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Politica monetară

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Monetary policy decision, 21.03.2024

The Executive Board of the National Bank of Moldova, at its meeting on 21 March 2023, adopted by unanimous vote the following decision:

1. **To establish the base rate applied to the main short-term monetary policy operations at 3.75% annually.**
2. **To establish the interest rates:**
   a) on overnight loans, at the level of 5.75 % annually;
   b) on overnight deposits, at the level of 1.75 % annually.
3. **To maintain the required reserve ratio from the financial means attracted in Moldovan lei and in non-convertible currency at the current level of 33.0 % of the calculation base.**
4. **To maintain the required reserve ratio from financial means attracted in freely convertible currency at the current level of 43.0 % of the calculation base.**

The decision of the National Bank of Moldova aims to slow down the decrease in inflation and keep it within the range of variation of ±1.5 percentage points from the target of 5.0 %, which is considered the optimal level for economic growth and development of the Republic of Moldova in the medium term.

Therefore, the National Bank focuses on further stimulating aggregate demand, including by encouraging consumption and investment, balancing the national economy and anchoring inflation expectations.

By the decision of today, the National Bank continues the easing of monetary policy started in December 2022. The effects will continue to be passed on gradually through lower interest rates in money, deposit and credit markets.

Inflation. In February 2024, annual inflation was within the target range for the fifth consecutive month, at 4.3 %, 0.3 percentage point lower than in January. The decrease in food prices on the international market, high base and low demand have contributed to lower inflation. At the same time, the monetary policy stimulus so far, the positive seasonal effect, the fiscal policy adjustment and some adverse sectoral shocks have dampened the decline in inflation.

The latest macroeconomic information largely confirms the validity of the last forecast.

Actual inflation was 0.5 percentage points lower than projected. The deviation was determined after there was a temporary delay in the adjustment of tariffs for medical services for July this year.

Recent projections of economic developments in the external and domestic environment point to the following:

External environment. The euro area economy increased by only 0.4 % in 2023 as a result of the energy crisis and monetary policy tightening. Oil prices have risen in recent weeks due to continuing tensions in the Middle East and the depreciation of the US dollar. However, oil prices continue to fall as a result of weak

demand and increasing non-OPEC supply, despite OPEC+'s recent decision to extend the limitation of production. The price of liquefied natural gas recently dropped to its lowest levels since 2021. Similarly, food quotations have also continued to decrease.

Economic activity in the domestic environment increased by only 0.2 % in the fourth quarter of 2023. The modest growth was largely driven by a rich harvest that led to increased exports of agri-food products. Household consumption continued to increase, while general government consumption continued to decline for two and three consecutive quarters, respectively. Investment continued to fall for the third consecutive quarter. This dynamic, from modest to negative, was largely caused by insignificant growth in real household incomes and high uncertainty in the region. Transfers to individuals decreased by 15.9 % in December 2023, and in January 2024 - by 4.6 %. The payroll fund increased in real terms by 10.9 % in the fourth quarter of 2023. As a result, domestic demand remains weak. On the supply side, communications, social services, accommodation and food services developed positively, while industry, construction, trade and transport contracted.

Monetary conditions. Interest rates on new loans and deposits in MDL also decreased in February following the cumulative monetary policy stimulus. The weighted average rate on deposits in MDL was 3.81 % and that on loans - 9.63 %, decreasing by 0.37 and 0.34 percentage points, respectively, compared to January 2024. Thus, the decrease in rates led to a 45.3 % increase in the volume of new loans in MDL compared to the same period last year. The interest rates on foreign currency loans and deposits continued to decline.

Forecast update. The balance of risks to the inflation forecast is disinflationary and uncertainties remain pronounced. The main sources are the tense situation in the region and in the Middle East, adjustment of tariffs, reflection in the statistics of the compensation for energy resources granted to the population during the cold period of the year. In advanced economies, interest rates are expected to be lowered. Oil prices could be higher than anticipated, while those for natural gas and food products could be lower. The uncertain situation in the region leads to pessimistic expectations among the population and economic agents, which could limit domestic consumption and investment.

The National Bank of Moldova closely monitors the inflation process, assessing the associated risks and uncertainties in order to maintain inflation within the range of ±1.5 percentage points from the target of 5.0 %.

The NBM stands ready to adjust, if necessary, monetary policy instruments in order to maintain price stability.

The next meeting of the Executive Board of the NBM on monetary policy promotion will take place on 7 May 2024, according to the approved schedule [1].

The Governor of the National Bank of Moldova, Anca Dragu, presents the Monetary Policy Decision

Evolution of the NBM interest rates [2]

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