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Monetary policy decision, 07.11.2023

The Executive Board of the National Bank of Moldova, at its meeting on 7 November 2023, adopted by unanimous vote the following decision:

1. **To establish the base rate applied to the main short-term monetary policy operations at 4.75% annually.**
2. **To establish the interest rates:**
   a) on overnight loans, at the level of 6.75% annually;
   b) on overnight deposits, at the level of 2.75% annually.
3. **To reduce the required reserve ratio from the financial means attracted in Moldovan lei and in non-convertible currency from 34.0% to 33.0% of the calculation base with effect from Moldovan lei required reserve period from 16 December 2023 to 15 January 2024.**
4. **To reduce the required reserve ratio from financial means attracted in freely convertible currency from 45.0% to 43.0% of the calculation base with effect from the freely convertible foreign currency required reserve period from 16 December 2023 to 15 January 2024.**

The Executive Board of the NBM approved for publication the Inflation Report, November 2023.

At the same time, the meeting made changes to the remuneration of required reserves in US dollars and euros.

These decisions continue the monetary easing that began at the end of last year.

The NBM aims to stimulate credit and support domestic aggregate demand by encouraging both consumption and investment, balancing the national economy and anchoring inflation expectations with a view to keeping inflation within the target range over the medium term.

The current forecast once again confirms the previously predicted disinflationary trends.

Inflation developments. The annual inflation rate fell to 8.6 % in September from 13.2% in June this year. Average annual inflation in the third quarter of 2023 was 9.7%, 0.5 percentage point higher than forecast. The deviation was mainly due to a delay in the decline in natural gas and heating tariffs and an unexpected increase in oil prices.

Rising tariffs and their side effects, the War in Ukraine, last summer's drought, a cooler spring and the excise tax hike earlier this year are keeping inflation above target. However, weaker demand from mid-2022 and the appreciation of the MDL since the beginning of the year are mitigating these pressures.

There are clear signs that inflation was within the target range in October of this year.

External environment. Rising interest rates, supply controls on some commodities and a worsening geopolitical situation have weakened the global economic recovery. Central banks in some advanced

economies are keeping interest rates high and some are even raising them, driven by inflation well above target. Oil prices reached their highest levels this year after Russia and Saudi Arabia announced production cuts and rising tensions in the Middle East increased risks in the energy market. Natural gas prices in Europe rose on concerns about international supply disruptions following pipeline damage in Finland, falling exports from Israel to Egypt and industrial strikes in Australia. India, the largest exporter, banned exports of white rice to curb rising domestic prices, shaking the food market. The Russian rouble depreciated sharply, leading to a partial reintroduction of capital controls. The Turkish lira also depreciated, causing consumer prices to rise rapidly.

Economic activity continued to decrease in the second quarter of 2023, albeit at a slower pace than at the beginning of the year, with real GDP contracting at an annual rate of -2.2 %. The slowdown was due to weak domestic demand (as a result of shrinking real household incomes and still tight credit conditions) and increased uncertainty in the region. Consumption financing tightened mainly due to a further decline in remittances. Remittances to individuals fell by 14.1% at an annual rate in September 2023. On the demand side, household consumption, investment, government consumption and imports continued to decline. On the supply side, agriculture, information and communication, accommodation and food services grew, while trade, industry and construction contracted.

Monetary conditions. 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, mainly due to deposits in MDL. Interest rates on new domestic currency loans and deposits continued to decline in the third quarter of 2023, partly as a result of the cumulative monetary policy stimulus. Thus, the weighted average interest rate on loans was 11.38% and on deposits 4.61%, decreasing 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 decreased by 34.6%. The interest rate on foreign currency loans continued to increase, while the interest rate on deposits decreased insignificantly.

The current ***forecast*** is complex because of heightened risks and uncertainties related to the global economy, especially in the wake of recent international events. Rising geopolitical tensions could make energy resources more expensive and thus affect still subdued demand growth. In the euro area, the impact of the energy crisis on industry has lowered growth expectations. Interest rate differentials and a rising risk premium will continue to strengthen the US dollar against other freely convertible currencies. Food prices will continue to fall slightly and stabilise next year.

Consumer prices will slow, at least, due to low domestic demand, industry price moderation, recent tariff cuts and the effect of last year's high base.

Annual inflation will fall below the upper end of the target range in the fourth quarter of 2023 and remain close to, but below, the target in the following eight quarters. Aggregate demand will be disinflationary throughout the forecast period due to tight monetary conditions, negative fiscal dynamics and weak external demand.

The trends anticipated in previous rounds remain broadly valid. The inflation forecast has been revised slightly upwards for the first two quarters and downwards for the rest of the reference period.

Forecast risks and uncertainties have increased. On the external side, sources include tensions in the Middle East, energy prices, the slowdown in euro area activity, the war in Ukraine, the monetary easing in the region and globally, temporary supply shocks and food prices. The main domestic uncertainties include

tariff adjustments, how to reflect in statistics the compensation for energy resources for the cold period of the year, refugee flows, weather conditions and the forthcoming agricultural harvest.

The Inflation Report, November 2023, will comprise detailed information on monetary policy and will be presented by the Governor of the NBM and published on the official website on 14 November 2023.

The next meeting of the Executive Board of the NBM on monetary policy promotion will take place on 14 December 2023 [1].

Evolution of the NBM interest rates [2]

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