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Monetary policy decision, 19.09.2024

The Executive Board of the National Bank of Moldova (NBM) has adopted during its meeting on 19 September 2024, through unanimous vote, the following decision:

1. **The base rate applied to the main short-term monetary policy operations is maintained at the level of 3.60 percent annually.**
2. **There are kept the interest rates:**
   a) to overnight loans, at the level of 5,60percent annually;
   b) to the repo operations, at the level of 3,85 percent annually;
   c)to the overnight deposits, at the level of 1,60 percent annually.
3. **To maintain the required reserves ratio of funds attracted in MDL and non-convertible foreign currency at the current level of 29.0 percent of the calculation basis.**
4. **To maintain the required reserves ratio of funds attracted in freely convertible foreign currency at the current level of 39.0 percent of the calculation basis.**

That decision is adopted in the context of continuous dissemination of the effects of former monetary policy decisions, as given the delays related to their transmission.

The current assessment of real monetary conditions on the deposit, credit and foreign exchange markets indicates a favorable situation for ensuring the maintenance of inflation within the range variation of ±1.5 percentage points from the medium-term target of 5.0 percent.

The recent macroeconomic information attests, in best part, the main hypotheses and conclusions reflected within the framework of Inflation Report of August 2024.

Annual inflation was 5.1 percent in August 2024, being by 0.3 percentage points higher than the level of the previous month and continued, as expected, the upward trend that began in June. Thus, the annual inflation rate remained close to the target of 5.0 percent. Structurally, the upward evolution of the annual inflation rate in August 2024 was mainly determined by core inflation and food prices, being mitigated by the dynamics of the regulated prices and fuel prices.

External environment. The euro zone economy evolves without significant modifications and the annual inflation diminished to the 2,2 percent in August 2024, being positioned to the proximity of the European Central Bank (ECB) target. Oil quotations fell significantly compared to the averages of the first half of 2024 in the context of unfavorable anticipations regarding the evolution of the USA and Chinese economies. The European natural gas prices have also declined recently after significant volatility witnessed in August 2024 and against the backdrop of peak natural gas reserves in Europe and modest demand. The FAO index of international food prices has remained broadly unchanged in recent months, where the risks to price formation are minor and mutually offsetting.

Economic activity. In the second quarter of 2024, the GDP kept a positive dynamic, recording a growth of 2,4 percent comparing to the similar term of the previous year. According to the use categories, the final consumption of households increased by 3.7 percent, and gross fixed capital formation increased by 6.9 percent. This evolution was partly diminished by the reduction of the export of goods and services by 3.4 percent, of the final consumption of the public administration by 0.9 percent, together with the increase of the import by 7.8 percent. On the supply side, wholesale and retail trade grew by 7.2 percent, information and communications by 5.8 percent, construction by 5.6 percent, agricultural production by 3.0 percent, taxes net per product by 3.0 percent. The negative impact on GDP dynamics was determined by the reduction of real estate transactions by 5.8 percent, production and supply of electricity and thermal energy, gas, hot water and air conditioning by 2.9 percent, and transport and storage services by 1.0 percent.

Monetary context. Incentive measures cumulated by the monetary policy have continuously decreased the interest rates to new loans granted in MDL in August 2024. Thus, the weighted average interest rate on new loans granted was 8.68 percent annually, down by 0.14 percentage points compared to July 2024. The weighted average interest rate in deposits recorded monthly fluctuations and constituted 3.18 percent, being 0.19 percentage points higher than in July. The consecutive reduction in interest rates led to an increase in the volume of new loans granted in MDL.

Forecast update. Considering the evolution of inflation in July and August 2024, that was lower than the anticipated values, emerges a risk of a minor deviation of the short-term inflation forecast downwards for the third quarter of 2024, with its dissipation in the following quarter. Quotations development in oil, food and commodity prices on the international market remain an important source of risk. The main uncertainties regarding the inflation forecast are associated with agricultural production, the tense situation on the regional and global level, as well as the risks of its escalation.

The NBM's decision comes into a context in which the current monetary conditions are favorable to maintaining the inflation within the variation limits of ±1,5 percentage points from the target of 5,0 percentage, a positive level for economic growth and development of the Republic of Moldova on medium-term.

The next meeting of the NBM Executive Board on monetary policy decision will take place on the 5 November 2024, according to the approved calendar.

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