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Monetary Policy

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Inflation Report no. 2, 2025

Inflation Report no. 2, 2025 [1]

Presentation [2] (*available in Romanian*)

Summary

Inflation

In the first quarter of 2025, the annual inflation rate continued the upward trajectory that began in the middle of the previous year. In this way, the annual inflation rate increased from 7.0% in December 2024 to 8.8% in March 2025, thus being above the upper limit of the inflation target variation range in the last four months, a fact generated by the dynamics of regulated prices, in the context of adjusting tariffs for mains gas, heat energy and electricity. The annual inflation rate without that impact was about 6.3% in March 2025, being within the range of the inflation target. At the same time, the average annual inflation rate was 8.8% in the first quarter of 2025, about 2.9 percentage points higher than in the previous quarter.

The upward trajectory of the annual inflation rate in recent months was supported by some adverse sectoral developments, including the adjustment of tariffs for mains gas, thermal energy and electricity, as well as the drought conditions in the summer of the previous year that led to an increase of food prices. Aggregate demand is estimated to have continued to exert a disinflationary impact on prices during the reference period. The adjustment of energy resource tariffs in recent months will place the annual inflation rate above the upper limit of the inflation target variation range in the coming period. The manner of adjusting tariffs, as well as the tense situation in the region and the risks of its escalation, maintain the pronounced uncertainty related to the inflation forecast.

External environment

The first months of 2025 were characterized by growing economic uncertainties. In the foreground were the actions of Donald Trump, who returned to the White House for a second term as US president. He launched a series of measures with long-lasting global economic impact by imposing radical import tariffs, which provoked retaliatory measures and raised trade barriers to the level of those of the 1930s. Thus, volatility and uncertainties on international financial markets have considerably increased. Following these developments, the IMF warned that heightened trade tensions mark the beginning of a new global era of slower economic growth, and the imposed tariffs will undermine international trade and affect innovation and long-term competitiveness. The IMF has cut its global growth forecast for 2025 from 3.3 to 2.8%, while the key factors behind this slowdown were political uncertainty, trade tensions and weak demand.

Economy

After the upward trend in the first half of 2024, the annual GDP dynamics entered the negative territory in the second half of this year. In the fourth quarter of 2024, the annual decline in GDP moderated slightly, so that GDP contracted by 1.3% compared to the same period in 2023. This dynamic was mainly determined by the negative impact of net external demand. Domestic demand, both from the population, in the context of increasing incomes in real terms, 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, due to the drought conditions in the summer of the previous year, as well as from industry, construction and education. This was partly mitigated by evolutions in the real estate transactions, trade, accommodation and food service activities, in financial and information and communications sectors. According to estimates, the domestic demand has remained moderate, as indicated by the still below than expected growth in household consumption, thus exerting a disinflationary impact during this period. At the same time, the seasonally adjusted series reflects a 0.1% increase in GDP compared to the third quarter of 2024. On the whole, in 2024, GDP increased by 0.1% compared to the previous year.

Monetary policy

In the first quarter of 2025, excess liquidity amounted to MDL 10.6 billion, increasing by MDL 2,237.5 million, compared to the fourth quarter of 2024.

During this period, the M3 monetary aggregate recorded an annual growth rate of 12.9% annually. The main contribution came from the balance of deposits in the national currency.

During the first quarter of 2025, three meetings of the Executive Board of the National Bank of Moldova were held regarding monetary policy decisions. As a result of the assessment of the balance of internal and external risks and the short- and medium-term inflation prospects, the Executive Board of the National Bank of Moldova decided at its meetings on January 10 and February 5, 2025, to increase the base rate cumulatively by 2.9 percentage points to the level of 6.50% annually. Later, at the meeting of March 20, 2025, it decided to maintain the base rate. At the same time, rates on standing facilities and repo operations were maintained. The required reserve ratio for funds attracted in MDL and in non-convertible currency was maintained at 22.0% of the calculation basis, and the required reserve ratio for funds attracted in freely convertible currency – at 31.0% of the calculation basis.

These measures were adopted in view of the need to adjust monetary policy in a way that would mitigate pressures on the inflationary process in the context of the recent tariff increases.

At the meeting of May 12, 2025, the Executive Board unanimously adopted the maintenance of the base rate at 6.50% per annum, the interest rates on overnight loans and overnight deposits at the levels of 8.50 and 4.50% annually, respectively. The interest rate on repo operations remained at the level of 6.75% annually. At the same time, the required reserves ratio for funds attracted in MDL and in non-convertible currency and for funds attracted in freely convertible currency was maintained at 22.0 and 31.0% of the calculation basis, respectively.

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

In the first quarter of 2025, in the domestic currency segment, the weighted average interest rates on new granted loans and term deposits changed their downward trend under the impact of monetary policy measures. Thus, the weighted average rate on loans amounted to 8.47%, and that on deposits was 4.14%, up by 0.21 and 0.98 percentage points, respectively, compared to the fourth quarter of 2024.

The average interest rates on the balance of loans in the national currency decreased by 0.04 percentage points, to the level of 8.52%, compared to the fourth quarter of 2024, and on term deposits they increased by 0.08 percentage points, to the level of 3.44%.

Medium-term inflation projection

In the current round of forecasts, risks and uncertainties related to the external environment have intensified. After the Trump administration imposed significant tariffs on several countries, and then delayed many of them for 90 days, the level of tariffs that will came into effect on July 10, 2025, is uncertain. While the world's major economies have shown their willingness to negotiate trade agreements with the US and some have reported progress in this regard, the announced deadline is quite narrow, which means that trade tensions persist. Peace negotiations regarding the war in Ukraine appear to have reached an impasse, but evolutions surrounding them have contributed to justifying decisions to increase defense spending in Europe. The economies of the European Union continue to face an industrial slowdown. Under these conditions, along with a stimulative monetary policy, fiscal measures aimed at the EU economic recovery are expected. Oil prices will be affected mainly by global trade tensions, as well as by OPEC+ decisions to increase production. Natural gas prices in Europe will depend on countries' ability fill their gas storage facilities before the next cold season. International food prices are expected to develop in a balanced manner.

Starting from the second quarter of 2025, the annual inflation rate will reverse its direction and will outline a downward trend throughout the forecast period[1]. During the first two consecutive quarters of the forecast, the annual inflation rate will be above the upper limit of the variation range and will return to the range starting from the fourth quarter of 2025, where it will remain until the end of the forecast period[2]. The annual core inflation rate will decrease in the first quarter of the forecast, after which it will register a relatively stable trend until the first quarter of 2026 and will decrease towards the end of the forecast period, except for the last quarter. The annual rate of food prices will continue to increase in the first quarter of the forecast, after which it will decrease until the first half of next year, then it will have an upward trend towards the end of the forecast period. The annual rate of regulated prices will decrease in the first half of the forecast period, followed by a stable trend for the rest of the forecast period, except for the first quarter of 2027, when it will decrease. The annual rate of fuel prices will decrease in the first quarter of the forecast and will record negative values until the second quarter of 2026, after which it will record positive growth rates starting from the third quarter of 2026.

Negative aggregate demand over the entire forecast period will be driven by tight real monetary conditions and, to a lesser extent, by the negative impact of external demand. The positive fiscal impulse during the first three consecutive quarters, as well as the last quarter of the forecast, will determine the mitigation of negative aggregate demand.

Real monetary conditions will have a restrictive character on aggregate demand throughout the forecast period.

The current inflation forecast, compared to that in the Inflation Report, February 2025 has been revised

slightly upwards during the first two consecutive quarters of the comparable period[3], and starting from the first quarter of 2026 – in a downward direction. The annual core inflation rate was revised upwards until the second quarter of 2026 and downwards for the rest of the comparable period. The current forecast for the annual rate of food prices has been increased until the third quarter of 2025 and decreased for the rest of the comparable period, except for the fourth quarter of 2026. The annual rate of regulated prices is revised upwards until the end of 2025 and downwards for the rest of the comparable period. The forecast for the annual rate of fuel prices was reduced until the second quarter of 2026 and increased by the end of the comparable period.

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1. Second quarter of 2025 – first quarter of 2027

2. First quarter of 2027

3. Second quarter of 2025 – fourth quarter of 2026

See also

Tags
inflation [3]
inflation forecast [4]
External environment [5]
Concept of the Information System for reporting to the National Bank of Moldova [6]
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