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Monetary Policy Decision, 20.06.2024

The Executive Board of the National Bank of Moldova, at its meeting on 20 June 2024, adopted the following decision by unanimous vote:

1. **To maintain the base rate applied to the main short-term monetary policy operations at 3.60 percent annually.**
2. **Interest rates are maintained as follows:**
   a) on overnight loans, at 5.60 percent annually;
   b) on repo operations, at 3.85 percent annually;
   c) on overnight deposits, at 1.60 percent annually.

The Executive Board's decision comes in the context of the ongoing effects of previously adopted monetary policy incentive measures, which will continue to influence the economy in the coming periods, given the lags in their transmission.

The NBM's decision aims to ensure inflation remains within the target range of variation by further stimulating aggregate demand, including encouraging consumption, balancing the national economy, and anchoring inflation expectations.

We reiterate that the NBM is closely monitoring the disinflationary process, assessing the associated risks and uncertainties. Further decisions of the Executive Board will depend on the updated inflation outlook and will be directed towards bringing inflation back within ±1.5 percentage points of the 5.0 percent target, a level considered optimal for Moldova's medium-term economic growth and development.

Recent macroeconomic information largely confirms the main assumptions and conclusions reflected in the Inflation Report of May 2024 and validates the latest forecast.

Inflation. Annual inflation fell below the lower limit of the target range, reaching 3.3 percent in May 2024. Structurally, annual inflation developments were driven largely by fuel and regulated prices, and to a lesser extent by core inflation and food prices. The drop in annual inflation below the lower limit of the range of variation was driven by a 9.2 percent adjustment in the gas supply tariff, which took effect on 3 May 2024, as well as by delayed budgetary expenditure.

External Environment. In the first quarter of 2024, the euro area economy increased by 0.4 percent annually, and annual inflation decreased to 2.6 percent in May 2024. As a result, at its meeting on 6 June 2024, the ECB lowered the reference rates by 0.25 basis points. Oil prices continued to fall due to weak demand and rising oil stocks. Natural gas prices in Europe rose sharply amid supply disruptions in Norway following a pipeline breakdown. It is worth noting that Norway became the largest exporter of natural gas to Europe after sanctions imposed on the Russian Federation came into force. Although international food prices continued decreasing in May 2024, grain prices showed a sharp monthly increase amid concerns over

unfavorable conditions for the 2024 harvest and deteriorating maritime infrastructure in the Black Sea.

Economic activity in the first quarter of 2024 performed above expectations, recording a 1.9 percent increase compared to the same period last year. By use category, exports increased by 1.0 percent, imports declined by 4.1 percent, household final consumption increased by 1.6 percent, and gross fixed capital formation increased by 4.8 percent. This development was partly mitigated by a 7.0 percent fall in the final consumption of public administration. On the supply side, manufacturing increased by 13.0 percent, information and communication by 8.0 percent, and production and supply of electricity and heat, gas, hot water, and air conditioning by 40.1 percent. The negative impact on GDP dynamics was caused by a 6.2 percent reduction in net taxes on products, a 3.3 percent decline in real estate transactions, and a 20.2 percent drop in transport and storage services. At the same time, in Q1 2024, the payroll fund increased, but below the anticipated amount, by only 14.5 percent. Therefore, domestic demand remains weak.

Monetary Conditions. Interest rates on new loans and deposits in MDL continued their downward trend in April 2024, following cumulative monetary policy incentive measures. According to operational data, the weighted average rate on deposits in MDL was 3.23 percent, and on loans, it was 9.19 percent, down by 0.32 and 0.29 percentage points, respectively, from March 2024. The decrease in rates led to an increase in the volume of new loans granted in MDL in the first three weeks of May 2024. Weighted average interest rates on foreign currency loans and deposits showed different trends, with the rate on loans continuing the downward trend and the rate on deposits increasing insignificantly.

Forecast Update. Considering the inflation developments in April and May 2024, which were lower than expected, as well as the decrease in the gas grid tariff in May 2024, there is a risk of a downward deviation of the medium-term inflation forecast until the second quarter of 2025, followed by an offsetting positive deviation of the forecast until the end of the forecast horizon. The main uncertainties to the inflation forecast are associated with agricultural production, the way in which tariffs are adjusted, the volatility of expectations regarding international commodity quotations, the tense regional and global situation, and the risks of its escalation.

External assumptions show significant changes. The Brent price forecast is markedly lower due to the latest OPEC+ decision to maintain the current limit on oil production until Q4 2024. At the same time, the natural gas price forecast in Europe and expectations for international quotations of food have increased significantly. External demand is expected to improve slightly more than forecast, while the forecast for inflation and exchange rates remains unchanged.

The next meeting of the NBM Executive Board on monetary policy promotion will take place on 6 August 2024, according to the approved schedule [1].

NBM Interest rates [2]

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