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Monetary policy decision, 13.09.2022

NBM Governor Octavian Armaşu presents the Monetary Policy Decision

The Executive Board of the National Bank of Moldova, at its meeting of 13 September 2022, adopted unanimously the following decision:

1. **To maintain the base rate applied to the main short-term monetary policy operations at 21.5% annually.**
2. **To maintain the interest rates:**

1. **on overnight loans at 23.5% annually;**
2. **on overnight deposits at 19.5% annually.**

The Decision of the Executive Board comes in the context of the spread of restrictive monetary policy measures previously adopted, the effects of which will continue to act for a longer period, given the gaps in their transmission.

The slowdown in annual inflation confirms the effects of previous measures, with monthly growth below one percentage point.

Therefore, today's decision aims at further tempering the rapid growth rates of consumer prices, mitigating

the secondary effects of supply shocks, stimulating financial intermediation in the national currency, and saving against consumption, stabilizing the trade balance, as well as anchoring inflationary expectations.

Aimed at mitigating the pressure on the balance of payments during the cold period of the year, triggered by high import prices of energy resources, the NBM considers it necessary to rationalize the population's consumption and efficiently manage the stocks of economic entities.

We reiterate that the NBM shall relax monetary policy aimed at guiding the inflation towards the target once the future projections show sound premises.

New macroeconomic information largely confirms the validity of the latest forecast.

Development of inflation. The annual inflation rate continued to rise, reaching 34.3% in August 2022 (0.8 percentage points higher than in July 2022) and being slightly lower than the level anticipated in the previous forecast. The increase in international and regional quotations for food products and energy resources determined the acceleration of prices on the domestic market. The adjustment of tariffs for network gas, heating and electricity, the increase in fuel prices, but also the upward dynamics of wages increased costs for economic operators, which gradually reflected in prices. The war in Ukraine has put additional pressure on prices for food (triggered also by the drought during this summer), fuel and certain components of core inflation. Demand-side pressures have lost their intensity.

External environment. The energy crisis in Europe continues to worsen, with the price of natural gas recently exceeding the level of three thousand US dollar per one thousand cubic meters. Foreign market prices for oil and food fell slightly, the last ones – slower than anticipated, the harvest in the northern hemisphere being uneven. The euro depreciated below parity against the US dollar until the European Central Bank's decision to raise key rates on 8 September 2022. The evolution of the Russian ruble remains unpredictable.

Economic activity. Although the new statistical data outline mixed trends in economic activity, they generally confirm the anticipated contraction for the second quarter of 2022. At the same time, the mid-term GDP evolution is affected by the significant risks associated with the conflict in the region.

Monetary conditions. Interest rates on new loans and deposits in the domestic currency continued to rise in August following the cumulative restrictive measures of monetary policy, the respective evolution being robust even after excluding the reweighting effect. Interest rates on foreign currency deposits have also increased.

Forecast update. The balance of risks of the deviation of the inflation forecast remains balanced, although the uncertainties are noticeable, at least, because of the tense situation in the region and the probability of its escalation. Uncertainties of external assumptions have increased, expectations of global economic activity continue to worsen, and risks of rising production and transportation costs remain high. Monetary policies in the world's major economies will probably continue to tighten. In the euro area, the outlook for inflation and economic activity is further deteriorating because of the energy crisis. The assumption that the economy of the Russian Federation will be affected in the medium and long term by sanctions remains valid, despite the short-term improvement due to the increase in the prices of energy resources.

The NBM will continue to monitor the inflationary process, assessing the associated risks and uncertainties, and further decisions of the Executive Board will depend on the updated inflation outlook.

The next meeting of the Executive Board of the NBM on monetary policy will take place on 8 November

2022, according to the approved schedule.

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