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Monetary policy decision, 20.03.2023

The Executive Board of the National Bank of Moldova, at its meeting of 20 March 2023, adopted the following decision by a majority vote:

1. **To establish the base rate applied to the main short-term monetary policy operations at 14.00% annually.**
2. **To establish the interest rates:**
   a) on overnight loans at 16.00% annually;
   b) on overnight deposits at 12.00% annually.
3. **To maintain the required reserve ratio from the financial means attracted in Moldovan lei and in non-convertible currency at 34.0% of the calculation base.**
4. **To maintain the required reserve ratio from the financial means attracted in non-convertible currency at the current level of 45.0% of the calculation base.**

The ease in monetary decision continues the stimulative monetary policy measures adopted since the end of last year.

The NBM aims to stimulate aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflationary expectations.

New macroeconomic information largely confirms the validity of the latest forecast.

Development of inflation. Annual inflation decreased by 1.4 percentage points to 25.9 percent in February 2023. Thus, in the structure, the annual rates were core inflation – 16.3 percent, food products – 26.5 percent, regulated prices – 51.5 percent and fuels – 21.3 percent.

It should be noted that the actual inflation was 1.0 percentage point higher than the forecast.

The deviation of the actual inflation value from the forecast was mainly caused by the regulated prices (+5.1 percentage points), as a result of the reflection by the NBS in January 2023 of the compensations granted to consumers for natural gas, thermal energy and electricity.

Tariff hikes with their side effects, the war in Ukraine and last summer's drought are keeping inflation well above target. However, disinflationary demand and previously adopted monetary policy measures from mid-2022 continue to mitigate these factors.

The external environment. External demand remains weak in the context of lower and more stable prices on international energy resource markets. Oil and natural gas prices in Europe have fallen since the beginning of the year. Although rates of inflation growth are lessening in most countries, monetary

tightening continues to mitigate secondary inflationary pressures and reduce consumption encouraged by strong wage growth.

The war in Ukraine and the consequence of the energy crisis in Europe continue to affect the regional economy. International food prices continue to fall as production risks and costs have decreased and supply is abundant in certain segments.

The economic activity. In the fourth quarter of 2022, GDP in real terms decreased by 10.6 percent compared to the same period of 2021.

A negative impact on the GDP evolution was, in particular, the declines in the following activities: agriculture (-40.5 percent), health and social assistance (-18.6 percent), production and supply of electricity and thermal energy, gas, hot water and air conditioning (-34.4 percent), real estate transactions (-11.8 percent) and manufacturing (-7.0 percent). Increases in the following activities had a positive influence on the GDP evolution: information and communications (+12.2 percent), financial activities and insurance (+16.0 percent), education (+8.4 percent) and accommodation and public alimentation (+39.1 percent). Export increased by 8.6 percent, import – by 11.2 percent, public administration consumption – by 2.5 percent, and population consumption and gross fixed capital formation decreased by 8.9 and 8.6 percent, respectively. In the fourth quarter of 2022, in real terms, the payroll decreased by 10.9 percent compared to the same period of 2021.

Monetary conditions. After the last two decisions of easing monetary policy, the interest rates on loans and new deposits in MDL had different trends – the rates on deposits decreased, and those on loans slightly increased. Interest rates on loans and deposits in foreign currency decreased insignificantly.

The weighted average rate on deposits was 11.10 percent in February 2023, 1.94 percentage points less than in January 2023, and the one on loans – 14.34 percent, 0.08 percentage points more.

Risks and uncertainties. The balance of risks to the inflation forecast deviation is disinflationary, and uncertainties remain pronounced. The main sources are the tense situation in the region, the statistical reflection of energy compensations, lower external demand and prices. Forecasts for the euro area have stabilized for both inflation and economic growth. Among the main uncertainties regarding global demand are the end of China's zero COVID policy and the reaching of the US debt ceiling.

We reiterate that the NBM will continue to monitor the inflationary process, assessing the associated risks and uncertainties, and further decisions of the Executive Board will depend on the updated inflation outlook.

The next meeting of the Executive Board of the NBM on the promotion of the monetary policy will take place on 11 May 2023, according to the approved schedule.

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