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Monetary Policy Decision, 12.05.2025

The Executive Board of the National Bank of Moldova, at its meeting on 12 May 2025, adopted by unanimous vote the following decision:

1. **To maintain the base rate applied to the main short-term monetary policy operations at the current level of 6.50 percent per annum.**
2. **Interest rates are maintained as follows:**
   a) on overnight loans, at the current level of 8.50 percent annually;
   b) on repo operations, at the current level of 6.75 percent annually;
   c) on overnight deposits, at the current level of 4.50 percent annually.
3. **The required reserve ratio of funds attracted in MDL and non-convertible foreign currency is maintained at the current level of 22.0 percent of the calculation base.**
4. **The required reserve ratio of funds attracted in freely convertible foreign currency is maintained at the current level of 31.0 percent of the calculation base.**

The Executive Board of the NBM approved today the Inflation Report, May 2025, which will be published on 13 May 2025.

With this decision, the National Bank of Moldova aims to anchor inflationary expectations, to bring inflation back and maintain it within the range of ± 1.5 percentage points of the 5.0 percent inflation target over the medium term.

The NBM's decision comes in the context of the moderation of inflationary trends and the propagation of previously adopted restrictive monetary policy measures, the effects of which will continue to unfold, considering the lags in their transmission.

Inflation will follow a downward trend until the end of this year, against the backdrop of below-potential domestic aggregate demand, which will continue to exert a disinflationary impact on the pace of price increases. At the same time, a disinflationary impact could also arise from negative global demand as a result of trade conditions imposed by the US. It should be noted that domestic economic activity and inflation continue to be influenced by the effects of supply shocks, particularly due to the increase in regulated tariffs over the past two quarters and the decrease in the volume of agricultural production affected by adverse weather conditions.

Recent macroeconomic information broadly confirms the main assumptions and conclusions outlined in the February 2025 Inflation Report.

Annual inflation amounted to 8.8 percent in March 2025, marking an increase of 0.2 percentage points compared to February, remaining above the upper limit of the ±1.5 percentage point variation range from the 5.0 percent inflation target. The increase in the annual inflation rate in the first quarter of 2025 was driven

by some adverse sectoral developments, including the dynamics of regulated prices, in the context of the adjustment of tariffs for mains gas, heat and electricity, as well as the increase in food prices, as a result of the dry conditions in the previous summer. However, subdued domestic demand and oil prices on the international market have exerted a disinflationary impact on the annual inflation rate. As a result, the average annual inflation rate amounted to 8.8 percent in the first quarter of 2025, slightly higher than anticipated in the February 2025 Inflation Report forecast, mainly due to the positive deviation in regulated and food prices.

External environment. The global economy is evolving amid heightened economic and political uncertainties, as well as high volatility in financial markets. Increased trade tensions persist between the US and Canada, China, the European Union, as a result of reciprocal imposition of import tariffs, which will have a negative impact on international trade, innovation and competitiveness in the long term. In this context, the International Monetary Fund (IMF) anticipates slower growth rates for the global economy in 2025, revising its forecast from 3.3% to 2.8%. International food prices showed minimal fluctuations during the first quarter of 2025, while international energy prices moderated.

Economic activity. The operational data published by the National Bureau of Statistics (NBS) for the first two months of Q1 2025 indicate a decline in exports and an increase in imports. Part of this negative trend in exports is attributed to the significant contraction in the export of agri-food products, caused by the severe drought in the summer of 2024, which affected the agricultural harvest. It is worth mentioning that the recovery of domestic consumption, along with the substantial increase in electricity imports from Romania, significantly contributed to the acceleration of imports during this period. Thus, in January-February 2025, the annual rate of exports registered a level of -14.8 percent, while the annual rate of imports continued its positive dynamics, registering 16.0 percent.

Monetary conditions. The restrictive monetary policy measures since the beginning of 2025 and the situation created on the money and foreign exchange market led to an increase in interest rates on new loans and deposits in MDL in the first quarter of 2025. Thus, the weighted average interest rate on new loans granted amounted to 8.47 percent annually, and that on deposits to 4.14 percent annually, up by 0.21 and 0.98 percentage points, respectively, compared to the fourth quarter of 2024.

The consecutive increase in interest rates in the banking sector since the beginning of this year has led to a slight moderation in lending.

Forecast update. The balance of risks to the inflation forecast is neutral, with a disinflationary bias until the end of the forecast horizon. Uncertainties remain pronounced. The main sources are uncertainties regarding agricultural production this year, the vulnerability of domestic fruit and vegetable prices to weather conditions in the upcoming period, the adjustment of tariffs for utilities, the provision of sufficient fiscal stimulus to revive economic activity, external financial assistance, as well as the tense situation in the region and the fragmentation of international trade.

The next meeting of the Executive Board of the NBM on monetary policy will take place on 19 June 2025, according to the approved schedule [1].

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