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Monetary policy decision, 07.05.2024

The Executive Board of the National Bank of Moldova, at its meeting on 7 May 2024, adopted by unanimous vote the following decision:

1. **to set the base rate applied to the main short-term monetary policy operations at 3.60 percent annually.**
2. **to set the interest rates:**
   a) on overnight loans, at the level of 5.60 percent annually;
   b) on overnight deposits, at the level of 1.60 percent annually.
3. **to reduce the required reserve ratio of funds attracted in MDL and non-convertible foreign currency as follows:**
   a) starting with the period of application of required reserves in MDL of 16 June 2024 - 15 July 2024, from 33.0 percent to the level of 31.0 percent of the calculation basis;
   b) starting with the period of application of required reserves in MDL of 16 July 2024 - 15 August 2024, from 31.0 percent to the level of 29.0 percent of the calculation basis.
4. **to reduce the required reserve ratio of freely convertible foreign currency assets, as follows:**
   a) starting with the period of application of required reserves in freely convertible currency of 16 June 2024 to 15 July 2024, from 43.0 percent to the level of 41.0 percent of the calculation basis;
   b) starting with the period of application of required reserves in freely convertible currency of 16 July 2024 to 15 August 2024, from 41.0 percent to the level of 39.0 percent of the calculation basis.

The Executive Board of the NBM approved for publication the Inflation Report, May 2024.

The National Bank of Moldova aims to slow the decline in inflation and keep it within the target range by further stimulating the aggregate demand, including by encouraging the consumption and investment, balancing the national economy, and anchoring the inflation expectations.

The decision extends the monetary policy easing process that started in December 2022. The effects will continue to be transmitted gradually through lower interest rates in money, deposit and credit markets.

The current forecast is broadly in line with previously projected trends.

Annual inflation decreased to 3.9 percent in March 2024, or by 0.3 percentage points lower than in December 2023, being insignificantly lower than expected. The deviation was mainly due to regulated prices, due to the delay in adjusting health care tariffs and the drop in natural gas tariff in February 2024.

Disinflationary demand, lower food prices on the international market, last year's rich harvest, lower tariffs for some utilities and compensation for energy resources offered to the population during the cold season contributed to lower inflation. The incentive monetary policy measures so far, fiscal policy adjustment and some adverse sectoral shocks have mitigated the decline in inflation.

External environment. The year 2024 started with increasing geopolitical tensions and continued inflationary pressures. Oil prices increased significantly in the first months due to OPEC+ production limits, the bypassing of the Red Sea by oil tankers and heightened tensions in the Middle East. Food prices reversed their downward trend to a slight increase. Natural gas prices have also increased periodically due to a decrease in supply for Europe following the increased purchases in Asia. Stocks in Europe, however, remain at peak levels after a warm winter and a decline in industrial consumption of natural gas. Continued inflationary pressures in some advanced economies, particularly core inflation, have led to expectations for postponement of the decline in monetary policy interest rates. Economic growth remains highly uneven worldwide. The US economy is in good shape, while the euro area economy is weakened by the crises of recent years. Economies in the region remain troubled by the aftermath of the war in Ukraine.

Economic activity. Data published by the NBS for the first two months of 2024 show mixed trends in economic activity. International trade shows no clear signs of improvement: both exports and imports recorded negative rates of -12.5 and, respectively, -7.5 percent on an annual basis. Retail trade, industrial production and wholesale trade increased on average by 10.9; 3.8 and 2.5 percent annually, respectively.

Monetary conditions. Excess liquidity in the banking sector amounted to MDL 12.3 billion, increasing by MDL 2.8 billion in Q1, 2024 compared to the previous quarter. The annual increase in the monetary aggregate M3 in Q1, 2024 was 17.9 percent, mainly due to the t deposits in MDL. The incentive monetary policy measures so far have led to lower interest rates on new loans and deposits in Q1, 2024. Thus, the weighted average rate on loans was 9.66 percent and on deposits - 3.91 percent, decreasing by 4.63 and 7.85 percentage points, respectively, compared to Q1, 2023. The decrease in interest rates led to an increase in the volume of new loans granted in MDL by 28.7 percent annually in Q1, 2024, mostly due to the consumer and real estate loans granted to individuals. New loans in MDL granted to individuals increased by 63.7 percent annually in March 2024.High-frequency data show that interest rates on new loans and deposits in MDL continue to fall. Thus, in the first three weeks of April, the weighted average rate on loans was 9.27 percent, and on deposits - 3.31 percent, lower by 4.46 and 5.49 percentage points, respectively, compared to the same period in 2023. The volume of new loans in MDL increased by 50.6 percent compared to the same period of the previous year.

Forecast. External demand is assumed to remain lower than historical averages and external inflation is assumed to fall towards the targets set by central banks. Monetary policy rates will fall more slowly than expected. The US dollar will continue to appreciate due to the FED keeping interest rates high for a longer period, the better US economic situation compared to other economies, and the increased attractiveness of the dollar due to rising global geopolitical tensions. The Russian rouble will depreciate due to the rebalancing of the purchasing power parity, the difficult circumvention of the economic sanctions and difficulties in working with new markets. Oil prices will remain high due to geopolitical tensions and the extension of the OPEC+ production limits, which could lead to a significant oil deficit in the second half of the year. Natural gas prices will continue to respond strongly to the smallest supply shocks, while food prices will increase moderately.

The annual inflation rate will slightly oscillate around the target of 5.0 percent, remaining within a range of ±1.5 percentage points over the next eight quarters. The dynamics will be largely due to all components. Aggregate demand will be disinflationary throughout the forecast period due to tight monetary conditions and, to a lesser extent, weak external demand. The positive fiscal impulse will mitigate the decline in aggregate demand.

The trends anticipated in previous rounds remain largely valid. The inflation forecast has been raised slightly for the whole comparable period, with small exceptions.

Risks and forecasting uncertainties remain high. From the external environment, sources such as tensions in the Middle East, the war in Ukraine, temporary supply and food price shocks, FED monetary policy, as well as the geopolitical configuration after the 2024 elections, which could lead to changes in economic policies. Key domestic uncertainties include tariff adjustments, refugee flows, weather conditions and the upcoming harvest.

The Inflation Report, May 2024, which contains the analysis of the domestic and external economic situation and the medium-term inflation forecast, will be presented by the Governor of the NBM and published on the NBM website on 14 May 2024.

The next meeting of the NBM Executive Board on monetary policy promotion will be held on 20 June 2024, according to the approved schedule [1].

NBM Interest rates [2]

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