of the health care tariffs that was included in the Inflation Report, February 2024, in that period, and the decrease in the mains gas tariff in February 2024. The aforementioned negative deviation was partly mitigated by positive deviations in the forecast of the other subcomponents.

Core inflation

The beginning of 2024 was marked by the upward trajectory of core inflation. Thus, the annual rate of core inflation was 7.4% at the end of the first quarter of 2024, 1.5 percentage points higher than in December 2023.

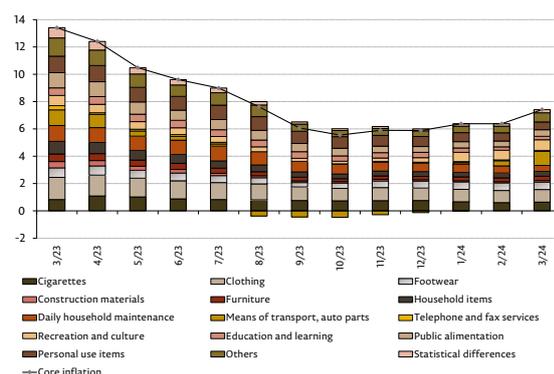
Similar to the previous periods, aggregate demand continued to exert disinflationary pressures on core inflation subcomponents in the first quarter of 2024, as expected, against the backdrop of relatively modest growth in real disposable income of the population and uncertainty in the region. The gradual increase in core inflation over recent months may be associated with the incidence of adverse sectoral developments.

Structurally, the increase in the annual core inflation rate was supported by the evolution of prices of the subcomponent "recreation and culture", as a result of the increase in the prices of international tourist packages in the context of the increase in air transportation prices. A more pronounced impact was also determined by the subcomponent "means of transport, auto parts", as a result of the increase in prices of second-hand cars, this subcomponent showing higher volatility. Within the subgroup "others", the largest increases were recorded in the components "parking facilities and parking meters", "maintenance and other administrative expenditure in collective buildings" and "payment for garages and parking places, hire of transport without driver". The contribution of prices of clothing, footwear, construction materials, furniture, household items to the annual rate of core inflation was practically similar to that of the previous quarter. Although decreasing, a positive contribution to core inflation was also driven by the increase in cigarette prices, in the context of the adjustment of excise duties on tobacco products since the beginning of this year. At the same time, the impact from the subcomponents "household items" and "education and learning" has also moderated compared with the end of the previous year (Chart 1.4).

In March 2024, within the annual dynamics of core inflation (7.4%), some of the most pronounced increases in annual terms were recorded in the subcategory "recreation and culture", where prices of the subcomponents "international tourist packages" increased by 28.0% and "recreation and sports services" – by 25.0%. At the same time, the prices of "cigarettes" and "means of transport, auto parts" increased by 15.9% and 10.1%, respectively, in March 2024 compared to the same month of the previous year.

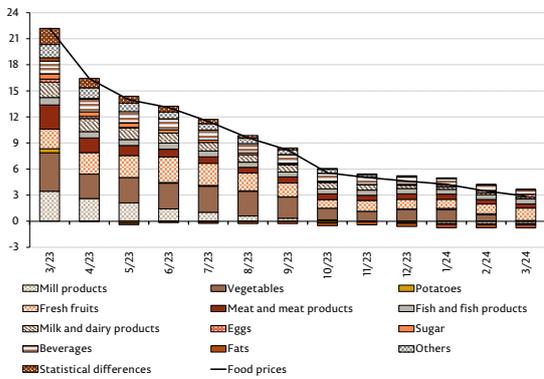
The subsequent trend in the price developments of some important categories of goods and services included in core inflation, in the absence of supply-side imbalances, will continue to reflect the effect of subdued domestic demand.

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



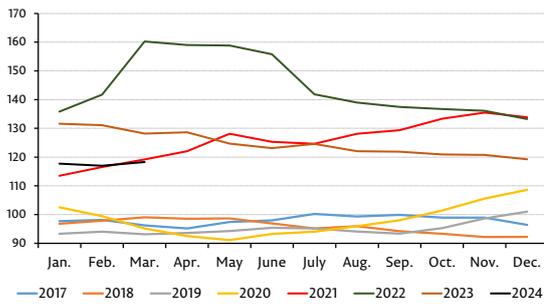
Source: NBS, NBM calculations

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



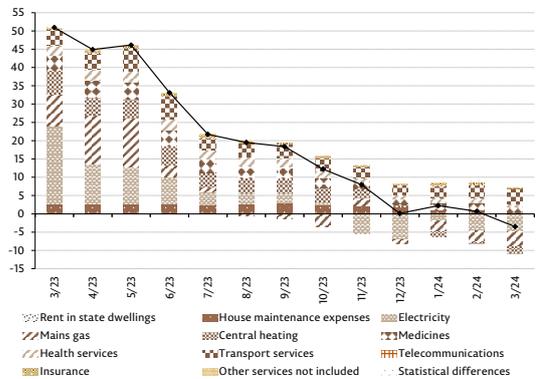
Source: NBS, NBM calculations

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



Source: FAO, NBM calculations

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



Source: NBS, NBM calculations

Food prices

In the first quarter of 2024, the annual rate of food prices continued the downward trend that began in the fall of 2022.

Thus, in the first quarter of 2024, it averaged 3.5% or 1.6 percentage points lower than in the fourth quarter of 2023. Similar to the previous periods, the "fresh fruits", "vegetables", "meat and meat products", "beverages" and "fish and fish products" groups contributed the most to the annual rate of food prices (Chart 1.5).

It should be noted that during the first quarter of 2024 there was a lull in food prices. Thus, the lack of inflationary pressures on the international market, the lack of inflationary pressures through the exchange rate channel, the modest demand recorded on the domestic market, the rich agricultural year (2023), overlapping with the disappearance of cost pressures, contributed to the relatively low growth rates of food prices.

At the same time, the level of food prices on the international market is continuously decreasing (Chart 1.6), thus they have exerted disinflationary pressures on domestic prices. In the first quarter of 2024, the annual rate of food prices on the international market amounted to -9.7%.

Over this period, the contribution from food prices to the annual total inflation rate decreased by 0.6 percentage points to 1.3 percentage points.

Regulated prices

In the first quarter of 2024, the annual rate of regulated prices continued the downward trajectory of previous periods, moving into negative territory in March 2024.

Thus, the annual rate of regulated prices was -3.5% in March 2024, 3.6 percentage points lower than in December 2023. The annual average rate of regulated prices was -0.2%, 7.0 percentage points lower than in the fourth quarter of 2023.

These dynamics were determined, on the one hand, by the decrease in some tariffs during the first quarter of 2024, but on the other hand, by the effects of compensations on energy resources for the population between November 2023 and March 2024 (Chart 1.7).

In this regard, with the beginning of the cold season, from November 2023, the state program on compensations for energy resources granted to the population for the period November 2023 – March 2024⁴ was applied, which supported the decrease in the prices of thermal energy, mains gas and electricity within the

⁴https://cancelaria.gov.md/sites/default/files/document/attachments/nu-876-mmmps-2023_0.pdf

CPI⁵. At the same time, during the first quarter of 2024, there were also adjustments in the tariffs of the respective services.

The tariff for thermal energy was reduced as of January 1, 2024. In this respect, on December 22, 2023, ANRE approved the tariffs for thermal energy delivered to consumers by S.A. "Termoelectrica" at MDL 2,774/Gcal, MDL 493/Gcal less than the previous price, and for that delivered by S.A. "CET Nord" at MDL 3,215/Gcal, MDL 346/Gcal less than the previous price⁶. This adjustment also supported the decrease in hot water prices for end consumers. Subsequently, on March 19, 2024, ANRE approved the tariff for thermal energy (in force from March 21, 2024) 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 tariff⁷.

At the same meeting, on March 19, 2024, the electricity tariffs (in force from March 21, 2024) were decreased. Thus, a tariff of 284 bani/kWh has been set for end consumers served by S.A. "Furnizarea Energiei Electrice Nord", and 234 bani/kWh for those served by I.C.S. "Premier Energy" S.R.L. (compared to 288 bani/kWh and 239 bani/kWh, respectively).

On February 21, 2024, ANRE approved the new tariffs (in force from February 23, 2024) for the supply of mains gas by S.A. "Moldovagaz", thus, the final tariff (with VAT) for the population was reduced to MDL 14.45/cubic meter, MDL 3.6/cubic meter (about -20.0%) less than the previous one⁸.

The above mentioned developments were mitigated by some tariff increases. Thus, still at the end of 2023, ANRE approved the tariffs for the public water supply and sewerage service provided by the I.M. "Apa-Canal" Edinet. The tariff for the public drinking water supply service for domestic consumers was set at MDL 32.31/cubic meter (MDL +12.61/cubic meter compared to the previous tariff), and for the public sewerage and wastewater treatment service for domestic consumers – at MDL 10.15/cubic meter (MDL +5.15/cubic meter compared to the previous tariff)⁹. Also, in Edinet city has increased the tax for urban trips up to MDL 5, in the context of

⁵In accordance with the Methodology for calculating the Consumer Price Index, when estimating the actual average prices/ tariffs for the supply of mains gas, electricity and thermal energy, the NBS took into account the compensations granted by the Government for the payment of energy bills for household consumers, in accordance with the Law No. 241/2022 on the Energy Vulnerability Reduction Fund, as well as Government Decisions No. 704/2022 and No. 814/2022. The preliminary estimate of the effective average price of energy resources in November this year (taking into account the compensations in the invoice) was made on the basis of the information available at the time of compiling the CPI calculations. New available data on the supply of energy resources (including possible recalculations made in the invoice by operators/ suppliers) will be taken into account when preparing the CPI data in the coming months – *taken from the official NBS website*.

⁶<https://anre.md/anre-a-aprobat-tarifele-pentru-energia-termica-livrata-consumatorilor-3-796>

⁷<https://anre.md/anre-a-micsorat-preturile-si-tarifele-pentru-energia-termica-si-energia-electrica-3-830>

⁸<https://anre.md/anre-a-micsorat-preturile-reglementate-pentru-furnizarea-gazelor-naturale-3-820>

⁹Monitorul oficial No. 477-479a (8983-8985a)3, p. 14

the implementation of the public transport modernization project financed by the European Union¹⁰.

The decision of S.A. "Moldtelecom" to increase the prices for fixed telephony from January 1, 2024 led to an increase in the prices for telecommunication in the CPI. In this regard, from January 1, 2024, the MDL six cheap subscription has disappeared, being introduced a single package of MDL 40¹¹.

Since the beginning of the year, prices for the medicines subcomponent have increased by 2.0%, largely due to price adjustments for dental services, medical services, specialized and paramedical medical services, and medical laboratory services. At the same time, the prices for rent in student dormitories increased by about 4.1%¹², and the tariffs for state administration services increased by 16.5%, mainly due to the increase in the price of the service of marriage registration at the civil registry office, which occurred due to the increase in the state fee from MDL 20 to MDL 50¹³. In the first three months of this year, the prices of pharmaceuticals rose by about 1.4%.

There were also price increases in air transportation during the quarter. At the same time, prices for sanitation services increased by 1.9% in March 2024, as a result of the adjustment of tariffs for these services in the Soroca city from MDL 16.59/person to MDL 24.40/person¹⁴, with part of the effect to be reflected in the following period.

In the following period, given that in November 2023 – March 2024 the NBS reflected the compensated tariffs for mains gas, central heating, hot water and electricity, in April 2024 the NBS will reflect the elimination of the impact of these compensations once the 2023 – 2024 heating season ends, which will have a positive impact on regulated prices in that period. At the same time, as of March 21, 2024, new tariffs for central heating, hot water and electricity entered into force, respectively, part of these decreases will be reflected by the NBS in April 2024. In July 2024, the NBS will reflect the tariff adjustments from the Catalog of Single Tariffs for medical-health services provided by public institutions in the country¹⁵.

¹⁰<https://nordnews.md/video-edinet-tot-mai-aproape-de-a-deveni-cel-mai-smart-oras-din-nordul-moldovei-pe-strazi-vor-circula-8-autobuze-noi-cu-acces-la-wifi/>

¹¹https://www.ipn.md/ro/moldtelecom-creste-la-40-de-lei-tarifele-la-telefonie-7966_1101003.html

¹²<https://diez.md/2023/02/10/tarifele-de-cazare-la-caminele-studentesti-din-moldova-au-fost-majorate-liga-studentilor-din-basarabia-critica-aceasta-masura/>

¹³https://www.legis.md/cautare/getResults?doc_id=138534&lang=ro

¹⁴https://www.primisoroca.md/uploads/article/Decizie_nr_54_din_01032024_K2g2.pdf

¹⁵https://gov.md/sites/default/files/document/attachments/nu-1085-ms-2024_0.pdf

Fuel and lubricants prices

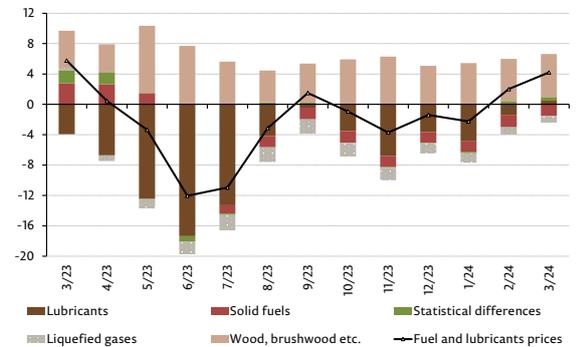
The annual rate of fuel and lubricants prices returned to the positive territory in the first quarter of 2024.

Thus, the annual rate of fuel and lubricants prices increased from -1.4% in December 2023 to 4.2% in March 2024 under the influence of prices of "wood, brushwood etc.", which continued to exert a positive impact on it. The average annual rate of fuel and lubricants prices in the first quarter of 2024 amounted to 1.3%, 3.3 percentage points higher than in the fourth quarter of 2023 (Chart 1.8).

Between January-March 2024, "lubricants" prices had a negative impact on the annual rate of fuel and lubricants fuel prices. This development was driven by the dynamics of gasoline and diesel prices set by PECO stations during that quarter. These developments were dictated by the average Platts quotations for gasoline and diesel oil, which amounted on average to around MDL 14,499.1/tonne and MDL 14,430.8/tonne, respectively, in the reference quarter. Thus, average Platts quotations for diesel decreased by 4.2%, while average Platts quotations for gasoline increased by 1.3% compared to the fourth quarter of 2023 (Chart 1.9). The decrease in the above-mentioned quotations were supported by the downward trend in the price of Brent crude oil, down by 1.1% compared with the previous quarter. At the same time, this impact was mitigated by the adjustment of excise duties on oil products at the beginning of this year (Chart 1.10).

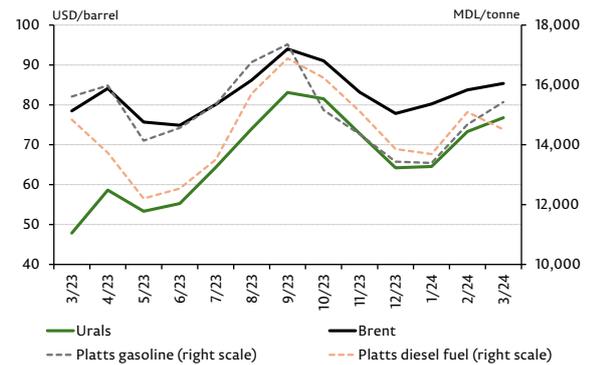
During the first quarter of 2024, "solid fuels" and "liquefied gases" prices continued to exert a negative impact on the annual rate of fuel and lubricants prices.

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



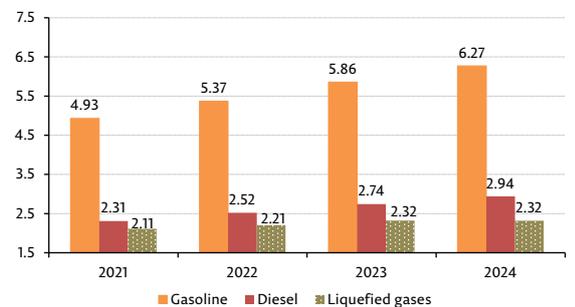
Source: NBS, NBM calculations

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



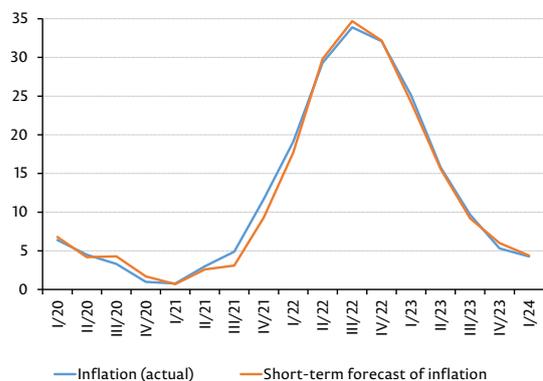
Source: ANRE, NBM calculations

Chart 1.10: Evolution of excise duties (MDL/liter)



Source: Ministry of Finance, NBM calculations

Chart 1.11: Annual rate of CPI (%)



Source: NBS, NBM

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

	De facto Q I, 2024/ Q I, 2023 (%)	Forecast* Q I, 2024/ Q I, 2023 (%)	Deviation (De facto- forecast) (p.p.)
CPI	4.3	4.4	-0.1
Core inflation	6.7	6.4	0.3
Food prices	3.5	3.2	0.3
Regulated prices	-0.2	3.4	-3.6
Fuel prices	1.3	-1.5	2.8

Source: NBS, NBM calculations

*Forecast from Inflation Report, February 2024

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

In the forecast round of the Inflation Report, February 2024 it was anticipated that the annual CPI inflation rate would remain within the inflation target range, registering 4.2% in March 2024 and averaging 4.4% in the first quarter of 2024¹⁶. Inflation data for the period January-March 2024 point to a lower trajectory than anticipated in the previous round of forecasts (Inflation Report, February 2024).

In the first quarter of 2024, the average annual inflation rate amounted to 4.3%, 0.1 percentage point lower than anticipated in the forecast (Table 1.1). This was exclusively due to the negative deviation recorded for the forecast of regulated prices. In this regard, during January-March 2024, the annual rate of regulated prices was -0.2%, 3.6 percentage points lower than anticipated, largely due to the delay in the adjustment of the medical services tariff that was included in the Inflation Report, February 2024 during that period, and the decrease in the mains gas tariff in February 2024. At the same time, the deviation was also generated by some issues related to the reflection of compensation of energy resources to the population during the cold period of the year, an uncertainty that was mentioned in the forecast in the Inflation Report, February 2024.

The above-mentioned negative deviation was partly mitigated by positive deviations in the forecast of the other subcomponents. Thus, the annual rate of fuel and lubricants prices was 1.3%, 2.8 percentage points higher than expected in the context of a higher than expected trajectory of oil prices in that period. At the same time, the annual rate of core inflation and food price amounted to 6.7% and 3.5%, respectively, 0.3 percentage points higher than the values expected in the Inflation Report, February 2024, respectively, in the context of adverse sectoral developments.

¹⁶In view of the more pronounced 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 made at a quarterly frequency. This value is an input into the medium-term inflation projection, which is similarly quarterly and underpins monetary policy decisions. At the same time, it is reported in the Inflation Reports. However, the actual 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 assumptions are confirmed or whether there is a risk of marked deviations from the forecast. Therefore, deviations between the actual data available for the months within the quarter and the short-term inflation forecast need to be interpreted appropriately, also taking into account the assumptions/ forecasts for the remaining months of the quarter.

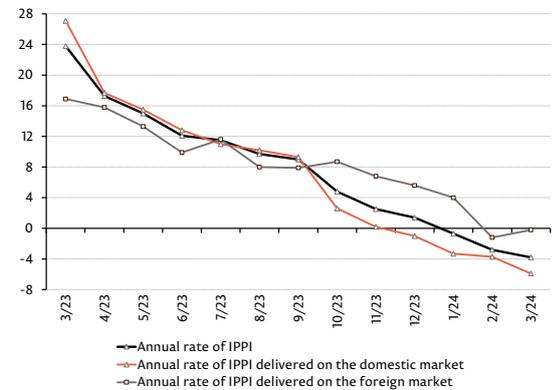
1.3 Industrial production prices

In the first quarter of 2024, the annual industrial price rate moved into the negative territory, averaging -2.4% or 5.3 percentage points lower than in the fourth quarter of 2023.

In terms of structure, both the annual rate of prices of products delivered on the domestic market and the annual rate of prices of products delivered on the foreign market followed a downward trend (Chart 1.12).

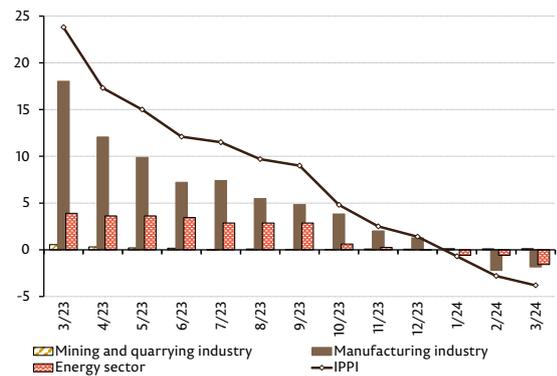
Analyzing the evolution of the annual industrial price rate by main branches, it can be seen that its sharp moderation was supported by developments in the manufacturing industry and the energy sector (Chart 1.13). Thus, in the first quarter of 2024, the annual price rate in manufacturing industry averaged -1.5%, or 4.1 percentage points lower than in the previous quarter. The sharp decline in the contributions from "food industry", "manufacture of beverages" and "other non-metallic mineral products" mainly contributed to the downward dynamics of the annual price rate in the manufacturing industry. It should be noted that the annual price rate in the energy sector was -14.2% or 18.7 percentage points lower than in the fourth quarter of 2023 during the analyzed period. In the first quarter of 2024, prices in the mining and quarrying industry increased in annual terms by 5.6%, generating a minor contribution to the total price dynamics in the industry.

Chart 1.12: Annual industrial price rate (%)



Source: NBS

Chart 1.13: Annual industrial price rate (%) and its components contribution classified by main branches (percentage points)



Source: NBS, NBM calculations

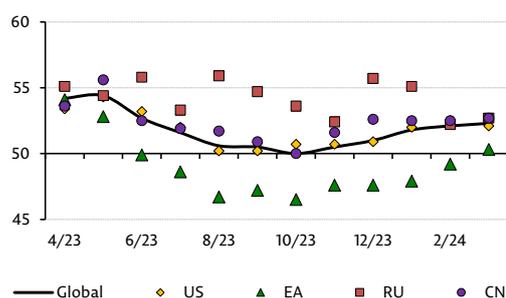
Chapter 2

External environment

The beginning of 2024 in the world economy was characterized by rising geopolitical tensions and the persistence of inflationary pressures over time. Oil prices rose substantially in the early months of 2024 due to OPEC+ controls on production volumes, the avoidance of Red Sea navigation by oil tankers, and heightened tensions in the Middle East. Inflationary pressures have proved more persistent, in particular core inflation pressures, dampening financial markets' expectations for a rapid decline in interest rates. For example, in the US in March 2024, annual inflation rose to 3.5%, which shifted expectations for the first reduction of FRS interest rates from June to November 2024. Food prices on the international market have reversed the downward trend and are on a slight upward trend. Natural gas prices have also periodically risen due to increased purchases in Asia, which has contributed to lower supplies for Europe. However, gas stocks in Europe are still at peak levels after a mild winter season and falling industrial gas consumption. Economic growth continues to be globally dispersed. For example, statistical data show that the US economy is in very good shape, which will allow the FRS to maintain high rates for a while longer. In Europe, economic growth is weak after the constant crises of recent years. In the region, the economic growth continues to be disrupted by the aftermath of the war in Ukraine.

2.1 World economy, financial and commodities markets

Chart 2.1: Development of the PMI indexes



Source: Markit

PMI indexes denotes a gradual improvement in global economic activity. In addition to the fact that all indices in major economies are above the benchmark level of 50, in March 2024 inclusive the composite PMI for the euro area was 50.3, after more than 9 months of being below the benchmark. On the one hand, interest rates continue to be at their highest levels in recent years, leading to tempered consumer demand. The production sector, particularly in the euro area, is facing the consequences of rising production costs and deteriorating supply and distribution chains. At the same time, heightened tensions in the Middle East and the need for sea carriers to circumvent the Suez Canal are further contributing to rising logistics and transportation costs. On the other hand, the services sector is benefiting from the full recovery from the COVID-19 pandemic (Chart 2.1).

In the early months of 2024, the **US dollar** appreciated against other internationally traded currencies due to the postponement of interest rate cuts by the FRS. Since July 26, 2023, the range of FRS interest rates has been between 5.25-5.5% (Chart 2.2), and annual inflation in the US has fallen to 3.2% in February 2024. However, in March 2024, annual inflation in the US rose to 3.5%. At the same time, the unemployment rate rose to 3.8% in March 2024, but this corresponds to a low level compared to historical data. Since the US economy is in very good shape, even with tight monetary policy, both the FRS rhetoric and financial market

expectations have delayed the timing of the start and magnitude of the cut in FRS interest rates.

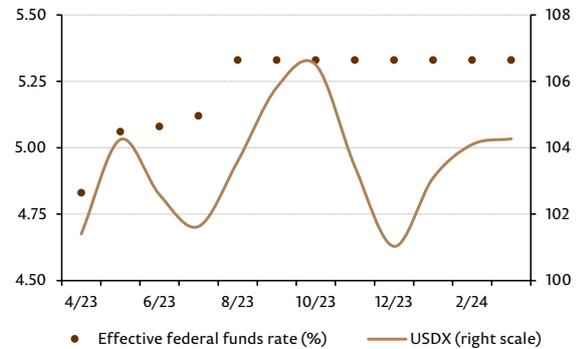
The single European currency followed a depreciating trend against the US dollar in the first months of 2024, falling as low as EUR/USD 1.06 in mid-April 2024. The reason for the depreciation of the euro was the large amplitude of divergence between the monetary policy of the ECB and the FRS. The European Central Bank looks set to cut interest rates ahead of the Federal Reserve, this after the ECB officials reaffirmed that they were not deterred by the more cautious outlook in the United States, where high inflation figures prompted a major reassessment of forecasts. This leads traders to bet that ECB policymakers will cut interest rates by 0.25 percentage points in June 2024 (Chart 2.3).

In the first months of 2024, the **Russian ruble** has held steady at slightly above USD/RUB 90, as the external conjuncture remains still favorable for the ruble: Brent oil prices have strengthened above USD 90/barrel and the latest round of US sanctions against Russia were not as severe as they could have been. However, the longer-term trend for the Russian ruble is depreciation due to purchasing power parity.

Oil quotations rose steadily in the first months of 2024 as a result of expectations of OPEC+ production cuts, attacks on Russian refineries, Chinese production data and heightened geopolitical tensions in the Middle East (Chart 2.4). At the last OPEC+ meeting, it was decided to extend production cuts of 2.2 million barrels per day until the end of June 2024, which could lead to a summer oil supply decrease in the northern hemisphere. Drone strikes in Ukraine have affected several Russian oil refineries. Oil quotations have also been boosted by signs of rising demand from China and the United States, the world's biggest oil-consuming countries, and growing concerns about escalating conflict in the Middle East that could affect deliveries from the region. Iran retaliated with more than 300 drones and rockets against Israel for bombing the Iranian embassy in Syria. At the same time, higher demand for bunkering due to longer trips around the Red Sea has contributed to the increase in oil quotations. After several companies in India refused to buy Russian oil for fear of sanctions, these volumes were redirected to China, which again narrowed the difference in prices between Urals and Brent (Chart 2.4).

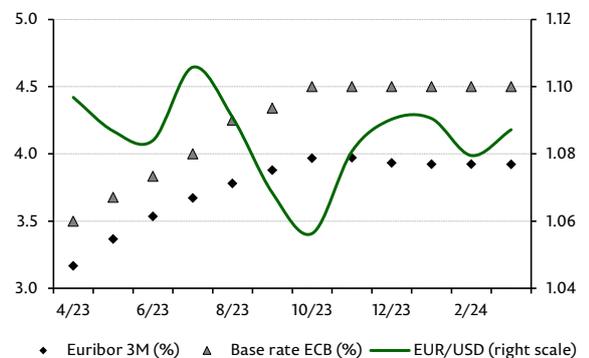
European natural gas prices have remained close to USD 300/1,000 cubic meters in the first months of 2024. Although Europe ended the winter season with record levels of natural gas reserves, market prices are highly sensitive to the smallest supply shocks. At the end of March 2024, considered the end of the winter season by the industry, gas reserves in Europe constituted 58.7% of full capacity, according to GIE. This is about 3 percentage points higher than the previous record set last year. The abundant deliveries give the EU a comfortable head start on replenishing stocks in the summer, and analysts warn that Europe may have to cut liquefied natural gas imports in the coming months to avoid filling capacity too early. At the same time, natural gas prices in Europe have risen due to Russian Aerospace Forces attacks on facilities in Ukraine's power and gas industries. Ukraine is considered as a gas storehouse for European traders as it has more capacity than any other country on the continent, at the same time, following Russia's attack on Ukrainian gas

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



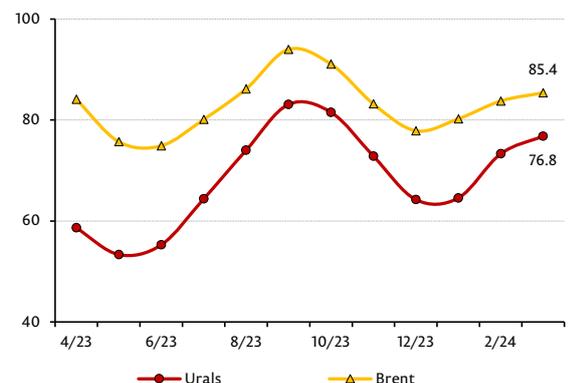
Source: FRS, Bloomberg
 *DXY is an index calculated by the weighted geometric average of the value of the US dollar against a basket of currencies: Euro – 57.6%, Japanese yen – 13.6%, Pound sterling – 11.9%, Canadian dollar – 9.1%, Swedish krona – 4.2%, Swiss franc – 3.6%

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



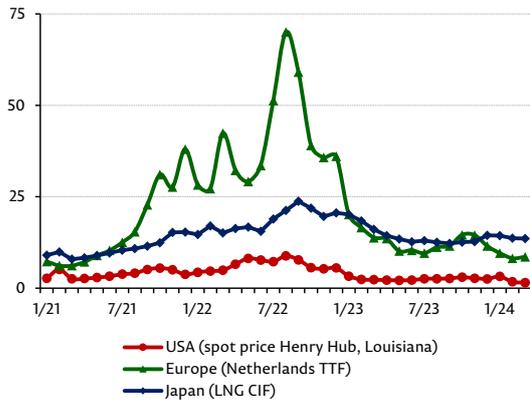
Source: ECB

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



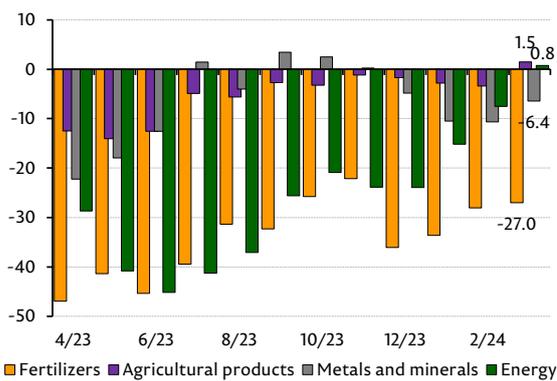
Source: World Bank, Ministry of Finance of the Russian Federation

Chart 2.5: International natural gas price development (USD/MMbtu)



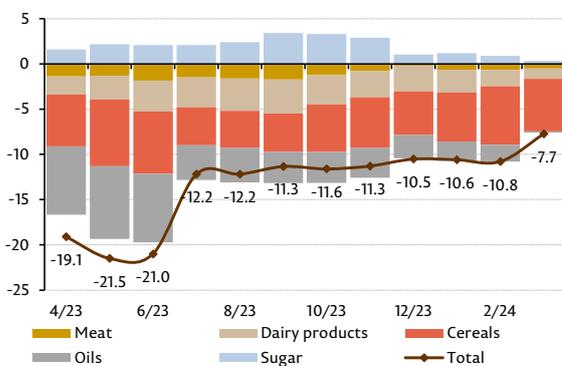
Source: World Bank

Chart 2.6: Annual growth rate in world price indices (%)



Source: World Bank, NBM calculations

Chart 2.7: Annual growth rate in world food prices (FAO index)(%)



Source: FAO, NBM calculations

infrastructure foreign companies might be more cautious about the possibility of using it (Chart 2.5).

In the first months of 2024, **international market price indexes** calculated by the World Bank recorded negative or weakly positive annual growth rates. Food prices and energy prices in March 2024 increased by 1.5% and 0.8%, respectively, compared with March 2023. At the same time, fertilizer prices continue to register strongly negative annual rates (-27.0% in March 2024), even after two years of strong declines. Metal prices have also recorded negative annual rates (-6.4% in March 2024) due to declining industrial production volumes in Europe and problems in the construction sector in China (Chart 2.6).

International food prices have started to rise in monthly terms, but in annual terms they continue to fall, albeit at increasingly slower rates due to the removal of the base year effect. Thus, in March 2024, the FAO index recorded a monthly increase of 1.1%, of which the oils group increased by 8.0%, dairy – by 2.9%, and the meat group recorded an increase of 1.7%. Cereal group fell by 2.6% and sugar group by 5.4%. Global wheat export prices continued to fall, mainly due to strong export competition between the European Union, the Russian Federation and the United States. In contrast, maize export prices rose marginally due to increased buying interest, especially from China, amid logistical difficulties in Ukraine and elsewhere. Prices of sunflower and rapeseed oil on the international market recovered amid rising global import demand. In March, international cheese prices rose the most in the dairy group, reflecting steady import demand from Asia, higher domestic sales in Western Europe and seasonally lower production in Oceania. Poultry meat prices on the international market rose in March, supported by steady import demand from major importing countries, despite ample supplies, largely supported by the reduction of avian influenza outbreaks in major producing countries. Pork prices also rose, largely reflecting higher domestic demand ahead of the Easter holidays, despite increased supplies, especially in Western Europe. Sugar prices declined in March following an upward revision of the sugar production forecast in India and an improvement in the pace of sugar crop growth in Thailand in the final stage of the season. However, lingering concerns about Brazil's drought-affected harvest continued to exacerbate seasonal trends and limit price declines. In March 2023, the FAO index registered an annual decline of 7.7%, of which the cereals group fell by 20.0%, dairy – by 8.2%, meat group – by 1.5%, oils group by 0.9%, and sugar group rose by 4.8% (Chart 2.7).

2.2 Evolution of important economies

In the fourth quarter of 2023, the gross domestic product of the **United States** increased by 0.8% compared to the previous quarter and 3.1% from the level in the similar period a year earlier (in seasonally adjusted terms). Overall, the US economy grew by 2.5% in 2023. In the first quarter of 2024, the US industrial production declined by 0.1% compared to the same period of the previous year. Meanwhile, in March 2024, the registered unemployment rate in the US increased to 3.8%, although it remains more than minimal compared to historical values in

previous years. In March 2024, consumer price increased by 0.6% compared to February 2024 and by 3.5% compared to March 2023. The persistence of the high level of the annual inflation, especially core inflation, amid expectations of a rapid decline, has postponed the timing of the start of the decline in interest rates by the FRS.

The economy of **United Kingdom** fell in the fourth quarter of 2023 by 0.3% compared to the previous quarter and by 0.2% compared to the fourth quarter of 2022. Overall, in 2023, the UK economy narrowly avoided recession (GDP in 2023 was +0.1%). For 2024, however, the outlook is brighter, expecting economic recovery favored by lower energy resource prices, a more stimulative monetary policy and productivity gains from artificial intelligence (AI) thanks to the UK's robust digital infrastructure, skilled workforce, innovation ecosystem and regulations. Annual inflation in the United Kingdom fell to 3.2% in March 2024.

In the fourth quarter of 2023, the economic activity in the **euro area** stagnated both compared with the previous quarter and with the similar quarter of 2022. Overall, the euro area economy grew marginally by 0.4% in 2023. In February 2024, industrial production in the euro area increased by 0.8% compared with the previous month, but was 6.4% lower than in February 2023. The unemployment rate in the euro area has remained at historically low levels in recent months and was 6.5% in February 2024. Consumer prices rose more moderately in March 2024, with annual harmonized annual inflation registering a positive monthly rate of 0.8% and a 2.4% increase on an annual basis.

In the fourth quarter of 2023, the gross domestic product of **Germany** fell by 0.3% (in seasonally adjusted terms) compared to the previous quarter, and by 0.4% compared to the same period of 2022 on a gross series basis. Overall, the German economy contracted by 0.3% in 2023. In January-February 2024, industrial production contracted compared with the same period in 2023 by 5.6% on the seasonally adjusted series, due to higher energy costs and lower domestic and foreign demand.

The gross domestic product of **France** grew by 0.1% (in seasonally adjusted terms) in the fourth quarter of 2023 compared to the previous quarter, and by 0.7% on a gross series basis compared to the same period of 2022. Overall, France's economy grew by 0.7% in 2023. In January-February 2024, industrial production increased insignificantly compared to the same period in 2023, by 0.2% on the seasonally adjusted series.

In the fourth quarter of 2023, the gross domestic product of **Italy** increased by 0.2% compared to the previous quarter and by 0.4% compared to the same period of 2022. Overall, Italy's economy grew by 0.9% in 2023. In January-February 2024, industrial production contracted compared with the same period of 2023 by 3.4% on the seasonally adjusted series.

The gross domestic product of **China** rose by 5.3% in the first quarter of 2024 compared to the previous year's level, beating expectations as Beijing attempts a revival of the world's second-largest manufacturing-based economy. Industrial output rose by 6.1% in the first quarter of this year from a year earlier, retail sales rose by 4.7%, while industrial producer prices fell by 2.7% as deflationary pressures continued to weigh on the manufacturing sector. During the analyzed period, fixed investment rose by 4.5%

from a year earlier, supported by a 9.9% increase in investment in production, which was offset by a 9.5% decline in investment in real estate. Exports were also weaker in US dollar terms over the period, but analysts believe that the volumes continued to grow as manufacturers captured a large share of the global market. Consumer prices fell by 0.9% in March 2024 from the previous month, and were only 0.1% higher than in March 2023.

2.3 Evolution of neighbouring economies and main trading partners

In the fourth quarter of 2023, the gross domestic product of **Romania** decreased by 0.5% (in seasonally adjusted terms) compared to the previous quarter, and compared to the same period of 2022, on a gross series basis, it increased by 1.0%. Overall, Romania's economy grew by 2.1% in 2023. In January-February 2024, industrial production contracted by 1.8% on the gross series and by 3.1% on the seasonally adjusted series, compared with the same period of 2023. In March 2024, consumer prices in Romania increased by 0.4% from the price level in the previous month and by 6.6% from the price level in March 2023.

In the fourth quarter of 2023, the gross domestic product of **Poland** stagnated (in seasonally adjusted terms) compared to the previous quarter, and compared to the same period of 2022, on a gross series basis, it grew by only 1.5%. Overall, in 2023, Poland's economy narrowly grew by 0.2%. In January-February 2024, industrial production increased by 1.0% compared to the same period of the previous year. In March 2024, consumer prices increased by 0.2% from the previous month and were 2.0% higher than the price level in March 2024.

The gross domestic product of **Türkiye** grew by 1.0% in this period compared with the previous quarter (in seasonally adjusted terms) and by 4.0% compared with the similar quarter of 2022. Overall, Türkiye's economy grew by 4.5% in 2023. The annual rate of inflation increased to 68.5% in March 2024, although interest rates rose significantly to 50.0% as of March 22, 2024. In the first months of 2024, the Turkish lira continued to depreciate to an average of USD/TRY 31.93 in March 2024, which is 10.0% more than the average in December 2023. Although the Turkish authorities are trying to normalize the macroeconomic situation, geopolitical tensions in the Middle East are reducing the attractiveness of investment in the region.

The economy of the **Russian Federation** grew by 1.1% (in seasonally adjusted terms) in the fourth quarter of 2023 compared to the previous quarter and by 4.9% compared to the same period of 2022. Overall, the Russian Federation's economy grew by 3.7% in 2023. In the January-February 2024 period, industrial production grew on an annualized basis by 6.6% and retail trade by 10.7%. Against the backdrop of the cumulative effect of the depreciation of the Russian ruble, consumer prices in the Russian Federation continued to rise in March 2024 by 0.4% compared to the previous month and by 7.7% compared to March 2023.

In the quarter under review, the gross domestic product of **Ukraine** fell by 2.4% compared to the previous quarter (in seasonally adjusted terms), in annual terms it grew by 4.7%. Overall, in 2023, Ukraine's economy grew by 5.3% and industrial production grew by 5.9%, but taking into account the destruction caused by the war, this increase is tiny to reach the pre-war production volumes. At the same time, statistics and forecasts for Ukraine's economy continue to be bleak as the war drags on and has greatly damaged industrial infrastructure and shipping. In January-February 2024, the export of commodities increased by 5.0%, while the import of commodities decreased by 1.4% compared to the same period of the previous year. Consumer prices followed the regional trend of moderation, with 0.5% inflation in March 2024 and 3.2% higher consumer prices in Ukraine compared to March 2023.

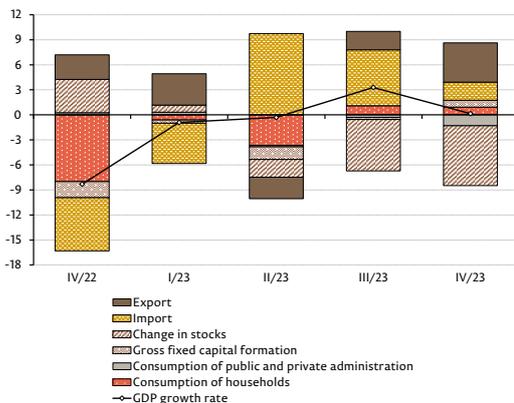
Chapter 3

Economic developments

3.1 Demand

In the fourth quarter of 2023, the GDP recorded an insignificant annual growth, only 0.2% above the level in the corresponding period of the previous year. The modest dynamics of economic activity was mainly supported by the rich harvest in the agricultural sector in 2023, which created conditions for increased exports of agri-food products. At the same time, some developments in the communications, social services, accommodation and food services sectors should also be mentioned. However, domestic demand continued to be modest, signaled by the non-essential increase in household consumption and investment, in a context of mediocre real income growth and heightened uncertainty in the region. Less optimistic signals regarding economic activity are also confirmed by the negative dynamics of industry, construction, trade and transportation. At the same time, the seasonally adjusted series reflects zero GDP dynamics compared to the third quarter of 2023. The NBS revised the annual rates for the previous periods. Thus, the values of -2.4%, -2.2%, and 2.6% for the first, second, and third quarters have been revised upward to -0.9%, -0.3%, and 3.3%, respectively. As a result, the GDP increased by 0.7% in 2023 compared to 2022. In this context, similar to the previous year, aggregate demand pressures on prices exerted a disinflationary impact. At the same time, the NBS updated the GDP for 2022. As a result, GDP declined by -4.6% compared to 2021, which was 0.4 percentage points higher than the previous rate (-5.0%).

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



Source: NBS, NBM calculations

From a utilization perspective (Chart 3.1), in the fourth quarter of 2023, household consumption continued, albeit at a slower pace, the positive dynamics observed in the third quarter of 2023, increasing by only 1.1% compared to the fourth quarter of 2022 and generating a positive impact of 0.9 percentage points on GDP dynamics. The minor increase in consumption is driven by the relatively modest evolution of household disposable income in real terms. In the fourth quarter of 2023, the final consumption of public administration decreased by 8.2%, generating a negative impact of 1.6 percentage points on GDP dynamics. Investment, in the context of continued heightened uncertainty in the region, caused a negative impact of 6.3 percentage points on GDP dynamics. In terms of structure, this was determined by the negative contribution of the change in stocks subcomponent (-7.2 percentage points), while gross fixed capital formation increased by 4.0% and caused a positive impact of about 0.8 percentage points. In the context of the rich harvest in agriculture, exports, in real terms, increased by 11.9% and generated a positive impact of 4.7 percentage points. A positive impact (2.2 percentage points) on GDP dynamics in the fourth quarter of 2023, which mitigated some of the aforementioned negative contributions, was driven by a 3.1% decline in imports.

Household demand for consumption

In the second half of 2023, household consumption recorded a positive dynamics, after declining in the previous periods.

In this regard, the annual growth rate of household final consumption in the fourth quarter of 2023 was 1.1%, 0.2 percentage points lower than in the third quarter of 2023. However, in the fourth quarter of 2023, expenditure on the purchase of services decreased by 1.4% and expenditure on the purchase of goods – by 0.4% compared to the same period of the previous year (Chart 3.2). Their negative contribution was, however, mitigated by the positive impact of the strong development of the subcomponent of the purchase of goods and services by non-residents in the economic territory of the country.

From the perspective of the main sources of consumption financing, the positive but still modest growth in consumption was mainly driven by the fall in real terms in remittances.

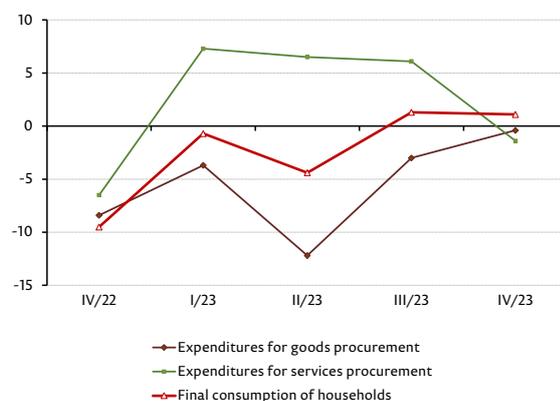
In this regard, remittances in USD, in the fourth quarter of 2023, contracted by 5.8% compared to the same period of the previous year, causing a pronounced negative impact (Chart 3.3) on the sources of consumption financing, which was exacerbated by the appreciation trend of the exchange rate, as well as by the increase in prices. On the other hand, the increase in the wage fund and credit generated a positive impact on the main sources of consumption financing and created preconditions for an increase in consumption over the reference period.

Public sector

According to the data provided by the Ministry of Finance, during the first quarter of 2024, the national public budget revenues amounted to MDL 25.3 billion, 5.8% above the level accumulated in the same period of 2023 (Chart 3.4). The major share of budget revenues was accrued from taxes and duties, which accounted for 64.1%. Compulsory state social insurance contributions and mandatory health insurance premiums accounted for 30.6%, and the share of other revenues and grants – 4.1% and 1.2% of total budget revenues, respectively.

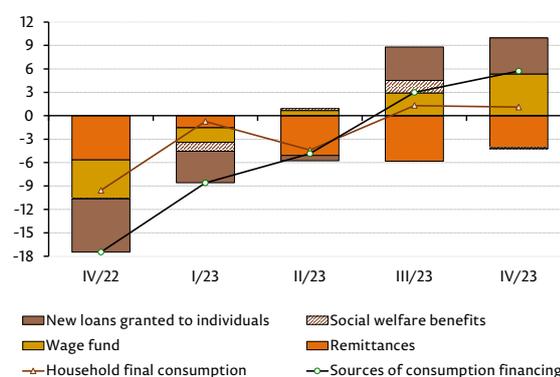
National public budget expenditures in the first quarter of 2024 totaled MDL 27.7 billion, an increase of 6.7% compared to the same period of 2023. Out of total expenditures, the largest share was accounted for social protection expenditures – 42.3%, education accounted for 16.1%, and health protection – 15.3%.

Chart 3.2: Real developments in household final consumption (% , compared to the previous year)



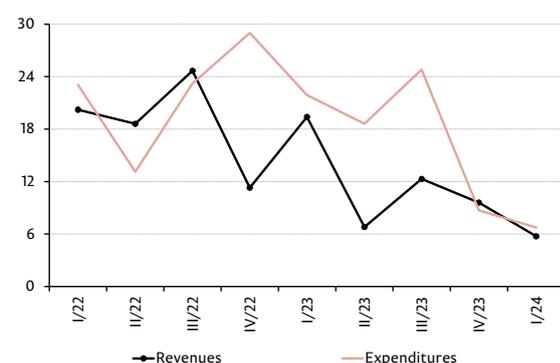
Source: NBS

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



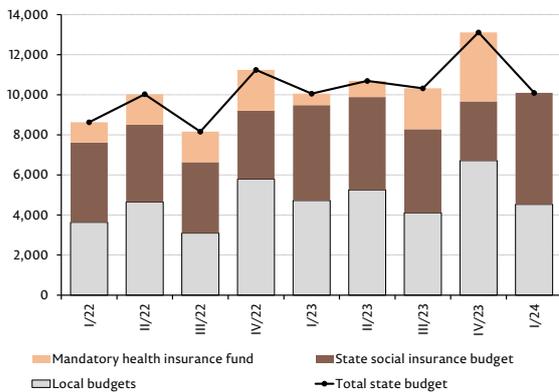
Source: NBS, NBM calculations

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



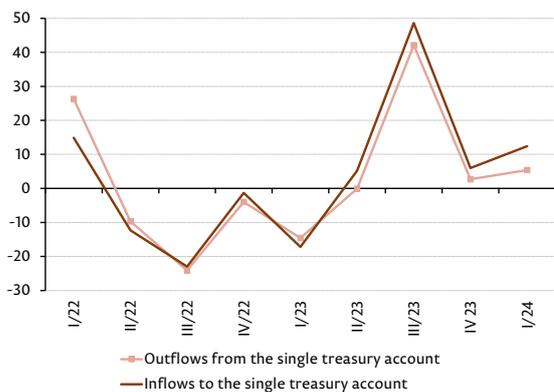
Source: Ministry of Finance

Chart 3.5: Development of budgetary transfers (MDL million)



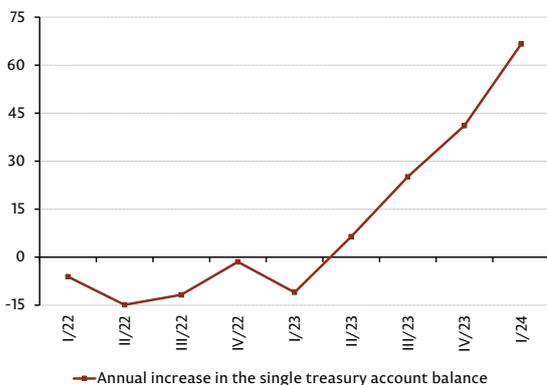
Source: Ministry of Finance

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



Source: NBM

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



Source: NBM

It should be noted that during the reporting period, transfers from the state budget (SB) to the state social insurance budget (SSIB) and local budgets (LB) amounted to MDL 10.1 billion, up by 0.4% compared to the same period of 2023. In the first quarter of 2024, there were no transfers from the state budget to the mandatory health insurance fund (MHIF) (Chart 3.5). The major share of transfers were directed to SSIB – 55.1% of total transfers, transfers to local budgets accounted for about 44.9%.

In this context, in the first quarter of 2024, the execution of the national public budget resulted in a deficit of MDL 2.3 billion. In the similar period of 2023, the execution of the national public budget resulted in a deficit of about MDL 2.0 billion. The balances of the national public budget accounts as of March 31, 2024 amounted to MDL 9.3 billion.

In the first quarter of 2024, the single treasury account (STA) was characterized by positive annual rates of transfers to the account and payments, higher than in the previous quarter (Chart 3.6). As a result of inflows and outflows, the STA balance on March 31, 2024, amounted to around MDL 10.2 billion, recording an annual increase of 66.6% (Chart 3.7). At the same time, at the end of the reporting quarter, the balance of the Government's foreign currency deposit account with the National Bank of Moldova amounted to the equivalent of MDL 0.9 billion, compared to MDL 1.3 billion on December 30, 2023.

State debt

As of March 31, 2024, the balance of state debt of the Republic of Moldova amounted to about MDL 105.8 billion, in relation to GDP¹⁷, it amounted to 34.0% (Chart 3.9). In annual terms, the state debt recorded a nominal increase of 9.5% (Chart 3.8), as a result of the increase in internal state debt (with a positive contribution of 7.5 percentage points) and external state debt recalculated in national currency (with a positive contribution of 2.0 percentage points). State debt, as of March 31, 2024, consisted of 60.2% external state debt and 39.8% internal state debt.

As of March 31, 2024, the balance of external state debt amounted to about USD 3,609.5 million, higher than at the end of March 2023 by USD 256.7 million or 7.7%. Recalculated in national currency, the external state debt balance amounted to about MDL 63.7 billion (20.5% in GDP¹⁷), (Chart 3.9).

At the end of March 2024, internal state debt amounted to about MDL 42.1 billion (13.5% in GDP¹⁷), (Chart 3.9), higher than on March 31, 2023 by 20.7% (Chart 3.8). The increase in internal state debt was driven by state securities (SS) issued on the primary market, the volume of which increased by 36.9%. As a result of these developments, internal debt consisted of SS issued on the primary market (67.0%), SS issued for the enforcement of state guarantees (27.9% of the total) and converted SS (5.1%).

¹⁷GDP estimated by the NBM.

Primary market for state securities (SS)

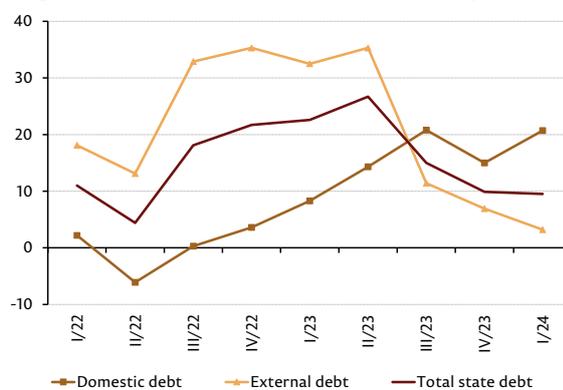
During the first quarter of 2024, the Ministry of Finance put into circulation state securities totaling MDL 8,976.0 million, 5.0% more than the initial supply volume. Compared to the previous quarter, the primary market of state securities showed an increase in demand from licensed banks (Chart 3.10). The demand of banks was 95.0% higher than the supply of the Ministry of Finance, amounting to MDL 16,675.6 million.

During the reporting period, the average effective interest rates on 91-day, 182-day and 364-day maturity treasury bills declined by 1.1 percentage points, 1.8 percentage points and 1.7 percentage points, respectively, from the level recorded in the previous quarter. Average effective interest rates on government bonds with a maturity of 3 and 5 years declined compared with the fourth quarter of 2023 by 1.4 percentage points. As regards government bonds with a maturity of 2 and 7 years, the average effective interest rates declined by 1.2 percentage points and 1.7 percentage points, respectively, compared to the previous quarter.

During this period, banks maintained their tendency to invest in short-term securities, being more reserved towards long-term bonds, in particular those with maturities of 5 and 7 years (Chart 3.11).

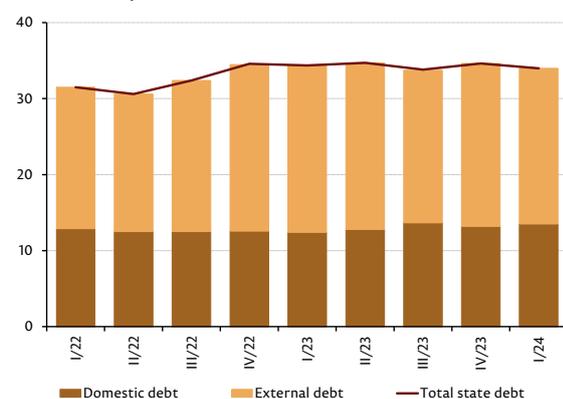
The structure of the portfolio of SS put into circulation during the reference period shows that the most demanded SS were those with a maturity of 364 days, which accounted for 49.6% of total transactions, followed by 182-day treasury bills, whose share amounted to 44.5%, and the share of 91-day treasury bills accounted for 3.8%. It should be noted that the share of 2-year government bonds amounted to 0.8%, of 3-year government bonds – 0.2%, and the share of 5-year and 7-year government bonds amounted to 1.3% and 0.02%, respectively (Chart 3.12).

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



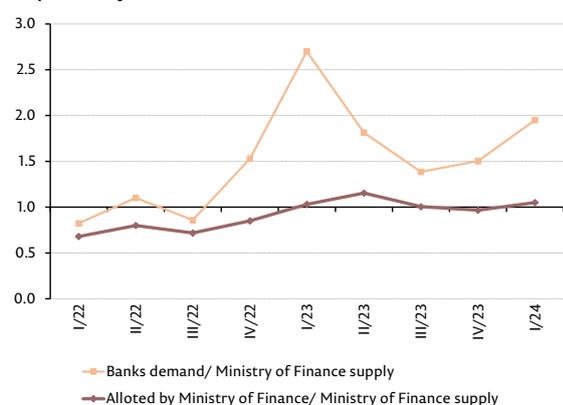
Source: Ministry of Finance

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



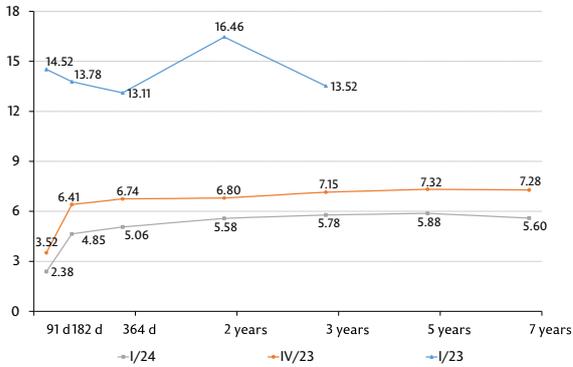
Source: Ministry of Finance

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



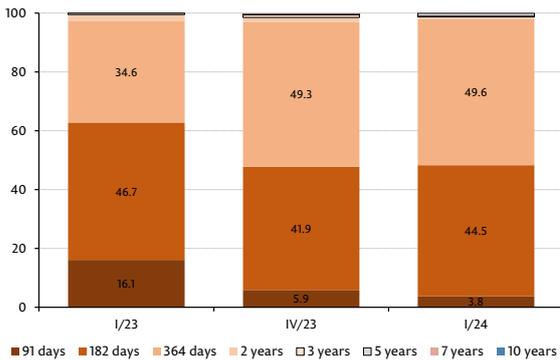
Source: NBM

Chart 3.11: SS yield curve (%)



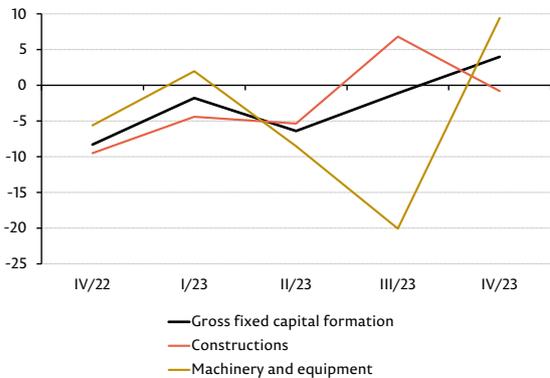
Source: NBM

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



Source: NBM

Chart 3.13: Annual investment dynamics (%)



Source: NBS

Investment demand

In the fourth quarter of 2023, the investment component generated a negative contribution of -6.3 percentage points to the dynamics of economic activity.

This development was driven by the negative contribution of -7.2 percentage points generated by the change in stocks subcomponent. Its impact was partly mitigated by the positive contribution of 0.8 percentage points as a result of the 4.0% increase in gross fixed capital formation in the fourth quarter of 2023 compared to the same period of the previous year. The positive dynamics of gross fixed capital formation was underpinned by the development of "machinery and equipment" oriented investment, which increased by 9.4%, and the "other" component, which increased by 29.1%. At the same time, the "buildings and special constructions" subcomponent decreased by 0.8% compared to the same period in 2022, mitigating some of the positive impact generated by the aforementioned subcomponents. It should be noted that, after a period of about two years, gross fixed capital formation recorded a positive dynamics in the fourth quarter of 2023.

According to the operational data presented by the NBS, in the fourth quarter of 2023, investment in fixed assets increased by 1.5%. In the structure by type of fixed assets, the subcomponents of investment in fixed assets that determined the positive development are intangible fixed assets by 1.3 percentage points, and of tangible fixed assets: "machinery, equipment and installations" – by 1.6 percentage points, "means of transport" – by 1.7 percentage points, "residential buildings" – by 1.0 percentage points and "non-residential buildings" – by 0.7 percentage points. At the same time, negative contributions were recorded from the subcomponents "engineering constructions" (-3.8 percentage points) and "other tangible assets" (-1.1 percentage points), (Chart 3.14).

From the perspective of sources of financing investment in fixed assets for the fourth quarter of 2023, the following subcomponents contributed to the positive dynamics of 1.5%: state budget funds (6.0 percentage points), budgets of administrative-territorial units (0.1 percentage points) and other sources with 0.8 percentage points. The negative impact was determined by own funds, which contributed by -4.8 percentage points, and foreign investors' funds, which contributed by -0.6 percentage points (Chart 3.15).

Net external demand¹⁸

The data on international merchandise trade presented by the NBS for the fourth quarter of 2023, as well as for the first two months of 2024, do not show conclusive signs of revival. Thus, against the backdrop of modest aggregate domestic demand, the annual rate of imports

¹⁸Quarterly data on the development of international merchandise trade of the Republic of Moldova, expressed in thousands of US dollars, have been used.

remains in the negative territory. At the same time, the revival of the agricultural sector in the second half of 2023 has created favorable preconditions for the export of agri-food products.

The annual export rate in the fourth quarter of 2023 was -2.1% or 0.8 percentage points lower than in the third quarter of 2023. However, the data for the first two months of the first quarter of 2024 place the annual export rate at a lower level (-12.5%). Thus, in the first two months of 2024, exports to EU countries generated a negative contribution to the dynamics of total exports, in contrast to the second half of the previous year, when they supported the revival of exports (Chart 3.16). It should be noted that as of 2024, Ukraine is not included in the Commonwealth of Independent States group according to the Geonomenclature of the European Union, edition 2023, thus the comparability of data has deteriorated. As a result, the share of exports to CIS countries decreased significantly from about 25% (in the first two months of 2023) to about 7% (in the first two months of 2024).

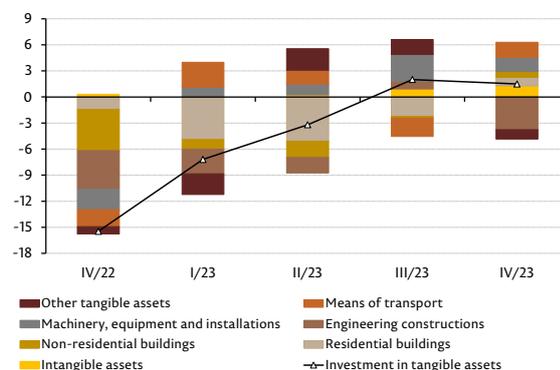
By commodity groups, in the period January-February 2024, the negative dynamics of exports was mainly driven, similar to the second semester of 2023, by the contraction of exports of mineral products (Chart 3.17). At the same time, the recovery of the agricultural sector (in the second half of 2023), after the pronounced contraction in 2022, contributed essentially to the growth of exports of agri-food products in the second half of 2023, but in the first months of this year, a moderation in their growth rates is evident.

Analyzing the evolution of exports by origin of products, it can be seen that the pronounced contraction in the first months of 2024 was driven by re-exports. Note that, in contrast to the second half of 2023 when exports of domestic products generated a positive contribution to the dynamics of total exports, in the first quarter of 2024 they no longer influenced the evolution of total exports (Chart 3.18).

In the fourth quarter of 2023, the annual rate of imports was -9.0%, 5.4 percentage points higher than in the third quarter of 2023. At the same time, data for the first two months of the first quarter of 2024 show no clear signs of a revival in imports. Structurally, the reclassification of Ukraine from the group of CIS countries affected the comparability of the data¹⁹. At the same time, imports from EU countries generated a negative contribution to the dynamics of total imports for the fourth consecutive quarter (Chart 3.18).

By commodity groups (Chart 3.19), the contraction of the annual rate of imports in the first quarter of 2024 was influenced by the dynamics of imports of "mineral products" (Chart 3.20).

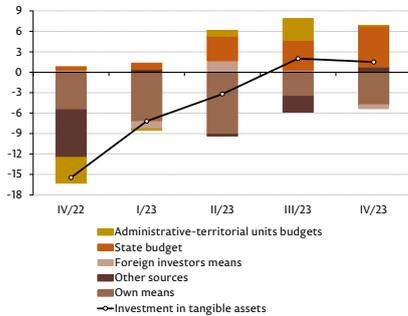
Chart 3.14: Annual investment dynamics by type of fixed assets (% , real terms)



Source: NBS, NBM calculations

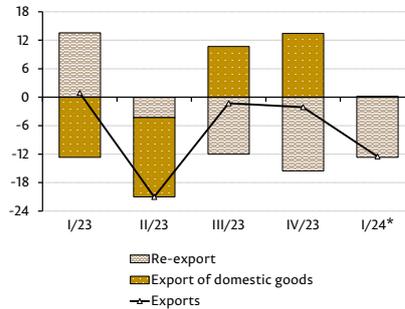
¹⁹The share of imports from CIS countries in the first two months of 2024 was 3.8% or 19.9 percentage points lower than in the same period of 2023.

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



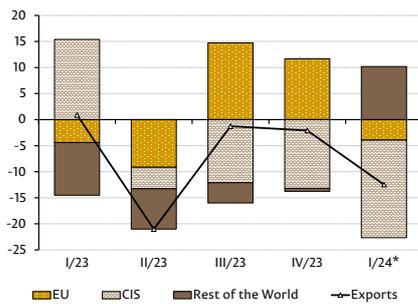
Source: NBS, NBM calculations

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



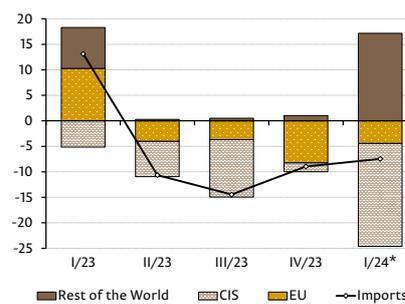
Source: NBS, NBM calculations
*January - February

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



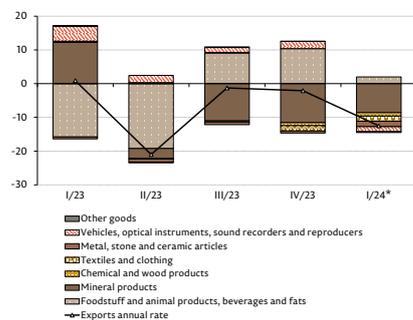
Source: NBS, NBM calculations
*January - February

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



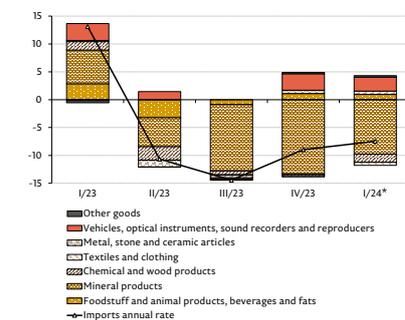
Source: NBS, NBM calculations
*January - February

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



Source: NBS, NBM calculations
*January - February

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



Source: NBS, NBM calculations
*January - February

3.2 Production

By resource categories, the GDP growth in the fourth quarter of 2023 was mainly driven by favorable agro-meteorological conditions that supported the increase in gross value added (GVA) in the agricultural sector by 17.2% compared to the same period of the previous year.

As a result, this subcomponent generated a positive contribution of 1.7 percentage points to the dynamics of GDP (Chart 3.21) over the reference period. Positive developments, but with a more modest impact, were also recorded in other sectors. Thus, GVA in accommodation and food service activities increased by 17.8%, and that in the information and communication sector – by 9.5%. Less optimistic signals regarding the economic activity are the negative dynamics of industry, trade²⁰, and transportation. In this regard, the GVA of the trade subcomponent decreased by 1.0%, generating a negative impact of 0.2 percentage points on GDP dynamics. A negative contribution of -0.7 percentage points was determined by the decrease in GVA in transportation and storage by 16.3% compared to the fourth quarter of 2022. Industry had a negative impact of 0.3 percentage points on GDP dynamics in the fourth quarter of 2023. Within it, manufacturing decreased by 6.4% and mining and quarrying by 4.4%. On the other hand, the energy industry grew by 19.3%. At the same time, real estate transactions decreased by 16.0%, generating an impact of -1.2 percentage points, while the construction sector contracted by 7.5% and made a negative contribution of 0.6 percentage points. Financial and insurance activities decreased by 1.5%. Net taxes on products increased by 2.4%.

Freight and passenger transport

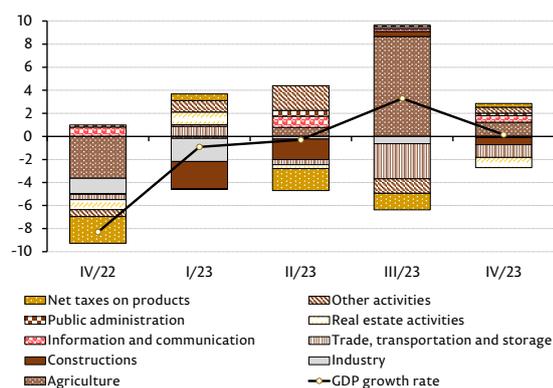
The annual rate of the volume of freight transported in the fourth quarter of 2023 recorded a level of 2.7%, 5.9 percentage points higher than in the third quarter of 2023 (Chart 3.22).

This development was mainly driven by a 25.3% year-on-year increase in the volume of freight transported by rail compared to the same period of the previous year. At the same time, the volume of freight transported by road and air decreased by 1.1 and 21.1%, respectively, compared with the fourth quarter of 2022, while freight transported by river increased by 10.9%.

More modest positive results were recorded in the passenger transport sector in the fourth quarter of 2023. Thus, the annual rate of the number of passengers transported amounted to 0.7%, however, 3.4 percentage points lower than in the third quarter of 2023 (Chart 3.23). This development was driven by the increase in annual terms of the number of passengers transported by rail and

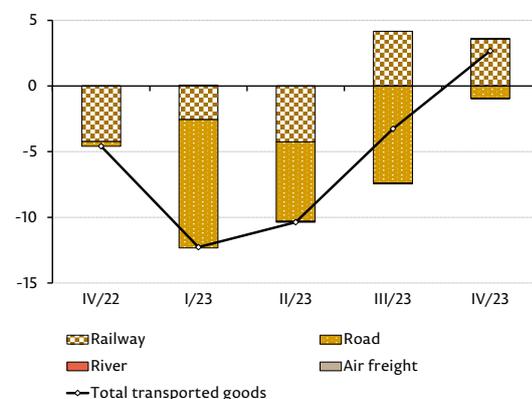
²⁰Wholesale and retail trade; maintenance and repair of motor vehicles and motorcycles.

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



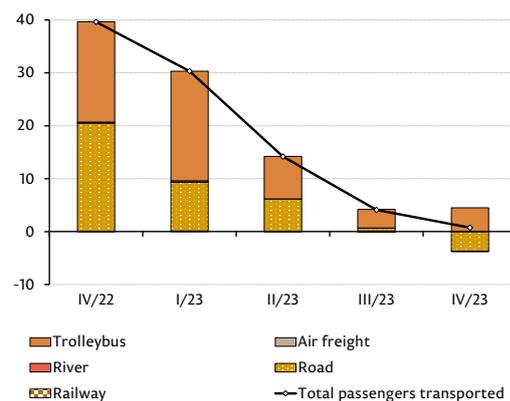
Source: NBS, NBM calculations

Chart 3.22: Development of freight transport (% , compared to the previous year)



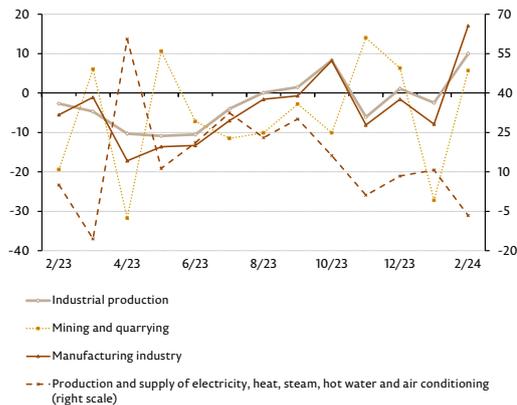
Source: NBS

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



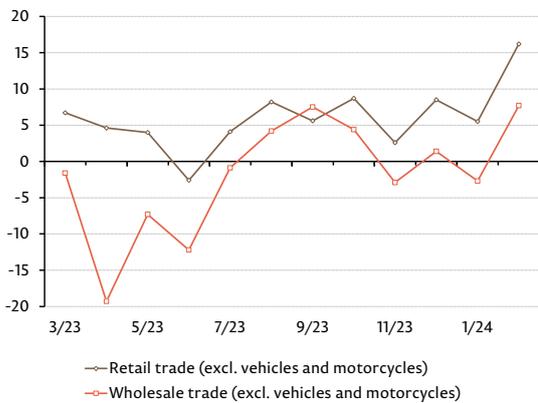
Source: NBS

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



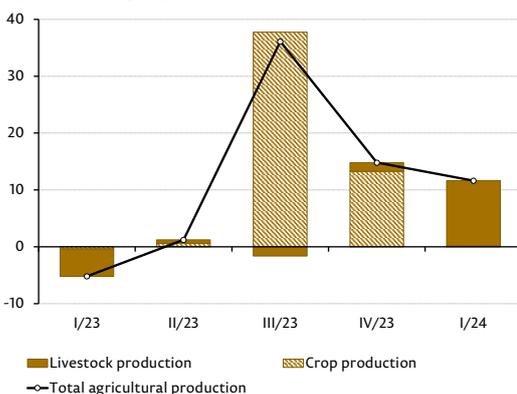
Source: NBS

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

trolleybuses by 33.2% and 6.9%, respectively, compared with the same period of the previous year. At the same time, the number of passengers transported by river, road and air decreased by 14.8%, 10.5% and 6.2%, respectively, compared to the fourth quarter of 2022.

Industrial production

In the first two months of the first quarter of 2024, the annual rate of industrial production volume registered an average level of 3.8%, 2.7 percentage points higher than in the fourth quarter of 2023 (Chart 3.24).

This dynamics was driven by the intensification of the annual growth rate of the manufacturing industry (from -0.5% in the fourth quarter of 2023 to 4.6% in the first two months of the first quarter of 2024). At the same time, the annual rate of output in the mining and quarrying industry declined from 3.4% in the fourth quarter of 2023 to -10.8% in the first two months of the first quarter of 2024. At the same time, the annual rate of output volume in the "production and supply of electricity, heat, steam, hot water and air conditioning" sector decreased by 6.5 percentage points compared to the fourth quarter of 2023, to the level of 2.1%.

Internal trade

In the first two months of the first quarter of 2024, internal retail trade (based on VAT statements²¹) recorded an average increase of 10.9%, 4.3 percentage points higher than in the previous quarter (Chart 3.25). At the same time, internal wholesale trade (based on VAT statements) recorded an average increase of 2.5% in January-February 2024, which was 1.5 percentage points higher than in the fourth quarter of 2023.

Agricultural production

In the first quarter of 2024, total agricultural production increased by 11.6% compared to the level in the similar quarter of the previous year (Chart 3.26). This dynamics was driven by an 11.7% increase in the volume of livestock production, which accounted for about 98.0% of the total agricultural output.

The strongly positive dynamics of production volume in the livestock sector²² during the analyzed period was driven by the increase in the livestock production (in live weight) by 17.3%. At the same time, the production of eggs and milk was 1.1% and 0.2% lower than that in the first quarter of 2023.

²¹https://statistica.gov.md/ro/statistici-privind-indicii-valorici-ai-vanzarilor-livrarilor-de-marfuri-si-servi-12_60432.html

²²Comparable prices.

3.3 Labour market

Labour force

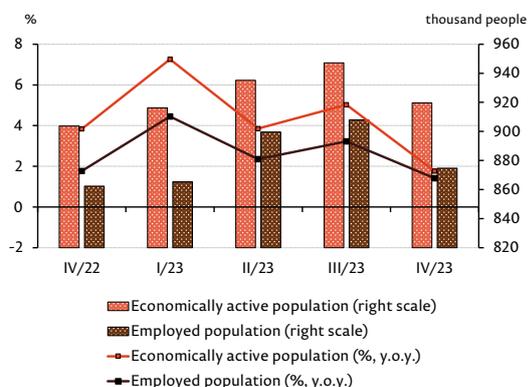
The positive annual dynamics of the economically active and employed population moderated towards the end of 2023. At the same time, the unemployment rate increased, while the underemployment rate²³ decreased slightly compared to the fourth quarter of 2022.

In October-December 2023, the labour force totaled 919.6 thousand people, being 1.8% higher than in the fourth quarter of 2022. At the same time, the employed population amounted to 874.7 thousand people, being 1.4% higher than in the same period of 2022 (Chart 3.27).

Positive dynamics were recorded in trade – 5.0%, agriculture – 5.1%, transportation and communication – 11.5% and other activities – 22.6%. At the same time, in the fourth quarter of 2023, the reduction in the employed population was observed in the industrial sector – by 10.5% and in the construction sector – by 18.9% (Chart 3.28).

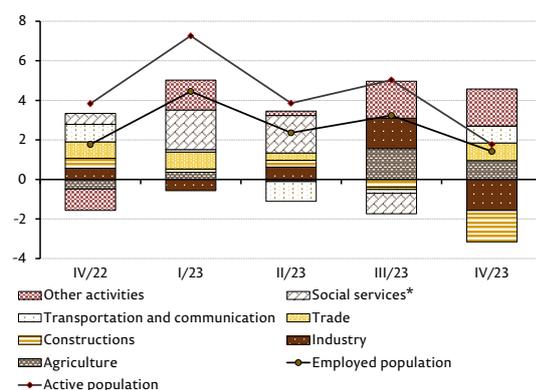
In the fourth quarter of 2023, the number of unemployed persons amounted to 45.0 thousand people, or 3.8 thousand more than in the fourth quarter of 2022, and the unemployment rate was 4.9%, 0.3 percentage points higher than in the fourth quarter of 2022 (Chart 3.29). At the same time, the underemployed population registered a slightly negative dynamics. Thus, in the fourth quarter of 2023, it decreased to 22.0 thousand people, from about 23.0 thousand people in October-December 2022, and the underemployment rate amounted to 2.5% or 0.2 percentage points lower than in the fourth quarter of 2022.

Chart 3.27: Economically active population and employed population



Source: NBS, NBM calculations

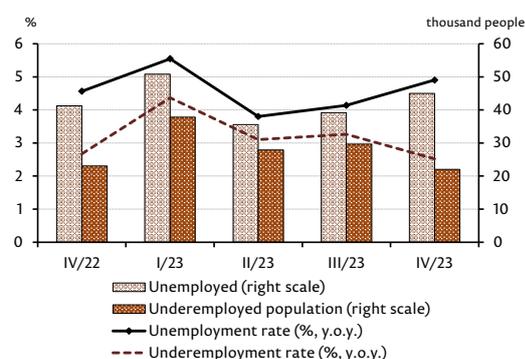
Chart 3.28: Contribution of sectors to the dynamics of employed population (percentage points)



Source: NBS, NBM calculations

* Public administration, education, health and social assistance

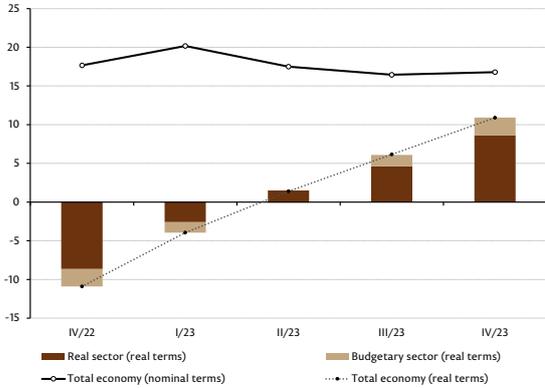
Chart 3.29: Development of unemployed and underemployed population



Source: NBS, NBM calculations

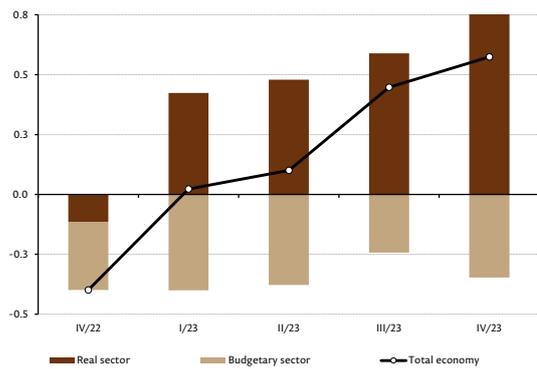
²³Underemployed persons: persons who had a job, whose total number of hours actually worked during the reference period were less than 40 hours per week, who were willing and available to work overtime hours.

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



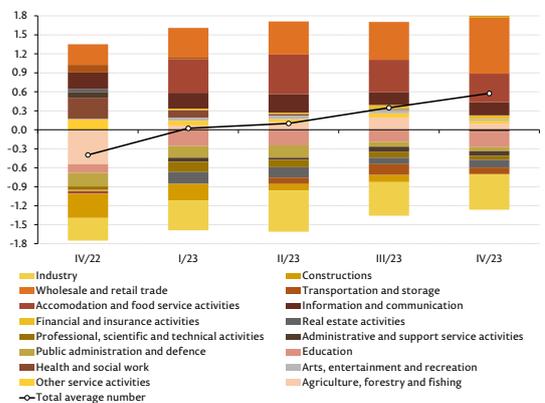
Source: NBS, NBM calculations

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

Wage fund

The wage fund per economy continued the positive dynamics observed in 2022. At the same time, in the context of declining inflation, the annual rate of the wage fund per economy in real terms has followed an upward trend.

In the fourth quarter of 2023, the wage fund per economy increased by 16.8% compared to the fourth quarter of 2022. This dynamics was mainly driven by the wage fund developments in the following sectors: trade, which contributed by 3.4 percentage points, health and social work – by 2.8 percentage points, industry – by 2.0 percentage points, education – by 1.9 percentage points, information and communication – by 1.5 percentage points, and public administration and defense – by 1.6 percentage points.

However, in real terms, deflated by CPI, the wage fund per economy increased by 10.9% compared to the same period of the previous year, as a result of developments in both the real sector of the economy and the budget sector (Chart 3.30).

In the fourth quarter of 2023, the average number of employees at the national economy level increased by 0.6% compared to the fourth quarter of the previous year. The number of employees in the real sector increased by 1.3%, with a contribution of 0.9 percentage points, while the number of employees in the budget sector contracted by -1.3%, with a contribution of -0.3 percentage points (Chart 3.31).

The distribution by sectors of the economy reveals more pronounced increases in the average number of employees, mainly in accommodation and food service activities (25.9%), information and communication (4.8%), wholesale and retail trade (5.5%) and agriculture (2.0%). On the other hand, the number of employees contracted in real estate (-7.3%), administrative services (-3.9%), professional, scientific and technical activities (-3.3%), industry (-3.3%), transportation and storage (-1.8%) and education (-1.5%), (Chart 3.32).

3.4 External sector

Current account

In the fourth quarter of 2023, the current account deficit on the balance of payments decreased by 1.1 percentage points compared to the previous quarter, constituting 11.2% as a share of GDP (Chart 3.33).

The narrowing of the balance of payments deficit was due to the decrease in the component with a negative contribution – the "balance of goods". At the same time, the components with a positive contribution: "balance of services" increased, while the "balance of secondary income" and "balance of primary income" decreased over the reference period.

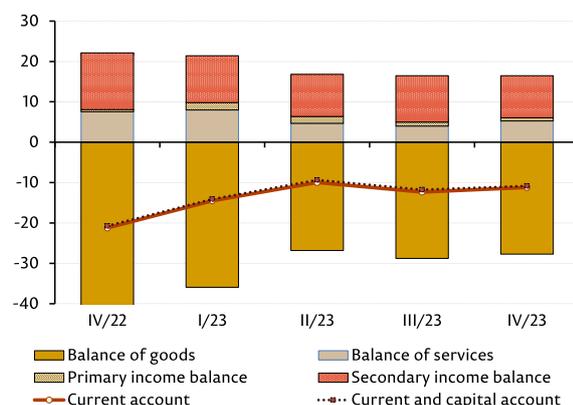
Financial account

In the fourth quarter of 2023, the financial account, as a share of GDP, recorded a level of 9.9%, 3.8 percentage points lower than in the third quarter of 2023.

At the same time, there were changes in the structure of net financial flows, but the overall picture, compared to the previous quarters, did not undergo essential changes (Chart 3.34). Thus, in the fourth quarter of 2023, the "other investments" component recorded a prominent development, thus contributing to the significant increase in net inflows of financial assets²⁴. It should be noted that the net inflow of direct investments, as a share of GDP, recorded a level of 2.4%, 0.1 percentage point higher than in the third quarter of 2023. In the fourth quarter of 2023, there were net accumulations of reserve assets (9.7% as a share of GDP), as a result, there was a decrease in net capital inflows.

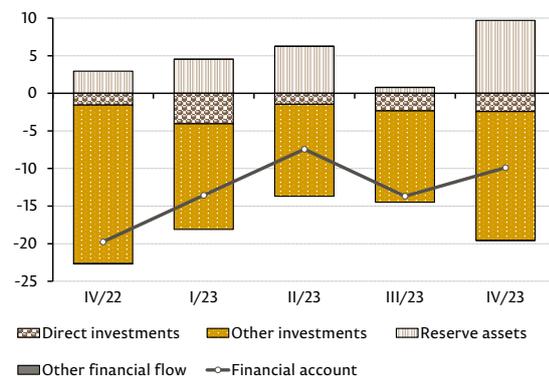
In the fourth quarter of 2023, the external debt-to-GDP ratio stood at 63.1%, 1.3 percentage points higher than in the third quarter of 2023 (Chart 3.35). There were no major changes in the external debt structure, thus similar to the previous periods, the major share in the total external debt as a share in GDP is held by the economic agents²⁵ with 28.8%, the government sector²⁶ with 23.0% and direct investments – 11.4%.

Chart 3.33: Current account share in GDP (%)



Source: NBM

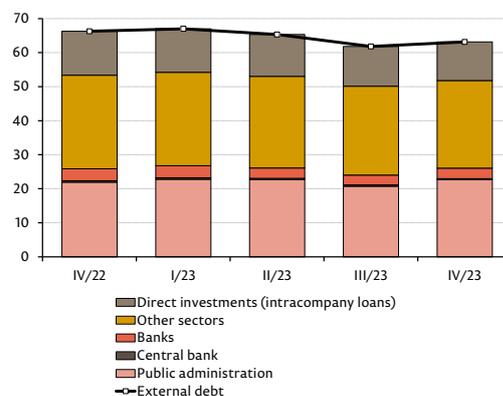
Chart 3.34: Financial account share in GDP (%)



Source: NBM

Note: (-) – net inflow of capital, (+) – net outflow of capital

Chart 3.35: External debt share in GDP (%)



Source: NBM

²⁴In the fourth quarter of 2023, the "cash and deposits" and "loans" components contributed to the significant increase in net financial inflows as a component part of "other investments".

²⁵Cumulative debt of "Banks" and "Other sectors"

²⁶Cumulative debt of "Public administration" and "Central bank"

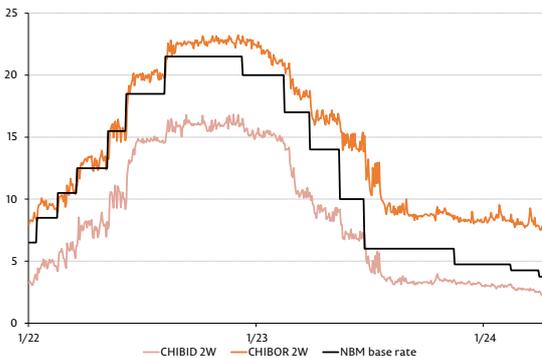
Chapter 4

Monetary policy

4.1 Monetary policy instruments

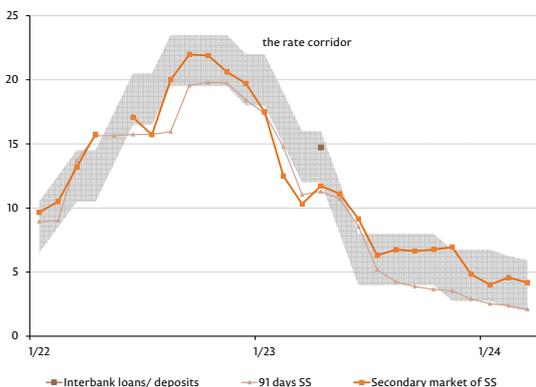
Money market interest rates development

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 rates corridor (%)



Source: NBM

During the first quarter of 2024, the National Bank lowered the monetary policy rate in two consecutive steps by 0.50 percentage points to 3.75% annually. The decisions were taken with a view to continuing the propagation of the monetary policy easing measures of the last period and aim at anchoring inflation expectations, with a view to keeping inflation within the target fluctuation range in the medium-term.

The CHIBOR yield curve remained quasi-static during the first quarter of 2024, showing only slight changes in both directions, with a steeper downward trend towards the end of the quarter. Thus, the CHIBOR 2W quotation at the end of March was slightly lower (-0.67 percentage points) than on the last day of the previous quarter, constituting 7.52% (Chart 4.1).

The trajectory of interest rates on government securities, both on the primary and secondary segments, reflected the signal sent by the NBM's monetary policy decisions. Thus, the interest rate on government securities with a maturity of 91 days, in the last month of the first quarter of 2024, was 2.11%, 0.80 percentage points lower than at the end of the fourth quarter of 2023.

On the secondary segment of the state securities market, the average interest rate on transactions amounted to 4.19% (-0.64 percentage points compared to the end of the fourth quarter of 2023), (Chart 4.2).

Money market operations

Sales of Certificates of the NBM (NBC)

The gradual amplification of the NBM's debtor position vis-à-vis the banking system was reflected in the evolution of the daily stock of NBC placements, ranging between the minimum value of MDL 9,217.1 million and the maximum value of MDL 14,092.3 million. This increase was also reflected in the average quarterly balance, which increased by MDL 2,572.8 million compared to the fourth quarter of 2023, constituting MDL 11,734.0 million (Chart 4.3).

Repo operations

Liquidity-providing repo operations were conducted weekly with a 14-day maturity at a fixed interest rate (base rate plus a margin of 0.25 percentage points) through a tender procedure without a ceiling. The repo operations balance at the end of the management quarter was zero.

Standing facilities

During the first 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 28,906.5 million, about 70.0% higher than in the previous quarter. The average daily stock of these placements increased to MDL 400.4 million, from MDL 266.5 million in the previous period. The amounts placed by banks ranged from a minimum of MDL 15.0 million to a maximum of MDL 2,000.0 million.

The total amount of overnight loans granted by the NBM to banks in the first quarter of 2024 amounted to MDL 1,790.0 million, up by about 4 times compared to the previous period. The average daily balance of overnight loans amounted to MDL 24.6 million.

In the first quarter of 2024, the NBM continued the monetary policy easing measures by applying two consecutive interest rate cuts by 0.50 percentage points. As a result, at the end of the first quarter of 2024, interest rates on standing facilities declined to 1.75% on overnight deposits and 5.75% on overnight loans.

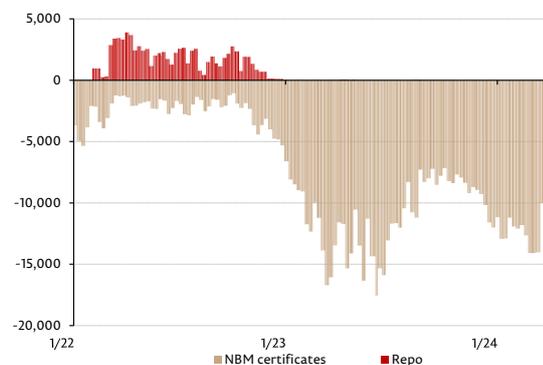
Required reserves

In the first quarter of 2024, the required reserve mechanism continued to perform its monetary control and liquidity management functions in the banking system.

During the quarter, the required reserve ratio of funds attracted in MDL and non-convertible currency was maintained at the level of 33.0% of the calculation base and the required reserve ratio of funds attracted in freely convertible currency – at the level of 43.0% of the calculation base.

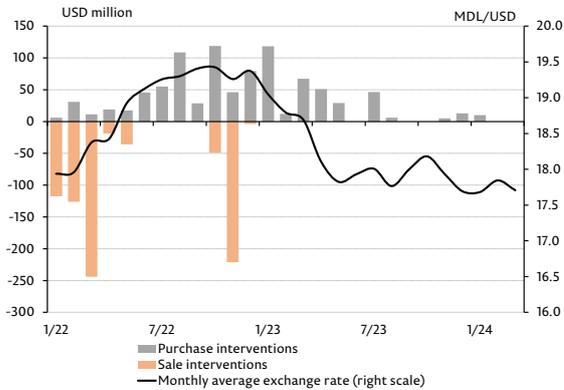
Required reserves in MDL maintained by banks in the period 16.03.2024 – 15.04.2024 amounted to MDL 24,630.7 million,

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



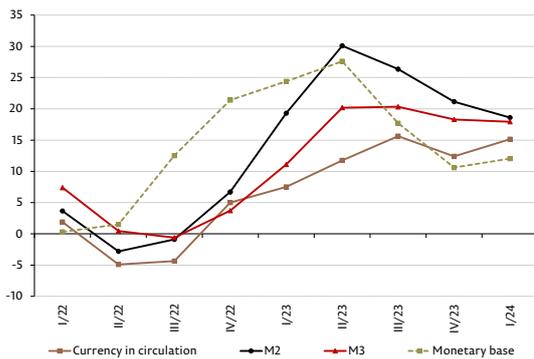
Source: NBM

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



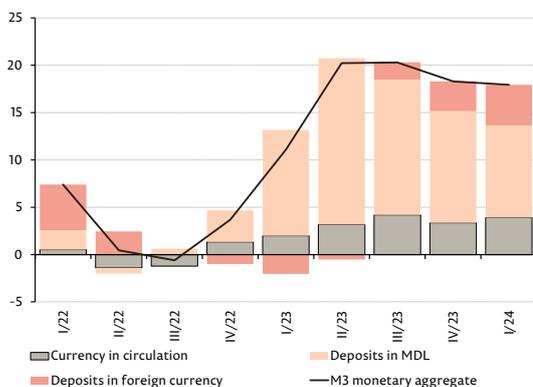
Source: NBM

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



Source: NBM

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



Source: NBM

volume higher by MDL 1,789.9 million (+7.8%) than those maintained in the period 16.12.2023 – 15.01.2024.

With regard to required reserves from funds attracted in FCC, over the implementation period 16.03.2024 – 15.04.2024, they amounted to USD 258.4 million and EUR 669.7 million. Compared with the period 16.12.2023 – 15.01.2024, both required reserves in US dollars and required reserves in euro increased by 6.0% and 4.9%, respectively.

Interventions on the domestic foreign exchange market

The NBM intervened on the domestic foreign exchange market between January and March 2024, through foreign exchange purchases.

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 exchange date, amounted to USD 11.55 million, including purchase transactions in the amount of USD 10.0 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 1.55 million (Chart 4.4).

4.2 Monetary indicators dynamics

In the first quarter of 2024, the monetary aggregates recorded more moderate growth rates, thus the M2 monetary aggregate recorded a growth of 18.6% annually (2.6 percentage points lower than in the fourth quarter of 2023), and M3 – a growth of 17.9% annually (0.4 percentage points lower than in the previous quarter). The monetary base continued to pick up at an annual growth rate of 12.0% annually (Chart 4.5).

Money supply

The moderation in the growth rate of the M3 monetary aggregate during the first quarter of 2024 was generated by a slowdown in the growth of deposits in national currency, partly offset by an acceleration in the growth of foreign currency deposits and money in circulation. All this provided the M3 monetary aggregate with an annual growth of 17.9% (Chart 4.6).

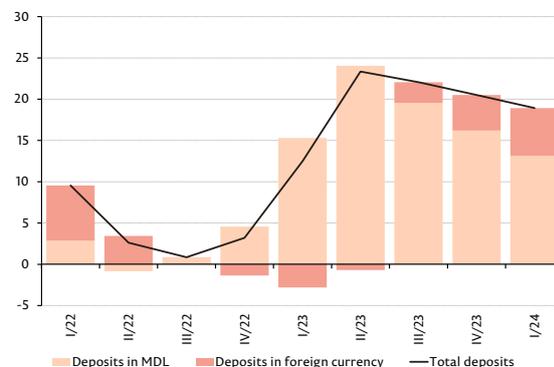
The balance of deposits in national currency increased by 20.5% annually, 6.0 percentage points below the level recorded in the previous quarter (Chart 4.8), this slowdown was caused by the decrease in term deposits of individuals. At the same time, compared with the previous quarter, there was an increase in sight deposits of both individuals and legal entities.

Deposits in foreign currency in the first quarter of 2024 expanded by 16.2% on an annual basis, 5.1 percentage points more than in the previous quarter, reflecting an acceleration in the rate of growth of sight deposits (Chart 4.11). The positive value of 19.7% of foreign currency term deposits was driven by a higher

contribution of deposits by individuals (Chart 4.12). At the same time, sight deposits in foreign currency maintained the upward momentum, increasing by 13.3% annually. This positive trend is mainly the result of the increase in sight deposits of legal entities (Chart 4.13).

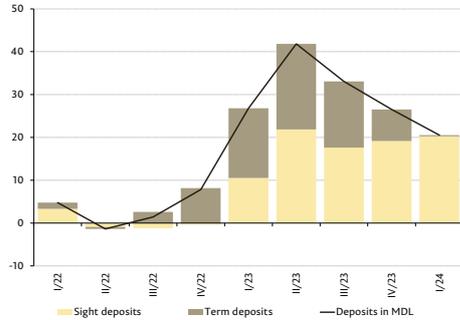
The growth rate of money in circulation at the end of the first quarter of 2024 increased by 2.8 percentage points compared with the end of the previous quarter, constituting 15.1% annually. The quarter-on-quarter average contribution of money in circulation to M3 growth increased by 0.6 percentage point from the level recorded in the fourth quarter of 2023 (Chart 4.6). The dynamics of money in circulation were driven by both the inflow of receipts and the outflow of releases at commercial bank vaults. Of the total receipts, the largest contribution came from receipts from the sale of consumer goods. At the same time, the main components of releases from commercial bank vaults were: cash releases from ATMs and POS terminals.

Chart 4.7: Dynamics of total deposit balance (% contribution of components in annual growth)



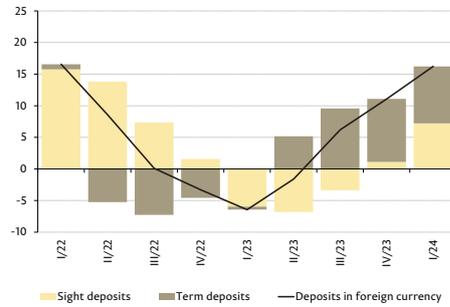
Source: NBM

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



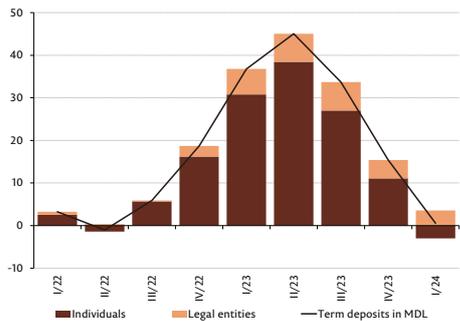
Source: NBM

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



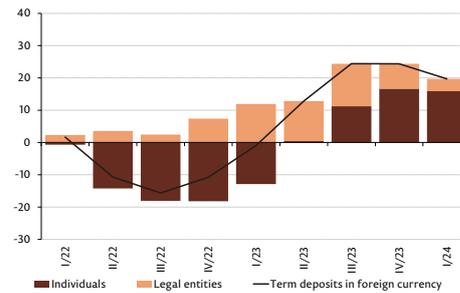
Source: NBM

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



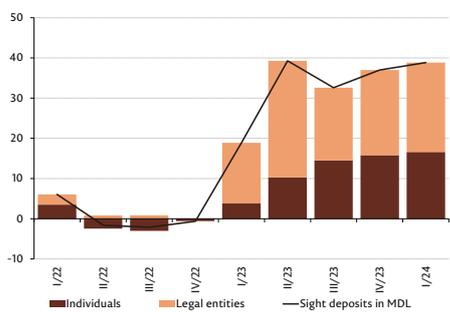
Source: NBM

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



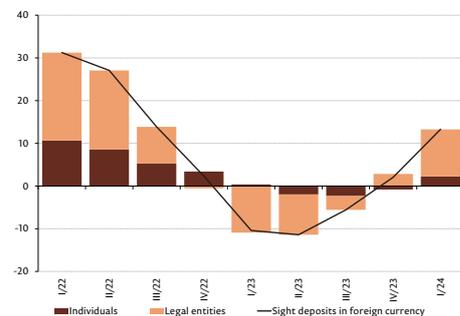
Source: NBM

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



Source: NBM

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



Source: NBM

Excess liquidity

In the first quarter of 2024, the average excess liquidity in the banking system increased by MDL 2.8 billion. It should be noted that, compared to the first quarter of 2023, the volume of excessive liquidity increased by MDL 543.0 million, reaching the average amount of MDL 12.3 billion (Chart 4.14).

Credit market

Development of loans balance granted by licensed banks²⁷

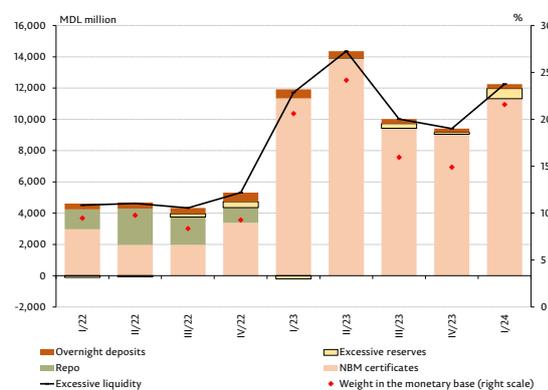
At the end of March 2024, the total balance of loans granted by the licensed banks recorded an annual increase, amounting to MDL 63,131.6 million, 6.8% higher than at the end of the first quarter of 2023 (Chart 4.15). The increase was boosted only by the component in national currency, whose annual dynamics continued its upward trend, reaching 17.7%. The annual trajectory of the balance of loans granted in MDL was influenced by the increase in the balance of loans granted to legal entities by 20.4% and to individuals by 15.8%. The increase in the MDL balance also increased the share of this component. Thus, the balance of loans granted in national currency accounted for 72.8% of the total balance of loans, 6.7 percentage points higher than at the end of the first quarter of 2023 (Chart 4.16). It should be noted that the annual rate of the balance of loans in foreign currency and attached to the exchange rate recorded negative values of 14.4% annually (Chart 4.15).

At the end of the first quarter of 2024, in the structure of the total portfolio of loans granted by the licensed banks, the largest share, analogous to the previous quarters, was accounted for by loans granted to individuals (44.1%), followed by the share of loans granted to legal entities in the trade sector (22.3%), (Chart 4.17).

Development of new loans granted by the licensed banks

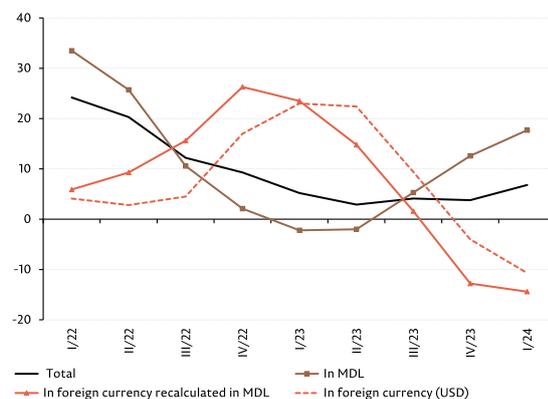
Over the first quarter of 2024, the annual dynamics of the total volume of new loans granted by the licensed banks amounted to 14.4% (Chart 4.18), in the context of the continued growth of lending in MDL. The development of new loans granted in MDL recorded an annual growth rate of 28.7%. The dynamization 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 the continuous decrease in interest rates (Chart 4.23). The major contributions came from an increase in loans granted to both individuals for consumption and real estate, as well as to legal entities in the trade sector. The share of loans granted in domestic currency in the first quarter of 2024 amounted to 75.0% of the total granted loans, compared with 66.6% in the first quarter of 2023. At the same time, new loans granted in foreign currency and attached to the foreign exchange rate, analogous to the previous quarters, recorded negative annual rates (Chart 4.18).

Chart 4.14: Excess liquidity



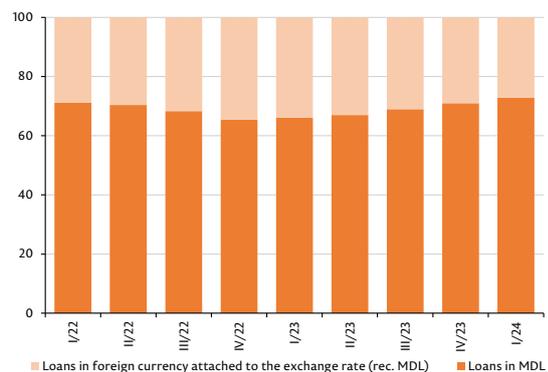
Source: NBM

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



Source: NBM

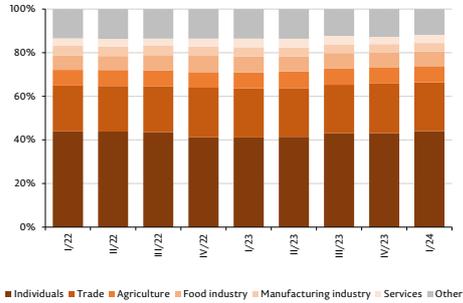
Chart 4.16: Development of loans shares, by subcomponents in the total balance (%)



Source: NBM

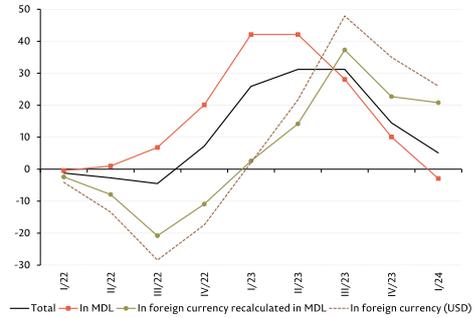
²⁷Data analysis was based on the reports ORD 01.06 "Interest rates on loans and deposits balance" submitted by the licensed banks by April 11, 2024.

Chart 4.17: Loan balance structure (% in total)



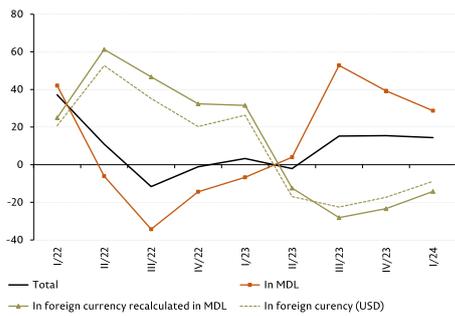
Source: NBM

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



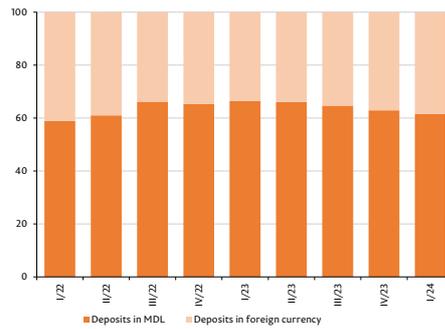
Source: NBM

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



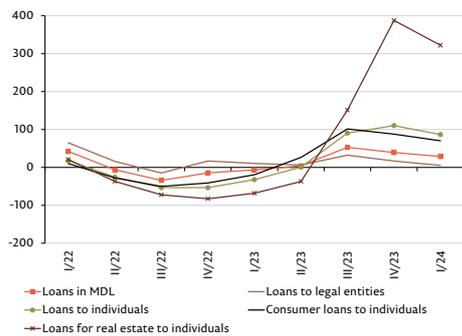
Source: NBM

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



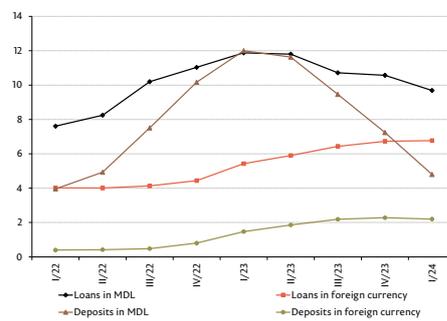
Source: NBM

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



Source: NBM

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



Source: NBM

The market of term deposits accepted by the licensed banks (deposit balance)²⁸

At the end of the reporting quarter, the total balance of term deposits attracted by the licensed banks amounted to MDL 44,937.8 million. The annual growth rate was 5.1%, with a decrease in the second quarter (Chart 4.20). The component in MDL already recorded a negative annual rate of 2.9%, as new term deposits placed by individuals shrank due to the continuous cuts in interest rates. The share of the balance of term deposits in MDL declined to 61.5% from 66.5% at the end of the first 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 20.8%.

Interest rates²⁹***Base rate development***

During the first 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 short- and medium-term inflation outlook, the Executive Board of the National Bank of Moldova, at its meetings on February 6, 2024 and March 21, 2024, decided to lower the base rate applied to the main monetary policy operations by 0.50 percentage points consecutively to 3.75% annually. These measures were adopted with the aim of easing inflationary pressures, stimulating aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflationary expectations. The decisions aim at anchoring inflation expectations, keeping 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 first quarter of 2024, the weighted average interest rate related to the balance of loans granted in MDL by the licensed banks decreased compared to the first quarter of 2023 by 2.19 percentage points and amounted to 9.69% annually (Chart 4.22), as a result of the continuous decreases in interest rates on new transactions. The weighted average interest rate related to the balance of loans granted in foreign currency continued to increase and amounted to 6.77% annually, 1.33 percentage points higher than in the first quarter of 2023.

Deposit balance interest rate development

Over the reporting quarter as a whole, the weighted average interest rate related to the balance of term deposits in national currency decreased more sharply than in the loans segment (Chart 4.22). The weighted average interest rate related to the balance of term deposits in national currency amounted to 4.80% annually,

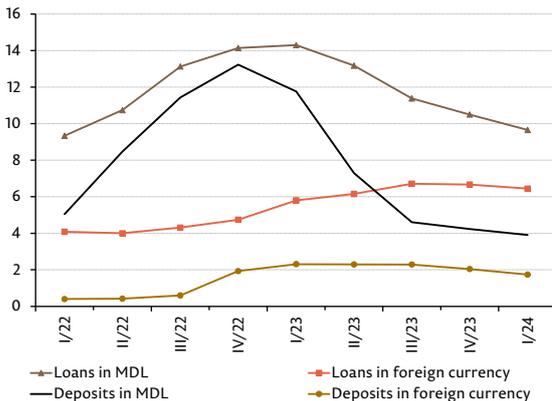
²⁸Data analysis was based on the reports ORD 01.06 "Interest rates on loans and deposits balance" submitted by the licensed banks until April 11, 2024 and does not include sight deposits.

²⁹The analysis of rates has been carried out on the basis of the reports ORD 01.06 "Interest rates on loans and deposits balance" submitted by the licensed banks until April 11, 2024 and does not include rates on sight deposits.

7.20 percentage points lower than in the first quarter of 2023. At the same time, the weighted average interest rate related to the balance of term deposits in foreign currency amounted to 2.20% annually, up by 0.73 percentage points compared to the first quarter of 2023.

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

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



Source: NBM

In the first quarter of 2024, in the domestic currency segment, weighted average interest rates on new loans and term deposits continued to decline (Chart 4.23), including under the impact of the transmission mechanism of the consecutive base rate cuts applied to the main monetary policy operations. For the quarter as a whole, the weighted average interest rate on term deposits in MDL amounted to 3.91% annually, 7.85 percentage points lower than in the first quarter of 2023 (Chart 4.23). An even more pronounced reduction was recorded by the weighted average interest rate on term deposits attracted in national currency from individuals (-8.94 percentage points compared to the first quarter of 2023) and amounted to 3.92% annually. The weighted average interest rate on term deposits attracted from legal entities also decreased and amounted to 3.86% annually.

In the first quarter of 2024, the weighted average interest rate on new loans granted in national currency amounted to 9.66% annually, 4.63 percentage points lower than in the first quarter of 2023. The decline reflected the decrease in the weighted average interest rate on loans granted both to individuals (-5.49 percentage points) and to legal entities (-4.52 percentage points). At the same time, in the segment of loans granted in foreign currency and attached to foreign exchange rates, the weighted average interest rate was 6.44% annually, higher by 0.64 percentage points compared to the first quarter of 2023.

Nominal and real effective exchange rate development

According to the values at the end of the first quarter of 2024, the nominal official exchange rate of the national currency depreciated slightly by 1.4% against the US dollar, while against the euro it appreciated by 1.7% compared to their levels recorded at the end of the previous quarter (Chart 4.24).

On average, the exchange rate of the Moldovan leu appreciated against the US dollar by 1.1% and against the euro – by 0.1%, compared with the averages of the previous quarter.

As regards the development of the currencies of countries – main trading partners, in the first quarter, only four currencies appreciated more against the US dollar compared to the Moldovan leu, which appreciated by 1.1%: the Polish zloty (+3.0%), the Pound sterling (+2.2%), the Russian ruble (+2.0%) and the Swiss franc (+1.6%). The Bulgarian leva, the euro and the Romanian leu also strengthened (+1.0% each), as did the Chinese yuan renminbi (+0.6%). At the same time, the Turkish lira (-8.4%) and the Ukrainian hryvnia (-4.2%) depreciated more against the US dollar (Chart 4.25).

Under these conditions, in real terms, the Moldovan leu appreciated by 0.1% against the basket of currencies of the countries – main trading partners of the Republic of Moldova (average of the first quarter of 2024 compared to the average of the fourth quarter of 2023). The largest contribution to the appreciation of the REER was made by Ukraine (+0.6 percentage points), (Chart 4.27).

In the first quarter of 2024, overall, the local foreign exchange market was close to equilibrium, 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.

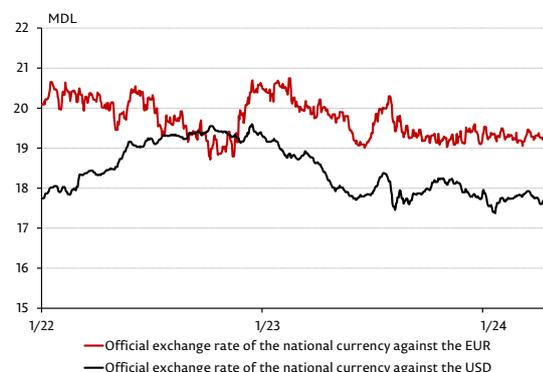
The net supply of foreign currency by individuals amounted to USD 602.8 million, up by 6.5% in annual terms and down by 12.9% compared with the previous quarter. The decrease in supply from individuals was due to the perpetuation of the trend of dollarization of individuals' deposits and the decline in net transfers from abroad to individuals, which is outlined in the second half of 2023.

In the structure of the net supply of foreign currency from individuals, the single European currency continued to account for the largest share (65.7%³⁰), (Chart 4.28).

Despite the negative development (-5.7% compared to the previous quarter), the net demand for foreign exchange by economic agents remained at a high level – USD 659.4 million, increasing in annual terms by 37.6% compared to the same period of the previous year.

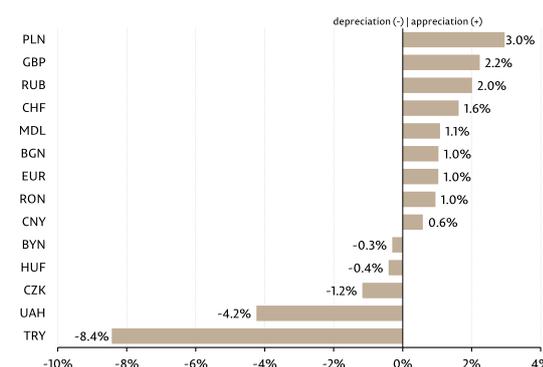
Its increase compared to the same period last year was due to increased demand for foreign currency from importing companies in the consumer goods, industrial goods and pharmaceuticals sectors.

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



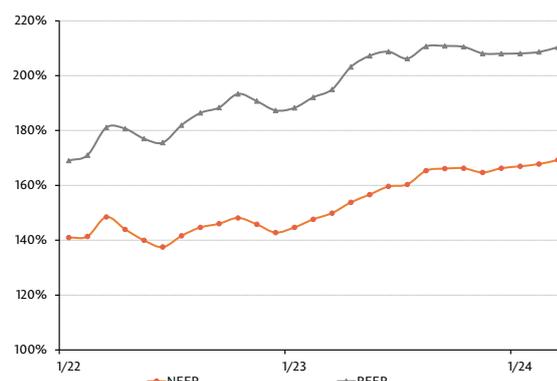
Source: NBM

Chart 4.25: Development of the currencies of countries – main trading partners in relation to the US dollar, average exchange rate in the first quarter of 2024/ fourth quarter of 2023 (%)



Source: NBM

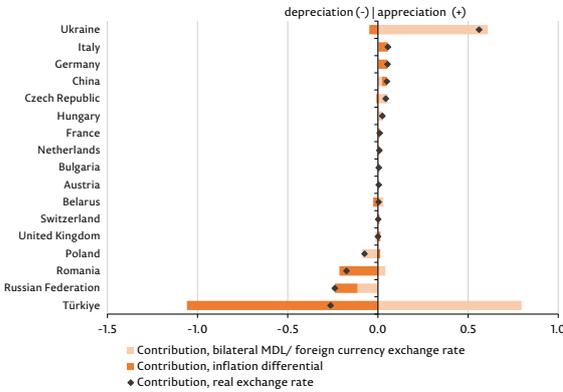
Chart 4.26: Dynamics of the nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the MDL calculated on the basis of the weight of the countries – main trading partners (Dec.2000-100%)



Source: NBM

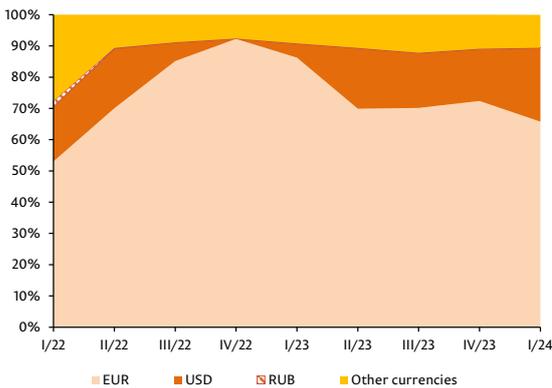
³⁰Share calculated by applying a constant exchange rate.

Chart 4.27: Contribution of the main trading partners of the Republic of Moldova to the change in the real effective exchange rate in the first quarter of 2024



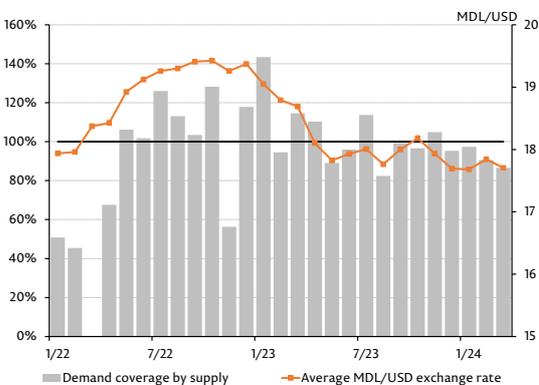
Source: NBM

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



Source: NBM

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



Source: NBM

Under these circumstances, the coverage degree of the net demand for foreign exchange from economic agents by the net supply of foreign exchange from individuals amounted to 91.4% during the reference period (Chart 4.29), compared to 98.9% in the previous quarter and 118.1% in the first quarter of 2023. Under these circumstances, the NBM intervened in the domestic foreign exchange market by purchasing foreign exchange amounting to only USD 10.0 million in the first month of the quarter to smooth the exchange rate fluctuations.

Looking at the dynamics, the exchange rate of the Moldovan leu against the US dollar started the quarter under depreciation pressures, amid increased demand from importers of energy resources. The weakening trend of the Moldovan leu against the US dollar continued until the middle of the reporting quarter. At the end of February 2024 and until the end of the first quarter of 2024, the exchange rate of the Moldovan leu against the US dollar reversed its previous upward trajectory, settling in a relatively narrow range with a lower limit of MDL 17.61 and an upper limit of MDL 17.83 per dollar.

The dynamics 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. The EUR/USD exchange rate in the quarter under review continued to evolve below the 1.1 threshold, development that outlined during 2023 and continued the same trend in the first three months of 2024. The downward trajectory of the single European currency in the first ten days of January 2024 was conditioned by the news according to which the ECB was considering a possible loosening of monetary policy, on the back of falling inflation and weak economic growth. At the same time, the EUR/USD dynamics above parity during the quarter were driven by the ECB's decision to keep interest rates stable and resist expectations of a fall. At the same time, the FRS hinted that the period of its monetary policy tightening is over, signaling the possibility of gradual interest rate cuts in 2024. However, rate cuts are more likely for the ECB than for the FRS, amid stronger disinflationary pressures and weak economic growth prospects.

Against this background, the euro ended the first quarter of 2024 with a depreciation of 3.0% against the US dollar compared with the previous quarter.

At the end of the quarter under review, the balance of official reserve assets amounted to USD 5,393.2 million (Chart 4.30), slightly down by USD 59.9 million (-1.1%) compared with the end of the fourth quarter of 2023. Official reserve assets decreased, mainly on the back of external public debt service payments.

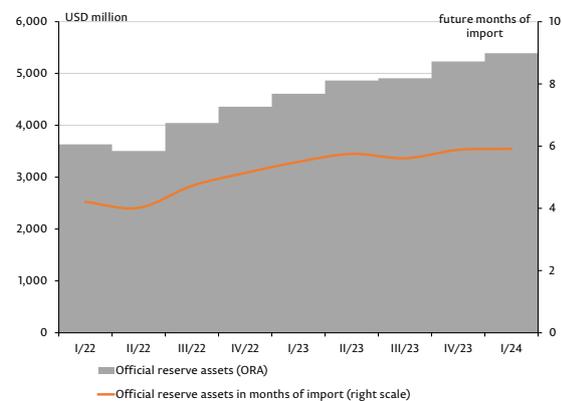
In terms of foreign currency inflows related to external financial assistance, the largest disbursements came from the European Investment Bank in the form of a loan totaling EUR 19.2 million (equivalent to USD 20.7 million) within the "Moldova Drumuri III" and "Livada Moldovei" projects.

The World Bank has disbursed loans totaling USD 11.9 million to projects for education reform, strengthening the public health system, land registration and evaluation, modernization of government services, improving competitiveness, etc. Financial assistance in the form of loans and grants amounting to USD 2.9

million from the IFAD has also been provided to rural resilience and capacity building programs for rural area transformation.

According to the situation at the end of the first 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 imports³¹).

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

³¹Calculated on the basis of the IMF's forecast on the import of commodities and services.

Chapter 5

Forecast

5.1 External assumptions

The current round of forecast anticipates that external demand will remain moderate compared to historical averages, and external inflation will continue to fall towards the levels targeted by the monetary authorities. Interest rates in the region and globally will fall, but not as rapidly as previously anticipated. The US dollar will continue to appreciate as a result of FRS interest rates remaining at high levels for a good while yet, the satisfactory performance of the US economy relative to other economies, but also the increased attractiveness of the US dollar amid heightened geopolitical tensions worldwide. The Russian ruble will continue to depreciate due to the rebalancing of purchasing power parity, but also increasing difficulties in circumventing economic sanctions and working with new outlet markets. International oil prices will remain at high levels due to geopolitical tensions, but also the extension of the OPEC+ agreement to limit oil production by 2.2 million barrels per day until June 2024, which could create a significant shortage of oil on the world market in the second half of 2024. Natural gas prices will continue to be susceptible to the smallest supply shocks, and food prices on the international market will rise moderately compared to the highs of previous years, given the abundant supply in some segments.

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

	2024	2025
Economic growth in the euro area (%)	0.5	1.4
Economic growth in the Russian Federation (%)	2.0	1.4
Average annual inflation in the euro area (%)	2.3	1.9
Average annual inflation in the Russian Federation (%)	6.8	4.8
EUR/USD	1.09	1.11
USD/RUB	93.3	96.7
Brent oil prices (USD/barrel)	86.9	81.1
International food prices growth (%)	-3.8	3.3

Source: Bloomberg, Consensus Forecast, NBM calculations

In the table 5.1 are listed the values of the main external assumptions admitted in the Inflation Report, May 2024 forecast round, with their subsequent description.

As the factors relating to **the economic growth in the euro area** have not changed considerably, in the current forecasting round, there are maintained the previous expectations on the growth of gross domestic product in the euro area by 0.5% in 2024 and by 1.4% in 2025 (+0.1 percentage points). The below-potential development of the euro area economy seems to become a problem for the long-term growth, especially in the context of the continent's ageing population and the disruptive effects of geopolitical tensions as well as economic deglobalization.

The contribution to economic growth will be provided by growth in the services sector, the normalization of consumer demand after the pandemic and the energy crisis and the contribution of AI development. The latest data on **harmonized inflation in the euro area** reveal a longer period to reach the ECB's medium-term target of 2.0%. Thus, in the current forecasting round, annual average harmonized inflation is expected to be 2.3% in 2024 (+0.1 percentage points) and 1.9% in 2025 (-0.1 percentage points). The latest trends indicate that the ECB will lower the monetary policy rate at the June 2024 meeting, but in the context of the latest statistics and information it is not excluded that this moment could be postponed for several months.

The much more satisfactory statistical data on the **development of the economy of the Russian Federation** in 2023 have led to higher economic growth in the current round of forecasts, with 2.0% in 2024 (+0.3 percentage points) and 1.4% in 2025 (+0.1 percentage points). The economic growth is based on the performance of the defense industry, lower imports and higher oil export revenues. At the same time, inflation will be more persistent and will reach the Bank of Russia's target only at the end of the forecast horizon. Thus, **an average annual inflation in the Russian Federation** of 6.8% (+0.1 percentage points) is forecast for 2024, and for 2025 of 4.8% (+0.1 percentage points). As the maximum inflation value is considered to be reached, the Bank of Russia is expected to lower the monetary policy rate in the coming months.

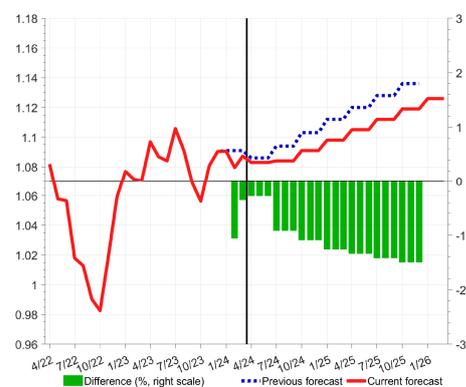
Since the beginning of this year, the US dollar has appreciated significantly across the currency market. It will continue to appreciate as a result of the maintenance of FRS interest rates at high levels for a good while to come, the satisfactory performance of the US economy compared to other economies, but also the increased attractiveness of the US dollar against the backdrop of rising geopolitical tensions worldwide. Thus, in the current round of forecasts, it is expected that the **average parity of EUR/USD** will be 1.09 in 2024 and 1.11 in 2025. The differences between ECB and FRS interest rates will determine the underlying trajectory of the parity of the single European currency. Also, the smallest improvements in the outlook for the euro area economy will have a beneficial impact on the evolution of the single European currency (Chart 5.1).

The average USD/RUB parity forecast for 2024 is 93.3 (+0.5%) and for 2025 – 96.7 (+0.3%). The slight depreciation compared to the previous round of forecasts is based on developments in recent weeks and expectations of the effect of sanctions on metals trading from Russia.

Since in the first months of this year the **Brent crude oil price** has been rising steadily and is expected to remain at these high levels for a good while yet, the forecast has been revised upwards. Thus, in the current round, the forecast average Brent price is USD 86.9/barrel in 2024 and USD 81.1/barrel in 2025, up by 15.1% and 11.8%, respectively, compared to the previous forecast. The main drivers for the evolution of the Brent price will be the management of oil production OPEC+ and demand from major consumers such as China and the USA. At the same time, geopolitical tensions will play an imminent role in determining the risk premium in the Brent price composition (Chart 5.2).

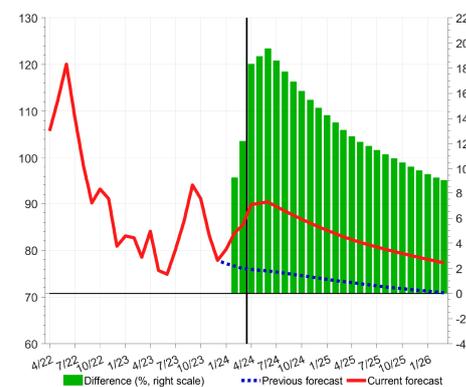
Food market conditions have not changed significantly in the recent months. The supply of agricultural products is satisfactory and prospects for this year's harvest look promising. Temporary shocks can be attributed to the effects of the El Niño phenomenon, in particular on crops in the equatorial and southern hemisphere. Thus, in the current round of forecast, **food prices on the international market** is projected to continue to decline by 3.8% on average in 2024, after which it is projected to increase by 3.3% in 2025 (Chart 5.3).

Chart 5.1: Exchange rate assumption EUR/USD



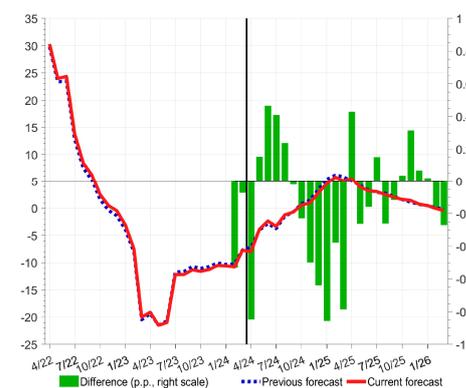
Source: ECB, Consensus Forecast, NBM calculations

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



Source: Bloomberg, NBM calculations

Chart 5.3: International food price assumption (%)

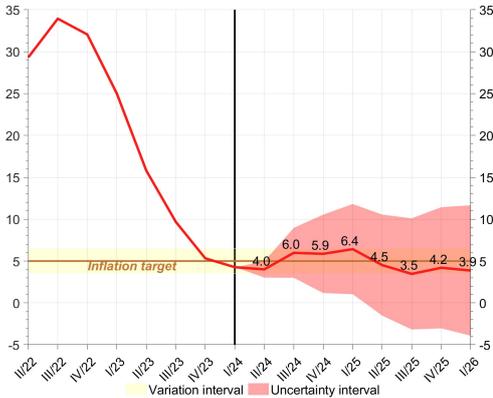


Source: FAO, Bloomberg, NBM calculations

5.2 Internal environment

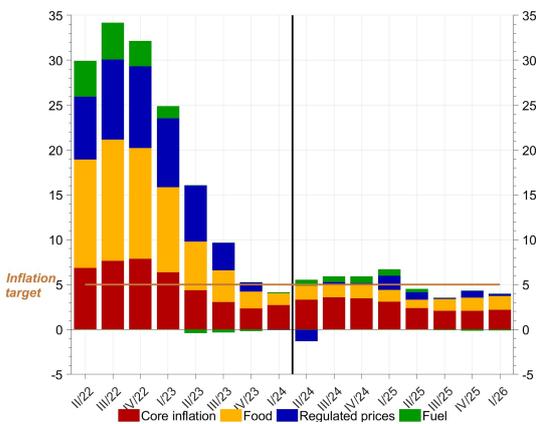
Inflation

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



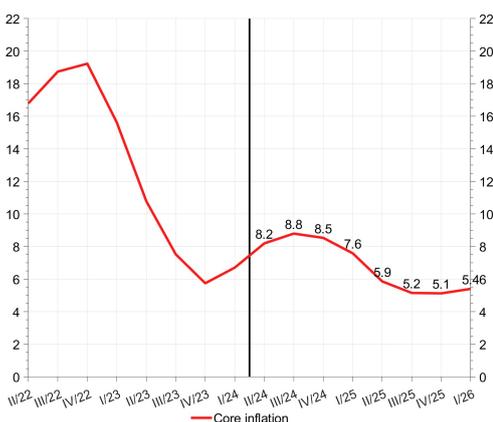
Source: NBS, NBM calculations

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 annual inflation rate will continue to decline slightly in the first quarter of the forecast, after which it will increase until the beginning of next year, after which it will decrease slightly until the end of the forecast horizon³², except for the fourth quarter of 2025 when it will increase only slightly. Over the forecast horizon³³, the annual inflation rate will fluctuate close to the 5.0% target and remain within the variation range (Chart 5.4).

The annual rate of inflation is determined by the positive contribution of all CPI components, with the exception of regulated prices from the second quarter of 2024, and fuel prices for three consecutive quarters starting from the third quarter of 2025, where they will have a negative impact (Chart 5.5).

The positive impact of factors such as (1) the upward trend in international food prices through the first half of 2025, (2) the increase in global oil prices in the first quarter of the forecast, (3) the adjustment in excise taxes since the beginning of 2025 and 2026, (4) the impact of the seasonal effect in the second quarter of 2025 and the first quarter of 2026, and (5) recent and anticipated upward adjustments in some tariffs will contribute to the increase in the annual rate of inflation.

However, (1) the negative domestic demand over the entire forecast horizon, (2) the anticipation of a decline in oil prices on the international market as from the third quarter of 2024; and (3) a negative annual base will contribute to a decline in the annual rate.

The annual inflation rate will reach a maximum value of 6.4% in the first quarter of 2025 and a minimum value of 3.5% in the third quarter of 2025.

Average annual inflation will be 5.0% and 4.6% this year and next year, respectively.

The annual core inflation rate will continue on an upward trajectory during the first two quarters of the forecast, after which it will decline towards the end of the forecast period, except for the last quarter, when it will slightly increase (Chart 5.6).

The upward trend in the annual core inflation rate through the third quarter of 2024 will be driven by a rising short-term forecast. At the same time, (1) negative domestic demand and (2) the current year's high base will cause the annual core inflation rate to decline from the fourth quarter of 2024. At the same time, the adjustment in excise taxes from early 2025 and 2026 and the positive upward rates of imported inflation from the fourth quarter of 2024 onward will mitigate the decline in the annual rate.

³²First quarter of 2026

³³Second quarter of 2024 – first quarter of 2026

Average annual core inflation rates will be 8.1% and 5.9% in 2024 and 2025 respectively.

The annual rate of food prices will follow a relatively stable trend over the entire forecast period (Chart 5.7).

The relatively stable trend in the annual rate of food prices will be driven by a counterbalancing of negative factors with positive ones. Factors with a negative impact include (1) the cumulative decline in food prices on the international market until the first quarter of 2024, (2) negative aggregate demand over the forecast horizon, and (3) the negative rate of imported inflation from the second quarter of 2024. At the same time, factors with a positive impact are (1) the relatively persistent short-term outlook, (2) the upward trend in international food prices through the first half of 2025, and (3) the impact of the seasonal effect in the second quarter of 2025 and the first quarter of 2026.

The average annual rate of food prices will be 3.9% and 3.4% in 2024 and 2025, respectively.

The annual rate of regulated prices will continue to decline in the first quarter of the forecast, after which it will trend upward until early next year, followed by a continued decline through the end of the forecast horizon, except in the fourth quarter of 2025, when it will slightly increase (Chart 5.8).

April 2024 will reflect the effect of the finalization of the state's compensation period for energy resource prices during the cold period of the year for the 2023-2024 season. This will lead to an increase in prices of natural gas, hot water and district heating in the CPI. In addition to this, the effect from the decrease in tariffs for the above-mentioned components during the first quarter of 2024 will be reflected, which will mitigate part of this increase.

April 2024 will reflect part of the decrease in the electricity tariff realized in March 2024

At the same time, the adjustment of postal tariffs will increase their prices in the CPI in April and May 2024. Prices within the subcomponent "garbage transportation" will increase as a result of the effect determined by the tariff adjustment in mid-March 2024 in the city of Soroca. At the same time, for the month of June 2024 it was considered the adjustment of the tariff for public transportation services in the municipality of Balti.

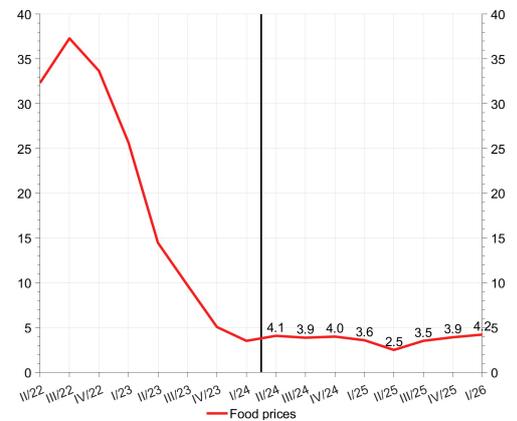
The forecast also includes an upward trend in medicine prices and for the "other" component for the entire forecast horizon.

The average annual rate of regulated prices will be -1.5% and 5.3% in 2024 and 2025, respectively.

The annual rate of fuel prices will continue its upward trend until the end of this year, after which it will decline towards the end of the forecast period (Chart 5.9).

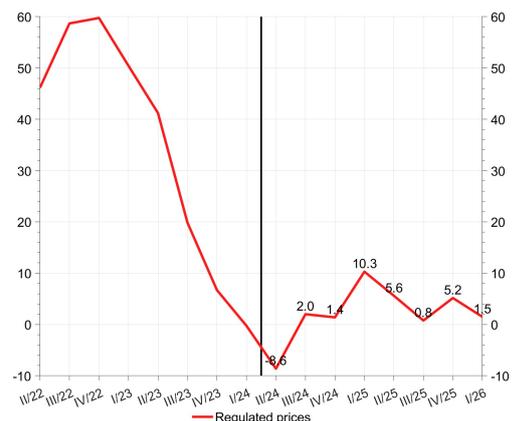
The increase in fuel prices through the fourth quarter of 2024 is due to (1) the increase in international oil prices in the first forecast quarter and (2) the low base from the previous year.

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



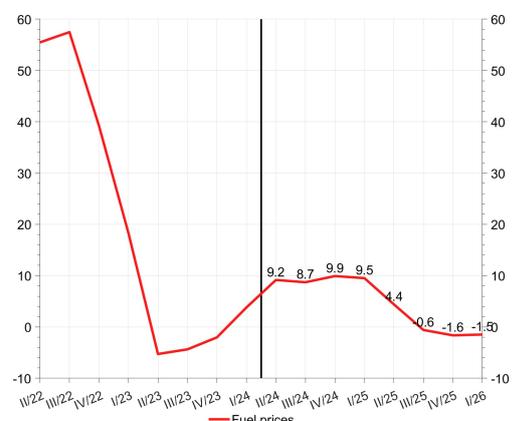
Source: NBS, NBM calculations

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

The presence of factors such as (1) negative domestic demand, (2) the anticipation of a decline in international oil prices starting in the third quarter of 2024, and (3) the high base in the current year will act down the annual rate. However, the adjustment in excise taxes in early 2025 and 2026 will slow the decline in the annual rate.

The average annual rate of fuel prices will be 7.3% and 2.8% in 2024 and 2025, respectively.

Demand

The negative aggregate demand over the entire forecast horizon will be largely due to tight real monetary conditions and, to a lesser extent, the negative impact of external demand. The positive fiscal impulse over the same period will dampen the downward revision in domestic demand (Chart 5.10).

Tight real monetary conditions throughout the forecast period and the slightly negative impact of external demand through the second quarter of 2025 from both eastern and western economic partners will lead to a negative domestic demand. The positive fiscal impulse over the entire forecast horizon and the previous year’s rich agricultural harvest will dampen the reduction in aggregate demand.

The deviation of the real effective exchange rate will be increasing over the forecast period, but it will be restrictive on aggregate demand. On the other hand, the restrictive real effective exchange rate pressures will be dampened by the stimulative real interest rate.

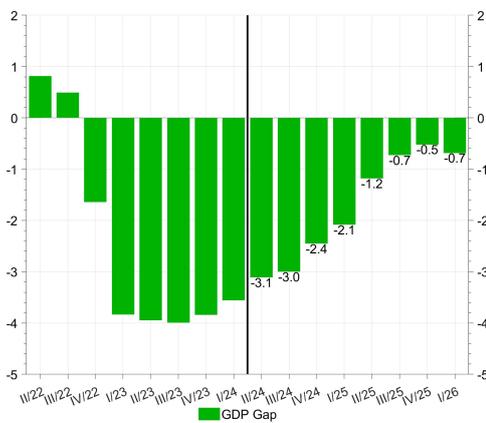
Monetary policy

Real monetary conditions will have a restrictive impact on aggregate demand over the entire forecast period (Chart 5.11).

Monetary policy through the real effective exchange rate will be restrictive over the entire forecast horizon. At the same time, monetary policy through the real interest rate will be stimulative over the same period.

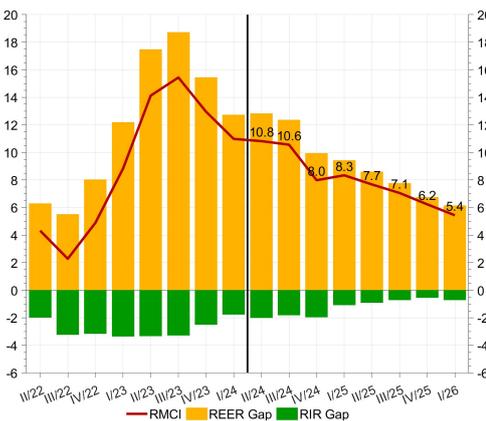
The real depreciation of the national currency towards the end of the forecast period will have restrictive effects on aggregate demand.

Chart 5.10: GDP deviation (%)



Source: NBM calculations

Chart 5.11: Real monetary conditions index and decomposition



Source: NBM calculations

5.3 Comparison of forecasts

The current inflation forecast, compared with that in the previous inflation report³⁴, has been revised insignificantly upwards over the comparable period³⁵, except for the second quarter of 2024, where it is similar, and the third quarter of 2025, where it is lower (Chart 5.12).

The upward revision to the core inflation forecast through the third quarter of 2025, higher fuel prices through the second quarter of 2025, higher food prices through the end of 2025, excluding the second quarter, and higher regulated prices in the second and fourth quarters of 2025 will cause the annual inflation rate to trend slightly higher. However, the downward revision in the current forecast is largely due to the downward revision in the forecast for regulated prices through the first quarter of 2025, including the third quarter of 2025, fuel prices in the third and fourth quarters of 2025, and core inflation in the last quarter of the comparable period.

The increase in the current forecast relative to the previous one is driven by (1) higher aggregate demand by the second quarter of 2025, (2) the impact of the seasonal effect in the second quarter of 2025 and the first quarter of 2026, (3) the slightly higher projection for international food prices over the whole comparable period, and (4) the expectation of high international oil prices over the same period.

On the other hand, (1) lower imported inflation through the second quarter of 2025, (2) negative aggregate demand in the third quarter of 2025, and (3) lower import gas prices relative to the previous forecast will dampen the upward revision of the annual rate.

The average annual inflation rate has been increased by 0.3 percentage points for 2024 and by 0.1 percentage points for 2025.

The annual rate of core inflation has been revised upward over the whole comparable period, except for the last quarter (Chart 5.14).

The upward revision in the current forecast relative to the previous forecast is driven by (1) higher actual inflation than anticipated in the previous quarter, (2) a rising short-term outlook, and (3) negative aggregate demand through the second quarter of 2025. The expectation of a lower trend in imported inflation over the entire comparable period, except for the latest quarter, has dampened the upward revision of the current forecast.

The forecast for the average core inflation rate has been increased by 1.7 percentage points for 2024 and by 0.8 percentage points for 2025.

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

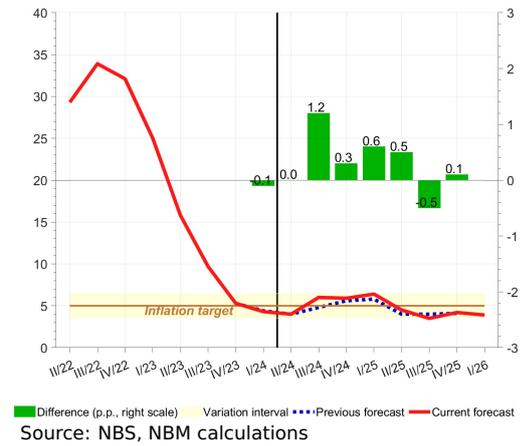


Chart 5.13: Decomposition of the difference between forecasts (percentage points)

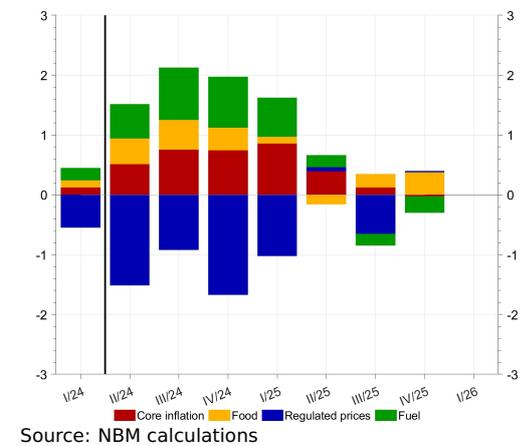
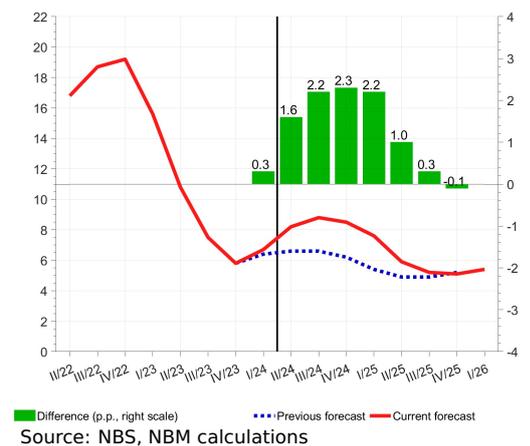


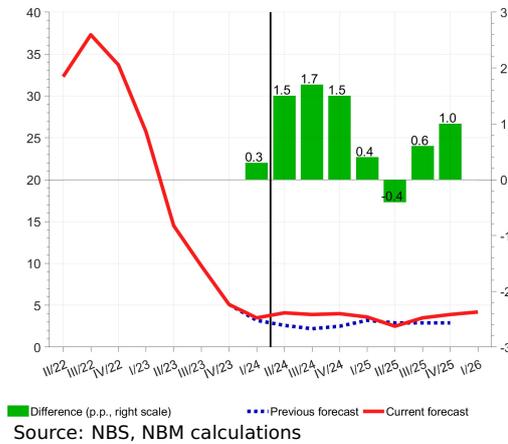
Chart 5.14: Core inflation (% , compared to the previous year, percentage points)



³⁴Inflation Report, February 2024

³⁵Second quarter of 2024 – fourth quarter of 2025

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



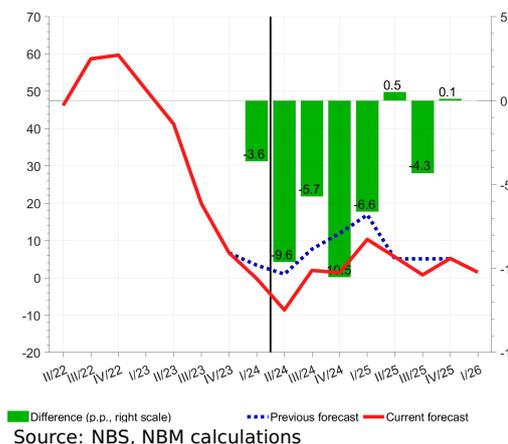
The current forecast for the annual rate of food prices has been higher over the entire comparable period, except for the second quarter of 2025, where it is lower (Chart 5.15).

The increase in the current forecast relative to the previous one is driven by (1) higher actual inflation than anticipated in the previous quarter, (2) a rising short-term forecast for the second quarter of 2024, (3) higher aggregate demand through the second quarter of 2025, (4) the impact of the seasonal effect in the second quarter of 2025 and the first quarter of 2026, and (5) the slightly higher projection for international food prices over the entire comparable period.

The more negative aggregate demand in the third quarter of 2025 is the factor that has mitigated the upward revision of the current forecast.

The forecast of the average rate of food prices is increased by 1.3 percentage points for 2024 and by 0.4 percentage points for 2025.

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

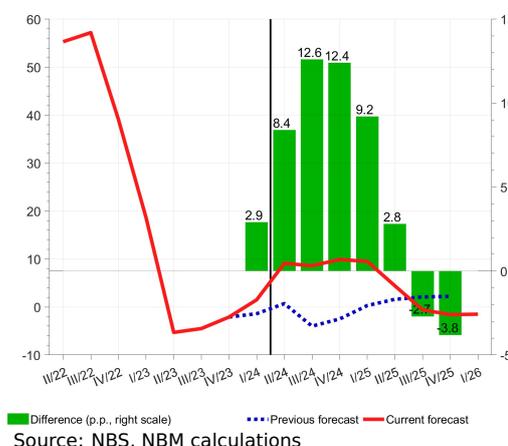


The annual rate of regulated prices is revised downward over the entire comparable period, except for the second quarter and fourth quarter of 2025 (Chart 5.16).

The decrease in the current forecast relative to the previous forecast is driven by (1) lower actual inflation than previously anticipated, (2) a declining short-term forecast for the second quarter of 2024, and (3) the expectation of a lower import price of natural gas than previously forecast. The higher projection for oil prices on the international market over the entire comparable period will dampen the downward revision to the forecast of the annual rate of regulated prices.

The forecast of the average rate of regulated prices was lowered by 7.4 percentage points for 2024 and by 2.5 percentage points for 2025.

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



The forecast for the annual growth rate of fuel prices has been raised until the second quarter of 2025 and lowered towards the end of the comparable period (Chart 5.17).

The higher forecast for the annual fuel price rate is driven by higher-than-expected actual inflation in the previous quarter, (2) a rising short-term forecast for the second quarter of 2024, (3) a higher projection for international oil prices over the comparable period, and (4) higher aggregate demand by the second quarter of 2025. Lower imported inflation from the third quarter of 2024 onwards will revise down the forecast for the annual rate of fuel prices.

The forecast of the average fuel price was increased by 9.1 percentage points for 2024 and by 1.2 percentage points for 2025.

5.4 Risks and uncertainties

External sector

- **Intensifying geopolitical tensions in the Middle East.** In April 2024, tensions in the Middle East escalated significantly after Israel and Iran bombed each other. Although energy prices initially increased, eventually, statements by the parties involved to cease offensives caused energy prices to return to previous levels. The mouldering of these geopolitical tensions from October 2023 onwards causes the financial markets to be constantly on alert in anticipation of possible shocks that would contribute to a significant increase in energy resource prices. The most pessimistic scenario would be if the Strait of Hormuz were to close for navigation, which would considerably reduce the supply of energy resources on the world market (proinflationary).
- **Mutual destruction by drone strikes of energy production and processing capacities in the context of the war in Ukraine.** In the recent months, both Russia and Ukraine have attacked each other with drones and destroyed each other's energy production and processing capacities. In Ukraine, electricity production capacities have been affected, as well as some natural gas storage areas. While in recent months several European companies have been considering storing natural gas in Ukraine's huge reservoirs, the idea is now being viewed with reservations. In Russia, oil processing refineries have been affected, leading to the risk of gasoline shortages on the local market and the identification of import alternatives, such as from Belarus or Kazakhstan. At the same time, reduced oil processing capacity has led Russia to export more crude oil to the world market in the recent weeks (uncertainty).
- **Increased uncertainty about the FRS's monetary policy.** At the end of 2023, when the US inflation started to fall, the FRS was expected to start lowering interest rates as soon as possible. Currently, due to the persistence of inflation, the timing of the cut in the US interest rates is expected no sooner than the end of 2024. This has led to an unprecedented appreciation of the US dollar across the currency market. At the same time, with a US presidential election in the fall and renewed debt ceiling talks, we can expect even higher US dollar volatility (uncertainty).
- **Temporary supply shocks on international food price formation.** Although global food supply and demand are currently fairly balanced, shocks such as the El Niño effect on some agricultural crops, poor agro-meteorological conditions, transportation bottlenecks or export restrictions could affect agricultural commodity prices on the world market. For example, increasing attention is being drawn to declining production of cocoa beans, sugar cane and palm oil (proinflationary).

- **Geopolitical configuration after the 2024 elections.** Globally, more voters than ever before in history will head to the polls in 2024, as at least 64 countries plus the European Union, representing about 49% of the world's population, will hold elections, the results of which, for many of them, will prove decisive for the years to come³⁶ (uncertainty).

Real sector

- **Uncertainties about the timing and magnitude of the adjustment of tariffs for the regulated services.** The medium-term inflation forecast is based on a trajectory for prices of regulated services that is consistent with certain assumptions about international and regional energy prices and other indicators relevant to the sector. However, given that 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).
- **Decreasing regional natural gas prices and keeping them relatively stable will lead to a possible decrease in domestic tariffs.** The decrease in natural gas prices in the region at the beginning of this year would create preconditions for a decrease in the network gas and heat tariffs, as the financial deviations accumulated in the previous periods would be covered. Therefore, in the following periods there could be a further decrease in the tariffs for network gas and district heating. However, the exact timing and magnitude of the adjustments is uncertain (uncertainty, disinflationary).
- **Decrease in the number of consumers on the territory of the Republic of Moldova.** The military conflict in Ukraine has caused massive population outflows from Ukraine. Some of the refugees are on the territory of the Republic of Moldova, which directly contributes to the increase in the population's 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 prices of domestic fruits and vegetables to weather conditions in the coming period.** According to the experience in recent years, the prices of domestic fruits and vegetables are, to a large extent, affected by adverse weather conditions such as frosts, heavy rainfall, costs associated with harvesting, transportation, storage, as well as their marketing at marketing outlets in the country. In the event of colder than normal temperatures, such as in the spring of 2023, or heavy rainfall, this would result in higher than forecast food prices over the next period (proinflationary).

³⁶<https://time.com/6550920/world-elections-2024/>

- **Uncertainties about the agricultural production in 2024 and 2025.** This year's and next year's agricultural harvest and domestic food prices, respectively, will depend, for the most part, on the agro-meteorological conditions in that period. In this way, developments in the agricultural sector and, consequently, 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 escalation of the military conflict in the Middle East will support the increase in the prices of energy resources, but also of other CPI products.** The increase in international and regional oil prices will lead to higher motor fuel prices on the domestic market and will create the preconditions 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 expenditures and, as a result, final prices for other goods (proinflationary).

Monetary and public sectors

- **Monetary transmission mechanism.** The change in monetary conditions propagates slowly on the rates of new loans granted in MDL, this leads to the procrastination of decision making by economic agents and households on taking 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 spread over time of the effects of monetary policy actions on the national economy (disinflationary).
- **Banking sector liquidity.** Following the decisions to lower the base rate and, as a consequence, the lower interest rates on term deposits in MDL, the balances of these deposits also decreased, leading to a reduction in liquidity in the banking system. However, this surplus remains sizable and may have a positive short-term impact on aggregate demand, the exchange rate and may generate inflationary pressures. At the same time, in the medium-term, following a change in the trend in the foreign exchange market and a continuation of the downward trend in the interest rate market, this excess liquidity will be significantly reduced, with a direct impact on credit resources, generating disinflationary pressures (uncertainty).
- **External funding.** Increased flow of external loans and grants allow for faster implementation of reforms in the domestic economy and create additional stimulus on inflation. Estimates point, in the medium-term, to a decline in the financing of the state budget balance from external sources, due to a reduction in the flows to support the budget. Thus, it is planned to allocate external sources mainly for the implementation of capital investment projects. External funding 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 externally financed projects remains low, implying that the disbursement of funds for the development of various sectors of the national economy is delayed (uncertainty).

- **Dollarization of deposits.** The maturity of the "expensive" deposits attracted last year and the trend of a continuous decrease in the rates on new deposits attracted in national currency, which are closer and closer to the rates on deposits attracted in foreign currency, create the premises for an increase in the dollarization of deposits, a phenomenon observed over the last seven months. This stimulates the demand for foreign currency, creating depreciation pressures on the exchange rate, while generating inflationary pressures in the future periods (proinflationary).
- **Budget financing and fiscal impulse.** In the context of the recent crises faced by the Republic of Moldova, public finances are under significant pressures. Budget projections for the current and next year are based on the assumption of a decreasing share of the budget deficit in GDP and, at the same time, more modest financing from external and internal sources. The government will have to strengthen its 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 impulse to revive the economy more rapidly and mitigate the consequences of the recent crises (disinflationary).

Chapter 6

Monetary policy decisions

Summary of the meeting of the Executive Board of the National Bank of Moldova from 19.09.2023 on the promotion of monetary policy

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

Attendees: Executive Board members – Mrs. Tatiana Ivanicichina – Deputy Governor, Mr. Constantin Schendra – Deputy Governor, Mr. Arcadie Albul – Deputy Governor

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

Guests: Mr. Natan Garstea – Adviser to the Governor, Mr. Daniel Savin – Director of the Financial Markets Department, Mr. Andrei Velicev – Head of the Legal Advice and Litigation Department, Mrs. Alina Boboc – Head of the Financial Education and Communication Department

The meeting of the Executive Board on the promotion of monetary policy started with the presentation by Mr. Radu Cuhal of the new macroeconomic information contained in the Report assessing the risk of inflation forecast deviation, highlighting the validity of the latest forecast and the expected disinflationary trend.

Regarding the domestic inflationary process, Mr. Cuhal noted that annual inflation fell by 1.1 percentage points to 9.7% in August 2023, being 0.2 percentage points higher than expected. Mr. Cuhal revealed that the deviation of actual inflation from the forecast was mainly due to fuel prices, as a result of higher-than-expected oil price increases.

Referring to the factors keeping inflation above the target, Mr. Cuhal highlighted tariff hikes with side effects, the war in Ukraine and last summer's drought. At the same time, disinflationary demand from mid-2022 and the appreciation of the MDL since the beginning of this year continue to dampen these factors.

Subsequently, Mr. Cuhal presented the information on the external environment. Those present at the meeting noted that while economic activity in the euro area and China is contracting, the US economy continues to grow and boost global demand. Mr. Cuhal noted that commodity prices remain high, keeping export revenues high for emerging economies. Oil prices have topped USD 90/barrel after Saudi Arabia and Russia extended an agreement to limit oil production. World natural gas prices rose also due to the extension of the annual technical servicing of extraction platforms in Norway. Food prices fell further, after it became clear that export stocks are sufficient and the risks of supply shortages – minor. However, Mr. Cuhal warned that inflation remains persistent in advanced economies, prompting financial markets to adjust their behavior accordingly.

During the discussions associated with the national economic activity, Mr. Cuhal pointed out that most indicators of economic activity continued the negative trend, confirming the expectation of contraction for the second quarter of 2023 when updating the inflation forecast. Recent data released by the NBS revealed a 2.2% contraction in GDP compared to the same period of 2022, following the 2.4% decline earlier this year. The EB members noted that this development in economic activity was underpinned by subdued domestic demand conditioned by a 7.7% decline in household consumption and a 6.9% decline in gross fixed capital formation amid a

decline in real household income, tight credit conditions, and heightened uncertainty in the region. This impact was found to have been partly mitigated by the favorable outcome in the agricultural sector and the performance of the information and communication sector.

Subsequently, Mr. Cuhal presented the monetary conditions, pointing out that interest rates on new loans and deposits in national currency have decreased in August as well, following the cumulative monetary policy stimulus. The weighted average interest rate on deposits in MDL declined by 0.57 percentage points compared to the previous month, reaching 4.52%. At the same time, that on loans granted recorded 11.33%, 0.40 percentage points lower than in July 2023. Interest rates on loans and deposits in foreign currency showed different trends – on loans continued to increase, while on deposits they decreased.

In the continuation of the meeting, Mr. Cuhal presented the downside risks to the inflation forecast, stressing that the balance of risks remains disinflationary and uncertainties remain pronounced. The main sources are the tense situation in the region, the reflection in the statistics of compensations for communal housing services, demand and price volatility on the international market. From the perspective of global monetary conditions, it was noted that interest rates in advanced economies are expected to continue to rise and remain at high levels.

In identifying and assessing the downside risks to the inflation forecast, Mr. Cuhal highlighted the inflationary nature of fuel prices until the third quarter of 2024, regulated prices and food prices during the first four quarters of the forecast, in the context of lower core inflation in the first two quarters of the forecast.

In this context, the measures proposed in the draft decision on the NBM's actions to promote monetary policy, presented by Mr. Cuhal, were to maintain the base rate and interest rates on standing facilities, as well as the required reserve ratio at current levels.

Following the deliberations, the Executive Board of the NBM decided, by unanimous vote, to maintain the base rate applied to the main short-term monetary policy operations at the level of 6.00% annually. The interest rates on overnight loans and deposits were maintained at 8.00% and 4.00% annually respectively. At the same time, the members of the EB decided to maintain the required reserve ratio of funds attracted in MDL and non-convertible currency at the current level of 34.0% of the calculation base, and the required reserve ratio of funds attracted in freely convertible currency – at the current level of 45.0% of the calculation base.

The Executive Board emphasized that this decision is taken with a view to continuing the propagation of monetary policy easing measures in the recent period and aims to anchor inflationary expectations and to ensure the monetary conditions necessary to bring inflation back and keep it close to the 5.0% inflation target over the medium-term.

In addition, the EB members noted that the decision is geared towards boosting the aggregate demand, including by encouraging consumption and balancing the national economy.

The EB members justified that the outlook for economic support is conditional on the easing of consumer prices and the anticipated trend decline in consumer prices, together with the persistence of excess liquidity and further declines in interest rates.

The Executive Board noted that the National Bank of Moldova adjusts in advance the conditions on the money, credit and foreign exchange markets. Thus, it assumes the configuration of monetary policy as needed and aims to keep inflation close to the target of 5.0% in the medium-term, creating all the necessary preconditions for the implementation of a macroeconomic policy mix associated with the economic growth.

The EB members agreed that at their next monetary policy meeting on November 7, this year they will consider whether to lower the base rate further. Its magnitude will depend on new information on the global economy, as well as on the domestic environment, such as: the volume of state financial assistance for the cold period of the current and next year, the dynamics of natural gas, electricity and heating tariffs, the dynamics of interest rates, as well as the evolution of the volume of loans granted. At the same time, the decisions on the

rectification of the state budget for 2023 and the drawing of the guidelines for 2024 will also have a significant impact on the conduct of monetary policy.

In this context, the Executive Board reiterated the need for coordination and interaction of monetary and fiscal policy measures in order to maximize their effects on the real economy and inflation.

At the end of the meeting, the EB members emphasized that the NBM will continue to monitor the internal and external macroeconomic situation, the risks associated with the evolution of inflation and, depending on them, will manage monetary conditions in order to keep inflation close to the target in the medium-term.

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

- 1. The base rate applied to the main short-term monetary policy operations is maintained at 6.00% annually.**
- 2. Interest rates are maintained:**
 - a) on overnight loans, at the level of 8.00% annually;**
 - b) on overnight deposits, at the level of 4.00% annually;**
- 3. The required reserve ratio from the funds attracted in MDL and non-convertible currency is maintained at the current level of 34.0% of the calculation base.**
- 4. The required reserve ratio from the funds attracted in freely convertible currency is maintained at the current level of 45.0% of the calculation base.**

Voting results of the EB members

FOR – 4

AGAINST – 0

Chairman of the Executive Board

Secretary of the Executive Board

Octavian ARMASU

Sergiu SURDU

Summary
of the meeting of the Executive Board of the National Bank of Moldova from 07.11.2023
on the promotion of monetary policy

The meeting was 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 – Adviser to the Governor, Mr. Daniel Savin – Director of the Financial Markets Department, Mrs. Valentina Rusu – Director of the Legal Department, Mrs. Alina Boboc – Head of the Financial Education and Communication Department

At the beginning of the meeting of the Executive Board on the promotion of monetary policy, Mr. Radu Cuhal presented the recent macroeconomic developments, the new medium-term forecast and the risks and uncertainties identified at the time of the Inflation Report, November 2023. Mr. Cuhal emphasized that the current forecast confirms with certainty the disinflationary trends previously forecast.

In discussions associated with the domestic inflationary process, the EB members noted that annual inflation fell in September to 8.6%, down from 13.2% in June this year. Average annual inflation in the third quarter of 2023 was 9.7%, 0.5 percentage points higher than forecast. Mr. Cuhal revealed that the deviation of actual inflation from the forecast was mainly due to the delay in lowering natural gas and heat tariffs, as well as the unexpected increase in oil prices.

Among the factors keeping inflation above the target, Mr. Cuhal highlighted rising tariffs with spillover effects, the war in Ukraine, last summer's drought, a cooler spring and the excise tax hike since the beginning of the year. At the same time, it was noted that weak demand from mid-2022 and the appreciation of the MDL since the start of the year are easing those pressures.

Mr. Cuhal pointed out that there are clear signs that in October this year inflation was within the variation range of the target.

On the external environment, the participants at the meeting noted that rising interest rates, supply controls on some commodities and a worsening geopolitical situation have dampened the recovery of the global economy. Mr. Cuhal noted that central banks in some advanced economies are keeping rates at high levels and some are even raising them, motivated by well above-target inflation. On oil prices, he warned that they have reached their highest levels this year after Russia and Saudi Arabia announced declines in oil production and rising tensions in the Middle East have increased the risks to the energy resources market. Mr. Cuhal pointed out that natural gas prices in Europe have risen as a result of concerns about supply disruptions on the international market due to pipeline damage in Finland, falling exports from Israel to Egypt and industry strikes in Australia. Fluctuating food market quotations were discussed amid a ban on white rice exports by India, the biggest exporter, to halt the rise in domestic prices. The EB members noted that the Russian ruble depreciated sharply, leading to the partial imposition of capital account controls. The Turkish lira also depreciated, causing consumer prices to rise rapidly.

Mr. Cuhal presented the national economic activity, pointing out that it continued to decline in the second quarter of 2023, albeit more slowly than at the beginning of the year, with the annual rate of real GDP at -2.2%. The EB members noted that this development in economic activity was caused by weak domestic demand (as a result of shrinking real household incomes and tight lending conditions) and heightened uncertainty in the region. Consumption financing was found to have tightened, mainly due to a further decline in remittances. Remittances to individuals fell by 14.1% annually in September 2023. Those present at the meeting noted that on the demand side, household consumption, investment, general government consumption and imports continued to decline. On the supply side, agriculture, the information and communication, accommodation and food services sectors recorded increases, while trade, industry and construction contracted.

During the discussions related to monetary conditions, Mr. Cuhai pointed out that excess liquidity in the banking sector amounted to MDL 10.0 billion, decreasing by MDL 4.3 billion in the third quarter of 2023 compared to the previous quarter. The annual growth of monetary aggregates in the third quarter of 2023 was similar to the previous quarter, largely on the account of deposits in MDL. Mr. Cuhai pointed out that interest rates on new loans and deposits in domestic currency continued to decline in the third quarter of 2023, including as a result of the cumulative monetary policy stimulus. Thus, the weighted average rate on loans amounted to 11.38% and that on deposits – 4.61%, down by 1.8 and 2.68 percentage points, respectively, compared to the second quarter of 2023. In the third quarter of 2023, in annual terms, new loans granted in MDL increased by 52.8%, while new deposits attracted decreased by 34.6%. The interest rate on foreign currency loans continued to increase, while the interest rate on deposits decreased insignificantly.

Subsequently, Mr. Cuhai presented the new inflation forecast, stressing that it is complicated by heightened risks and uncertainties for the global economy, especially in the wake of recent international developments. Rising geopolitical tensions could make energy resources more expensive and thus weigh on still subdued demand growth. Mr. Cuhai pointed out that in the euro area, the impact of the energy crisis on industry has dampened growth expectations. Interest rate differentials and a rising risk premium will keep the US dollar appreciated against other freely convertible currencies. Food prices will fall slightly further and stabilize in the next year.

The rate of consumer price growth is expected to slow, at least, due to weak domestic demand, a moderation in industrial prices, recent tariff cuts and last year's high base effect.

The annual inflation rate is expected to fall below the upper end of the target range in the fourth quarter of 2023 and remain close to, albeit below, the target in the following eight quarters. Aggregate demand will be disinflationary throughout the forecast period as a result of tight monetary conditions, negative fiscal impulse and weak external demand.

The EB members noted that the trends anticipated in previous rounds remain broadly valid. The inflation forecast was raised slightly for the first two quarters and lowered for the remainder of the comparable period.

Mr. Cuhai emphasized that the risks and uncertainties to the forecast have increased. From the external environment, sources such as tensions in the Middle East, energy resource prices, the downturn in the euro area, the war in Ukraine, the timing of monetary easing in the region and globally, temporary supply shocks and food prices are emerging. Among the main domestic uncertainties are the adjustment of tariffs, how energy compensations for the cold period of the year will be reflected in the statistics, the refugee flow, weather conditions and the upcoming agricultural harvest.

Further, the draft decision on the NBM's monetary policy promotion actions was presented. The measures proposed by Mr. Cuhai were to reduce the base rate and the interest rates on standing facilities by 1.25 percentage points each, as well as the required reserves ratio both from the funds attracted in MDL and non-convertible currency – by 1.0 percentage points, and from the funds attracted in freely convertible currency – by 2.0 percentage points.

Thus, following the analysis and findings carried out, the Executive Board of the NBM decided, by unanimous vote, to decrease the base rate applied to the main short-term monetary policy operations to the level of 4.75% annually, as well as to reduce the interest rates on overnight loans and deposits to the level of 6.75% and 2.75% annually, respectively. At the same time, the EB members decided to decrease the required reserve ratio from funds attracted in MDL and non-convertible currency to 33.0% of the calculation base, and the required reserve ratio from funds attracted in freely convertible currency – to 43.0% of the calculation base.

At the same time, during the meeting it was decided to make changes in the rate of remuneration of required reserves in US dollars and euros. The Executive Board of the NBM approved for publication the Inflation Report, November 2023.

The Executive Board emphasized that these decisions continue the loosening of the monetary policy that started at the end of last year.

In addition, the EB members noted that the NBM aims to stimulate credit and support domestic aggregate

demand, both by encouraging consumption and investment, balancing the national economy and anchoring inflationary expectations, with the aim of keeping inflation within the variation range of the target in the medium-term.

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

- 1. The base rate applied to the main short-term monetary policy operations is set at 4.75% annually.**
- 2. Interest rates are set:**
 - a) on overnight loans, at the level of 6.75% annually;**
 - b) on overnight deposits, at the level of 2.75% annually;**
- 3. The required reserve ratio from the funds attracted in MDL and non-convertible currency shall be decreased with effect from the period of application of required reserves in MDL from December 16, 2023 to January 15, 2024, from 34.0% to the level of 33.0% of the calculation base.**
- 4. The required reserve ratio from the funds attracted in freely convertible currency shall be decreased with effect from the period of application of required reserves in freely convertible currency from December 16, 2023 to January 15, 2024, from 45.0% to the level of 43.0% of the calculation base.**

Voting results of the EB members

FOR – 4

AGAINST – 0

Chairman of the Executive Board

Secretary of the Executive Board

Octavian ARMASU

Sergiu SURDU

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