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Monetary Policy Decision, 10.01.2025

The Executive Board of the National Bank of Moldova, at its meeting on 10 January 2025, adopted by unanimous vote the following decision:

1. **To establish the base rate applied to the main short-term monetary policy operations at 5.60 percent annually.**
2. **To set the interest rates as follows:**
   a) on overnight loans, at the level of 7,60 percent annually;
   b) on repo operations, at the level of 5,85 percent annually;
   c) on overnight deposits, at the level of 3,60 percent annually.

The convening of the unplanned meeting resulted from the need to adjust the monetary policy in order to alleviate the pressures on the inflationary process in the context of recent tariff increases. The decision was based on the analysis and assessment of recent macroeconomic data related to both the external and internal environment, particularly the prospects of accelerating inflation due to the increase in domestic tariffs for mains gas, thermal energy, and electricity, adjusted in December 2024 and January 2025. The sharp rise in energy resource prices will generate additional inflationary pressures on the inflationary process in terms of production costs and prices, as well as inflation expectations from households and economic agents.

Under these circumstances, the adjustment to the short and medium-term inflation forecast emphasizes the certainty that the annual inflation rate will remain above the upper limit of the ±1.5 percentage point corridor of variation from the inflation target of 5.0 percent per annum for several quarters of 2025.

Thus, the increase in the base rate is aimed at tempering the secondary effects of the change in regulated tariffs on inflation and anchoring inflationary expectations, with the goal of bringing the annual consumer price inflation rate back within the target corridor within a reasonable time frame.

Annual inflation stood at 6.96 percent in December 2024, 1.6 percentage points higher than the previous month's level, exceeding the upper limit of the target range of 5.0 percent ±1.5 percentage points. However, it is worth noting that this was caused by the 27.6 percent increase in the price of mains gas as a result of ANRE's adjustment of the respective tariff in December 2024. The annual inflation rate, excluding that impact, is about 6.25 percent, slightly lower than the forecasted rate in the Inflation Report, November 2024. Structurally, the upward trend in the annual inflation rate in December 2024 was mainly driven by the dynamics of regulated prices, being mitigated by the dynamics of core inflation, food and fuel prices.

External environment. The global economy is evolving amid ongoing geopolitical tensions and inflationary pressures. The outlook for the monetary policies of the Federal Reserve (Fed) and the ECB has shifted, with a much more significant decline in ECB interest rates expected in the context of weaker economic growth in the euro area and inflation remaining below the target. European natural gas prices rose after cooler temperatures led to increased natural gas consumption and heightened concerns about faster depletion of

reserves. Europe also must contend with a halt in natural gas supplies through Ukraine after December 31, 2024. International food prices have started to rise moderately compared to the lows in the summer of 2024, with food supply and demand sufficiently balanced.

Economic activity. After the positive trend in the first half of 2024, in the third quarter of 2024 the annual GDP dynamics entered negative territory. GDP contracted by 1.9 percent in the third quarter of 2024 compared to the same period of 2023, falling below the level anticipated in the previous forecasting round. These dynamics were mainly driven by the negative impact from external demand. Domestic demand, both from households, in the context of real income growth, and from economic agents, partially mitigated this effect. At the same time, it is worth mentioning the negative impact on GDP dynamics from the agricultural sector in the context of dry conditions in the summer of 2024, as well as from trade and real estate transactions. This was partly mitigated by positive developments in construction, the financial sector and the information and communication sector.

Monetary conditions. The impact of the consecutive cuts in the base rate applied to the main monetary policy operations continued to be reflected in the downward trend of interest rates on loans granted in national currency.

According to the weekly statistical data, in the third week of December 2024, in the segment of new loans granted in MDL by licensed banks, the weighted average interest rate decreased to 8.03 percent annually. For term deposits in national currency, the weighted average interest rate showed a slight upward trend, reaching 3.39 percent annually.

The continuous downward trend in interest rates on loans granted in MDL positively influenced the dynamics of weekly volumes of loans, the annual growth rate of which amounted to 41.8 percent in the first three weeks of December. At the same time, the moderate increase in interest rates on term deposits in MDL contributed to a decrease in the volume of deposits in the first three weeks of December by 22.6 percent annually.

Partial update of the forecast. Based on the analysis of the available information, a positive deviation from the short-term inflation forecast has been recorded, with a firm certainty of exceeding the upper limit of the ±1.5 percentage points of variation range of the 5.0 percent inflation target per year during several quarters of 2025.

The underlying factor driving this inflation development is the cessation of natural gas supplies through Ukraine after December 31, 2024. As a result, the Republic of Moldova is meeting its electricity needs from its own sources and imports, at prices that have led to an increase in the electricity tariff from the beginning of 2025 in the absence of deliveries from the Cuciurgan power plant. In addition, recent tariff adjustments for mains gas and thermal energy will generate increases in the prices of goods and related services.

At the same time, moderate domestic demand, driven by a slowdown in the growth of disposable income, as well as weaker external demand, particularly caused by economic activity in the European Union, will have a negative impact on the dynamics of the inflationary process.

The NBM will continue to closely monitor the evolution of inflation components and the factors that may affect its dynamics, the domestic and external macroeconomic situation, as well as the risks and uncertainties associated with inflation developments in the short and medium term. At the same time, the NBM notes that, in order to achieve the fundamental objective of ensuring and maintaining price stability, it reserves the legal right to intervene at the appropriate time by adjusting monetary policy instruments.

The next meeting of the Executive Board of the NBM on monetary policy will take place on 5 February 2025, according to the approved schedule [1].

NBM Interest rates [2]

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