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Monetary Policy Decision, 05.11.2024

The Executive Board of the National Bank of Moldova, at its meeting on 5 November 2024, adopted by unanimous vote the following decision:

1. **to maintain the base rate applied to the main short-term monetary policy operations at 3.60 percent annually.**
2. **to maintain interest rates as follows:**
   a) on overnight loans, at the level of 5.60 percent annually;
   b) on repo operations, at the level of 3.85 percent annually;
   c) on overnight deposits, at the level of 1.60 percent annually.
3. **to decrease the required reserve ratio of funds attracted in MDL and non-convertible foreign currency, as follows: starting with the period of application of required reserves in MDL of November 16, 2024 - December 15, 2024, from 29.0 percent to the level of 27.0 percent of the calculation basis.**
4. **to decrease the required reserve ratio of funds attracted in freely convertible foreign currency, as follows: starting with the period of application of required reserves in freely convertible currency of November 16, 2024 - December 15, 2024, from 39.0 percent to the level of 36.0 percent of the calculation basis.**

The Executive Board of the NBM also approved today the Inflation Report of November 2024, which will be published on 12 November 2024.

This decision is taken in the context of the ongoing effects of previous monetary policy decisions, given the lags in their transmission.

With the decision to reduce the required reserve ratios in MDL and in freely convertible foreign currency at the same time, the NBM aims to lower the borrowing costs. This will further support the private sector lending process and stimulate the national economy.

It is worth noting that the cumulative monetary policy stimulus measures of both the consecutive cuts in the base rate and the lowering of the required reserve ratio will increase the excess liquidity in the banking system by the end of this year. The current and forecast volume of liquidity will allow banks to lend to economic agents and households, as well as to invest in government securities (GS).

At the same time, given that the seasonal demand for cash and loans will exceed the forecast made during the current forecasting round, the National Bank of Moldova will release additional volumes of liquidity into the money market by further reducing the required reserve ratio.

The current assessment of the real monetary conditions on the deposit, credit and foreign exchange markets shows a favorable situation to ensure that inflation remains within the range of ±1.5 percentage points of the 5.0 percent target over the medium term.

Recent macroeconomic information broadly confirms the main assumptions and conclusions reflected in the Inflation Report, August 2024.

Annual inflation amounted to 5.2 percent in September 2024, 1.4 percentage points higher than in June 2024. The annual inflation rate remained close to the 5.0 percent target in September 2024, although it has been on an upward trajectory after the downward trend that started at the end of 2022. The higher annual inflation rate in the Quarter III, 2024 was driven by some adverse sectoral developments, including dry conditions in the summer of this year, which contributed to the increase in food prices. However, modest domestic demand, domestic industrial producer prices, as well as food and oil prices on the international market have had a disinflationary impact on the annual inflation rate. Thus, in Quarter III, 2024, the annual inflation rate amounted to 5.0 percent and was lower than anticipated in the forecast of the Inflation Report, August 2024, mainly due to the negative deviation recorded for regulated and fuel prices.

External environment. The world economy is evolving amid intensifying global trade and geopolitical tensions on the one hand and easing monetary policies in the US and the euro area on the other. Oil prices fell to their lowest level this year in September on expectations of reduced demand from China. However, following the escalation of tensions in the Middle East, prices returned to previous levels in October. European natural gas prices also rose due to concerns related to the expiration of the natural gas transit contract through Ukraine at the end of 2024. The FAO International Food Price Index rose in September this year for the first time since the end of 2022, indicating a reversal of the trend.

Economic activity. Data published by the NBS for the first two months of Quarter III, 2024 point to conditions for continued sustained growth of economic activity in that quarter. Thus, in the period of July-August 2024, the annual rate of exports registered a level of -10.9 percent against the background of the decrease in agricultural production, while the annual rate of imports increased by 13.9 percent. It should be noted that the upward trend in imports can be attributed to the revival in consumption. The retail and wholesale trade grew on average by 13.9 and 6.7 percent annually, respectively.

Monetary conditions. The cumulative monetary policy stimulus measures led to a continuous decline in interest rates on new loans and deposits in MDL in Quarter III, 2024. Thus, the weighted average interest rate on new loans granted was 8.63 percent and on deposits was 3.12 percent, decreasing by 2.75 and, respectively, 1.49 percentage points compared to Quarter III, 2023. The consecutive reduction in interest rates led to a 43.3 percent increase in the volume of new loans in MDL in Quarter III, 2024. This dynamic was driven by the increase in loans granted both for consumption and real estate to individuals, as well as to legal entities in the trade, transportation, telecommunications, and network development sectors.

Forecast update. The annual inflation rate will follow a relatively stable trend for the entire forecast period and will remain within the range of ±1.5 percentage points of the 5.0 percent target. Thus, the average annual inflation for the years 2024 and 2025 will be 4.6 and 4.9 percent, respectively, revised by -0.1 and -0.4 percentage points, respectively. The current inflation forecast has been revised downward for Quarter IV, 2024 – Quarter II, 2026. The downward revision to the annual inflation rate forecast is driven by lower actual inflation than anticipated in the previous quarter, expectations of modest domestic demand, anticipated tariff reductions in Quarter IV, 2024, reconsideration of the impact of dry conditions in the summer of 2024, and a lower forecast for international oil prices. As for the upward revision, this is conditioned by a higher forecast for food and natural gas prices on the global market. It should be mentioned that the disinflationary aggregate demand, the vulnerability of domestic fruit and vegetable prices to weather conditions in the coming period, uncertainties regarding the volume of agricultural production in 2024 and 2025, the evolution of regulated prices, the tense regional and global situation, the

volatility of expectations regarding international commodity prices remain an important source of risks and uncertainties for the medium-term inflation forecast.

The NBM's decision comes in the context in which the existing monetary conditions are conducive to maintaining inflation within the range of ±1.5 percentage points of the target of 5.0 percent, a level considered optimal for the growth and economic development of the Republic of Moldova in the medium term.

The next meeting of the NBM Executive Board on monetary policy will take place on 19 December 2024, according to the approved schedule [1].

NBM Interest rates [2]

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