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Monetary Policy

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Inflation Report no. 3, 2019

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Summary

In the second quarter of 2019, the annual rate of inflation continued its upward trajectory from the beginning of the current year, by increasing from 2.8% in March to 4.4% in June 2019. This dynamics was caused by some pressures of food prices, depreciation of domestic currency, as well as by some pressures of the aggregate demand. As of May 2019, the annual rate of CPI was within the range of inflation target. The sub-components of inflation registered an upward trend for the core inflation and food prices. The annual dynamics was generated by the depreciation of domestic currency, excess demand, as well as by the incidence of sectoral shocks. In the case of food products, the adverse agro-meteorological conditions of the previous year have caused a sharp increase of prices of vegetables and potatoes in the first half of the current year. In the second quarter of 2019, the annual rate of regulated prices remained in negative territory, showing mainly the impact of reduced tariffs for electricity from the summer of previous year, and the prices of drugs. At the same time, the annual rate of fuel prices continued its downward trajectory from the previous periods. The annual average rate of inflation in the second quarter of 2019 was slightly higher than the anticipated one, confirmed by the main hypotheses and conclusions of the forecast round from April 2019.

The macroeconomic statistics and stock exchange indicators of the second quarter of 2019 show that the global economy is tempering. This situation determined OPEC+, during the meeting held in June 2019, to extend the agreement on limitation of oil production until March 2020, in order to mitigate the consequences of decrease in the global demand of oil. The Federal Reserves and the European Central Bank announced their intention to adopt monetary easing measures in the near future. For short term, the emerging economies will benefit from the rebalancing of the financial capital from advanced economies to emerging, while for long term – they will try to adjust themselves to reduce the global demand. For example, the Central Bank of the Russian Federation reduced the rate of monetary policy in order to offset the disinflationary pressures. The financial markets encouraged the decision of the USA and China taken at the G20 summit to continue the trade negotiations, but also the decision of the USA and Iran to solve geopolitical dissensions through diplomatic channels. Moreover, in the second quarter of 2019, an increase in international prices of food and minerals was registered following the supply shocks.

In the first quarter of 2019, the economic growth was more visible compared to the previous quarter, thus being in line with the expectations of the previous forecast round. The annual growth rate of GDP constituted 4.4%, which is 0.6 percentage points more than in the fourth quarter of 2018. At the same time, the seasonally adjusted series show a rise of 0.3% of the GDP, compared to the fourth quarter of 2018. By contrast, with the second half of the previous year, at the beginning of the current year, the economic

growth was supported mainly by the foreign demand, while the domestic demand was much lower. In this way, exports generated an important positive contribution to the dynamics of the GDP at the beginning of this year, being supported by the exports of vehicles and devices[1]. Following a significant acceleration at the end of 2018, the annual rate of household consumption recorded a modest growth in the first quarter of 2019. Investments had a positive impact on the growth of GDP at the beginning of the current year, but with a small impact. In the context of a modest internal demand, the annual dynamics of imports was more moderate compared to the end of the previous year. With regard to the sectors of domestic economy, constructions and trade play a major role in the development of economic activity. The available operative indicators outline pre-conditions for economic growth in the second quarter of 2019. In this regard, in April, the industrial production, transportation of goods, turnover of enterprises specialized in the wholesale and retail trade, as well as service provision companies registered a robust growth compared to the similar period of the previous year.

In the second quarter of 2019, the annual dynamics of revenues in the national public budget recorded an upward trajectory, with an increase of 5.8% compared to the similar period of 2018. The expenditures of the national public budget recorded positive evolutions with a rise of 16.0% compared to the similar period of 2018. In addition, the market preserved the interest rates for allocated state securities, which showed stable evolutions for all types of maturities during the second quarter of 2019.

In the second quarter of 2019, the excess liquidity totalled MDL 5.5 billion, which constitutes a decrease of MDL 1.2 billion compared to the previous quarter, following the increase of the following elements:

- nominal demand of money in circulation, following the increase of prices, salaries, pensions and other social benefits;
- volume of compulsory reserves, as a consequence of the intensification of the lending process in the banking and non-banking financial sectors, and the attraction of deposits in domestic currency.

The money aggregates of the second quarter of 2019 recorded a positive dynamics in annual terms. In addition, the main contribution to this evolution was largely determined by the modification of money in circulation and sight foreign currency deposits.

At the meeting held on 19 June 2019, the Executive Board of the National Bank of Moldova decided to increase the base rate applied to the main monetary policy operations by 0.5 percentage points up to 7.0% annually.

The average interest rates of loans granted by banks continued their downward trend. The average interest rates of the balance of deposits, both in domestic and foreign currency, were preserved at the level of the previous quarter.

The external hypotheses from the current forecast round show disinflationary pressures related to the foreign demand, combined with shocks of temporary growth of international quotes.

The internal hypotheses from the current forecast round show pro-inflationary pressures related to the aggregate demand, tax policy and positive shocks on the prices within CPI by the end of the current year, and disinflationary – starting with the first quarter of 2020.

The annual rate of inflation shall increase by the end of this year (the maximum level of 8.0%, in the fourth quarter of 2019), afterwards, it will continuously diminish by the end of the forecast horizon (3.9% minimal level, in the second quarter of 2021). During the first quarter of forecast, inflation will be within the target variation range. Starting with the fourth quarter of the current year, inflation shall rise above the superior

limit of the range. In the third quarter of 2020, the annual rate of inflation shall return in the range and remain there until the end of the forecast horizon[2]. The core inflation will increase by the end of this year, remaining at a relatively high level until the third quarter of 2020, and afterwards, it will decrease towards the end of the forecast horizon. The annual growth rate of food prices will increase significantly by the end of the current year and afterwards, will decrease by the end of the forecast horizon. The annual growth rate of regulated prices shall intensify sharply in the first two quarters of forecast and slightly decrease in the fourth quarter of 2020. Afterwards, they will keep a relatively low constant level, by the end of the forecast horizon. The annual growth rate of fuel prices will be relatively stable, fluctuating insignificantly at rather low levels.

The aggregate demand, although declining, will be pro-inflationary during the first two consecutive quarters and disinflationary starting with the second quarter of the next year. The real monetary conditions will show a restrictive character on the aggregate demand during the entire forecast period.

The current forecast of inflation is relatively similar with the previous one. However, it will decrease more significantly by the end of the forecast horizon. The core inflation has been revised downwardly in the entire forecast horizon. The annual growth rate of food products has been revised upwardly until the third quarter of 2020 and downwardly – for the last two quarters of the reference comparable period[3]. The current forecast of regulated prices is inferior until the first half of the next year, and superior for the rest of forecast period. The forecast for the annual growth rate of fuel prices has been insignificantly revised upwardly until the first quarter of 2020 and downwardly – from the third quarter of 2020 until the end of the comparable period.

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1. Sub-component „vehicles, optical, registration and sound reproduction devices".

2. Second quarter of 2021.

3. Third quarter of 2019 – first quarter of 2021.

See also

Tags
Rata anuală a inflației [2]
core inflation [3]
External environment [4]
inflation forecast [5]
forecast [6]
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