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Monetary Policy

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Inflation Report no. 3, 2025

Inflation Report no. 3, 2025 [1]

Presentation [2] (*available in Romanian*)

Summary

Inflation

ÎIn the second quarter of 2025, the annual inflation rate moderated compared to the beginning of the current year. Thus, it decreased from 8.8% in March 2025 to 8.2% in June 2025. At the same time, the average annual inflation rate was 7.9% in the second quarter of 2025, about 0.9 percentage points lower than in the previous quarter. Starting from December 2024 and in the first half of this year, the annual inflation rate was above the upper limit of the inflation target variation range, a fact determined by the dynamics of regulated prices in the context of the tariff adjustment for mains gas, thermal and electric energy. It should be noted that the annual inflation rate excluding that impact was about 5.7% in June 2025, being within the range of variation of the inflation target. At the same time, in the second quarter of 2025, the annual inflation rate was marginally higher than the value anticipated in the Inflation Report, May 2025. The annual increase in prices in the first half of this year was mainly supported by some supply shocks, including the adjustment of the tariff for mains gas, heat and electric energy, as well as by unfavorable agrometeorological conditions that exerted pressure on food prices. According to estimates, the aggregate demand continued to exert a disinflationary impact on prices during the reference period. The adjustment of energy resource tariffs, from the end of the previous year and the beginning of the current year, will support the placement of the annual inflation rate above the upper limit of the inflation target variation range in the coming period. The manner in which tariffs are adjusted, as well as the tense situation in the region and the risk of its escalation, keeps the inflation outlook highly uncertain related to the inflation forecast.

External environment

In the second quarter of 2025, the evolution of the world economy was determined by the trade tariffs chronicle, the lack of results in the Russia – Ukraine peace negotiations, and the intensification of tensions in the Middle East. All attention is now focused on the trade tariff ping-pong and the totality of information is becoming increasingly difficult to estimate. In June 2025, military offensives between Israel and Iran were at their peak, which amplified the risk of closing the Strait of Hormuz and caused significant increases in oil prices, as well as other relevant prices. Although spirits have calmed down in a few weeks, the lack of a truce between the countries involved in the Middle East conflict means that the related risk persists. Despite the fact that quick results were promised, peace negotiations between Russia and Ukraine have not

had a positive outcome, and in the recent weeks the attacks have intensified, which minimizes the possibility of an economic recovery in the region in the near future. After the adoption of the 18th package of economic sanctions against the Russian Federation, Europe is focusing on redistributing the budget towards defense, minimizing the consequences of US trade tariffs, and further adjusting trade tariffs with China. Since in Romania in 2024, the budget deficit stood at 9.3% of GDP, and the public debt/GDP ratio rose to 54.8%, the Council of the European Union requested Romania to act quickly to comply with the requirements of the excessive deficit procedure. Thus, the Romanian Government announced a substantial package of austerity measures. Although funding sources will substantially decrease, the expected VAT increase will cause inflationary pressures to increase in the coming months. The increase in investment attractiveness has led to a significant appreciation of the single European currency against the US dollar. European natural gas prices are under pressure as natural gas stocks in Europe are lower than the previous year's level. The cumulative evolution of international food prices is quite balanced, given that the surplus supply in some segments counterbalances some registered deficits.

Economy

At the beginning of this year, the annual GDP rate continued the negative dynamics that began in the second half of the previous year. In this way, in the first quarter of 2025, GDP contracted by 1.2%, compared to the same period in 2024. These dynamics were slightly higher than anticipated in the Inflation Report, May 2025, primarily due to the negative impact of net external demand. Domestic demand, both from the population, in the context of rising real income growth, and from economic agents, partly offset this effect. At the same time, it is worth mentioning the negative impact on GDP dynamics from the agricultural sector, as well as from industry, professional, scientific and technical activities. This was partially mitigated by positive developments in the construction sector, the information and communications sector, and the financial and insurance activities sector. At the same time, the seasonally adjusted series reflects a 1.1% increase in GDP compared to the fourth quarter of 2024.

Monetary policy

In the second quarter of 2025, excessive liquidity amounted to MDL 7.2 billion, decreasing by MDL 3,471.0 million compared to the first quarter of 2025.

During this period, the M3 monetary aggregate recorded an annual growth rate of 11.7% per year. The main contribution came from the balance of deposits in the national currency.

During the second quarter of 2025, two meetings of the Executive Board of the National Bank of Moldova were held regarding monetary policy decisions. Following the assessment of the balance of internal and external risks and the inflation outlook in the short- and medium-term, the Executive Board of the National Bank of Moldova decided, at its meetings on May 12, 2025 and June 19, 2025, to maintain the base rate at the level of 6.50% annually, set on February 5, 2025. At the same time, rates on standing facilities and repo operations were also maintained. The required reserve ratio of funds attracted in MDL and in non-convertible currency was maintained at 22.0% of the calculation basis, while the required reserve ratio of funds attracted in freely convertible currency – at 31.0% of the calculation basis.

These measures were adopted in the context of tempering inflationary trends and the propagation of previously adopted restrictive monetary policy measures, the effects of which will continue to act, considering the gaps in their transmission.

At the meeting of August 7, 2025, the Executive Board of the NBM adopted by a unanimous vote the reduction of the base rate applied to the main monetary policy operations, the rates on standing facilities, as well as the rate on repo operations by 0.25 percentage points each. Thus, the base rate was set at 6.25%, interest rates on overnight credits and overnight deposits were set at 8.25% and 4.25%, respectively. The interest rate on repo operations was set at 6.50%. At the same time, the required reserve 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.

In the context of moderate annual inflation, the decision of the NBM to resume monetary policy easing measures emphasizes stimulating aggregate demand, including by encouraging consumption and investment, balancing the national economy and the current account, as well as anchoring inflationary expectations, taking into account temporary lags in monetary policy transmission through the interest rate channel.

In the second quarter of 2025, in the national currency segment, the weighted average interest rates on new granted loans and on term deposits extended their upward trend under the impact of monetary policy measures. Thus, the weighted average rate on loans was 8.99%, and that on deposits – 4.91%, up by 0.52 and 0.77 percentage points, respectively, compared to the first quarter of 2025.

Average interest rates on the balance of loans in the national currency increased, compared to the first quarter of 2025, by 0.20 percentage points, to the level of 8.72%, and on term deposits – by 0.44 percentage points, to the level of 3.88%.

Medium-term inflation projection

In the current round of forecasts, the external environment continues to present an uncertain picture with predominantly disinflationary risks. If in the previous round of forecasting the trade war initiated by President Donald Trump was only in its initial phase, now we can talk about a process in full swing, with no clear end in the near future.

At the same time, the lack of results in the peace negotiations between the Russian Federation and Ukraine led the European Commission to adopt the 18th package of economic sanctions against the Russian Federation, and President Donald Trump threatened to impose tariffs on countries importing from the Russian Federation. Although the geopolitical tensions in the Middle East have moderated, the risk of escalation persists, which determines the maintenance of a high risk premium in oil price formation. Natural gas prices in Europe continue to be determined by temperature levels and the level of filling of natural gas storage capacities. International food prices are following a stable upward trend in line with expectations from the latest round of forecasts.

The annual inflation rate will have a downward trend during the current year and the first half of next year, and will subsequently register a stable trend until the end of the forecast period[1]. In the current year, the inflation rate will be above the upper limit of the variation range, and starting from the first quarter of 2026, it will return and remain within the range, close to the lower limit, until the end of the forecast period. The maximum value will be recorded in the third quarter of this year, while the minimum value in the third quarter of 2026. The annual core inflation rate will have a relatively stable trend until the beginning of next year, after which it will have a decreasing trend until the end of the forecast period. The annual rate of food prices will have a downward trend until the third quarter of 2026, after which, by the end of the forecast period, it will register a slightly increasing trend. The annual rate of regulated prices will decline sharply

until the first quarter of next year, after which it will have a relatively stable trajectory until the end of the forecast period. The annual rate of fuel prices will have an upward trend throughout the forecast period, although it will register negative values until the first quarter of 2026.

Aggregate demand will recover by the end of this year, after which it will have a decreasing trend with a slight recovery towards the end of the forecast period.

Real monetary conditions will be restrictive on aggregate demand throughout the forecast period.

The current inflation forecast, compared to the inflation in the previous inflation report[2], has been revised slightly upwards for the current year and insignificantly downwards for the rest of the comparable period[3]. The current forecast for the annual core inflation rate has been revised downwards, predominantly, for the entire comparable period. The annual rate of food prices was revised significantly upwards for the entire comparable period. The current forecast for the annual rate of regulated prices has been significantly revised downwards during the current year and the next year. The forecast for the annual pace of fuel prices was increased until the first half of next year and has been revised downwards thereafter, until the end of the comparable period.

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1. Third quarter of 2025 – second quarter of 2027.

2. Inflation Report, May 2025.

3. Third quarter of 2025 – first quarter of 2027.

See also

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inflation forecast [4]
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