



National
Bank of Moldova

Inflation report

February 2025



*National Bank of Moldova
1 Grigore Vieru Avenue
MD-2005, Chişinău
Tel.: (373 22) 822 606
Fax: (373 22) 220 591
web page: <http://bnm.md>*

ISBN 978-9975-169-33-2
ISBN 978-9975-169-34-9 (PDF)

© National Bank of Moldova, 2025

Mission of the National Bank of Moldova

The National Bank of Moldova, as the central bank of the Republic of Moldova, is an autonomous public legal person, which establishes and promotes monetary and foreign exchange policy in the state, a fact stipulated in article 5 paragraph (1) letter a) of Law No. 548/1995 on the National Bank of Moldova.

Under the provisions of article 4 paragraph (1) of the Law No. 548/1995 on the National Bank of Moldova, the fundamental objective of the National Bank of Moldova is to ensure and maintain price stability. At the same time, article 4 paragraph (2) provides that, without prejudice to its fundamental objective, the National Bank within the limits of its powers, contributes to the stability of the financial system and supports the general economic policy of the state.

The fundamental objective is achieved through the monetary policy framework associated with the direct inflation targeting regime.

The quantitative objective – the inflation target is to maintain inflation, as measured by the consumer price index, at 5.0% annually with a possible deviation of ± 1.5 percentage points.

In this regard, the National Bank of Moldova has a wide and well-defined range of instruments through which it promotes monetary policy and ensures the achievement of the inflation target. These include open market operations – the main monetary policy instrument, and the ancillary instruments are the standing facilities, the required reserve ratio and interventions on the domestic foreign exchange market.

At the same time, in order to achieving the inflation target, the National Bank of Moldova steers the conditions on the money market by setting by the Executive Board the main indicator for the short-term interbank money market – the base rate.

The exchange rate regime implemented by the National Bank of Moldova is that of managed floating and, respectively, the interventions on the domestic foreign exchange market are used only to support the effects of the implementation of open market operations, to the extent that they will be necessary to achieve the inflation target and without influencing the fundamental trends of the exchange rate of the national currency. At the same time, the NBM reserves the right to carry out foreign exchange interventions in order to mitigate excessive exchange rate fluctuations, to stop speculative operations and to replenish international foreign exchange reserves, without prejudice to the achievement of the inflation target.

The monetary policy decision regarding the base rate, the standing facility rates and the required reserve ratio is taken by the Executive Board of the NBM on the basis of the analysis of the latest information on the macroeconomic situation in the Republic of Moldova and the external economic environment, the trend of macroeconomic indicators in the medium-term, as well as the short- and medium-term inflation outlook, provided by the Monetary Policy Department of the NBM.

In this respect, the Executive Board of the NBM meets eight times a year in ordinary monetary policy meetings according to the approved schedule. Four monetary policy meetings are associated with the Inflation Report, while the other four meetings are devoted to the assessment of the deviation risks to the inflation forecast. At the same time, the Executive Board of the NBM reserves the right to meet in extraordinary meetings.

Introductory note

The National Bank of Moldova appreciates the role of monetary policy transparency and predictability in strengthening institutional credibility and ensuring the inflation target.

*In this context, the **Inflation Report** is the main communication tool reflecting the latest analysis of the situation in the internal and external environment, developments in the inflation process and economic activity, along with aspects related to the conduct of monetary policy.*

At the same time, the Report incorporates the inflation forecast for the eight-quarter horizon and the risks and uncertainties associated with this projection.

The summaries of the minutes of the meetings of the Executive Board of the NBM regarding the promotion of the monetary policy are part of the Report and are published with a frequency of six months from the adoption of the decision in line with the Medium-term monetary policy strategy of the NBM (approved by the decision of the Council of Administration of the NBM no. 303 of December 27, 2012).

Statistical data have been taken from the National Bureau of Statistics, Ministry of Economic Development and Digitalization, Ministry of Finance, Eurostat, International Monetary Fund, National Agency for Energy Regulation, State Hydrometeorological Service.

Statistical information provided by international bodies, national statistical offices and central banks was also analyzed.

Some statistical data have been calculated by the National Bank of Moldova.

According to article 69 paragraph (2), the Inflation Report shall be submitted to the Parliament and the Government within 45 days after the end of the reporting quarter.

The Inflation Report, February 2025 was considered and approved for publication at the meeting of the Executive Board of the NBM on February 5, 2025.

All rights reserved. The reproduction of the publication is prohibited, and the use of the data in various works is permitted only if the source is indicated.

The Inflation Report, February 2025 is a translation of Raport asupra inflației, februarie 2025 in Romanian. In case of discrepancies, the version of the Report in the original language prevails.

Contents

Summary	8
1 Inflation evolution	12
1.1 Consumer price index	12
1.2 Inflation evolution and short-term forecast assessment from the Inflation Report, November 2024	15
1.3 Industrial production prices	16
2 External environment	17
2.1 World economy, financial and commodities markets	17
2.2 Developments in major economies	20
2.3 Economic developments in neighboring countries and main trading partners	22
3 Economic developments	24
3.1 Demand	24
3.2 Production	32
3.3 Labor market.	34
3.4 External sector	36
4 Monetary policy	37
4.1 Monetary policy instruments	37
4.2 The dynamics of monetary indicators	39
5 Forecast	49
5.1 External Assumptions	49
5.2 Internal environment	51
5.3 Comparison of forecasts	54
5.4 Risks and uncertainties	57
6 Monetary policy decisions	60

List of acronyms

ANRE	National Agency for Energy Regulation
CBOE	Chicago Board Options Exchange
CHIBOR	Average interest rate at which the contributors banks are available to lend funds in MDL to other banks, on the interbank monetary market
CIS	Commonwealth of Independent States
CPI	Consumer price index
ECB	European Central Bank
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EUR	Single European currency
FAO	Food and Agriculture Organization of the United Nations
FCC	Freely convertible currency
FRS	Federal Reserve System
GDP	Gross Domestic Product
GVA	Gross Value Added
IMF	International Monetary Fund
LB	Local budgets
LNG	Liquefied Natural Gas
MHIF	Mandatory Health Insurance Fund
MDL	Moldovan leu
NATO	North Atlantic Treaty Organization
NBC	Certificates issued by the National Bank of Moldova
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
NEER	Nominal effective exchange rate of the national currency
OPEC+	The alliance between the Organization of the Petroleum Exporting Countries (OPEC) and a group of non-OPEC oil-producing countries.
OVX	Crude Oil Volatility Index
PMI	Purchasing Manager's Index
REER	Real effective exchange rate of the national currency
RRF	Recovery and Resilience Facility
SB	State budget

SDR	Special drawing rights
SS	State Securities
SSIB	State social insurance budget
TTF	Title Transfer Facility
USA	United States of America
USD	US Dollar
VAT	Value Added Tax

Summary

Inflation

In the fourth quarter of 2024, the annual inflation rate continued the upward trajectory that has started in the middle of the previous year. As a result, the annual inflation rate increased from 5.2% in September 2024 to 7.0% in December 2024, exceeding, at the end of the previous year, the upper limit of the inflation target variation range, which was caused by the dynamics of regulated prices in the context of the adjustment of the network gas tariff. Excluding this impact, the annual inflation rate stood at approximately 6.2% in December 2024, slightly lower than projected in the Inflation Report, November 2024. Meanwhile, the average annual inflation rate was 5.9% in the fourth quarter of 2024, by about 0.9 percentage points higher than in the previous quarter.

The upward trajectory of the annual inflation rate in recent months has been driven by some adverse sectoral developments, including the adjustment of the network gas tariff and the dry conditions in the previous summer. Aggregate demand is estimated to have continued to exert a disinflationary impact on prices during the reference period. Inflation dynamics in December 2024 and the adjustment of the heat and electricity tariffs at the beginning of this year will push the annual inflation rate above the upper limit of the inflation target variation range, at least in the first part of this year. In the period ahead, domestic demand is expected to continue to exert a disinflationary impact. 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.

External environment

The year 2024 ended full of uncertainties and on negative trends of fragmentation in the global economy. The election of Donald Trump to a new term as the US President has further heightened the risks related to the deterioration of international trade, given that numerous economic sanctions and trade tariffs had already been imposed in recent years. European economies continue to grow on the brink due to the consequences of the 2022 energy crisis, which significantly damaged the industrial sector, as well as the internal disagreements over fiscal policies and public debt sustainability. Although there are some signs of improvement in China's real estate sector, the demand in the largest Asian economy remains weak compared to the pre-pandemic levels. Oil prices were relatively stable in the last months of 2024, but have risen sharply since January 2025, following the introduction of new economic sanctions on tankers carrying Russian oil products. Additionally, European natural gas prices have risen significantly, as very low temperatures led to a rapid decline in reserves and from January 1, 2025, Ukraine no longer transports natural gas from Russia to Europe via the last remaining pipeline. International food prices have also started to rise from their lows reached in early 2024, driven by increasing consumer demand and higher transportation and logistics costs. Another important phenomenon during the period under review has been the significant appreciation of the US dollar, which is creating inflationary pressures in emerging, and especially import-dependent countries. The fading of disinflationary pressures and the rise of inflationary ones point to a shift in global monetary cycles and create expectations that interest rates will stop falling and even start to rise.

Economy

After the positive developments in the first half of the year, the annual GDP dynamics entered negative territory in the third quarter of 2024. As a result, in the third quarter of 2024, GDP contracted by 1.9% compared to the same period in 2023. These dynamics were lower than anticipated in the Inflation Report, November 2024, primarily due to the negative impact of net external demand. Domestic demand, both from households, in the context of rising real income growth, and from businesses, partly offset this effect. At the same time, it is worth mentioning the negative impact on GDP dynamics from the agricultural sector, due to the dry conditions in the previous summer, as well as from trade and real estate transactions. This was partly mitigated by developments in construction, the financial sector and the information and communications sector. 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 3.1% decline in GDP compared to the second quarter of 2024. Overall, between January and September 2024, GDP increased by 0.6% compared to the same period in the previous year.

Monetary policy

In the fourth quarter of 2024, excess liquidity amounted to MDL 8.4 billion, decreasing by MDL 934.8 million from the previous quarter.

The M3 monetary aggregate in the fourth quarter of 2024 grew at an annual rate of 15.7%. The main contribution came from the balance of deposits in the national currency.

During the fourth quarter of 2024, the Executive Board of the National Bank of Moldova held two meetings on monetary policy decisions. Following the assessment of the balance of domestic 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 November 5 and December 5, 2024, to maintain the base rate at 3.60% annually (level set on May 7, 2024). At the same time, the standing facility and repo rates were also maintained. The required reserve ratio of funds attracted in MDL and non-convertible foreign currency was reduced by 4.0 percentage points from 29.0% to 25.0% of the calculation basis, while the required reserve ratio of funds attracted in freely convertible foreign currency – by 5.0 percentage points from 39.0% to 34.0% of the calculation basis.

Also, at the monetary policy meeting on December 5, 2024, the Executive Board of the National Bank of Moldova unanimously voted to decrease the required reserve ratio for funds attracted in MDL and non-convertible foreign currency, as well as for funds attracted in freely convertible currency, starting with the period of application of required reserves from January 16, 2025 to February 15, 2025, lowering them to 22.0% and 31.0%, respectively, of the calculation basis.

These measures have been adopted with a view to lowering borrowing costs, stimulating aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflation expectations.

At the beginning of this year, the need arose to convene an unscheduled meeting and, respectively, to adjust the monetary policy in such a way as to mitigate the pressures on the inflationary process in the context of the recently approved tariff increases in December 2024 and January 2025. In this regard, the gradual tightening cycle of monetary policy was resumed and on January 10, 2025, the Executive Board of the National Bank of Moldova unanimously voted to increase the base rate to 5.60% annually. At the same time, interest rates on overnight loans and deposits were increased to 7.60 and 3.60%, respectively. The interest rate on repo operations was set at 5.85% annually.

At the meeting on February 5, 2025, the Executive Board of the National Bank of Moldova adopted by an unanimous vote the increase of the base rate applied to the main short-term monetary policy operations by 0.90 percentage points to 6.50% annually. The rates on overnight loans and deposits

were accordingly raised to 8.50 and 4.50% annually. The interest rate on repo operations also increased to 6.75% annually.

With these decisions, the NBM aimed to mitigate the second-round effects on inflation caused by the change in regulated tariffs and to anchor inflation expectations in order to bring the annual rate of the consumer price index back within the variation range of ± 1.5 percentage points of the 5.0% medium-term inflation target within a reasonable timeframe.

In the fourth quarter of 2024, in the domestic currency segment, the weighted average interest rates on new loans and term deposits continued their downward trend under the impact of the cumulative monetary policy stimulus measures. Thus, the weighted average interest rate on loans amounted to 8.26% and that on deposits was 3.16%, down by 2.24 and 1.07 percentage points, respectively, compared to the fourth quarter of 2023.

The average interest rates on the balance of loans in the national currency decreased by 2.01 percentage points compared to the fourth quarter of 2023, reaching 8.56%, while those on term deposits – by 3.88 percentage points to 3.36%.

Medium-term inflation projection

In the current round of forecasts, risks and uncertainties prevail in the external environment. Donald Trump's new term as the US President entails the return of trade tariffs and increased restrictions on international trade. Global markets are awaiting a resolution to the war in Ukraine, which would change the economic climate in the region. In the context of the ceasefire between Israel and the Gaza Strip, any escalation could again contribute to higher oil prices. The European Union economies are on a downward trend, have not yet recovered from the energy crisis, and are already facing threats of increased trade tariffs from the USA. There is growing talk of the end of stimulative monetary cycles and the emergence of inflationary pressures that will prompt monetary authorities to raise interest rates. Oil prices will be influenced by Trump's policy of purchasing oil to replenish strategic reserves, as well as by Russia's ability to circumvent new sanctions on oil tankers. Natural gas prices in Europe will continue to be affected by this winter's deviation from normal temperatures and countries' ability to replenish storage until the next cold season. International food prices have ended their downward trend and will continue rising at a normal pace, as supply and demand for agricultural products appear fairly balanced.

The annual inflation rate will follow an upward trend in the first quarter of this year, after which it will decline steadily until the third quarter of 2026 and increase slightly at the end of the forecast horizon¹. In the first quarter of 2025, the inflation rate will exceed the upper limit of the inflation target variation range but is expected to return within the range in the fourth quarter of 2025, remaining there until the end of the forecast horizon. The maximum value will be recorded in the first quarter of this year, while the minimum value in the third quarter of 2026. The annual core inflation rate will have a slight downward trend in the first three quarters of the current year, thereafter remaining relatively stable until the end of the forecast horizon. The annual rate of food prices will trend upwards in the first half of this year, after which it will decline continuously until the end of the forecast horizon. The annual rate of regulated prices will increase sharply in the first quarter of 2025, then decline continuously until the first quarter of 2026, after which it will follow a relatively stable path until the end of the forecast horizon. The annual rate of fuel prices will follow a predominantly upward trend during the current year, after which it will decline and register negative values in the first three quarters of next year.

Aggregate demand will be negative for the entire forecast period² due to dry conditions in the summer of 2024, negative external demand for the entire forecast period, and real overvaluation. The low real interest rate, slightly positive fiscal impulse and recovering external demand will narrow the aggregate demand deficit.

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

¹Fourth quarter of 2026

²First quarter of 2025 – fourth quarter of 2026

The current inflation forecast has been revised upward, compared to the Inflation Report, November 2024, for the entire comparable period³. The current forecast for the annual core inflation rate has been revised downward for the entire comparable period. The annual growth rate of food prices has been revised upward for the entire comparable period. The current forecast for the annual rate of regulated prices has been significantly revised upward for the entire comparable period. The forecast for the annual rate of fuel prices has been revised upward for the current year and then downward until the end of the comparable period.

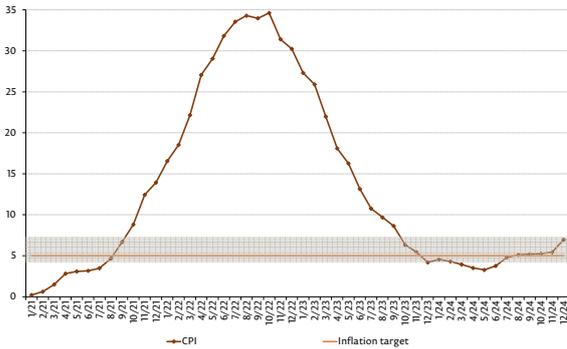
³First quarter of 2025 – third quarter of 2026

Chapter 1

Inflation evolution

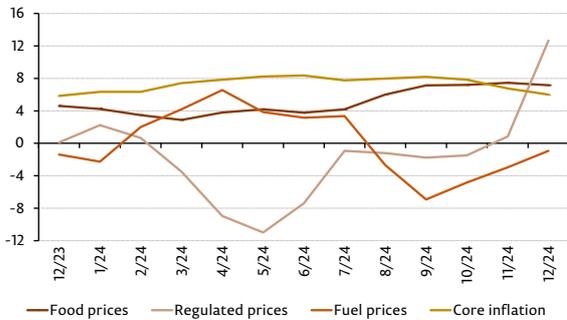
1.1 Consumer price index

Chart 1.1: Annual CPI rate (%)



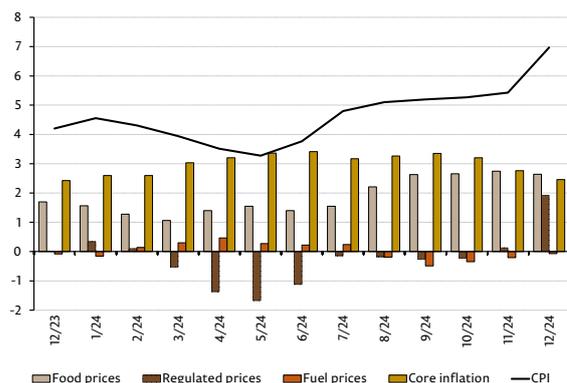
Source: NBS, NBM

Chart 1.2: Annual rate of the main CPI subcomponents (%)



Source: NBS

Chart 1.3: Annual inflation evolution (%) and contribution of subcomponents (percentage points)



Source: NBS, NBM calculations

In the fourth quarter of 2024, the annual inflation rate continued the upward trajectory started in the middle of the previous year. In December 2024, it exceeded the upper limit of the inflation target range. At the same time, in the fourth quarter of 2024, the annual inflation rate was higher than the value anticipated in the Inflation Report, November 2024.

The annual inflation rate increased from 5.2% in September 2024 to 7.0% in December 2024, thus being above the upper limit of the inflation target range at the end of the previous year, as a result of the dynamics of regulated prices in the context of the adjustment of the network gas tariff. Without this impact, the annual inflation rate constituted about 6.2% in December 2024, slightly lower than anticipated in the Inflation Report, November 2024. At the same time, the average annual inflation rate amounted to 5.9% in the fourth quarter of 2024, about 0.9 percentage point higher than in the previous quarter.

The upward trajectory of the annual inflation rate in recent months has been supported by some adverse sectoral developments, including the adjustment of the network gas tariff and the dry conditions in the previous summer. According to estimates, aggregate demand continued to exert a disinflationary impact on prices during the reference period.

In the CPI structure (Chart 1.2), the annual rate of regulated prices entered positive territory in November 2024 and accelerated sharply at the end of the previous year. The annual rate of food prices was on an upward trend until November 2024, after which it moderated slightly at the end of the year. The annual rate of fuel prices followed an upward trajectory but remained in negative territory in the fourth quarter of 2024. At the same time, the annual rate of core inflation moderated in the fourth quarter of 2024.

The inflation dynamics in December 2024 and the adjustment of heat and electricity tariffs at the beginning of this year will determine the placement of the annual inflation rate above the upper limit of the inflation target range, at least in the first part of this year. The manner in which tariffs will be adjusted, as well as the tense situation in the region and the risk of further escalation, keep the inflation forecast highly uncertain.

Core inflation

The fourth quarter of 2024 was marked by a downward trajectory in the annual core inflation rate, which registered a value of 6.0% in December 2024 or 2.2 percentage points lower than in September 2024. The average annual core inflation rate stood at 6.9%, 1.1 percentage points lower than in the third quarter of 2024.

Similar to previous periods, according to estimates, aggregate demand continued to exert disinflationary pressures on core inflation components in the fourth quarter of 2024, while the impact of some previously observed adverse sectoral effects gradually diminished.

In this regard, in terms of structure, the moderation of the annual core inflation rate was mainly driven by the reduced impact of the "recreation and culture" subcomponent (Chart 1.4), supported by the slowdown in the annual rate of prices of international tourism packages to 30.3%, which can also be attributed to airfare price dynamics. At the same time, a significant impact on the decline in the annual core inflation rate was determined by the reduced contribution of the "means of transport, auto parts" subcomponent. In this regard, their annual price rate decreased to 6.8% in December from 16.6% in September 2024. At the same time, the decline in the annual core inflation rate was also driven by lower contributions from "clothing" and "footwear" prices. Contributions from prices of "construction materials", "furniture", "personal use items", and "public alimentation" to the annual core inflation rate were slightly lower than in the previous quarter. Meanwhile, the contribution of "cigarettes" price dynamics to the annual core inflation rate was higher than in the third quarter of 2024. Consequently, the annual rate of cigarette prices rose to 13.6% in December 2024.

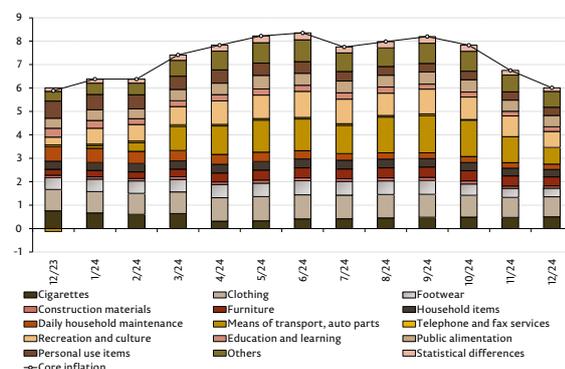
The future trend in price developments of some important categories of goods and services included in inflation, in the absence of supply-side imbalances, will continue to reflect the impact of moderate domestic demand.

Food prices

In the fourth quarter of 2024, the annual rate of food prices continued the upward trend that started in the second quarter of 2024. Thus, in the fourth quarter of 2024, it recorded an average pace of 7.3%, or 1.5 percentage points higher than in the third quarter of 2024.

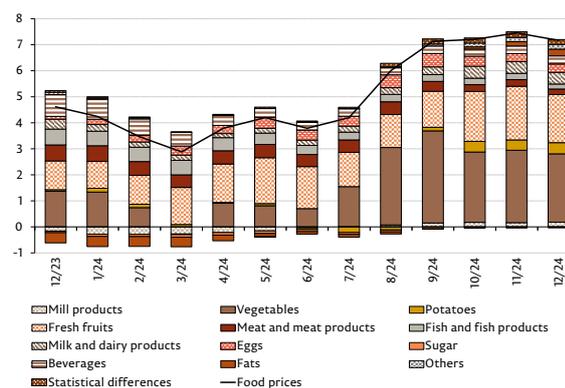
It should be noted that the sustained strong annual growth in food prices was driven by persistent inflationary pressures on the "vegetables" and "fresh fruits" groups (Chart 1.5). The dry conditions recorded in the summer of 2024, both in the Republic of Moldova and in the region, significantly affected the supply of vegetables and fruits, leading to a sharp increase in their market prices. At the same time, similar to the previous periods, prices for

Chart 1.4: Contribution of subcomponents (percentage points) to annual core inflation dynamics (%)



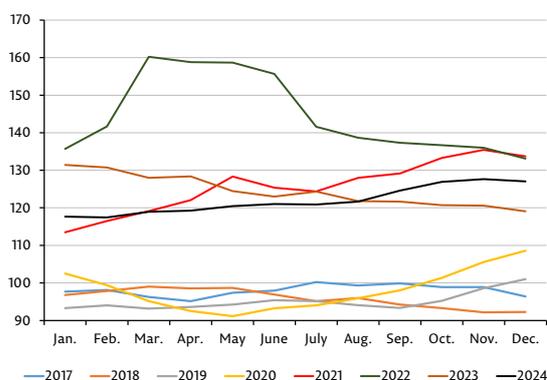
Source: NBS, NBM calculations

Chart 1.5: Contribution of components (percentage points) to annual food prices dynamics (%)



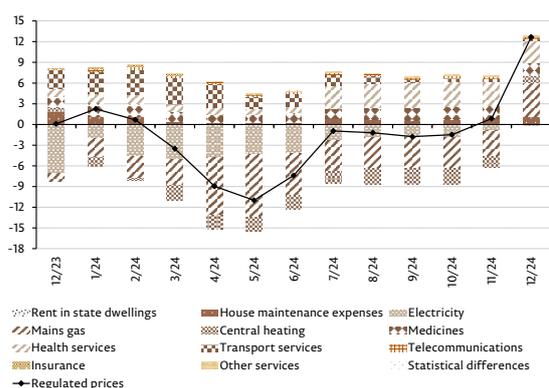
Source: NBS, NBM calculations

Chart 1.6: Evolution of the international food price index, FAO index



Source: FAO, NBM calculations

Chart 1.7: Evolution of regulated prices (%) and contribution of subcomponents (percentage points)



Source: NBS, NBM calculations

processed products recorded only minor growth rates, reaffirming the hypothesis of the absence of significant inflationary pressures on them.

Food prices on the international market were above the levels recorded in the same period of 2023 (Chart 1.6), thus generating inflationary pressures on domestic prices. In the fourth quarter of 2024, the annual rate of food prices on the international market amounted to 5.9%.

In the fourth quarter of 2024, the contribution of food prices to the formation of the annual total inflation rate increased by 0.6 percentage points to 2.7 percentage points.

Regulated prices

The annual rate of regulated prices returned to positive territory in November and accelerated sharply at the end of the previous year in the context of the adjustment of the network gas tariff.

The annual rate of regulated prices stood at 12.7% in December 2024, 14.4 percentage points higher than in September 2024. The average annual rate of regulated prices in the fourth quarter of 2024 was 4.0%, 5.3 percentage points higher than in the third quarter of 2024.

This dynamic was mainly driven by the adjustment of the network gas tariff. Thus, in December 2024, the price of network gas increased by about 27.6%, following the ANRE decision of November 29, 2024. It should be noted that in recent months, international natural gas markets have experienced an accelerated price increase, especially in November 2024, when TTF quotations rose by more than 25.0%. The completion of the procurement process for the year 2024 by S.A. "Moldovagaz" confirmed an average annual purchase price significantly higher than the one included in the old prices. This necessitated an urgent adjustment of regulated prices to reflect the actual acquisition costs and ensure the financial viability of the public service obligation provider⁴.

At the same time, medicine prices continued the upward trend observed in previous periods, increasing cumulatively by about 1.8% over the quarter.

Meanwhile, in November 2024, district heating prices decreased by approximately 1.6%, due to a tariff adjustment in the northern region of the country by S.A. "CET-Nord". The approved heating tariff was MDL 1,819/Gcal (excluding VAT), MDL 426/Gcal (about 23.4%) lower than the previous one.

⁴<https://www.anre.md/anre-a-ajustat-preturile-reglementate-la-gazele-naturale-furnizate-de-sa-moldovagaz-3-961>

Fuel and lubricants prices

The annual rate of fuel and lubricants prices remained negative throughout the fourth quarter of 2024.

At the same time, it increased from -6.9% in September 2024 to -0.9% in December 2024 under the influence of "lubricants" prices. The average annual rate of fuel prices in the fourth quarter of 2024 was -2.9%, 0.8 percentage points lower than in the third quarter of 2024 (Chart 1.8).

In the period October-December 2024, "lubricants" prices had a negative impact on the annual rate of fuel and motor fuel prices. This development was driven by gasoline and diesel prices set by PECO stations during that quarter. These decreases were dictated by the average Platts quotations for gasoline and diesel, which averaged about MDL 12,650.2 and 12,188.8/tonne on average in the quarter. Thus, the average Platts quotations for gasoline decreased by 7.7%, while the average Platts quotations for diesel decreased by 4.3% compared to the third quarter of 2024 (Chart 1.9). The decrease in the above-mentioned quotations was supported by the downward trend in the price of Brent crude oil (by 6.9%) compared to the previous quarter.

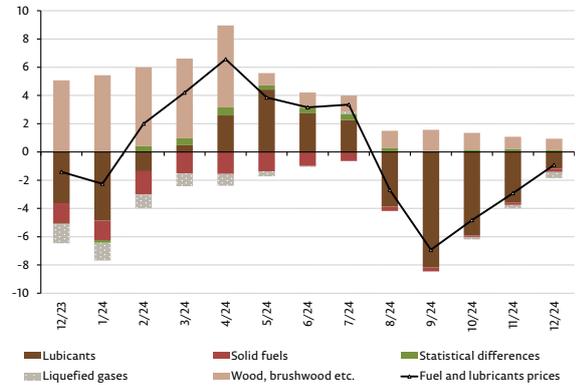
During the fourth quarter of 2024, prices of "solid fuels" and "liquefied gases" continued to exert a negative impact, while prices of "wood, brushwood etc." had a positive impact on the annual rate of fuel prices.

1.2 Inflation evolution and short-term forecast assessment from the Inflation Report, November 2024

In the November 2024 forecast round of the Inflation Report, November 2024 it was anticipated that the annual CPI inflation rate would remain within the target range and reach 6.4% in December 2024 and 5.7% on average in the fourth quarter of 2024⁵. Inflation data for December 2024 show a higher inflation trajectory than anticipated in the previous forecast round (Inflation Report, November 2024), which is due to the dynamics of regulated prices in the context of the adjustment of the

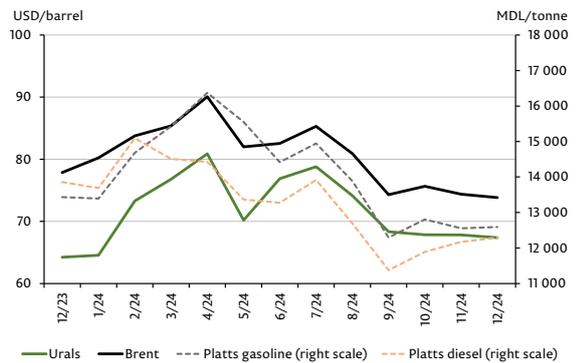
⁵Given the higher volatility of the monthly values, but also some possible measurement errors, which should normally not influence monetary policy decisions, the short-term inflation forecast is carried out at a quarterly frequency. This value is an input to the medium-term inflation projection, which similarly has a quarterly frequency and underpins monetary policy decisions. At the same time it is reported in the Inflation Reports. However, the actual monthly CPI data, as they are published by the NBS during the quarter, are analyzed and compared with the short-term forecast for the whole quarter to assess whether the main assumptions are confirmed or whether there is a risk of marked deviations from the forecast. Therefore, deviations between the actual data available for the months within the quarter and the short-term inflation forecast should be treated appropriately, also taking into account the assumptions/expectations for the remaining months of the quarter.

Chart 1.8: Contribution of components (percentage points) to the annual increase in fuel and lubricants prices (%)



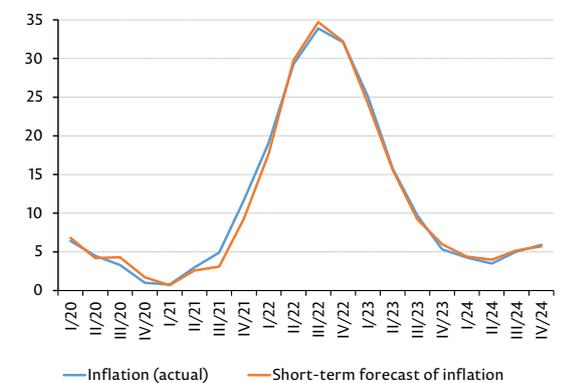
Source: NBS, calculation NBM

Chart 1.9: Evolution of average Platts quotations and Urals and Brent oil prices



Source: ANRE, calculation NBM

Chart 1.10: Annual rate of CPI (%)



Source: NBS, NBM

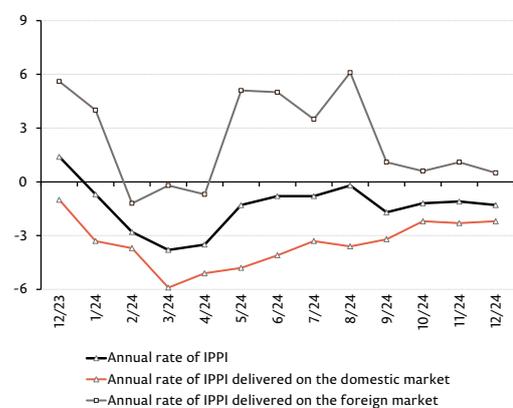
Table 1.1: The evolution and forecast of CPI and its components

	De facto Q IV, 2024/ Q IV, 2023 (%)	Forecast* Q IV, 2024/ Q IV, 2023 (%)	Deviation (De facto- forecast) (p.p.)
CPI	5.9	5.7	0.2
Core inflation	6.9	7.0	-0.1
Food prices	7.3	7.3	0.0
Regulated prices	4.0	2.2	1.8
Fuel prices	-2.9	-2.7	-0.2

Source: NBS, NBM calculations

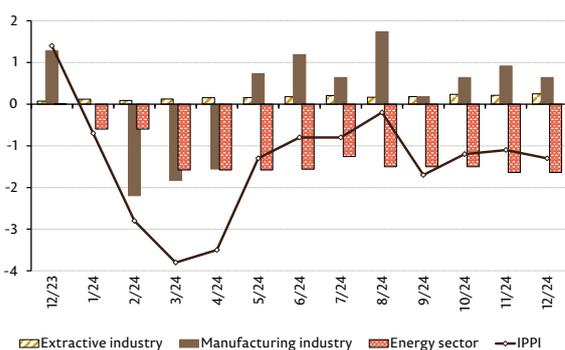
*Forecast from Inflation Report, November 2024

Chart 1.11: Annual industrial price rate (%)



Source: NBS

Chart 1.12: Annual industrial price rate (%) and its components contribution classified by main branches (percentage points)



Source: NBS, NBM calculations

gas tariff in the network. The annual inflation rate excluding this impact was around 6.2% in December 2024, slightly lower than anticipated in the Inflation Report, November 2024.

In the fourth quarter of 2024, the annual inflation rate amounted to 5.9% and was higher than anticipated in the forecast (Table 1.1).

The upper trajectory of the annual CPI in that period was due to a more pronounced development of regulated prices. The annual rate of food prices evolved as expected, while the annual rate of inflation and fuel prices was slightly lower than anticipated in the Inflation Report, November 2024. Thus, during October-December 2024, the average annual rate of regulated prices amounted to 4.0%, 1.8 percentage points higher than anticipated, as a result of a 27.6% increase in prices of mains gas in the context of the adjustment of the respective tariff by ANRE. This deviation was slightly mitigated by negative deviations in the core and fuel inflation forecasts. Thus, the average annual rate of core inflation rate in the fourth quarter of 2024 was 6.9%, 0.1 percentage points lower than that anticipated in the previous forecasting round, and the average annual fuel price inflation rate was 2.9%, 0.2 percentage points lower than that anticipated. The annual average rate of food prices registered 7.3% in the October-December 2024 period, similar to the anticipated one.

1.3 Industrial production prices

In the fourth quarter of 2024, the annual industrial price index averaged -1.2%, the fourth consecutive quarter in negative territory.

In terms of structure, the annual rate of prices of products delivered on the domestic market was negative, while the annual rate of prices of products delivered on the external market was positive (Chart 1.11).

Analyzing the evolution of the annual industrial price index by main branches, it can be seen that its decrease was supported by developments in the energy sector (Chart 1.12). Thus, during the analyzed period, the annual price rate in the energy sector was -24.4% or 2.6 percentage points lower than in the third quarter of 2024. At the same time, in the fourth quarter of 2024, the annual price rate in manufacturing industry averaged 0.8% or 0.1 percentage points lower than in the previous quarter. In the fourth quarter of 2024, prices in the extractive industry increased in annual terms by 11.6%, generating a minor contribution to the total price dynamics in the industry.

Chapter 2

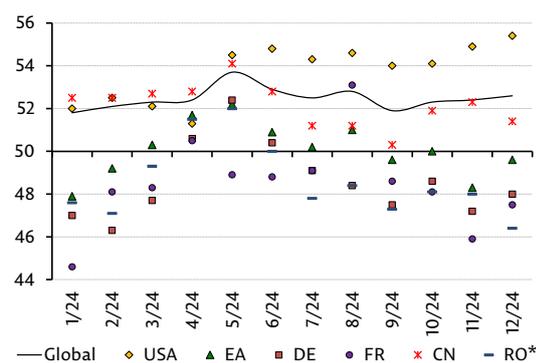
External environment

The year 2024 ended full of uncertainties and on negative trends of fragmentation in the global economy. The election of Donald Trump to a new term as USA President has further heightened the risks related to the deterioration of international trade, given that numerous economic sanctions and trade tariffs had already been imposed in recent years. European economies continue to grow on the brink due to the consequences of the 2022 energy crisis, which significantly damaged the industrial sector, as well as domestic disagreements over fiscal policies and public debt sustainability. Although there are some signs of improvement in China's real estate sector, the demand in the largest Asian economy remains weak compared to the pre-pandemic levels. Oil prices were relatively stable in the last months of 2024, but have risen sharply since January 2025, following the introduction of new economic sanctions on tankers carrying Russian oil products. Additionally, European natural gas prices have risen significantly, as very low temperatures led to a rapid decline in reserves and from January 1, 2025, Ukraine no longer transports natural gas from Russia to Europe via the last remaining pipeline. International food prices have also started to rise from their lows reached in early 2024, driven by increasing consumer demand and higher transportation and logistics costs. Another important phenomenon during the period under review has been the significant appreciation of the US dollar, which is creating pro-inflationary pressures in emerging, and especially import-dependent countries. The fading of disinflationary pressures and the rise of pro-inflationary ones point to a shift in global monetary cycles and create expectations that interest rates will stop falling and even start to rise.

2.1 World economy, financial and commodities markets

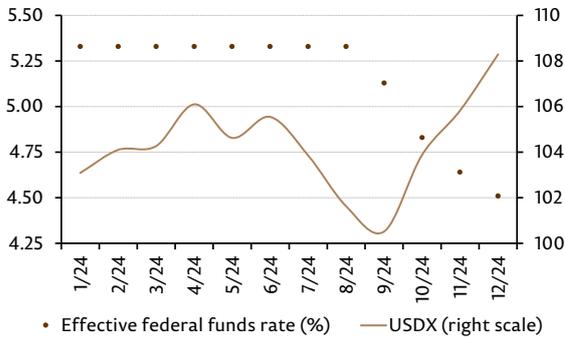
PMI indexes point to increased polarization in recent months and uneven growth across global economies (Chart 2.1). On the one hand, the USA economy is performing very well. Emerging and large commodity-exporting economies are also managing to perform satisfactorily in a context where their economic activities are very diverse and international commodity prices remain relatively high for a good period of time. On the other hand, European economies are facing a significant deterioration in the industrial sector, significant spending to support Ukraine, growing disagreements over domestic finances and rising public debt. Although inflation in the euro area has reached the ECB's target level, weak economic growth is creating the conditions for the ECB to continue monetary stimulus policies.

Chart 2.1: Developments of the composite PMI indexes



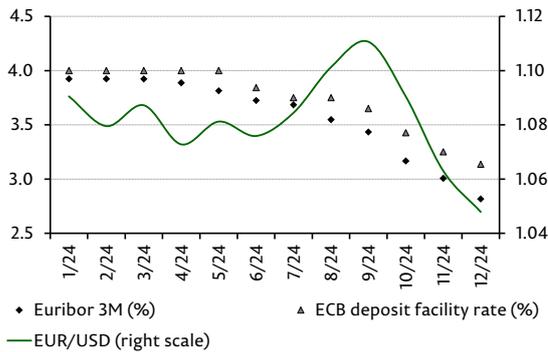
Source: Markit
* for Romania the manufacturing PMI index is presented

Chart 2.2: Developments of the USD index (DXY*) in the context of FRS monetary policy



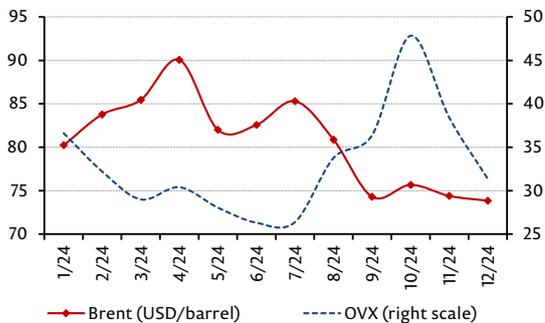
Source: FRS, Bloomberg
 *DXY is an index calculated by the weighted geometric average of the value of the US dollar against a basket of currencies: Euro – 57.6%, Japanese yen – 13.6%, Pound sterling – 11.9%, Canadian dollar – 9.1%, Swedish krona – 4.2%, Swiss franc – 3.6%

Chart 2.3: Developments of EUR/USD (monthly average) and interest rates in the euro area



Source: ECB

Chart 2.4: Oil market



Source: World Bank, CBOE
 Note: CBOE – Chicago Board Options Exchange, OVX – Crude Oil Volatility Index

During the period under review, the FRS continued to reduce the range of interest rates to the current level of 4.25 – 4.5% (Chart 2.2). At the same time, the updated forecast from the USA regulatory authority for 2025 points to a tighter monetary policy than the market had expected, with only two 25 basis point cuts, whereas the previous forecast had indicated three such cuts. In this context, the USA stock market came under pressure and the dollar strengthened against the major international currencies. During the reporting period, the US dollar appreciated as Trump threatened to impose an additional 10% tariff on imports from China and a 25% tariff on all products from Mexico and Canada. These statements contributed to the decline of the Canadian dollar to a four-year low, while the Mexican peso traded near its lowest level since 2022. The US dollar also strengthened following the release of USA employment data. During the period under review, Bitcoin surpassed USD 100,000 with the meteoric rise fuelled by hopes that the new USA president would create a more favourable legal environment for cryptocurrencies.

In the final months of 2024, **the single European currency** depreciated significantly against the US dollar (Chart 2.3), reflecting diverging expectations regarding the future actions of the monetary authorities concerned. The President of the European Central Bank, Christine Lagarde, stated that the euro area is very close to reaching the ECB’s medium-term inflation target. At its final monetary policy meeting of 2024, the ECB lowered the deposit facility rate to 3.0% and the main refinancing rate to 3.15%. Money markets currently anticipate a 150 basis-points monetary easing by the ECB by the end of 2025, well above the USA Federal Reserve’s easing forecast. The euro has also depreciated due to concerns about French policy and, particularly over the authorities’ ability to contain the growing budget deficit. The yield spread between French and German 10-year government bonds, a measure of the premium investors demand to hold French debt, has widened to 85 basis points, approaching 90 basis points – the highest level since 2012 during the euro area sovereign debt crisis. In addition, the possibility of global trade restrictions under Trump’s presidency remains a serious threat, even as he has promised additional tariffs on major USA trading partners, without explicitly mentioning the euro area.

Oil quotations remained stable at an average level of USD 75/barrel in the last months of 2024 (Chart 2.4). Although risks and uncertainties prevailed, market factors counterbalanced each other, contributing to the stability of oil quotations. During the reporting period, the oil market was supported by low USA crude inventories, which had been declining for consecutive weeks and remained significantly below historical seasonal levels. Donald Trump’s return to the White House is a factor of heightened uncertainty for global financial markets. Additionally, data from the Russian Ministry of Energy indicates that Russia’s oil production in December 2024 fell below the OPEC+ quota. At the same time, on January 10, 2025, Washington announced new sanctions against the so-called "Russian shadow fleet", which threatens to significantly reduce Russian oil exports. This decision has pushed the price of Brent crude oil above USD 80/barrel in early 2025. Also, the new Trump administration is expected to take a tough stance on Iran and Venezuela, which are among the main suppliers of crude oil. With regard to geopolitical tensions in the Middle East, the approval of a ceasefire agreement in the

Gaza Strip has further reduced the risk premium in the formation of oil quotes.

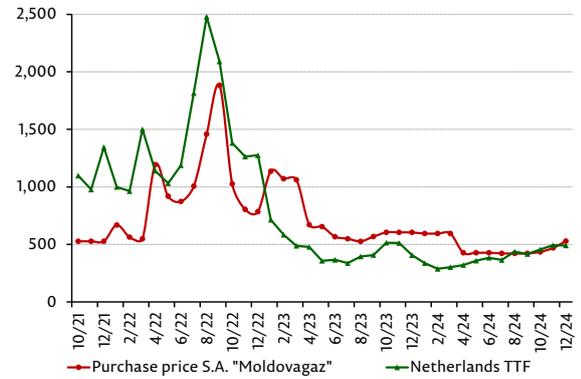
Thus, the outlook for oil prices in 2025 remains uncertain due to OPEC+ plans to restore some of the production cuts and weak demand from China. According to the latest report, OPEC forecasts robust oil demand growth of 1.4 million barrels per day in 2025 and 2026, driven by demand from India and China. Theoretically, this should allow Saudi Arabia and other OPEC+ countries to restore production that had been suspended, about 2 million barrels per day over the next two years. The coalition now plans to gradually increase production by 120,000 barrels per day from April 2025. However, this plan is likely to be revised in early March 2025.

The onset of the cold season in Europe and continued low temperatures have caused **the Netherlands TTF natural gas price** to rise above USD 500/1,000 cubic meters in the last months of 2024. At the same time, for the month of December 2024, S.A. "Moldovagaz" reported a purchase price of natural gas in the Republic of Moldova of USD 479.96/1,000 cubic meters. As seen in the chart 2.5 over the last 9 months, the natural gas prices on the domestic market have been significantly close to the Netherlands TTF quotation. Europe is facing colder than normal temperatures and a drop in renewable energy production has triggered an increased use of gas for power generation and heating. Gas prices on the European market have also risen due to disruptions in Russian gas supplies through Ukraine after the transit contract between the two warring countries expired on January 1, 2025, without an alternative agreement. However, the European Commission has stated that there is no threat to the security of gas supplies to Central and Eastern Europe. Although Europe is unlikely to face a gas shortage this winter due to stocks and supplies from other suppliers, traders may find it more difficult to replenish stock for the next heating season.

International price indexes calculated by the World Bank reflect a stable trend of slightly increasing averages for the main commodity prices. Thus, the latest data for December 2024 show positive monthly increases in 27 out of the 69 indexes analysed. At the same time, on an annual basis, 30 out of the 69 indexes analysed recorded positive growth. Among index groups, the highest annual increases were recorded in December 2024 by the precious metals – 30.0% and beverages – 90.9% (cocoa, coffee and tea) groups. Furthermore, on an annual basis in December 2024, the prices of agricultural products rose on average by 10.3%, metals and minerals by 3.5% on average and fertilizers by 0.2%. Average prices of energy resources decreased by 3.1% in December 2024 (Chart 2.6).

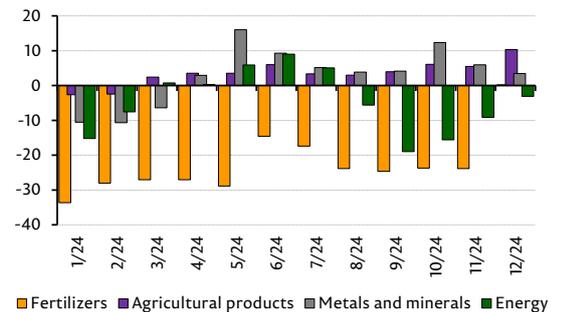
As of September 2024, **average international food prices** have been growing at positive annual rates (Chart 2.7). Food supply and demand have remained fairly balanced, except in a few segments, but upward pressures are fuelled by the dispersion of the base year effect, steady growth in consumer demand, and rising transportation, logistics, and wage costs. Wheat export prices remained broadly stable due to weak international demand and higher seasonal availability of southern hemisphere crops that balanced upward pressure caused by poor winter crop conditions in the Russian Federation. Meat prices rose as a result of strong global demand coupled with production constraints due to routine maintenance shutdowns at the end of the year at processing plants

Chart 2.5: Developments of natural gas prices (USD/1,000 cubic meters)



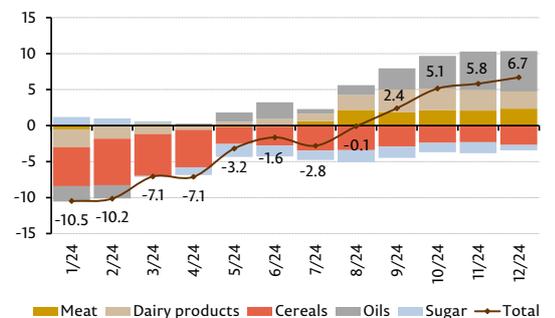
Source: S.A. "Moldovagaz", World Bank, NBM calculations

Chart 2.6: Annual growth rate of international price indexes (%)



Source: World Bank, NBM calculations

Chart 2.7: Annual growth rate of international food prices (FAO index)(%)



Source: FAO, NBM calculations

in major exporting countries. The decline in world sugar prices was driven by higher-than-expected sugar production in Brazil in the second half of November and the depreciation of the Brazilian real against the US dollar.

2.2 Developments in major economies

In the fourth quarter of 2024, the **United States of America** gross domestic product increased by 0.6% compared to the previous quarter and by 2.5% year-on-year (in seasonally adjusted terms). Meanwhile, in 2024, the USA gross domestic product grew by 2.8%. In 2024, USA industrial production contracted by an average of 0.2%, and the unemployment rate declined to 4.1% in December. In the same month, consumer prices in the USA remained unchanged from the previous month and rose by 2.9% compared to December 2023.

In the fourth quarter of 2024, economic activity in the **euro area** stagnated compared to the previous quarter but increased by 0.9% year-on-year (seasonally adjusted data). For the full year 2024, gross domestic product in the euro area grew by 0.7%. In 2024, industrial production in the euro area contracted by an average of 3.0%, of which in Germany by 4.6%, in Italy by 3.5% and in France by 0.3%. The unemployment rate in the euro area continued to remain at historically low levels and stood at 6.3% in December 2024. Consumer prices started to rise gradually in December 2024, with annual harmonized inflation recorded a positive monthly rate of 0.4% in December 2024 and an increase of 2.4% on an annual basis. It is worth noting that another factor behind economic growth in the euro area is domestic consumption, generated by the significant increase in real incomes, but also by the prospect of the ECB's monetary policy easing.

According to preliminary data, the **Germany's** economy contracted by 0.2% in 2024, marking the second consecutive year of economic slowdown. In 2023, Germany's economy shrank by 0.3%. Increased competition for German exports, high energy costs, elevated interest rates, and an uncertain economic outlook are affecting Germany's growth opportunities. The country is also facing a crisis in residential construction, which has been attributed to high interest rates and rising costs of building materials. At the same time, many key industries, such as the automotive sector, are under pressure. Automakers are struggling with the transition to electric vehicles while also facing tough competition from China. In December 2024, consumer prices in Germany rose by 0.4% from the previous month and by 2.6% compared to December 2023.

France's economy held up in 2024, supported by public spending and foreign trade. In the fourth quarter of 2024, gross domestic product fell by 0.1% from the previous quarter and rose by 0.7% compared to the same period a year earlier. Real GDP is expected to grow by 1.1% in 2024. Net exports led GDP growth in the fourth quarter of 2024, driven by strong transportation equipment exports. Public consumption and investment also supported growth, while private demand remained subdued amid tight financial conditions and a high saving rate. Annual inflation

gradually declined in 2024, to 1.3% in December 2024, largely due to lower energy and food prices and a significant decline in services prices. The general government deficit is expected to increase to 6.2% of GDP in 2024 (from 5.5% in 2023), reflecting tax revenue growth well below economic activity and large increases in public spending, especially by local governments.

In the fourth quarter of 2024, **Italy's** gross domestic product stagnated compared to the previous quarter and grew by 0.5% year-on-year. Italy's economy is estimated to have expanded by 0.5% in 2024. The finalization of tax credits for housing renovation is affecting construction activity, even though infrastructure investment is recovering, supported by the Recovery and Resilience Facility (RRF). Amid positive real wage dynamics, rising household consumption is expected to offset the negative growth in 2023. Net exports are expected to make a positive contribution to GDP growth, mainly as a result of a significant drop in goods imports. In 2025, the implementation of Italy's RRF is expected to accelerate, largely offsetting the restrictive fiscal policy. As employment opportunities continue to improve, labor market participation is expected to outpace the projected decline in the working-age population. Amid the continued decline in energy prices, year-end inflation fell to 1.2%. For 2024, the general government deficit is projected to decline to 3.8% of GDP from 7.2% in 2023, driven by the phasing out of measures to cushion the impact of high energy prices and tax credits for housing renovation. Despite modest nominal GDP growth, sustained tax revenues mainly from personal income tax and withholding taxes on financial assets also contribute to deficit reduction in 2024.

China's economy grew by 5.0% in 2024, according to official data, driven by rising output and exports in anticipation of higher tariffs imposed by the United States and due to measures taken by the Chinese government to stimulate the economy. According to China's National Bureau of Statistics, the country's economy rebounded in the fourth quarter of 2024, growing by 5.4% from the same period last year. In September 2024, the Central Bank of China announced monetary stimulus measures and stock market support. Beijing also launched a program to refinance local government debt and accelerate stimulus spending on infrastructure and other areas. However, economists worry that China could face deflation. Producer prices have remained in negative territory for more than two years, while consumer prices rose on a year-on-year basis by just 0.1% in December 2024.

2.3 Economic developments in neighboring countries and main trading partners

In the fourth quarter of 2024, **Romania's** gross domestic product grew by 0.8% (seasonally adjusted) compared to the previous quarter, and compared with the same period of 2023, on a gross basis, it grew by 0.8%. Overall, in 2024, Romania's gross domestic product increased by 0.9%. In 2024, industrial production in Romania contracted by 1.7% in the unadjusted series and by 1.6% in the seasonally adjusted series compared to the same period in 2023. In December 2024, consumer prices in Romania rose by 0.3% compared to the previous month and by 5.1% compared to December 2023. During 2024, industrial production, residential construction, IT services, and transportation lost significant growth momentum due to weak external demand from Romania's main trading partners, rapidly rising wages, and high energy prices. At the same time, retail sales grew strongly as real disposable incomes increased at a fast pace. However, buoyant private consumption was largely offset by the high negative contribution to GDP growth from net exports, while private investment growth was moderated by uncertainty surrounding expected fiscal consolidation measures. Labor market pressures eased, mainly reflecting the economic slowdown and an increasing inflow of foreign workers. Nevertheless, labor demand remains resilient, and the unemployment rate is expected to decline slightly over the forecast horizon. Nominal wages in both the public and private sectors continue to grow substantially at a double-digit rate throughout 2024. Romania's general government deficit is projected to reach 8% of GDP in 2024, much higher than in 2023 (6.5% of GDP), reflecting a very rapid increase in government spending, mainly due to large increases in public sector wages, spending on goods and services, and social transfers, including pensions. It also reflects slightly slower revenue growth due to weaker-than-expected economic activity. Public investment as a share of GDP is expected to increase significantly, reflecting ambitious targets for both nationally and EU-funded investment projects.

In the fourth quarter of 2024, **Poland's** economy grew by 1.3% (in seasonally adjusted terms) compared with the previous quarter and by 3.7% compared with the same period of 2023. In 2024, industrial production in Poland increased on an annual basis by 0.5%. In December 2024, consumer prices stagnated from the previous month but were 4.7% higher than in December 2023. Real GDP is expected to rise from 0.1% in 2023 to 2.8% in 2024. Private consumption will be the main driver of growth, supported by rapid wage growth, government spending to support households, improving consumer sentiment and easing inflationary pressures. The positive contribution of public consumption will increase, while the investment contribution will fall due to weaker private investment. Net exports will contribute negatively to growth, as rising domestic demand is expected to fuel imports amid reduced exports. The general government deficit is projected to widen to 5.8% of GDP in 2024, driven by higher defence spending (estimated to reach 2.6% of GDP) and wage increases in the public sector.

In the third quarter of 2024, **Türkiye** economy declined by 0.2% (in seasonally adjusted terms) compared to the previous quarter and grew by 2.1% compared to the same period in 2023. In 2024, industrial production in Türkiye increased by 0.4% on an annualized basis. Amid the cumulative effect of the depreciation of the Türkiye lira, consumer prices in Türkiye continued to rise in December 2024 by 1.0% compared to the previous month and by 44.4% compared to December 2023.

Ukraine's gross domestic product grew by 0.2% in the third quarter of 2024 compared to the previous quarter (in seasonally adjusted terms) and in annual terms by 2.0%. However, taking into account the destruction caused by the war, this growth remains too modest to reach pre-war output volumes. Meanwhile, statistics and forecasts for Ukraine's economy remain very bleak as the ongoing war has severely damaged industrial infrastructure and shipping. In 2024, the export of goods grew by 15.3% and import by 11.3%. In the first 9 months of 2024, industrial production in Ukraine rose by 4.9% compared to the same period of the previous year. Consumer prices continued to rise amid the depreciation of the Ukrainian hryvnia and the increase in regulated prices, with monthly inflation of 1.4% in December 2024. Compared to December 2023, consumer prices in Ukraine increased by 12.0% in December 2024.

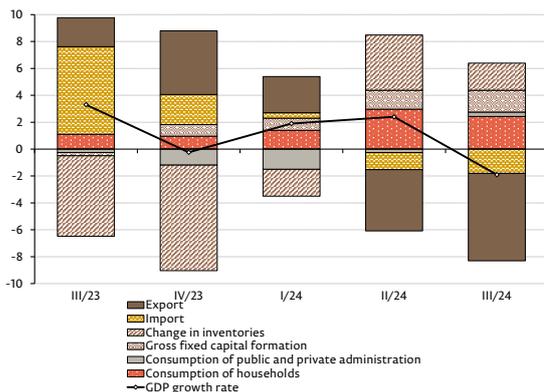
Chapter 3

Economic developments

3.1 Demand

After a positive trend in the first half of the year, the annual GDP growth entered negative territory in the third quarter of 2024. Thus, in the third quarter of 2024, GDP contracted by 1.9% compared to the same period of 2023. This decline was lower than anticipated in the Inflation Report, November 2024, mainly driven by the negative impact of net external demand. Domestic demand, both from households, in the context of rising real incomes, 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 the dry conditions in the previous summer, 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. According to estimates, domestic demand remained moderate, as indicated by the still below-expected growth in household consumption, thus exerting a disinflationary impact over the period. At the same time, the seasonally adjusted series shows a 3.1% decline in GDP compared to the second quarter of 2024. Overall, GDP increased by 0.6% in January-September 2024 compared to the same period of the previous year.

Chart 3.1: Contribution of demand components to GDP growth (percentage points)



Source: NBS, NBM calculations

From a utilization perspective (Chart 3.1), in the third quarter of 2024, household consumption maintained the positive dynamics observed in previous periods, increasing by 2.9% compared to the third quarter of 2023, thus generating a positive impact of 2.4 percentage points on GDP growth. The increase in consumption was supported by the positive development of disposable income of the population in real terms. In the third quarter of 2024, final consumption of public administration decreased by 1.0%, generating a negative contribution of 0.2 percentage points to GDP dynamics. Investments, despite heightened uncertainty in the region, had a positive impact of 3.6 percentage points on GDP dynamics. In terms of structure, this was mainly driven by the positive contribution of the change in inventories subcomponent (2.0 percentage points), but also by the increase in gross fixed capital formation by 8.1%. However, a significant negative impact was determined by the dynamics of net exports of goods and services (-8.3 percentage points). Thus, in real terms, exports decreased by 5.8% and generated a negative impact of 1.8 percentage points. Meanwhile, imports rose by 12.2% in the third quarter of 2024, generating a negative contribution of 6.5 percentage points to GDP dynamics.

Household demand for consumption

The positive annual dynamics in household consumption moderated slightly in the third quarter of 2024.

Thus, the annual growth rate of household final consumption amounted to 2.9%, which was 0.8 percentage points lower than in the second quarter of 2024. This dynamics was supported by a 7.5% increase in expenditures for services procurement, while expenditures for goods procurement increased by 2.7% compared to the same period of the previous year (Chart 3.2).

The upward trend in household consumption was supported by rising real income. In this regard, its main sources of financing, overall, maintained a positive dynamics in the third quarter of 2024 (Chart 3.3). Thus, new loans granted to households, the wage fund and social insurance recorded a pronounced dynamics during the third quarter of 2024, generating positive contributions within the potential sources of financing household consumption. At the same time, remittances, in real terms, contracted in this period, mitigating the impact of the aforementioned components.

Public sector

According to data provided by the Ministry of Finance, during the fourth quarter of 2024, the national public budget revenues were accumulated in the amount of MDL 29.2 billion, 2.8% above the level accumulated in the same period of 2023 (Chart 3.4).

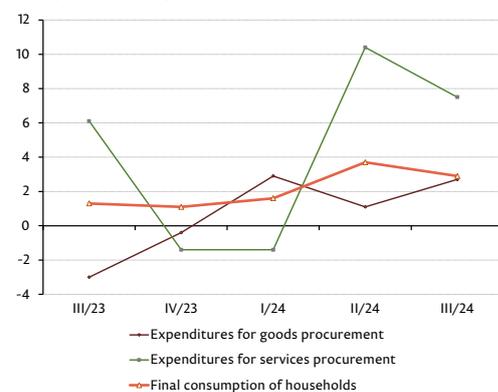
The major share of budget revenues was accrued from taxes and duties, which accounted for 62.3%. The compulsory state social insurance contributions and mandatory health insurance premiums constituted 30.8%, while the share of other revenues and grants amounted to 5.3% and 1.6% of total budget revenues, respectively.

In the fourth quarter of 2024, national public budget expenditures totalled MDL 36.2 billion, registering an increase of 1.3% compared to the same period of 2023. In total expenditures, the largest share was held by social protection expenditures – 32.7%, education accounted for 17.6%, and healthcare – 14.0%.

It should be noted that, during the reporting period, transfers were made from the state budget (SB) to the state social insurance budget (SSIB), to the mandatory health insurance fund (MHIF) and to local budgets (LB) in the amount of MDL 11.8 billion, decreasing by 9.7% compared to the same period of 2023 (Chart 3.5). The major share of transfers was directed to local budgets – 48.8% of total transfers, transfers to MHIF accounted for 26.3%, and those to SSIB – about 25.0%.

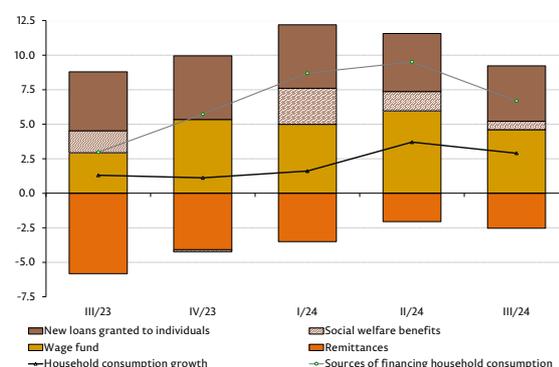
In this context, in the fourth quarter of 2024, the execution of the national public budget resulted in a deficit of MDL 7.0 billion. In the same period of 2023, the execution of the national public budget resulted in a deficit of MDL 7.3 billion. The balances of the national

Chart 3.2: Development in household final consumption in real terms (% , compared to the previous year)



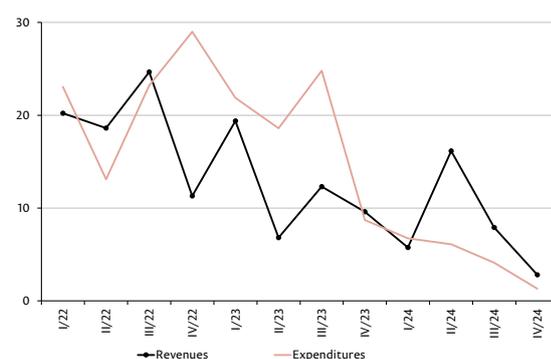
Source: NBS

Chart 3.3: Development of disposable income of the population (% , compared to the previous year) and subcomponents' contributions (percentage points)



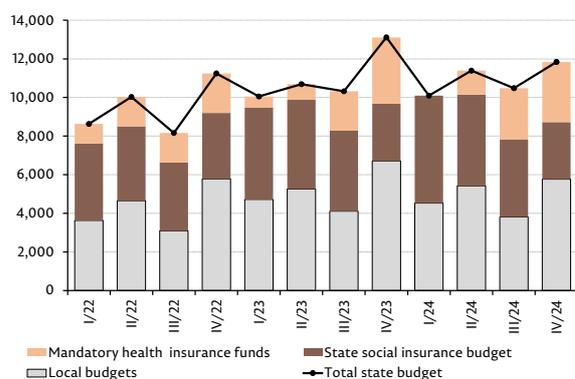
Source: NBS, NBM calculations

Chart 3.4: Public revenue and expenditure dynamics (% , compared to the previous year)



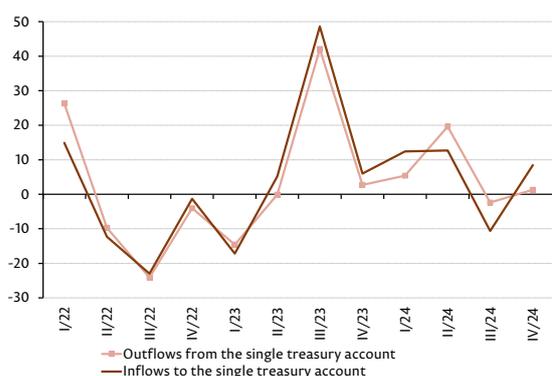
Source: Ministry of Finance

Chart 3.5: Development of budgetary transfers (MDL million)



Source: Ministry of Finance

Chart 3.6: Development of the single treasury account flows (% compared to the previous year)



Source: NBM

public budget accounts as of December 31, 2024, amounted to MDL 10.8 billion.

In the fourth quarter of 2024, the single treasury account (STA) was characterized by positive annual trends, both in terms of payments made and receipts of funds (Chart 3.6). As a result of account inflows and outflows, as of December 31, 2024, the balance of the STA amounted to around MDL 11.9 billion, recording an annual increase of 27.2% (Chart 3.7). At the same time, at the end of the reporting year, the balance of the Government's foreign currency deposit account with the National Bank of Moldova amounted to the equivalent of MDL 2.4 billion, compared to MDL 1.3 billion on December 31, 2023.

State debt

As of December 31, 2024, the balance of state debt of the Republic of Moldova amounted to approximately MDL 121.4 billion, relative to GDP⁶ this amounted to 37.9% (Chart 3.9). In annual terms, the state debt registered a nominal increase of 16.7% (Chart 3.8), as a result of the increase in external state debt recalculated in national currency (with a positive contribution of 12.6 percentage points) and domestic state debt (with a positive contribution of 4.1 percentage points). As of December 31, 2024, the state debt consisted of 63.8% external state debt and 36.2% domestic state debt.

As of December 31, 2024, the balance of external state debt amounted to about USD 4,190.4 million, exceeding the level recorded at the end of 2023 by USD 494.2 million or 13.4%. When recalculated in the national currency, the balance of external state debt amounted to about MDL 77.4 billion (24.2% of GDP⁶), (Chart 3.9).

At the end of 2024, the domestic state debt amounted to about MDL 44.0 billion (13.7% of GDP⁶ (Chart 3.9)), higher than on December 31, 2023 by 10.8% (Chart 3.8). The increase in domestic state debt was driven by state securities (SS) issued on the primary market, the volume of which increased by 17.3%, supported by direct placements from individuals. As a result of these developments, domestic debt consisted of SS issued on the primary market (68.8%), SS issued for the enforcement of state guarantees (26.0%), converted SS (4.7%) and direct placements from individuals (0.5%).

⁶GDP estimated by the NBM.

Primary market for state securities (SS)

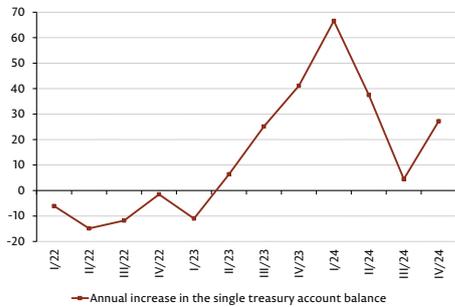
During the fourth quarter of 2024, the Ministry of Finance put into circulation state securities totalling MDL 9,466.8 million, 16.2% less than the initial offering volume. Compared to the previous quarter, demand from licensed banks in the primary market of state securities increased by 22.9% (Chart 3.10). At the same time, banks' demand was 5.5% lower than the Ministry of Finance's offering, amounting to MDL 10,645.4 million.

During the reporting period, the average effective interest rates on 91-day, 182-day and 364-day maturity treasury bills increased by 0.55, 1.33, and 1.32 percentage points, respectively, compared to the previous quarter. In addition, the average effective interest rates on government bonds with maturities of 2, 3, 5 and 10 years rose by 0.27, 0.28, 0.41 and 1.04 percentage points, respectively, compared to the third quarter of 2024.

During this period, banks continued to prioritize investments in securities with short-term maturities, while exercising greater caution regarding to long-term commitments (Chart 3.11).

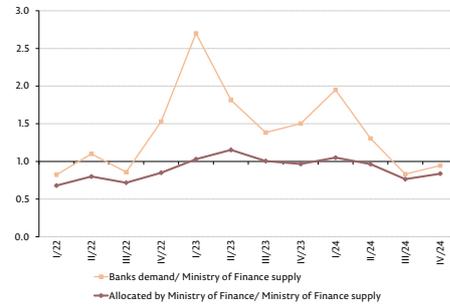
The structure of the SS portfolio put into circulation during the reference period shows that the most in-demand SS were those with a 364-day maturity, which accounted for 54.8% of total transactions, followed by 182-day treasury bills at 42.4%, and 91-day treasury bills represented 1.5%. As for government bonds, the share of those with a maturity of 2 years was 0.2%, 3 years – 0.1%, 5 years – 0.3%, and 10 years – 0.6% (Chart 3.12).

Chart 3.7: Development of the single treasury account balance (% , compared to the previous year)



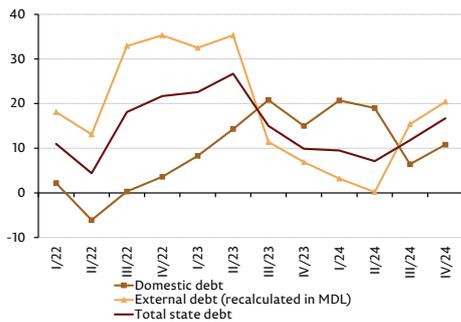
Source: NBM

Chart 3.10: Supply and demand ratio on the primary market for state securities



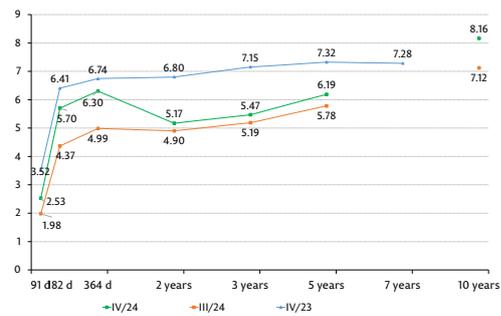
Source: NBM

Chart 3.8: Development of the annual growth rate of state debt (% , end of quarter)



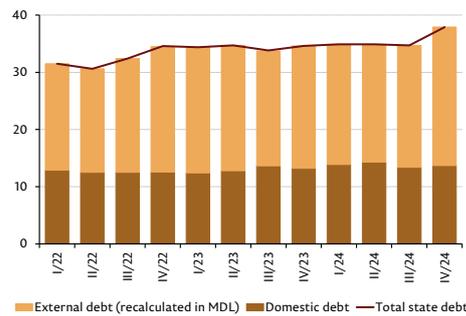
Source: Ministry of Finance

Chart 3.11: SS yield curve (%)



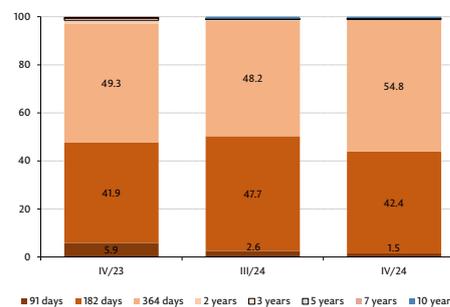
Source: NBM

Chart 3.9: Share of state debt in GDP (% , end of quarter)



Source: Ministry of Finance

Chart 3.12: Structure of SS allocated on the primary market (%)



Source: NBM

Investment demand

In the third quarter of 2024, the investment component generated a positive contribution of 3.6 percentage points to the dynamics of economic activity.

This was driven by a positive contribution of 2.0 percentage points from the change in inventories subcomponent and 1.6 percentage points from the gross fixed capital formation subcomponent. The latter was 8.1% higher than in the same period of 2023. The positive dynamics of gross fixed capital formation was supported by a 12.7% increase in investments in "machinery and equipment" and a 9.5% rise in investments in "buildings and special constructions" compared to the same period of 2023 (Chart 3.13).

It should be noted that, since the fourth quarter of 2023, gross fixed capital formation has been on a positive growth trajectory. At the same time, the annual investment rate in "buildings and special constructions" and "machinery and equipment" has returned to positive territory.

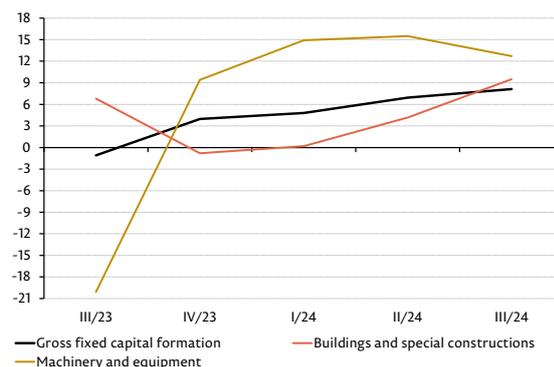
According to preliminary data provided by the NBS, investment in fixed assets increased by 3.8% in the third quarter of 2024. In terms of structure, by type of fixed assets, the subcomponents of investment in fixed assets, which determined the positive development, were: "machinery and equipment" (2.8 percentage points), "means of transport" (2.4 percentage points), "non-residential buildings" (2.2 percentage points) and "residential buildings" (2.0 percentage points). Negative contributions came from the subcomponents "engineering constructions" (-5.2 percentage points), "other tangible assets" (-0.3 percentage points) and "intangible assets" (-0.1 percentage points), (Chart 3.14).

From the perspective of investment financing sources in fixed assets for the third quarter of 2024, the positive dynamics of 3.8% was contributed by own funds with 6.0 percentage points, other sources with 2.7 percentage points and foreign investors' funds with 0.9 percentage points, while a negative impact was exerted by the following components: state budget funds (-2.7 percentage points) and ATU budgets funds with -3.1 percentage points (Chart 3.15).

Net external demand⁷

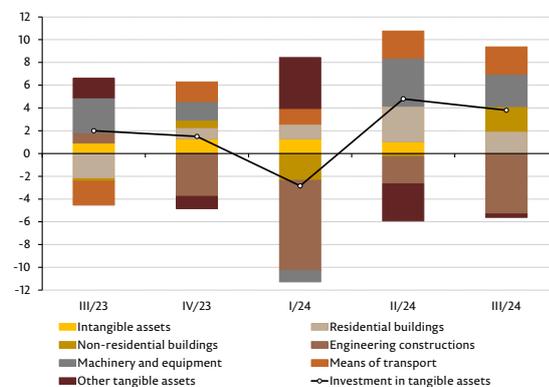
The annual rate of exports remained negative for the seventh consecutive quarter, while the annual rate of imports returned to positive territory for the third consecutive quarter. Part of this negative trend in exports can be attributed to lower energy prices, but also to the re-export of oil products to Ukraine. At the same time, agri-food exports declined in the second half of 2024, due to the severe drought in the summer of 2024,

Chart 3.13: Annual investment dynamics (%)



Source: NBS

Chart 3.14: Annual investment dynamics by type of fixed assets (% , real terms)



Source: NBS, NBM calculations

⁷Quarterly data on the development of international merchandise trade of the Republic of Moldova, expressed in thousands of US dollars, have been used.

which affected the overall agricultural harvest. Of note, the revival in consumption boosted import dynamics.

In the third quarter of 2024, the annual export rate was -13.9% or 2.4 percentage points lower than in the second quarter of 2024. Meanwhile, data for the fourth quarter of 2024 places the annual export rate in negative territory (-9.3%). Thus, during the analysed period, exports to EU countries made a negative contribution to the dynamics of total exports (Chart 3.16). It is worth noting that, as of 2024, Ukraine is not included in the Commonwealth of Independent States according to the European Union Geonomenclature, 2023 edition, which has affected data comparability. As a result, the share of exports to CIS countries decreased significantly from approximately 22.2% (in 2023) to about 6.8% (in 2024).

By commodity group, the contraction in exports of mineral products⁸ was mainly responsible for the negative dynamics of total exports (Chart 3.17). At the same time, the severe drought in the summer of 2024 significantly impacted this year's agricultural harvest. Consequently, the agri-food exports declined in the second half of 2024, and the export capacity for subsequent periods was significantly affected.

Analysing the evolution of exports by product origin, it can be observed that the decrease in exports in the second half of 2024 was mainly driven by the export of domestic products. At the same time, re-exports also generated a negative contribution to the dynamics of total exports, but the impact was much smaller (Chart 3.18).

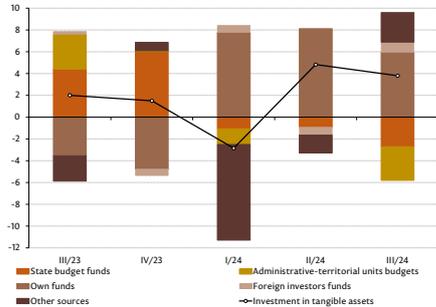
In the third quarter of 2024, the annual rate of imports was 12.5%, 7.9 percentage points higher than in the second quarter of 2024. At the same time, imports continued their positive trend in the fourth quarter of 2024. Structurally, the reclassification of Ukraine from the CIS group of countries influenced the comparability of data⁹. At the same time, imports from EU countries have maintained positive growth for the third consecutive quarter (Chart 3.19).

By commodity groups, the increase in imports in the second half of 2024 was supported by higher imports of "vehicles, optical appliances and sound recording or reproducing equipment", "foodstuff and animal products, beverages and fats", "metal, stone and ceramic articles" and "chemical and wood products" (Chart 3.20). However, after a period of six consecutive quarters, when the import of "mineral products" had a pronounced negative contribution to the total import dynamics, the contribution from this group was minor in the fourth quarter of 2024.

⁸This phenomenon was driven by the sharp decline in international energy resource prices and the steady reduction in the re-export of oil products to Ukraine.

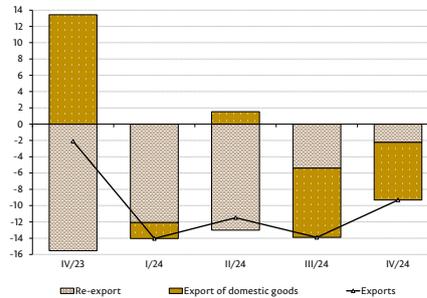
⁹The share of imports from the CIS countries in 2024 was 3.8%, or 14.7 percentage points lower than in 2023.

Chart 3.15: Annual investment dynamics by funding sources (% , in real terms)



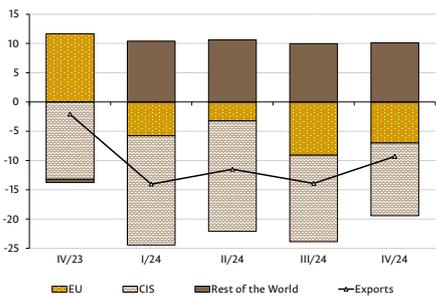
Source: NBS, NBM calculations

Chart 3.18: Development of the annual rate of exports (%) and contribution by origin (percentage points)



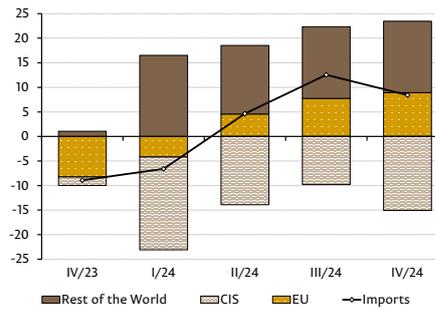
Source: NBS, NBM calculations

Chart 3.16: Development of the annual rate of exports (%) and contribution by categories of countries (percentage points)



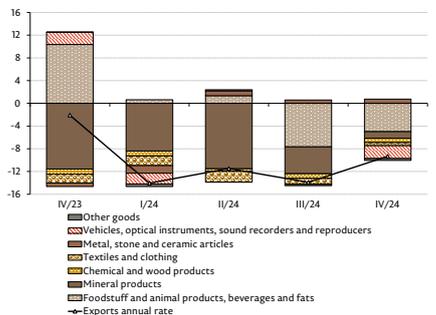
Source: NBS, NBM calculations

Chart 3.19: Development of the annual rate of imports (%) and contribution by categories of countries (percentage points)



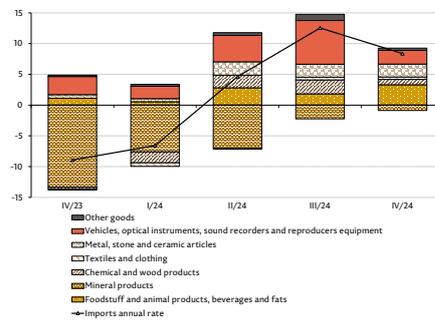
Source: NBS, NBM calculations

Chart 3.17: Development of the annual rate of exports (%) and contribution of the components by commodity groups (percentage points)



Source: NBS, NBM calculations

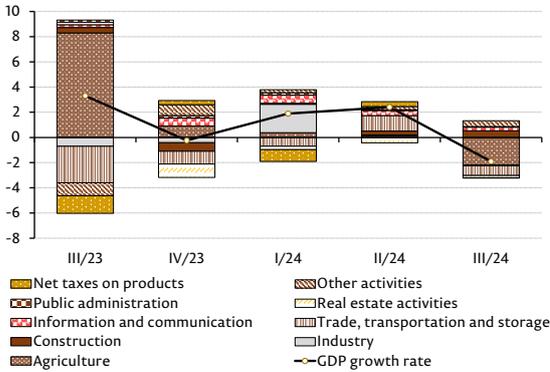
Chart 3.20: Development of the annual rate of imports (%) and contribution of the components by commodity groups (percentage points)



Source: NBS, NBM calculations

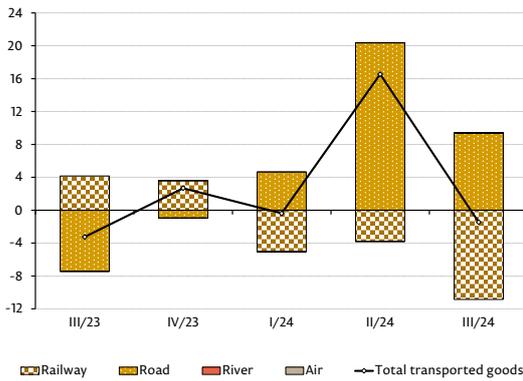
3.2 Production

Chart 3.21: Contribution of economy sectors to GDP growth (percentage points)



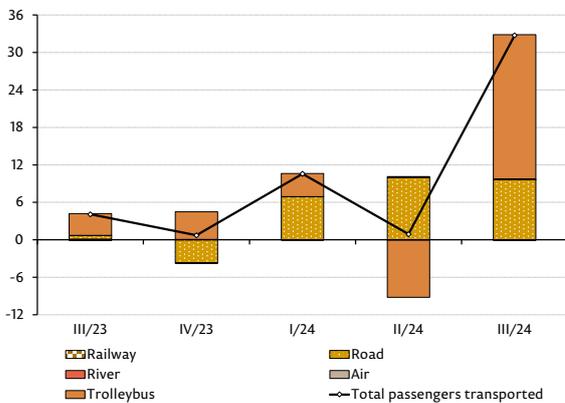
Source: NBS, NBM calculations

Chart 3.22: Development of goods transport (% , compared to the previous year)



Source: NBS

Chart 3.23: Passenger transport development (% , compared to the previous year)



Source: NBS

By resource categories, the contraction of GDP in the third quarter of 2024 was primarily driven by a 16.6% decrease in GVA in agriculture, forestry, and fishing, due to the drought conditions in the summer of 2024. As a result, the contribution of this subcomponent to GDP dynamics was -2.2 percentage points (Chart 3.21).

At the same time, a significant negative impact (-1.0 percentage points) was exerted by the 5.2% decrease in GVA in the wholesale and retail trade sector. A negative impact of 0.2 percentage points was caused by a 2.7% decrease in GVA in real estate transactions. GVA in the manufacturing industry decreased by 0.3%, and by 4.8 and 3.8% respectively in energy and mining. Overall, the industrial sector made a negative contribution of about 0.1 percentage points to GDP dynamics. Net taxes on products fell by 0.2%. The above-mentioned negative impact was partly mitigated by developments in the construction, financial and information and communication sectors. Thus, GVA in the construction sector increased by 8.3%, contributing 0.6 percentage points to GDP growth. A similar dynamics (8.3%) was recorded for the financial activities and insurance sub-component, thus contributing 0.3 percentage points to GDP growth. The information and communication sector increased by 4.3%, exerting a positive impact of 0.2 percentage points on GDP dynamics.

Goods and passenger transport

After a significant increase in the second quarter of 2024, the volume of goods transported decreased by 1.4%, in the third quarter of 2024, 18.0 percentage points lower than in the previous quarter (Chart 3.22).

This development was driven by a 48.9% year-on-year decrease in the volume of goods transported by rail compared to the same period last year. At the same time, the volume of goods transported by road and river increased by 12.1 and 12.8%, respectively, compared with the third quarter of 2023, while goods transported by air increased by 38.5%.

At the same time, a positive trend was recorded in the passenger transport sector in the third quarter of 2024. Thus, the number of passengers transported recorded a considerable increase to 32.8%, 31.9 percentage points higher than in the second quarter of 2024 (Chart 3.23). This development was mainly driven by the increase in annual terms in the number of passengers transported by trolleybuses and by road, by 34.5 and 30.0% respectively, compared to the same period of the previous year. At the same time, the number of passengers transported by air and river increased by 20.0% and 11.8% respectively. On the other hand, the number of passengers transported by rail decreased by 29.5% compared to the third quarter of 2023.

Industrial production

In the first two months of the fourth quarter of 2024, the average annual growth rate of industrial production volume stood at -6.1%, 8.4 percentage points lower than in the third quarter of 2024 (Chart 3.24).

This dynamic was driven by the decline in the annual growth rate of the manufacturing industry (which dropped from 2.1% in the second quarter of 2024 to -15.1% in the first two months of the fourth quarter of 2024). At the same time, the annual rate of the mining and quarrying industry decreased from 19.8% in the third quarter of 2024 to 10.3% in the first two months of the fourth quarter of 2024. Meanwhile, the annual rate of production in the "production and supply of electricity, heat, steam, hot water and air conditioning" sector increased by 65.7 percentage points compared to the third quarter of 2024, reaching 62.9%.

Internal trade

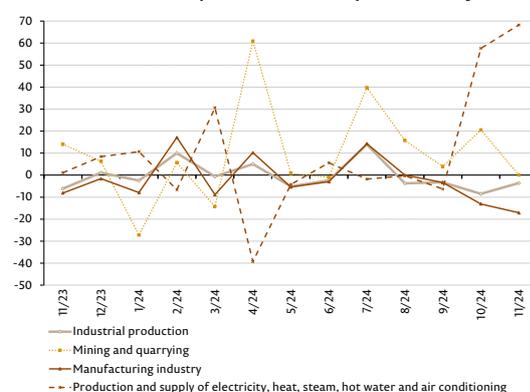
In the first two months of the fourth quarter of 2024, domestic retail trade (based on VAT declarations¹⁰) grew by an average of 11.9%, 0.8 percentage points lower than in the previous quarter (Chart 3.25). At the same time, domestic wholesale trade (based on VAT declarations) grew by an average of 9.6% in October-November 2024, 5.4 percentage points higher than in the third quarter of 2024.

Agricultural production

In the third quarter of 2024, total agricultural production decreased by 10.2% compared to the same quarter of the previous year (Chart 3.26).

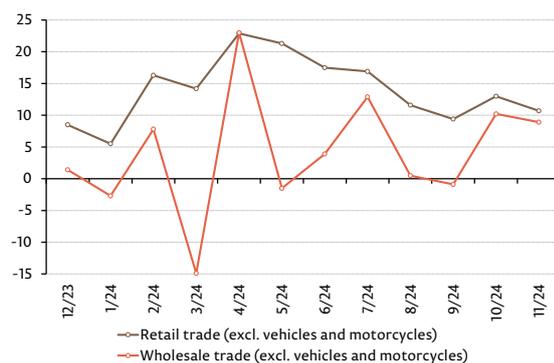
This dynamic was driven by a 16.7% decrease in crop production in the context of dry conditions in the summer of the current year. This impact was partially offset by an increase in livestock production of 19,9%.

Chart 3.24: Industry development in real terms (% , compared to the previous year)



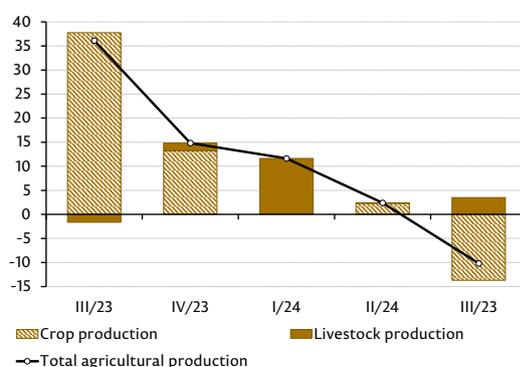
Source: NBS

Chart 3.25: Internal trade (based on VAT statements) (% , compared to previous year)



Source: NBS, NBM calculations

Chart 3.26: Annual rate of total agricultural production (%) and contribution by sectors (percentage points)

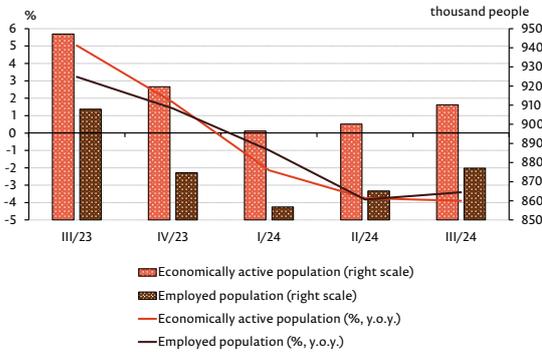


Source: NBS, NBM calculations

¹⁰https://statistica.gov.md/ro/statistici-privind-indicii-valorici-ai-vanzarilor-livrarilor-de-marfuri-si-servi-12_60432.html

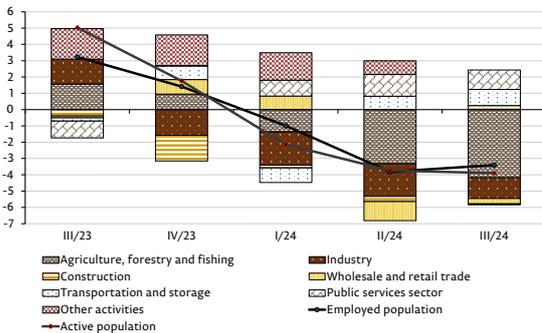
3.3 Labor market

Chart 3.27: Economically active population and employed population



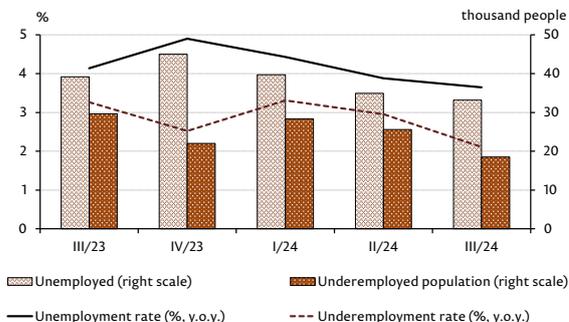
Source: NBS, NBM calculations

Chart 3.28: Contribution of sectors to the dynamics of the employed population (percentage points)



Source: NBS, NBM calculations

Chart 3.29: Developments of unemployed and underemployed population



Source: NBS, NBM, calculations

Labor force

Since the beginning of 2024, the annual dynamics of the economically active and employed population moved into negative territory. The unemployment and underemployment rates¹¹ have declined from the level in the third quarter of 2023.

In July-September 2024, the labor force totaled 910.2 thousand people, 3.9% lower than in the third quarter of 2023. At the same time, the employed population amounted to 877.0 thousand persons, 3.4% lower than in the same period of 2023 (Chart 3.27).

Within the employed population, negative developments were recorded in agriculture, forestry and fishing (-17.9%), industry (-8.9%), wholesale and retail trade¹² (-1.8%), other service activities (-0.6%). At the same time, the increase in the employed population in the third quarter of 2024 was observed in the following sectors: transportation and storage¹³ (15.3%), public services sector¹⁴ (5.6%), construction (3.2%) (Chart 3.28).

In the third quarter of 2024, the number of unemployed persons amounted to 33.2 thousand, about 6.0 thousand fewer than in the third quarter of 2023, and the unemployment rate was 3.6%, which is 0.5 percentage points lower than in the third quarter of 2023 (Chart 3.29).

The underemployed population in the third quarter of 2024 decreased to 18.5 thousand from approximately 29.6 thousand in July-September 2023, and the underemployment rate stood at 2.1% or 1.2 percentage points lower than in the third quarter of 2023.

Wage fund

In the third quarter of 2024, the wage fund in the economy increased by 14.9% compared to the same period of the previous year.

This dynamic was mainly driven by the developments in the wage funds of the wholesale and retail trade sector (2.6 percentage points), the industrial sector (1.9 percentage points), education (1.9 percentage points), human health and social work activities (1.7 percentage points), information and communication (1.7 percentage points) and public administration and defence (1.4 percentage points).

¹¹Underemployed persons: individuals who had a job, whose total number of hours actually worked during the reference period was less than 40 hours per week, who were willing and available to work overtime.

¹²Including "Accommodation and food service activities".

¹³Including "Information and communication".

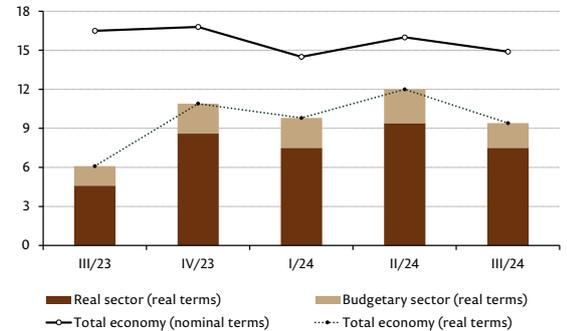
¹⁴"Public administration and defence", "Education", "Human health and social work activities".

In real terms, deflated by the CPI, the wage fund in the economy increased by 9.4% compared to the same period of the previous year, driven by positive developments of both sectors of the economy: the real and the budgetary sectors (Chart 3.30).

In the third quarter of 2024, the average number of employees in the national economy increased by 0.6% compared to the third quarter of the previous year. The number of employees in the real sector rose by 1.0%, with a contribution of 0.7 percentage points, while the number of employees in the budgetary sector decreased by 0.5%, with a contribution of -0.1 percentage points (Chart 3.31).

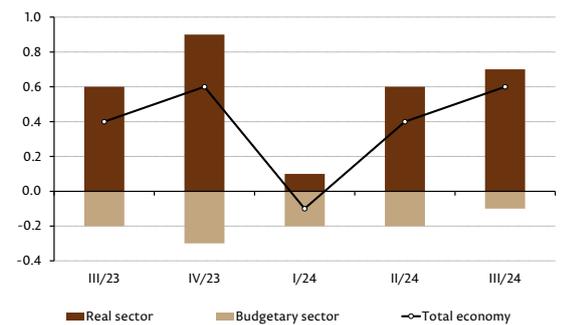
The distribution by sectors of the economy reveals more pronounced increases in the average number of employees, mainly in accommodation and food service activities (19.5%), administrative and support service activities (4.1%), construction (3.7%), transportation and storage (3.5%), followed by wholesale and retail trade (2.9%). On the other hand, the number of employees contracted in agriculture, forestry and fishing (-8.3%), real estate activities (-5.0%), industry (-1.7%), financial and insurance activities (-0.9%), human health and social work activities (-0.7%) and education (-0.7%), (Chart 3.32).

Chart 3.30: Wage fund in the economy (% compared to the previous year) and sectors' contributions (percentage points)



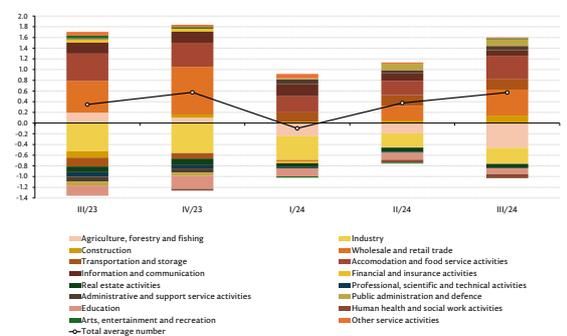
Source: NBS, NBM calculations

Chart 3.31: Average number of employees per economy (% compared to the previous year) and sectors' contributions (percentage points)



Source: NBS, NBM calculations

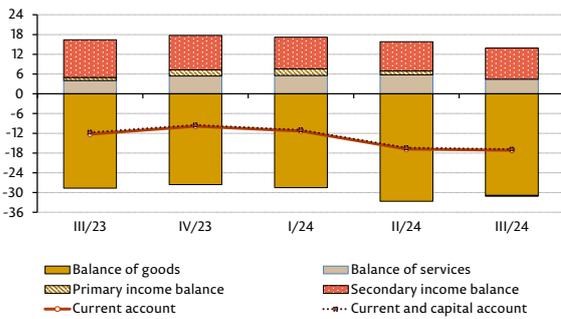
Chart 3.32: Contribution of the sectors of the economy to the dynamics of the number of employees (% compared to the previous year)



Source: NBS, NBM calculations

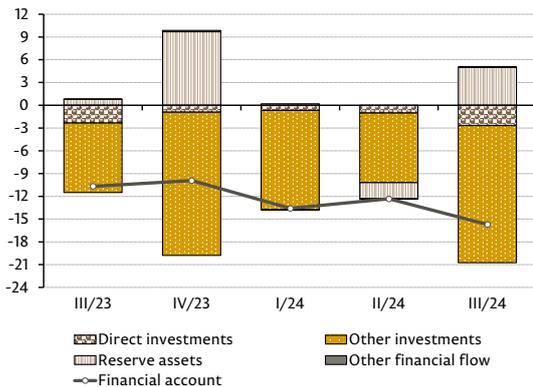
3.4 External sector

Chart 3.33: Current account share in GDP (%)



Source: NBM

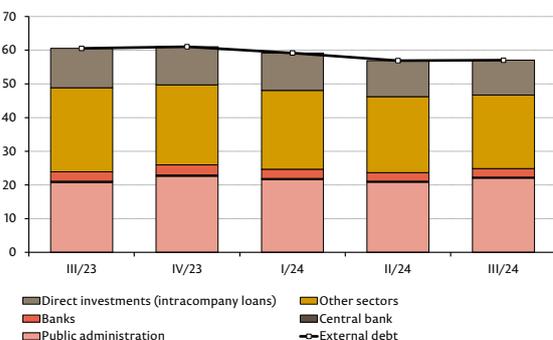
Chart 3.34: Financial account share in GDP (%)



Source: NBM

Note: (-) – net capital inflows, (+) – net capital outflows

Chart 3.35: External debt share in GDP (%)



Source: NBM

Current account

In the third quarter of 2024, the current account deficit of the balance of payments widened by 0.4 percentage points compared to the previous quarter, reaching 17.2% of GDP (Chart 3.33).

The increase in the balance of payments deficit occurred due to the decline in components with a positive contribution – the "primary income balance" and the "balance of services", while the "secondary income balance" increased over the reference period. Meanwhile, the component with a negative contribution – the "balance of goods" narrowed.

Financial account

In the third quarter of 2024, the financial account, as a share of GDP, recorded a level of 15.7%, 3.4 percentage points higher than in the second quarter of 2024.

At the same time, there were changes in the structure of net financial flows, but the overall picture, compared to previous quarters, did not undergo significant changes (Chart 3.34). Thus, in the third quarter of 2024, the "other investments" component showed a prominent development, thus contributing to a significant increase in net inflows of financial assets¹⁵. It is worth noting that the net inflow of direct investments, as a share of GDP, amounted to 2.7%, 1.7 percentage points higher than in the second quarter of 2024. In the third quarter of 2024, there was a net accumulation of reserve assets (5.0% as a share of GDP).

In the quarter under review, the share of external debt in GDP stood at 57.0%, 0.1 percentage point higher than in the second quarter of 2024 (Chart 3.35). There were no major changes in the structure of external debt, thus, similar to previous periods, the largest share in total external debt as a share of GDP is held by economic agents¹⁶ with 24.4%, the government sector¹⁷ accounts for 22.3% and direct investments – 10.4%.

¹⁵In the third quarter of 2024, the "cash and deposits" and "loans" components contributed to the significant increase in net financial inflows as part of "other investments".

¹⁶Cumulative debt of "Banks" and "Other sectors".

¹⁷Cumulative debt of "Public Administration" and "Central bank".

Chapter 4

Monetary policy

4.1 Monetary policy instruments

During the fourth quarter of 2024, the National Bank maintained the monetary policy rate at the level of 3.60% annually. The decisions were taken with a view to continuing the propagation of monetary policy easing measures in the recent period and aim to anchor inflation expectations, with a view to keeping inflation within the target range over the medium term.

Yield curve CHIBOR remained broadly stable over the fourth quarter of 2024, with slight changes in both directions. Thus, the quote CHIBOR 2W at the end of December was slightly higher (+0.16 percentage points) that recorded on the last day of the previous quarter, constituting 7.43% (Chart 4.1).

The trajectory of interest rates on government securities with a maturity of 91 days reflected both the intention of the Ministry of Finance to channel investors' resources to longer maturities of the SS and the dampening of investors' interest in this type of investments. Thus, the interest rate on these SS was 2.50% annually at the beginning of the fourth quarter of 2024, remaining at this level until the end of the quarter.

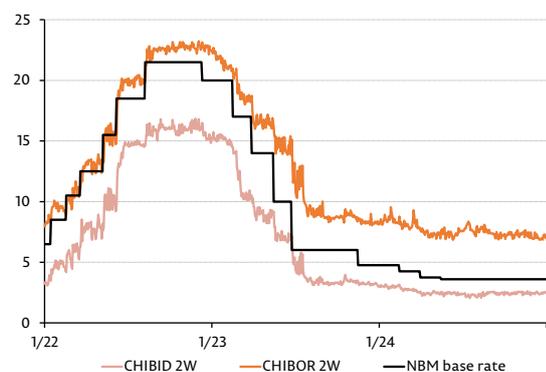
On the secondary segment of the state securities market, the average interest rate on transactions amounted to 6.01% (+1.32 percentage points compared with the third quarter of 2024, mainly due to higher government bond trading), (Chart 4.2).

Money market operations

Sales of NBM certificates (NBC)

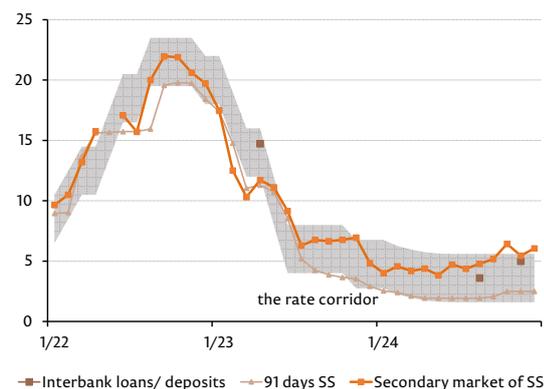
The net debtor position of the NBM regarding the banking system was maintained during the quarter, but its value decreased compared to the previous period. Excess liquidity was absorbed through weekly sales of 14-day certificates, where banks' bids were fully allotted. The daily stock of NBC placements reduced its volatility compared to the previous quarter, with the average quarterly balance decreasing by MDL 1,001.2 million to MDL 8,203.2 million compared to the third quarter of 2024 (Chart 4.3).

Chart 4.1: Monthly average reference rates on the interbank market and the base rate of the NBM (%)



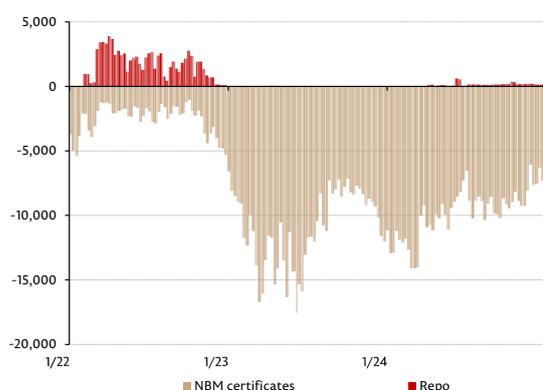
Source: NBM

Chart 4.2: Monthly evolution of the interest rates corridor (%)



Source: NBM

Chart 4.3: Development of the daily balance of sterilization operations (MDL million)



Source: NBM

Repo operations

Liquidity-providing repo operations were conducted on a weekly basis with a 14-day maturity at fixed interest rates through open tenders. The volume of liquidity delivered during the quarter amounted to MDL 1,220.0 million. The balance of repo operations recorded at the end of the managed quarter amounted to MDL 150.0 million.

Standing facilities

During the fourth quarter of 2024, banks used both standing facilities offered by the NBM.

The total amount of overnight deposits placed with the NBM amounted to MDL 11,818.0 million, about 39.5% below the level of the previous quarter. At the same time, the average daily stock of these placements decreased to MDL 224.7 million (from MDL 290.2 million in the previous period). The amounts placed by banks ranged from a minimum of MDL 30.0 million to a maximum of MDL 1,000.0 million.

The total amount of overnight loans granted by the NBM to banks in the fourth quarter of 2024 amounted to MDL 1,551.0 million, recording a negligible decrease of about 4.3% compared to the previous quarter. The average daily balance of overnight loans amounted to MDL 27.4 million.

Interest rates on standing facilities in the October-December 2024 period were maintained at the same level: 5.60% per annum on overnight loans and 1.60% per annum on overnight deposits.

Interbank credit/ deposit market

The excess liquidity in the banking system continues to keep the interbank credit/ deposit market passive, with banks intervening sporadically in the market.

In the fourth quarter of 2024, interbank transactions totaled MDL 80.0 million, the average interest rate – 5.00% per annum, the term being overnight.

Required reserves

In the fourth quarter of 2024, the required reserve mechanism continued to perform its monetary control and liquidity management functions in the banking system.

During the quarter, the required reserve ratio from funds attracted in MDL and non-convertible foreign currency was decreased by 4 percentage points from the level of 29.0% of the base to the level of 25.0%, and the required reserve ratio from funds attracted in FCC – by 5 percentage points from the level of 39.0% to the level of 34.0% of the base.

Required reserves in MDL maintained by banks in the period 16.12.2024 – 15.01.2025 amounted to MDL 19,877.6 million, decreasing by MDL 3,120.4 million (-13.6%) compared to the period 16.09.2024 – 15.10.2024.

With regard to required reserves from funds attracted in FCC, they amounted to USD 197.0 million and EUR 568.4 million during the implementation period 16.12.2024 – 15.01.2025. Compared with the period 16.09.2024 – 15.10.2024, required reserves in US dollars decreased by 20.0% and required reserves in euro by 9.1%.

Domestic foreign exchange interventions

Between October and December 2024, the NBM intervened on the domestic foreign exchange market through foreign exchange sales.

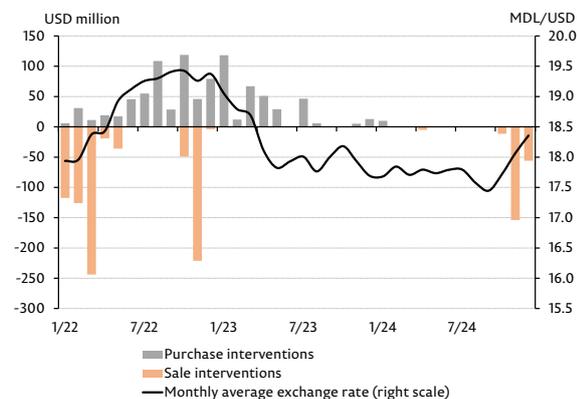
During the analyzed period, the volume of transactions of the National Bank of Moldova carried out on the interbank foreign exchange market against MDL, at the reporting date, amounted to USD 225.5 million, including sale transactions in the amount of USD 221.3 million, as well as foreign exchange conversions with the World Bank institutions (International Bank for Reconstruction and Development and International Development Association) in the amount of USD 4.2 million.

Also, during the reporting period, the NBM conducted purchase swap operations in the amount of USD 5.4 million (Chart 4.4).

4.2 The dynamics of monetary indicators

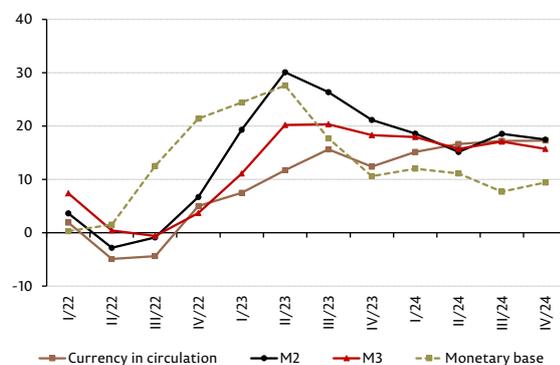
In the fourth quarter of 2024, the monetary aggregates M2 and M3 recorded more moderate growth rates, thus the monetary aggregate M2 recorded an annual growth rate of 17.5% (1.1 percentage points lower than in the third quarter of 2024), while M3 – an annual growth rate of 15.7% (1.4 percentage points lower than in the previous quarter). Monetary base grew by 9.4% annually (1.7 percentage points more than in the third quarter of 2024), (Chart 4.5).

Chart 4.4: Development of the official MDL/USD exchange rate and volume of daily transactions of the NBM



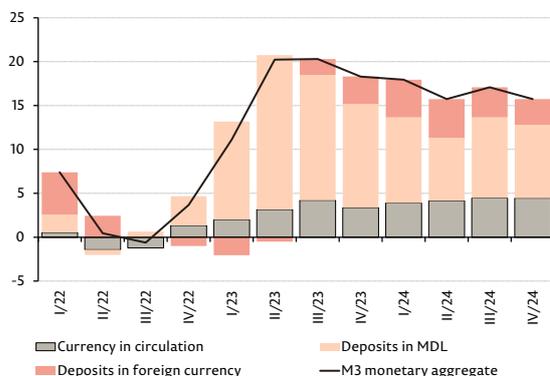
Source: NBM

Chart 4.5: Change in monetary aggregates (% annual growth)



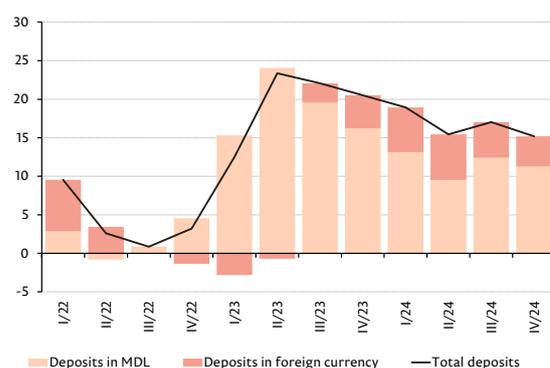
Source: NBM

Chart 4.6: Dynamics of the monetary aggregate M3 (% contribution of the components in annual growth)



Source: NBM

Chart 4.7: Dynamics of total deposit balance (% contribution of annually increasing components)



Source: NBM

Money supply

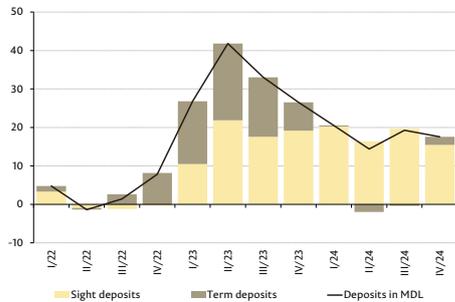
Overall, the monetary aggregate M3 grew at a more moderate annual rate in the fourth quarter of 2024 compared with the previous quarter, with the main contribution to this growth coming from deposits in national currency – by 8.4 percentage points (-0.8 percentage points) and money in circulation – by 4.5 percentage points (similar to the previous quarter), followed by the contribution of deposits in foreign currency – by 2.9 percentage points (-0.5 percentage points). All this provided the monetary aggregate M3 with an annual growth rate of 15.7% (Chart 4.6).

Growth in the balance of deposits in national currency easing to 17.6% annually (Chart 4.8) was driven by a decrease in the contribution of sight deposits by both individuals and legal entities.

Deposits in foreign currency in the fourth quarter of 2024, similarly, growth moderated to 11.0% annually, down by 2.1 percentage points from the previous quarter, as a result of a slowdown in the pace of growth of term deposits (Chart 4.11). The positive 5.6% increase in foreign currency term deposits was driven by a higher contribution of deposits from individuals (Chart 4.12). At the same time, overnight deposits in foreign currency maintained their upward trend, growing by 15.6% annually. This positive trend was mainly driven by an increase in individuals' overnight deposits (Chart 4.13).

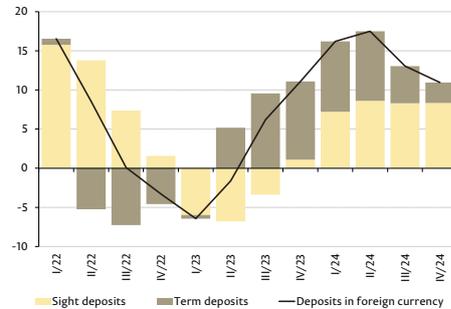
The growth rate of money in circulation at the end of the fourth quarter of 2024 remained unchanged at 17.3% annually. The dynamics of money in circulation were driven by both the inflow of receipts and the outflow of releases in commercial bank vaults. In total receipts, receipts from the sale of consumer goods made the largest contribution. However, in terms of releases from commercial banks' vaults, the main contribution came from releases of loans to individuals.

Chart 4.8: Dynamics of the deposits balance in MDL (% contribution of annually increasing components)



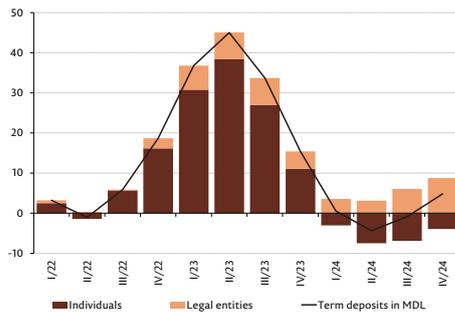
Source: NBM

Chart 4.11: Dynamics of the deposits balance in foreign currency (% contribution of annually increasing components)



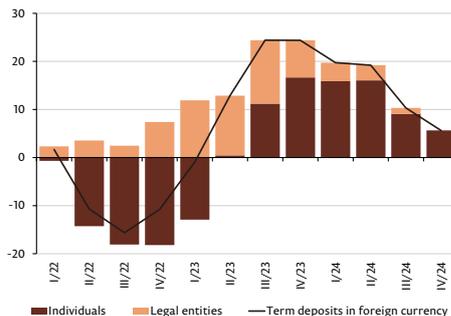
Source: NBM

Chart 4.9: Dynamics of the term deposits balance in MDL (% contribution of annually increasing components)



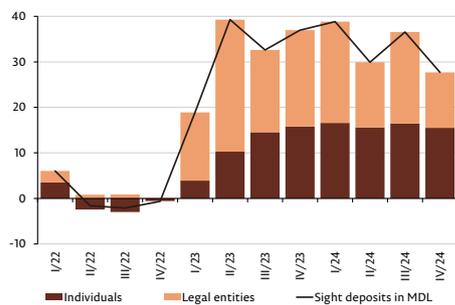
Source: NBM

Chart 4.12: Dynamics of the term deposits balance in foreign currency (% contribution of annually increasing components)



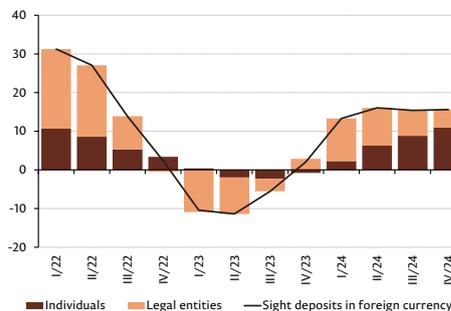
Source: NBM

Chart 4.10: Dynamics of the sight deposits balance in MDL (% contribution of annually increasing components)



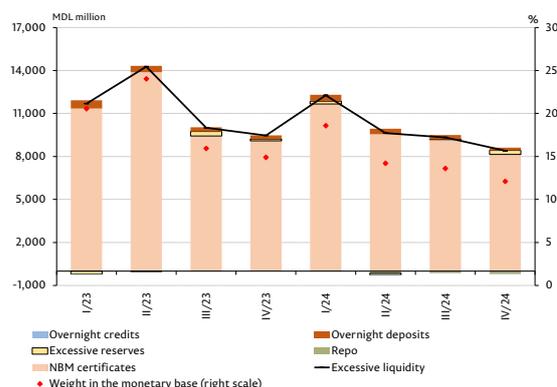
Source: NBM

Chart 4.13: Dynamics of the sight deposits balance in foreign currency (% contribution of annually increasing components)



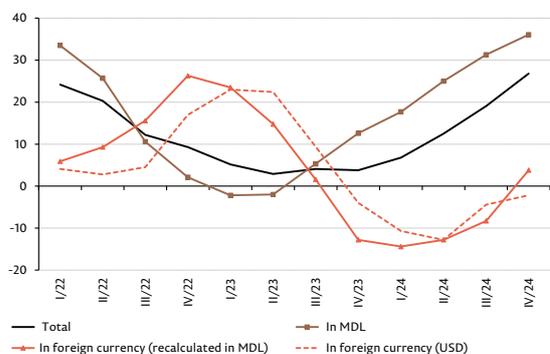
Source: NBM

Chart 4.14: Excessive liquidity



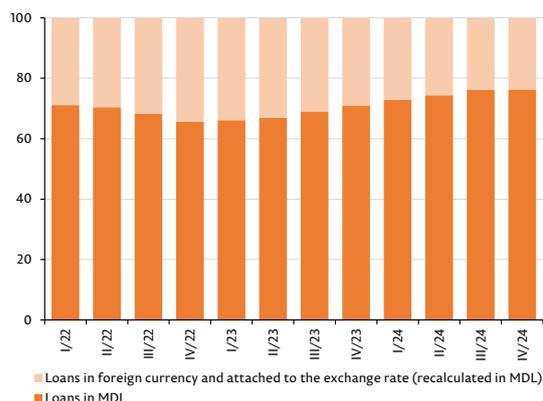
Source: NBM

Chart 4.15: Evolution of the balance of loans (% annual growth)



Source: NBM

Chart 4.16: The evolution of the weights of loans by subcomponents in the total balance (%)



Source: NBM

Excessive liquidity

In the last quarter of 2024, the average excess liquidity in the banking system decreased by MDL 934.8 million. It should be noted that in comparison with the fourth quarter of 2023, the volume of excessive liquidity decreased by MDL 1,064.9 million, reaching an average amount of MDL 8.4 billion (Chart 4.14).

Credit market

Evolution of the balance of loans granted by licensed banks¹⁸

At the end of December 2024, the total balance of loans granted by licensed banks recorded an annual increase of MDL 78,502.4 million, higher than at the end of the fourth quarter of 2023 by 26.8% (Chart 4.15). The increase was largely generated by the component in national currency, whose annual dynamics continued its upward trend, reaching 36.1%. The annual trend of the balance of loans granted in MDL was influenced by the increase in the balance of loans granted to legal entities by 36.4% and in those granted to individuals by 36.0%. Against this background, the share of loans granted in national currency accounted for 76.3% of the total stock of loans, 5.3 percentage points higher than at the end of the fourth quarter of 2023 (Chart 4.16). It should be noted that the annual growth rate of the balance of loans in foreign currencies and attached to the exchange rate, recalculated in national currency, increased slightly (Chart 4.15).

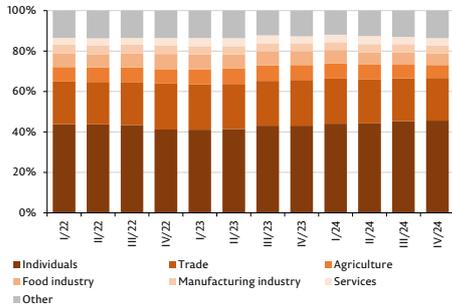
At the end of the fourth quarter of 2024, loans granted to individuals accounted for the largest share in the structure of the total portfolio of loans granted by licensed banks, analogous to the previous quarters (45.6%), followed by the share of loans granted to legal entities in the trade sector (21.1%), (Chart 4.17).

Evolution of new loans granted by licensed banks

In the fourth quarter of 2024, the annual dynamics of the total volume of new loans granted by licensed banks amounted to 47.5% (Chart 4.18). The main contribution was from loans in MDL, which recorded an annual growth rate of 48.8%. The dynamization of loans granted in national currency was driven by the increase in loans granted to both legal entities and individuals (Chart 4.19) following gradual cuts in interest rates (Chart 4.23). The evolutions of loans granted to individuals for consumption and real estate, as well as to legal entities in the trade, agriculture, construction and energy industry sectors were decisive. The share of loans granted in national currency in the fourth quarter of 2024 amounted to 75.4% of total loans granted, 1.6 percentage points higher than in the previous quarter. At the same time, the dynamics of new loans granted in foreign currency and pegged to the foreign exchange rate also increased, with the main contribution coming from loans granted to legal entities (Chart 4.18).

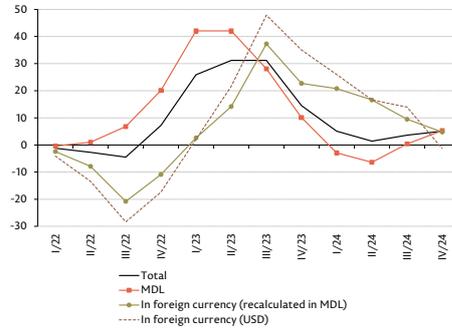
¹⁸The data analysis was performed on the basis of the reports ORD 01.06 "Interest rates on balance of loans and deposits" submitted by the licensed banks up to January 13, 2025.

Chart 4.17: Loans balance structure (% in total)



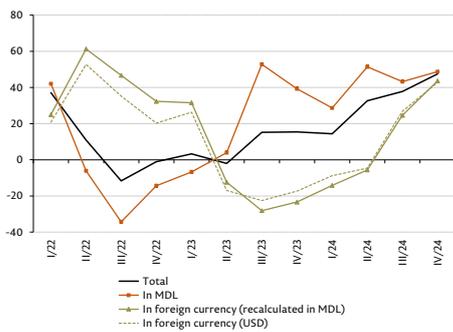
Source: NBM

Chart 4.20: Dynamics of term deposits balance (% annual growth)



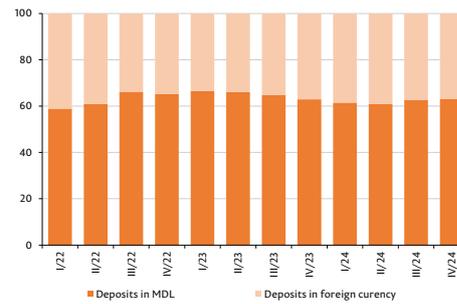
Source: NBM

Chart 4.18: Evolution of new granted loans (% annual growth)



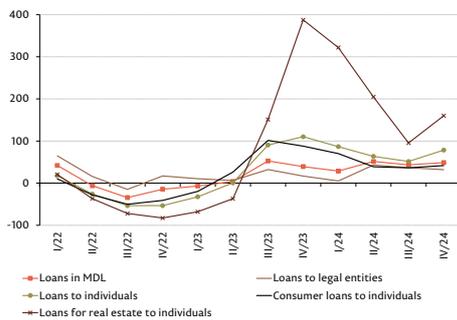
Source: NBM

Chart 4.21: Evolution of the share of term deposits by subcomponents in the total balance (%)



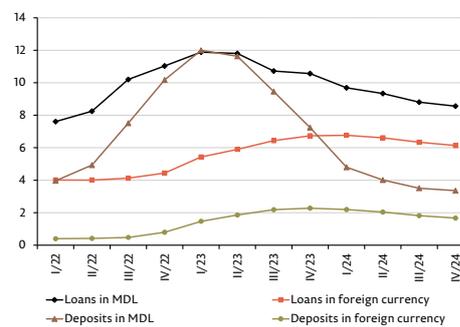
Source: NBM

Chart 4.19: Evolution of new loans granted in MDL (% annual growth)



Source: NBM

Chart 4.22: Average interest rates on balance of loans and deposits (%)



Source: NBM

The market of term deposits accepted by the licensed banks (balance of deposits)¹⁹

At the end of the reporting quarter, the total balance of term deposits attracted by licensed banks amounted to MDL 47,836.1 million, 5.1% higher than on December 31, 2023 (Chart 4.20). The increase was largely influenced by the balance of deposits attracted in national currency. Thus, the balance of term deposits in MDL recorded an annual growth rate of 5.3%. The main contribution came from deposits of legal entities, which recorded an annual growth rate of 53.7%. The share of term deposits in MDL did not change significantly and amounted to 63.0% at the end of the reporting quarter (Chart 4.21).

Interest rates²⁰

Base rate development

During the fourth quarter of 2024, two meetings of the Executive Board of the National Bank of Moldova were held on monetary policy decisions. Following the assessment of the domestic and external balance of risks and the short and medium-term inflation outlook, the Executive Board of the National Bank of Moldova, at its meetings on November 5 and December 5, 2024, decided to maintain the base rate at the level of 3.60% annually (level set on May 7, 2024). These measures were adopted with a view to stimulating aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflationary expectations.

Interest rate development on loans balance

For the fourth quarter of 2024, the weighted average interest rate for the balance of loans amount in MDL granted by licensed banks decreased by 2.01 percentage points compared to the fourth quarter of 2023, and reached 8.56% annually (Chart 4.22), as interest rates on new transactions continued to fall. The weighted average interest rate on balance of loans in foreign currency amounted to 6.14% annually, 0.59 percentage points lower than in the fourth quarter of 2023.

¹⁹The data analysis was performed on the basis of the reports ORD 01.06 "Interest rates on balance of loans and deposits" submitted by the licensed banks up to January 13, 2025 and does not include sight deposits.

²⁰The analysis of the rates was based on the reports ORD 01.06 "Interest rates on balance of loans and deposits" submitted by the licensed banks up to January 13, 2025 and does not include rates on sight deposits.

Interest rate development on deposits balance

Over the reporting quarter as a whole, the weighted average interest rate on the balance amount of term deposits in domestic currency recorded a more pronounced annual decline than the rate on the loans segment, on the back of previous declines in rates on new transactions (Chart 4.22). The weighted average interest rate on the balance amount of term deposits in domestic currency amounted to 3.36% annually, 3.88 percentage points lower than in the fourth quarter of 2023. At the same time, the weighted average interest rate on the balance amount of term deposits attracted in foreign currency amounted to 1.67% annually, decreasing by 0.61 percentage points compared to the fourth quarter of 2023.

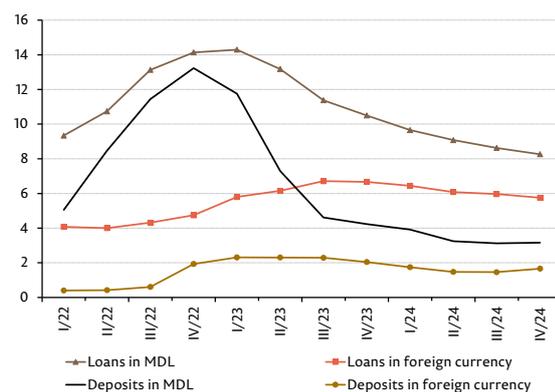
Development of interest rates on new loans and deposits granted/ attracted by the licensed banks

In the fourth quarter of 2024, in the domestic currency segment, weighted average interest rates on new loans continued to decline (Chart 4.23), including under the impact of the transmission mechanism of previous base rate cuts applied to the main monetary policy operations. Thus, the weighted average interest rate on new loans granted in national currency in the fourth quarter of 2024 amounted to 8.26% annually, 2.24 percentage points lower than in the fourth quarter of 2023.

The reduction reflected the decrease in the weighted average interest rate on loans granted to both legal entities (-2.29 percentage points, up to 7.78% annually) and individuals (-2.38 percentage points, down to 8.87% annually). At the same time, the weighted average interest rate on loans granted in foreign currency and pegged to foreign exchange rates amounted to 5.75% annually, 0.92 percentage points lower than in the fourth quarter of 2023.

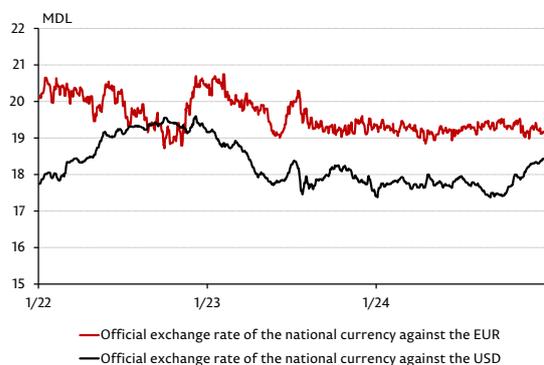
As a result of the situation on the money market, the weighted average interest rate on term deposits attracted in MDL amounted to 3.16% annually, lower by 1.07 percentage points than in the fourth quarter of 2023, but higher by 0.04 percentage points than in the third quarter of 2024 (Chart 4.23). The weighted average interest rate on term deposits attracted in national currency from individuals decreased by 0.85 percentage points compared to the fourth quarter of 2023, but increased by 0.15 percentage points compared to the third quarter of 2024 and amounted to 3.44% annually. The weighted average interest rate on term deposits attracted from legal entities recorded a similar development (-1.33 percentage points compared to the fourth quarter of 2023) and amounted to 2.74% annually, higher by 0.03 percentage points compared to the third quarter of 2024.

Chart 4.23: Average interest rates on new volumes of loans and deposits (%)



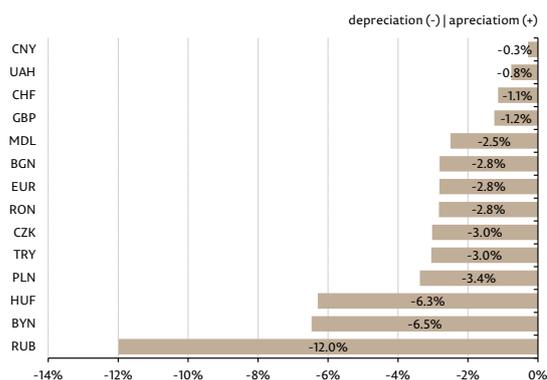
Source: NBM

Chart 4.24: Official exchange rate fluctuations of the Moldovan leu against the US dollar and the euro



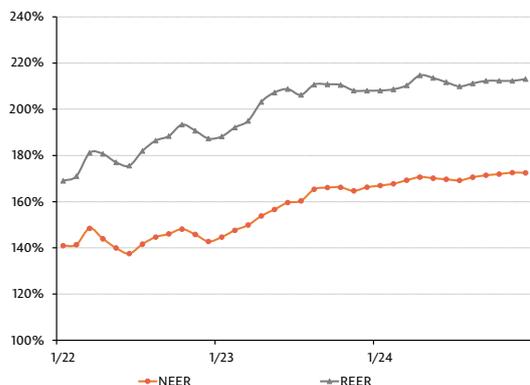
Source: NBM

Chart 4.25: Development of the countries currencies – main trading partners against the US dollar, average exchange rate in the fourth quarter of 2024/ third quarter of 2024 (%)



Source: NBM

Chart 4.26: Nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the MDL dynamics calculated on the basis of the weight of the countries – main trading partners (Dec.2000=100%)



Source: NBM

Nominal and real effective exchange rate development

According to the values at the end of the fourth quarter of 2024, the official nominal exchange rate of the national currency decreased by 6.0% against the US dollar and increased by 0.7% against the euro compared to their levels at the end of the previous quarter (Chart 4.24).

On average, the Moldovan leu depreciated against the US dollar by 2.5% and appreciated against the euro by 0.3%, compared with the averages of the previous quarter.

As regards the evolution of the countries currencies – main trading partners, in the fourth quarter, most currencies depreciated more sharply against the US dollar, compared to the 2.5% depreciation of the Moldovan leu. In particular, the Russian ruble (-12.0%), the Belarusian ruble (-6.5%), the Hungarian forint (-6.3%), the Polish zloty (-3.4%), the Turkish lira and the Czech koruna (-3.0% each), the Romanian leu, the Euro and the Bulgarian leva depreciated (-2,8%), (Chart 4.25).

Under these conditions, in real terms, the Moldovan leu appreciated by 0.7% against the basket of currencies of the countries – main trading partners of the Republic of Moldova (average of the fourth quarter of 2024 against the average of the third quarter of 2024), (Chart 4.26). The largest contribution to the appreciation of the REER came from the Russian Federation (+0,9 percentage points) and Romania (+0,2 percentage points), (Chart 4.27).

In the fourth quarter of 2024, the dynamics of supply and demand factors in the local intrabank foreign exchange market resulted in a pronounced shortage of foreign exchange. The net supply of foreign exchange by individuals amounted to USD 627.7 million, declining both in annual terms by 9.3% and by 39.0% to the previous quarter. Individuals reduced their supply of foreign currency in the quarter under review, preferring to increase their foreign currency savings, which led to a slight increase in the dollarization of their deposits. The depreciation of the Euro against the Leu, which followed its decline against the US dollar on international markets, was one of the reasons behind the population's preference for saving in foreign currencies. As for the dynamics of transfers from abroad to individuals, according to the data for the first two months of the quarter, they increased only slightly compared with the same period of the previous year, without contributing to the increase in annual terms in the net supply of foreign currency.

The single European currency continued to account for the largest share of the net supply of foreign currency from individuals (56.8%²¹), (Chart 4.28).

The net demand for foreign exchange by economic agents increased in annual terms (+35.4%) and decreased (-17.3%) compared to the previous quarter, reaching USD 946.9 million. The continuation of the deteriorating trend in the merchandise trade balance, whose deficit widened by 19.5% according to data

²¹Share calculated by applying a constant rate.

for the 11 months of the year, was the main factor contributing to the increase in net demand from legal entities.

Compared to the same period in 2023, the demand for foreign exchange from importers of energy resources, machinery and equipment, and various consumer goods increased, while the supply from some exporters of agricultural products decreased.

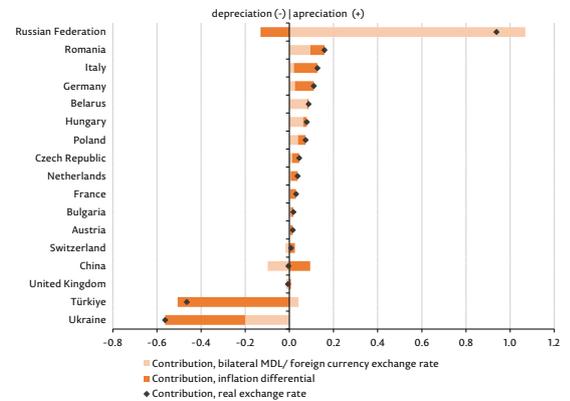
Against this background, the coverage of net demand for foreign exchange by economic agents through the net supply of foreign exchange by individuals amounted to 66.3% over the reference period (Chart 4.29), compared to 89.9% in the previous quarter and 98.9% in the fourth quarter of 2023. On this background, the NBM intervened with net sales of foreign exchange on the local foreign exchange market in the amount of USD 221.3 million²².

The exchange rate of the Moldovan leu against the US dollar has been on a trend of accelerated depreciation since the beginning of the fourth quarter of 2024, a trend that was maintained until the end of October, when a short period of trend reversal was observed. The exchange rate oscillated in a range with a lower limit of MDL 17.86 and an upper limit of MDL 17.99 for the US dollar until the first decade of November. Starting from mid-November, the exchange rate of the Moldovan leu against the US dollar resumed its depreciation trend, which, at a less rapid pace, continued until the end of the quarter. During this period, in addition to the increased demand from importers of energy resources, the net supply from individuals was reduced and the dollarization of corporate deposits temporarily increased. In the second half of December, the trend depreciation of the USD/MDL exchange rate slowed further amid increased retail supply specific to the days before the holidays.

The dynamics of the official exchange rate of the Moldovan leu against the euro was also influenced by the developments of the single European currency against the US dollar on international markets. The EUR/USD exchange rate was on a downward trend during the quarter, with some periods of reversal of the upward trend, marked by the easing of monetary policy in the US and the euro area. From the beginning of October until the last week of the month, a decline took shape amid negative dynamics in the third quarter of 2024 in inflation and economic activity indicators in the euro area, especially Germany, and the interest rate cut by the ECB. On the other hand, expectations regarding the outcome of the US presidential elections, the return to power of the Trump administration in 2025 and, as a result, the possible deterioration of trade relations with Europe had a negative impact on the euro. From the end of October until the first week of November, the downward trend of the EUR/USD exchange rate reversed to appreciation, amid the reduction of interest rates by the FRS. At the same time, political turmoil and deepening budgetary uncertainties in Germany and France in November in the euro area, which influenced the downward trend of the EUR/USD exchange rate.

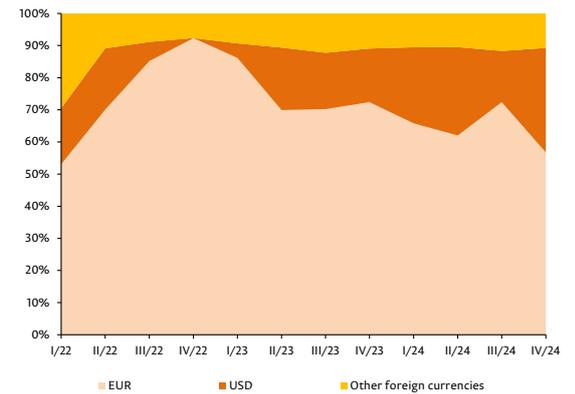
In the second decade of December 2024, the EUR/USD resumed its downward trend with a stabilization in the last week, ending the quarter at a level below 1.05 with a depreciation of 6.4% compared to the end of the previous quarter.

Chart 4.27: Contribution of the main trading partners of the Republic of Moldova to the change in the real effective exchange rate in the fourth quarter of 2024



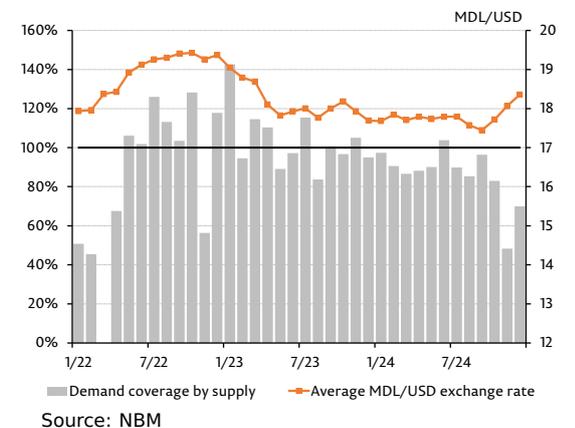
Source: NBM

Chart 4.28: Net supply of foreign currency from individuals broken down by main currencies (currencies are recalculated in USD at constant average exchange rates)



Source: NBM

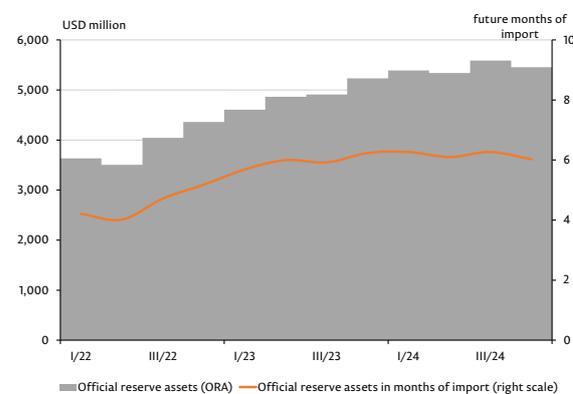
Chart 4.29: The degree of net sales coverage by net supply and the official exchange rate dynamics



Source: NBM

²²Volume calculated at currency date.

Chart 4.30: Development of the official reserve assets expressed in months of imports of goods and services (BPM6)



Source: NBM – based on actual data and updated forecast

At the end of the reporting quarter, the balance of official reserve assets amounted to USD 5,483.6 million (Chart 4.30), down by USD 198.3 million (-3.5%) compared to the end of the third quarter of 2024, mainly as a result of foreign exchange interventions, outflows related to foreign currency reserve requirements of licensed banks and payments to service external public debt.

The fall in official reserve assets was partly mitigated by disbursements for budgetary support, mainly in the form of loans, amounting to a cumulative USD 331.0 million, of which:

- USD 146.0 million (equivalent to SDR 111.4 million) disbursed by IMF, which included:
 - the eighth loan tranche through the extended lending and financing facilities (ECF/EFF) amounting to USD 131.9 million;
 - the second loan tranche under the Resilience and Sustainability Finance Facility (RSFF) in the amount of USD 14.1 million;
- USD 56.3 million in the form of a loan from the Government of Canada to finance the needs of the state budget and to supplement the World Bank's program "Development Policy Operation to Support Growth and Resilience in Moldova";
- USD 55.3 million (equivalent to EUR 52.7 million) – macro-financial assistance disbursed by the European Commission, including EUR 5.0 million in the form of a grant;
- USD 41.3 million (equivalent to EUR 37.3 million) loan from the International Bank for Reconstruction and Development for the Program "Development Policy Operation to Support Growth and Resilience in Moldova";
- USD 26.3 million (equivalent to EUR 25.0 million) disbursed by the French Development Agency to finance Moldova's transition to a green economy;
- USD 5.1 million (equivalent to EUR 4.8 million) loan from the European Investment Bank for rail infrastructure rehabilitation.

The Ministry of Finance of the Republic of Moldova also received loans and grants from external partners for investment projects totaling USD 24.2 million. Noteworthy are the loan of EUR 4.8 million (equivalent to USD 5.2 million) from the European Investment Bank under the "Livada Moldovei" project and the disbursements of grants under various projects financed by the Romanian Government.

As at the end of the fourth quarter of 2024, official reserve assets continued to provide a sufficient level of coverage of imports of goods and services (6.0 months of future imports²³).

²³Calculated on the basis of IMF forecast of imports of goods and services.

Chapter 5

Forecast

5.1 External Assumptions

In the current round of forecasts, risks and uncertainties prevail in the external environment. The new Donald Trump mandate as the USA President means bringing back trade tariffs and increasing restrictions on international trade. International markets await an outcome to the war in Ukraine, which could change the economic climate in the region. With the ceasefire signed between Israel and the Gaza Strip, any escalation could once again contribute to higher oil prices. European Union economies are on a downward trend, have not yet recovered from the energy crisis and there are already threats of trade tariffs being raised by USA. There is increasing talk of the end of stimulative monetary cycles and the emergence of inflationary pressures that will prompt monetary authorities to raise interest rates. Oil prices will be affected by Trump's policy of buying oil to replenish strategic reserves, but also by Russia's ability to circumvent new sanctions on oil tankers. Natural gas prices in Europe will be affected by this winter's deviation from normal temperatures and the ability of countries to fill up their tanks until the next cold season. International food prices have ended their downward trend and will continue to rise at a normal pace as supply and demand for agricultural products appear fairly balanced.

In the table 5.1 the values of the main external variables assumed in the forecasting round of the Inflation Report, February 2025, are stated, with their subsequent description.

After relatively weak growth of 0.7% in the euro area in 2024, gross domestic product is expected to grow by 0.9% in 2025 and 1.2% in 2026. Economic growth will continue to be driven by household consumption driven by rising real incomes, but also by the services sector. The production sector will continue to adapt to new international market conditions – high energy prices, fierce competition from China and possible trade tariffs from USA. At the same time, a possible positive outcome to the war in Ukraine could stabilize the regional economy and boost investment, as well as revive old international trade routes. But defense spending will remain high as talks on allocating 5% of GDP for NATO are on governments' agendas. A reassessment of budget deficits and sovereign debt in the euro area is also expected, as well as a significant narrowing of the trade surplus with the USA.

Inflation in the euro area will remain close to the ECB's target of 2.0% over the medium term for the entire forecast horizon. It is anticipated that future monetary policy measures of ECB will be aimed at stimulating the economy, especially as fiscal policies in many countries EU will be restrictive. As energy prices have stabilized, they will no longer create significant inflationary pressures as in previous years.

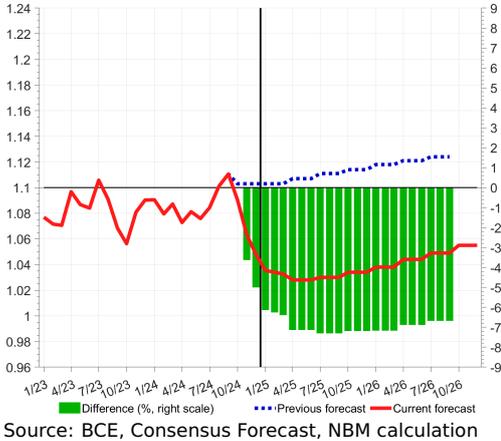
Based on the latest developments of the single European currency, in the current forecast round, is anticipated an EUR/USD exchange rate far below historical averages, 1.03 in 2025 and 1.05 in 2026

Table 5.1: Expected evolution of external variables (annual average)

	2024	2025	2026
Economic growth in the euro area, (%)	0.7	0.9	1.2
Average annual inflation in the euro area, (%)	2.4	2.1	1.9
EUR/USD	1.08	1.03	1.05
Euribor, (%)	3.6	2.2	2.0
Brent Oil prices, (USD/barrel)	80.7	74.7	70.7
Natural gas, (USD/m3)	478.5	558.9	461.6
Rising quotes international at food, (%)	-2.1	4.3	-0.4

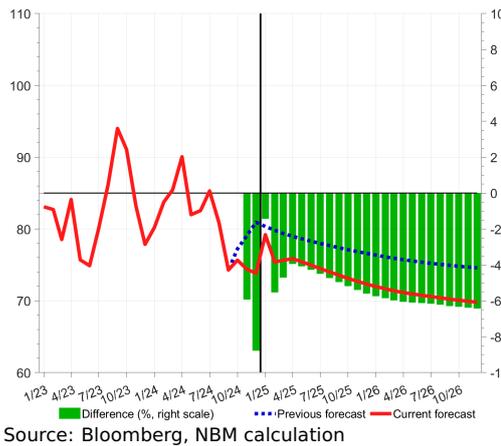
Source: Bloomberg, Consensus Forecast, NBM calculation

Chart 5.1: Exchange rate assumption EUR/USD



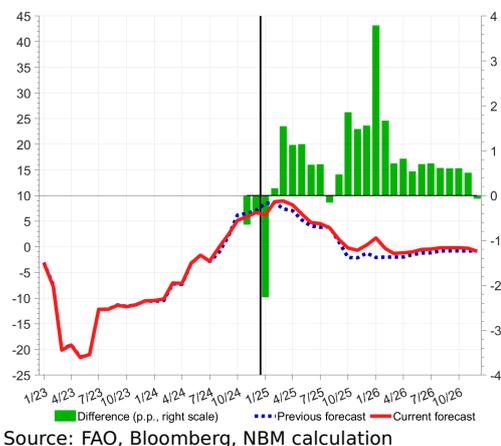
(Chart 5.1). Several specialists anticipate reaching the parity between the single European currency and the US dollar in the first months of 2025, in the context in which the markets are waiting for the commercial tariffs announced by USA. Another factor that will contribute to the weak parity of the single European currency in relation to the US dollar is the significant differences between the evolution of the targeted economies and the differential of rates between ECB și FRS. Domestic policies and the management of budget deficits and sovereign debt in the euro area’s troubled economies will also influence the evolution of the single European currency.

Chart 5.2: International Brent oil price assumption (USD/barrel)



In the current round of forecasts, the price of Brent crude oil is expected to average USD 74.7/barrel in 2025 and USD 70.7/barrel in 2026 (Chart 5.2). The slightly downward trajectory is being driven by the Trump administration’s desire to replenish the USA strategic oil reserves that have been used in recent years to maintain domestic gasoline prices. There is also a risk that China’s demand for oil could be overestimated as in early 2024. The OPEC+ policy of balancing global oil supply and demand also raises big questions, especially in the context of uncertainties related to economic sanctions for members Russia, Iran and Venezuela, but also because of the high supply of oil from non-OPEC countries. For example, Canada, in the case of the introduction of potential tariffs on oil exports to USA, could diversify traditional trade routes, increasing competition among exporters. Further de-escalation of geopolitical tensions in the Middle East and easy access to the Red Sea crossing will contribute to a decrease in the risk premium in transportation pricing. At the same time, rising costs for Russian oil transportation due to economic sanctions and the lack of available oil tankers could cause a slight increase in final prices for oil derivatives in the short term.

Chart 5.3: International food price assumption (%)



The anticipated price for importing natural gas into the Republic of Moldova, which is correlated with prices on the European market, will continue to fluctuate around USD 500/1,000 cubic meters for the entire forecast horizon. This anticipation is based on the assumption that weather temperatures do not deviate from the norm, that reservoirs in Europe will be filled according to historical schedules and that there will be no breakdowns that could disrupt natural gas deliveries both in pipelines and in the form of LNG. Although the European gas market has seen price stability in recent months compared to 2022-2023, its fragility continues to fuel the risk of significant swings due to supply shocks.

Although global food supply and demand remains relatively balanced, with small exceptions in some segments, food prices are expected to remain relatively stable in the current round of forecasts (measured by the FAO) increase by 4.3% on average in 2025 and decrease by 0.4% in 2026. Note that international food prices followed a slightly upward trend in the second half of 2024, but due to low prices in 2023 they have seen an average annual decline of 2.1%. As the effects of El Niño have dissipated, the supply of some southern hemisphere crops is no longer at risk of decline. Cocoa and coffee prices are also expected to continue to rise.

5.2 Internal environment

Inflation

The annual inflation rate will be on an upward trend in the first quarter of this year, after which it will decrease continuously until the third quarter of 2026 and increase slightly at the end of the forecast horizon²⁴. In the first quarter of 2025, the inflation rate will be above the upper end of the target range and will return to the range in the fourth quarter of 2025, remaining there until the end of the forecast horizon. The peak will occur in the first quarter of this year and the minimum value in the third quarter of 2026 (Chart 5.4).

The annual rate of inflation is mainly driven by the positive contribution of **regulated** prices, of **food** prices, of **core inflation** and less from the prices of **fuel** in the current year. However, in the first three quarters of next year, prices for **fuel** will have a slightly negative impact (Chart 5.5).

The presence of factors such as (1) recent tariff increases and anticipated adjustments to a number of tariffs and services, (2) second-round effects on core inflation and food prices from the sharp increase in energy prices, (3) the positive pace of imported inflation, except for the first half of next year, (4) the evolution of the national currency against the single European currency, (5) the impact of dry conditions in the summer of 2024 on food prices in the first half of 2025, (6) the seasonal effect from the substitution of domestic for imported food in the cold period next year, and (7) the adjustment of excise taxes in early 2025 and 2026 will contribute to the increase in the annual rate of inflation.

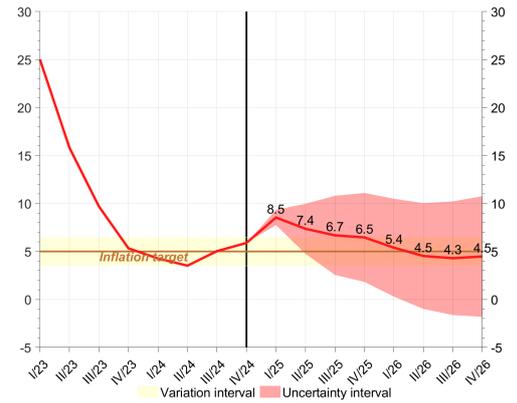
However, (1) the pronounced disinflationary domestic demand over the entire forecast horizon, (2) the clearing increase in electricity consumption tariffs to 110 kWh per month for the entire population starting in February this year, (3) the slightly negative pace of imported inflation in the first half of next year, (4) the expectation of a downward path in international food prices in the third quarter of 2025 and the second and third quarters of next year, and (5) the relatively high base this year will dampen the increase in the annual pace and its subsequent decline.

Annual inflation rate for the forecast period²⁵, will reach a peak of 8.5% in the first quarter of 2025 and a minimum value of 4.3% in the third quarter of 2026.

Average annual inflation will be 7.3% and 4.7% this year and next year respectively.

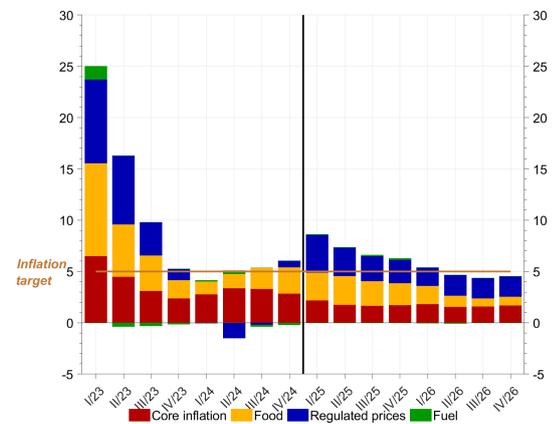
The annual rate of core inflation will follow a slightly declining trend in the first three quarters of this year, after which it will remain relatively stable until the end of the forecast horizon (Chart 5.6).

Chart 5.4: CPI with uncertainty interval (% compared to the previous year)



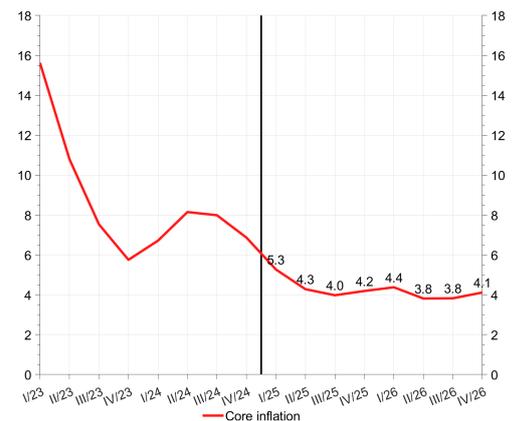
Source: NBS, NBM calculation

Chart 5.5: CPI decomposition (% percentage points compared to the previous year)



Source: NBS, NBM calculation

Chart 5.6: Core inflation (% compared to the previous year)



Source: NBS, NBM calculation

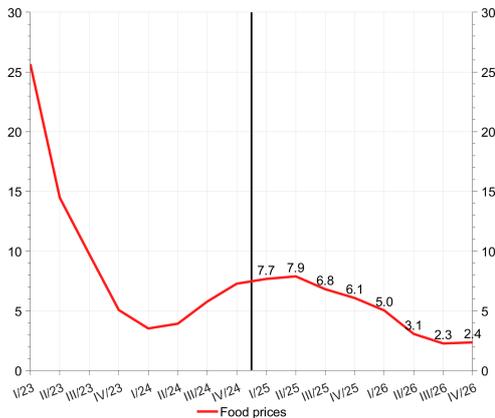
²⁴Fourth quarter of 2026

²⁵First quarter of 2025 – fourth quarter of 2026

The slightly declining trend in the first three quarters of this year and stable core inflation thereafter will be driven by a counterbalancing of positive and negative factors. Factors with positive impacts include (1) second-round effects from tariff adjustments, (2) higher imported inflation, (3) the development of the domestic currency against the single European currency, (4) the adjustment of excise taxes in early 2025 and 2026.

At the same time, the factors with a negative impact are (1) pronounced disinflationary domestic demand and (2) the relatively high base in the previous year.

Chart 5.7: Food prices (% , compared to the previous year)



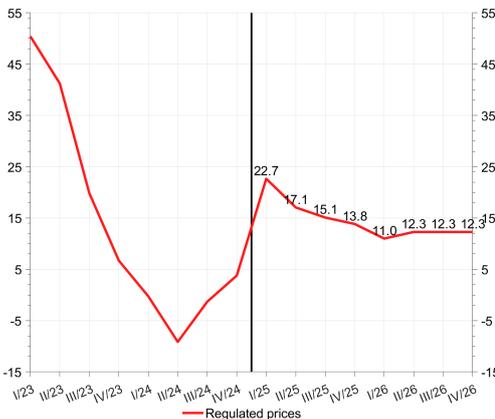
Source: NBS, NBM calculation

Average annual core inflation rates will be 4.4% and 4.0% in 2025 and 2026, respectively.

The annual rate of food prices will trend upwards in the first half of this year, after which it will decline continuously until the end of the forecast period (Chart 5.7).

The positive pace of the annual rate of food prices will be influenced by (1) second-round effects from the sharp increase in energy prices, (2) the predominantly positive pace of imported inflation, (3) the evolution of the national currency against the single European currency, (4) the impact of dry conditions in the summer of 2024 on food prices in the first half of 2025 and (5) the seasonal effect from the substitution of domestic products by imported ones in the cold period of next year.

Chart 5.8: Regulated prices (% , compared to the previous year)



Source: NBS, NBM calculation

Negative domestic demand over the entire forecast horizon, (2) anticipation of a downward trajectory in international food prices in the third quarter of 2025 and the second and third quarters of next year, and (3) the relatively high base in the current year will moderate growth and contribute to a further decline in the annual pace.

Average annual food price rate will be 7.1% and 3.2% in 2025 and 2026, respectively.

The annual rate of regulated prices will increase sharply in the first quarter of 2025, then decline continuously until the first quarter of 2026, followed by a relatively stable path until the end of the forecast horizon (Chart 5.8).

The annual rate will be driven by recent tariffs increases and anticipated adjustments in the first quarter of 2026 to a number of tariffs and services, as well as the low base from the prior year.

The cessation of natural gas deliveries through Ukraine after December 31, 2024 and, as a result, the supply of electricity needs from own sources and imports at prices that have conditioned the increase in the electricity tariff from the beginning of 2025, in the absence of deliveries from the Cuciurgan power plant, as well as the recent adjustments in the tariffs for gas from the network and for thermal energy are the main factors conditioning high rates of regulated prices.

Compensating the increase in electricity consumption tariffs up to 110 kWh per month for the whole population from February this year will mitigate the increase in the annual growth rate.

The average annual rate of regulated prices will be 17.1% and 12.0% in 2025 and 2026, respectively.

The annual rate of fuel prices will have a predominantly upward trend during the current year, after which it will decrease and turn negative in the first three quarters of next year (Chart 5.9).

The slight upward trend in the annual rate of fuel prices will be driven by (1) the adjustment of excise taxes in early 2025 and 2026, (2) the positive pace of imported inflation in the first quarter of 2025, (3) the evolution of the national currency against the single European currency.

However, (1) the decline in international oil prices over the entire forecast horizon, except the first quarter of 2025, and (2) negative domestic demand will dampen the increase in the annual pace and contribute to its decline towards the end of the forecast horizon.

Average annual fuel prices will be 1.2% and -0.6% in 2025 and 2026, respectively.

Demand

Aggregate demand will be negative for the entire forecast period due to dry conditions in the summer of 2024, negative external demand for the entire forecast period, and real overvaluation. The low real interest rate, slightly positive fiscal impulse and recovering external demand will narrow the aggregate demand deficit (Chart 5.10).

The contraction in annual GDP growth in the third quarter of 2024 by 1.9% compared to the same period of 2023, (2) dry conditions in the summer of 2024, (3) negative external demand for the entire forecast period, (4) declining remittances in real terms, and (5) the restrictive effects of real monetary conditions will be the main factors that will lead to a decline in aggregate demand.

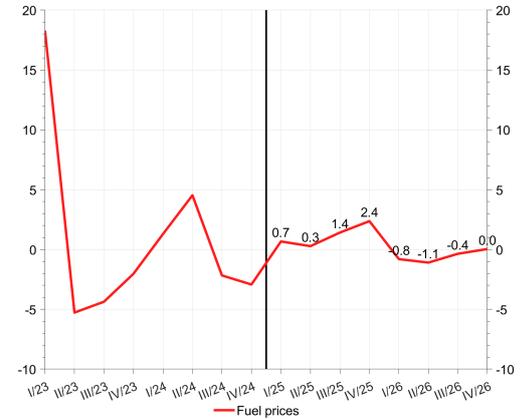
Anticipated positive fiscal impulse, (2) recovering, albeit negative, external demand, (3) rising wage bill, and (4) favorable agro-climatic conditions during the current year will mitigate the downturn and contribute to the recovery in aggregate demand.

Aggregate demand, although recovering, will remain negative under the influence of tight monetary policy over the forecast horizon. The restrictive impact of real monetary conditions will be determined by the appreciation of the real effective exchange rate. At the same time, the real interest rate will exert a stimulative influence throughout the forecast horizon.

Monetary policy

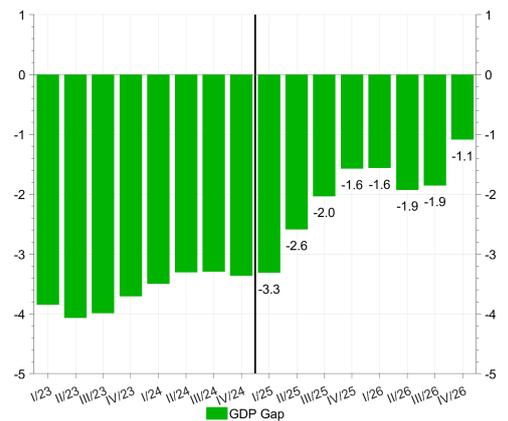
Real monetary conditions, in general, will have a restraining impact on aggregate demand throughout the forecast period (Chart 5.11).

Chart 5.9: Fuel prices (% , compared to the previous year)



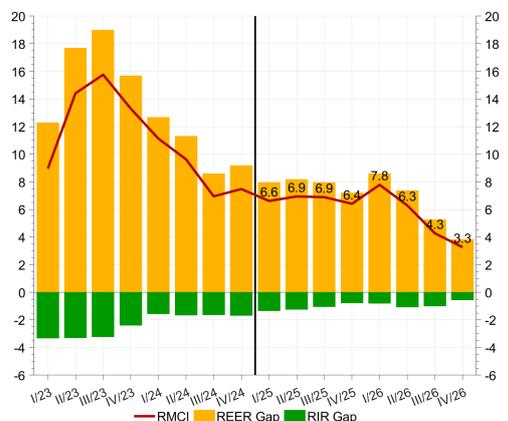
Source: NBS, NBM calculation

Chart 5.10: GDP deviation (%)



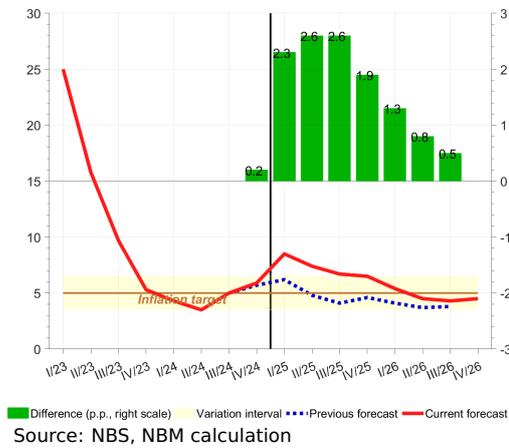
Source: NBM calculation

Chart 5.11: Real money conditions index and decomposition



Source: NBM calculation

Chart 5.12: CPI (% , compared to previous year, percentage points)



Monetary policy through the real effective exchange rate will be restrictive, but through the real interest rate will be stimulative over the forecast horizon.

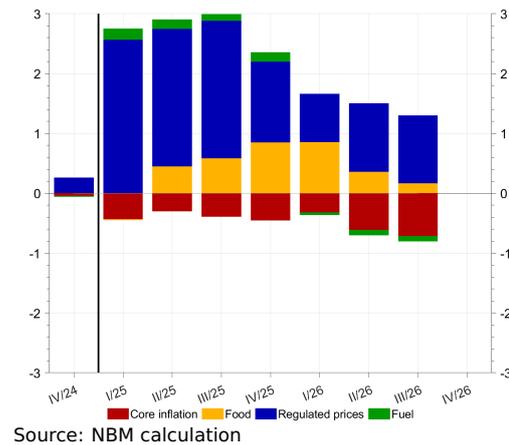
Real developments in the national currency will keep the deviation of the real effective exchange rate from its balance level relatively high this year and in the first half of next year. Thereafter, the deviation will narrow, easing the tightness on aggregate demand.

5.3 Comparison of forecasts

The current inflation forecast has been revised upwards for the whole comparable period²⁶ since the Inflation Report, November 2024 (Chart 5.12).

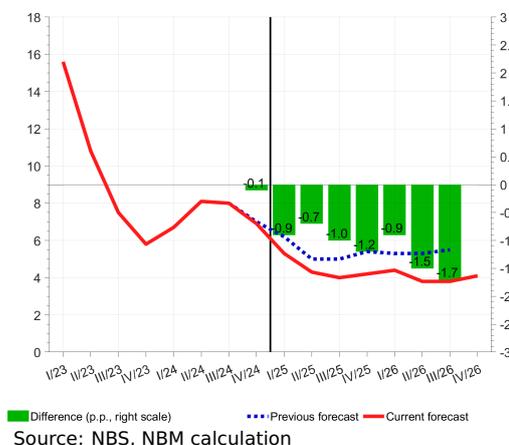
Significant upward revision of the forecast for **regulated** prices, of prices on **food** for the entire comparable period, less of forecast of **fuel** prices in the current year will lead to an upward revision of the current forecast for the annual inflation rate. Downward revision for **core inflation** forecast for the whole comparable period, less the forecast at **fuel** prices for the first three consecutive quarters of next year have dampened the upward revision of the current forecast (Chart 5.13).

Chart 5.13: Decomposition of the difference between forecasts (percentage points)



The higher projection of the annual inflation rate forecast is driven by (1) the increase in the network gas tariff in the fourth quarter of 2024, (2) the increase in several tariffs from the beginning of 2025, namely, the electricity tariff, for centralized heating and hot water, the tax for travel on electric transport in Balti municipality, the tariffs for sanitation services in Ungheni municipality, the anticipation of tariff increases in the first quarter of 2026, although tempered by the compensation of the increase in tariffs for electricity consumption up to 110 kWh per month for the entire population, starting in February, throughout the year, (3) taking into account the seasonal effect from the substitution of imported for domestic food during the cold period next year, (4) a higher trajectory for imported inflation over the entire comparable period except the first half of next year, (5) a higher forecast for the import price of natural gas over the entire comparable period, (6) a higher level of international food prices except the first quarter of 2025, (7) higher actual inflation than anticipated in the previous quarter, and (8) revising the impact of excise taxes.

Chart 5.14: Core inflation (% , compared to the previous year, percentage points)



However, (1) significantly lower aggregate demand over the comparable period as a whole, (2) a lower path for imported inflation in the first half of next year, (3) a lower level of international food prices in the first quarter of 2025, (4) a lower forecast for international oil prices, and (5) the exclusion of tariff increases in the fourth quarter of 2025 have dampened the upward revision to the current forecast.

The forecast for the average annual inflation rate was increased by 2.4 percentage points for 2025 and by 0.9 percentage points for 2026.

The current forecast for the annual rate of core inflation has been revised downwards over the whole comparable period (Chart 5.14).

²⁶First quarter of 2025 – third quarter of 2026

The lower projection of the current forecast relative to the previous one is driven by (1) significantly lower aggregate demand over the entire comparable period, (2) a declining near-term forecast, (3) a lower path of imported inflation for the entire comparable period except the fourth quarter of this year, and (4) lower actual inflation than anticipated in the previous quarter.

However, (1) a slightly upward revision to the impact of excise taxes and (2) a higher path for imported inflation in the fourth quarter of this year have dampened the downward revision to the current forecast.

The forecast for the annual average core inflation rate has been lowered by 1.0 percentage points for 2025 and by 1.5 percentage points for 2026.

The annual growth rate of food prices was revised upwards over the whole comparable period (Chart 5.15).

The higher pace of the current forecast relative to the previous one is driven by (1) a marginally increasing short-term forecast, (2) higher imported inflation, except the second quarter of 2026, (3) consideration of the seasonal effect from substitution of domestic by imported products in the cold period next year, (4) higher international food prices, except the first quarter of 2025.

The anticipation of significantly tighter aggregate demand over the entire comparable period, (2) lower imported inflation in the second quarter of 2026, and (3) lower international food prices in the first quarter of 2025 are the factors that have mitigated the upward revision to the current forecast.

The forecast for the annual average rate of food prices was increased by 1.3 percentage points for 2025 and by 1.0 percentage points for 2026.

The current forecast of the annual rate of regulated prices is significantly revised upwards over the whole comparable period (Chart 5.16).

The rates increase in the network gas in the fourth quarter 2024, (2) increasing the tariff for electricity, centralized heating and hot water from the beginning of 2025, (3) increase of the tax for electric transport from Balti from the beginning of 2025, (4) tariff increases in the first quarter of 2025 in sanitation services (Ungheni municipality), (5) the anticipation of some rates increases in the first quarter 2026 and (6) a higher forecast of the import price of natural gas for the entire comparable period have determined the ascending review of the current forecast of the regulated prices.

Compensation of increasing rates for electricity consumption up to 110 kWh monthly for the whole population, starting with February, during the year and (2) excluding some rates increase in the fourth quarter of 2025 have mitigated the current forecast.

The forecast annual average rate of regulated prices was increased by 13.1 percentage points for 2025 and by 7.4 percentage points for 2026.

Chart 5.15: Food prices (% , compared to the previous year, percentage points)

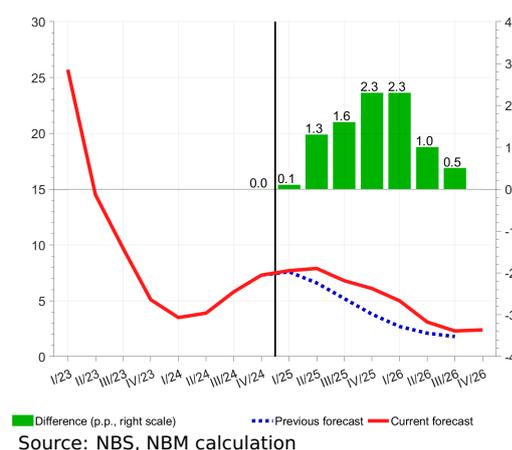


Chart 5.16: Regulated prices (% , compared to previous year, percentage points)

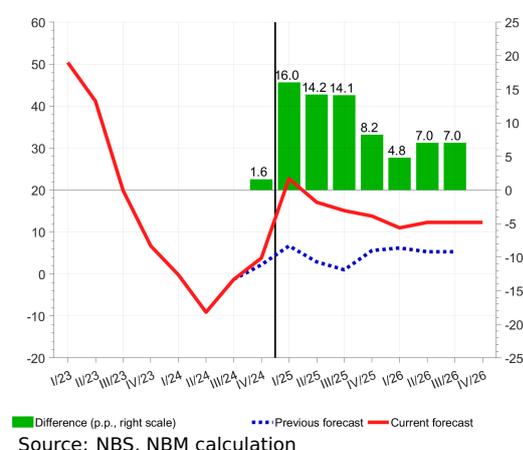
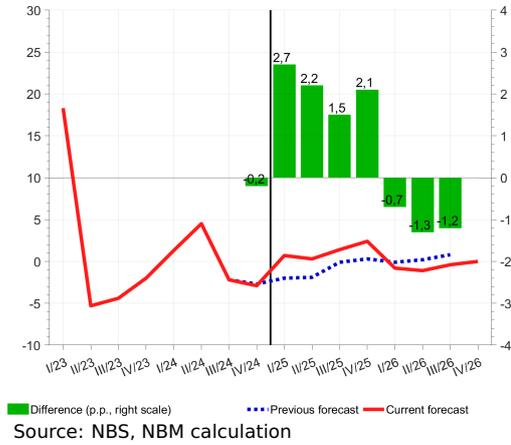


Chart 5.17: Fuel prices (% , compared to the previous year)



The forecast for the annual growth rate of fuel prices has been revised upwards in the current year and downwards thereafter until the end of the comparable period (Chart 5.17).

The higher forecast for the annual pace of fuel prices is conditional on (1) a rising short-term outlook, (2) higher imported inflation, except for the third quarter of 2025 and the first half of next year.

Expectations of significantly lower aggregate demand over the comparable period as a whole, (2) lower-than-expected actual inflation for the previous quarter, (3) a lower forecast for international oil prices, and (4) a slightly downward revision to the impact of excise taxes have mitigated the upward revision to the current forecast.

The forecast for the annual average rate of fuel prices was increased by 2.1 percentage points for 2025 and decreased by 1.2 percentage points for 2026.

5.4 Risks and uncertainties

External sector

- **Fragmentation of international trade.** The return of Donald Trump as President of the USA brought back the risks of trade tariffs. After taking office, he announced a 10% tariff on goods imported from China, to which China responded with a 15% duty on coal and liquefied natural gas (LNG) of USA and 10% for crude oil, agricultural equipment, trucks and large motor vehicles imported from USA. Also, after Donald Trump announced tariffs of 25% on all imports from Mexico and Canada, that decision was suspended for a month. Recently, the US president announced tariffs of 25% on all imports of aluminum and steel and that he would impose tariffs on European imports, but without giving details (inflationary).
- **US dollar appreciation.** In recent months the US dollar has appreciated significantly and this trend is expected to continue because: (1) the economy of USA is evolving satisfactorily, (2) FRS interest rates, most likely, will be reduced by much less than previously expected as the USA economy does not need additional stimulus and possible import tariffs would contribute to higher inflation in USA, (3) trade tariffs imposed by USA to other countries to balance trade (inflationary).
- **Military conflicts in Ukraine and the Middle East.** As he had promised during his election campaign, Donald Trump announced on the evening of January 22, 2025 his administration's intention to end the conflict in Ukraine, failing which he would impose sanctions and trade tariffs on Russia. On the evening of February 12, 2025, Donald Trump held telephone talks with Russian President Vladimir Putin and later with Ukrainian President Volodimir Zelenski, and the markets reacted positively with an appreciation of the Russian ruble, a rise in Russian companies' shares and a fall in oil and natural gas prices. Intense negotiations and possible de-escalation of the armed conflict in Ukraine are expected in 2025, which would contribute significantly to peace in the region and a much-needed economic recovery. A ceasefire between Israel and the Gaza Strip has recently been concluded, de-escalating tensions in the Middle East, and rebels in Yemen have allowed UK and US ships to cross the Suez Canal (uncertainty).
- **Political tensions in Europe.** There have been many changes of governing parties in Europe in recent months, and as funding has shrunk and budget deficits have risen, more disharmony has been created between member countries EU. The lack of consensus on many issues and financial difficulties are hampering the harmonious development of economies and satisfactory economic growth. Also, in addition to the ongoing war in Ukraine and the negative consequences of the 2022 energy crisis on the industrial sector, there is currently the risk of new trade

tariffs introduced by the Trump administration that would cause enormous damage to the economies of member countries such as Germany, Italy and France (disinflationary).

Real sector

- **Uncertainties about the timing and magnitude of tariff adjustments for regulated services.** The medium-term inflation forecast is based on a path for prices of regulated services that is consistent with certain assumptions about international and regional energy prices and other sector-relevant indicators. However, since tariffs for some regulated services have a substantial economic impact on the population, the timing of their adjustment may be driven not only by economic factors, but also by the pursuit of social or political objectives by the decision-makers involved. Therefore, the timing and magnitude of tariff adjustments cannot be estimated with sufficient confidence (uncertainty).
- **Possible premises for adjusting the electricity tariff at the end of the heating season.** With the end of the heating season, the amount of electricity produced in cogeneration by urban CETs²⁷ will decrease considerably. As a result, a significant volume of electricity is to be procured from alternative sources, on the domestic or regional market. Depending on the price level of providers at the time, preconditions for an additional adjustment of the electricity tariff for consumers could arise (uncertainty).
- **Decrease in the number of consumers in the Republic of Moldova.** The military conflict in Ukraine has led to massive population outflows from Ukraine. Some of the refugees are on the territory of the Republic of Moldova, which contributes directly to the population's increased consumption. Their return to their country of origin or their departure to other regions would lead to lower demand on the internal market (uncertainty, disinflationary).
- **Vulnerability of domestic fruit and vegetable prices to weather conditions in the coming period.** According to the experience of recent years, the prices of domestic fruits and vegetables are to a pronounced extent affected by adverse weather conditions such as frosts, heavy rainfall, drought conditions both because of impediments in their cultivation, as well as the costs associated with harvesting, transportation, storage, but also their marketing in the marketing points in the country. Temperatures different from normal could lead to higher than expected food prices in the next period (inflationary).
- **Uncertainty about this year's agricultural production.** This year's agricultural harvest and food prices on the internal market in the second half of the year will depend to a large extent on the agrometeorological conditions during that period. In this way, developments in the agricultural sector, and hence the trajectory of food prices for 2025, continue to be marked by uncertainty. A more moderate

²⁷Central Heating Power Plants

agricultural harvest will generate significant inflationary pressures on food prices (uncertainty).

- **Partial liberalization of RCA²⁸ premiums.** With the partial liberalization of RCA premiums, the price of a RCA insurance policy for vehicles and policyholders meeting the same criteria will no longer be the same for all insurers. It will be determined by insurers based on the specific risks of their RCA insurance portfolios. During the period of partial liberalization, insurers will calculate and apply RCA insurance premiums based on a single methodology established by the supervisory authority and a minimum level of RCA insurance premiums according to the reference premiums²⁹, which could affect certain subcomponents of the CPI (uncertainty).
- **The possible escalation of the conflict in the Middle East will underpin higher prices for energy and other commodities in CPI.** The increase in international and regional oil prices will not only lead to higher fuel prices on the domestic market, but will also create the conditions for higher prices for other energy resources and the adjustment of some tariffs locally. At the same time, maintaining or escalating tensions in the region will increase transportation costs and, as a result, the final prices of other goods (inflationary).

Monetary and public sectors

- **Fiscal impulse.** In the context of the recent crises faced by the Republic of Moldova, public finances are under significant pressure. The budgetary projections for the current and next year are based on the assumption of a declining budget deficit and, at the same time, more moderate financing from external and domestic sources. The government will have to strengthen its efforts to ensure the financing and sustainability of public finances, while safeguarding the execution of budgetary obligations in the social area. The risk to the financing of the state budget could lead to insufficient fiscal stimulus to revive the economy faster and mitigate the consequences of the recent crises (disinflationary).
- **Changes to the heating compensation mechanism.** The Government of the Republic of Moldova has undertaken to recalculate the compensation to households after the increases in natural gas tariffs, so that no household will be affected by these increases and will not pay more than last year for heating. At the same time, the Government of the Republic of Moldova will partially compensate the increase in electricity and heating tariffs for eligible households. The beneficiaries of compensation will receive this aid in the period January-April 2025 (inflationary).

²⁸Compulsory domestic Auto Civil Liability insurance policy

²⁹<https://www.bnm.md/ro/content/intrebari-raspunsuri-privind-liberalizarea-partiala-sectorului-de-asigurari>

Chapter 6

Monetary policy decisions

Summary of the meeting of the Executive Board of the National Bank of Moldova of 20.06.2024 on monetary policy promotion

The meeting chaired by: Mrs. Anca-Dana Dragu, Governor – Chairman of the Executive Board

In attendees: Executive Board members – Mr. Vladimir Munteanu, First Deputy Governor – Deputy Chairman of the Executive Board, Mrs. Tatiana Ivanicichina – Deputy Governor

Rapporteur: Mr. Radu Cuhal – Director of the Monetary Policy Department

Guests: Mr. Daniel Savin – Director of the Financial Markets Department, Mrs. Valentina Rusu – Director of Legal Department, Mrs. Alina Boboc – Head of the Financial Education and Communication Department, Mrs. Diana Avtudov – Director of the Banking Supervision Department, Mr. Andrei Rotaru – Director of the Economic and Applied Research Department, Mr. Eugeniu Aftene – Director of the Reporting and Statistics Department, Mrs. Simona-Gabriela Tartacuta, Mr. Alexandru Savva, Mr. Veaceslav Negruta – Advisors to the Governor

Executive Board meeting of NBM on the monetary policy started with the presentation by Mr. Radu Cuhal of the Inflation forecast deviation risk assessment report.

Mr. Cuhal pointed out that this report was prepared on the basis of information and analysis from the external and domestic environment available after the April 2024 forecast round. At the same time, the trends of the main macroeconomic indicators were specified, identifying risks and uncertainties that are likely to affect the short- and medium-term inflation forecast in the Inflation Report, May 2024.

Mr. Cuhal cautioned that recently published money, credit and foreign exchange market data as well as various high-frequency indicators confirm the validity of the inflation forecast prepared in the forecasting round and presented in the Inflation Report, May 2024.

In discussions associated with inflation developments, EB members noted that the annual rate of inflation in May 2024 fell below the lower end of the range to 3.3%. It was noted that the deviation of actual inflation from the forecast is largely driven by fuel and regulated prices and, to a lesser extent, core inflation and food prices.

Assessing the determinants of these developments, it was pointed out that the fall of annual inflation below the lower end of the target range was due to the adjustment of the natural gas supply tariff by 9.2%, which entered into force on May 3, 2024, as well as to the delayed implementation of some budgetary expenditures.

Looking at global economic conditions, Mr. Cuhal pointed out that the euro area saw a slight improvement in economic activity and a moderation in annual inflation. At the same time, gas prices in Europe have risen sharply in the wake of the disruption to supplies in Norway following a pipeline breakdown. Although international food prices remained subdued in May 2024, cereal prices witnessed a sharp monthly increase amid concerns of unfavorable conditions for the 2024 harvest and deteriorating maritime infrastructure in the Black Sea. Similarly, it was noted that oil prices continued to fall on weak demand and rising oil inventories.

In the discussions associated with the national economic conditions, it was noted that in the first quarter of 2024 economic activity in the Republic of Moldova increased by 1.9% compared with the same period of the previous year.

In this context, it was noted that, by category of uses, the evolution of the growth rate of economic activity was supported by the dynamics of exports (1.0%), imports (-4.1%), household final consumption (1.6%) and gross fixed capital formation (4.8%), while final consumption of general government fell by 7.0%, thus mitigating the growth GDP. On the supply side, growth in economic activity was driven by positive developments in manufacturing, the information and communication industry and the production and supply of electricity, gas, hot water and air conditioning. At the same time, reductions in net taxes on products, real estate transactions and transportation and storage services had a negative impact on developments GDP.

From the perspective of consumption financing sources, it was noted that the real wages and salaries fund increased in the first quarter of 2024 by only 14.5% below the anticipated value in the first quarter of 2024, contributing to continue weak domestic demand.

Subsequently, Mr. Cuhai commented on the monetary conditions, noting that the cumulative monetary policy stimulus through the interest rate channel conditioned the continuation of the downward trend in interest rates on new loans and new deposits attracted in domestic currency in April 2024.

After analyzing the statistical data related to the money market, the weighted average interest rate on new loans in national currency decreased by 0.29 percentage points in April compared to March 2024, reaching the level of 9.19%, while the weighted average interest rate on new term deposits in MDL recorded the level of 3.23%, being 0.32 percentage points lower than in March 2024. In this context, it was emphasized that the decrease in rates led to an increase, in the first three weeks of May 2024, in the volume of new loans granted in MDL.

Assessing and identifying the downside risks to the inflation forecast, Mr. Cuhai mentioned that there is a risk of a downward deviation of the medium-term inflation forecast until the second quarter of 2025, followed by the offsetting of this deviation by a positive deviation of the forecast until the end of the forecast horizon. In this context, reference was made to the determinants of the deviation, such as the evolution of inflation in April and May 2024, which was lower than expected, and the decrease in the gas network tariff in May 2024.

At the same time, Mr. Cuhai underlined that the main uncertainties for the inflation forecast are associated with agricultural production, the way tariffs will be adjusted, the volatility of expectations regarding international commodity prices, the tense regional and global situation and the risks of its escalation.

At the same time, Mr. Cuhai cautioned that the external assumptions assumed in the Inflation Report, May 2024 have changed significantly. In this regard, it was pointed out that the forecast for the price of Brent crude oil is markedly lower amid the latest OPEC+ decision to maintain the current limit on oil production only until the fourth quarter of 2024. At the same time, the outlook for natural gas prices in Europe and expectations for international food prices have increased significantly. External demand is also expected to improve slightly more than previously forecast, while the outlook for inflation and exchange rates remain unchanged.

In this context, the measures included in the draft decision on the actions NBM promoting the monetary policy, proposed by Mr. Cuhai, were to maintain the basic rate and interest rates at the permanent facilities, as well as the rate at the repo operations at current levels.

Thus, following the deliberations on the draft decision regarding the monetary policy measures proposed by the Monetary Policy Department, the Executive Committee of NBM it decided, unanimously, to maintain the basic rate applied to the main short-term monetary policy operations at the level of 3.60% annually, the interest rates on overnight loans and on the overnight deposits of 5.60 and 1.60% annually, respectively, and at the repo operations at 3.85% per year.

In this context, it was noted that this decision comes in the context of the propagation of monetary policy stimulus measures adopted earlier, which will have effects in the coming periods, given the lags in their transmission.

At the same time, the EB members emphasized that the NBM decision aims to slow the decline in inflation and bring it back within the target range by further stimulating aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflationary expectations.

At the end of the meeting, it was emphasized that further decisions of the Executive Board will depend on

the updated inflation outlook, monitoring and assessing the risks in the internal and external environment and will be oriented towards bringing inflation back within the variation range ± 1.5 percentage points from the 5.0% target, a level considered optimal for Moldova's medium-term economic growth and development.

Decision adopted by the Executive Board of NBM by unanimous vote:

- 1. The base rate applied to the main short-term monetary policy operations is maintained at 3.60% annually.**
- 2. Interest rates are maintained:**
 - a) for overnight loans, at the level of 5.60% annually;**
 - b) for repo, at the level of 3.85% annually;**
 - c) for overnight deposits, at the level of 1.60% annually.**

Voting results of EB members

For – 3

Against – 0

Chairman of the Executive Board

Secretary of the Executive Board

Anca-Dana DRAGU

Sergiu SURDU

Summary
of the meeting of the Executive Board of the National Bank of Moldova of 06.08.2024
on monetary policy promotion

The meeting chaired by: Mr. Vladimir Munteanu, First Deputy-Governor – Deputy Chairman of the Executive Board

In attendees: Members of the Executive Board – Mrs. Tatiana Ivanicichina – Deputy Governor, Mrs. Constantin Schendra – Deputy Governor, Mr. Petru Rotaru – Deputy Governor

Rapporteur: Mr. Radu Cuhal – Director of the Monetary Policy Department

Guests: Mrs. Valentina Rusu – Director of Legal Department, dl Andrei Rotaru – Director of Economic and Applied Research Department, Mrs. Diana Avtudov – Director of the Banking Supervision Department, Mr. Eugeniu Aftene – Director of the Reporting and Statistics Department, Mrs. Alina Boboc – Head of the Financial Education and Communication Department, Mr. Ion Josan – Head of the Systemic Risk Analysis Division, Financial Stability Department, Mrs. Renata Turcanu – Deputy Head of the Department – Head of Risk Monitoring and Reporting Directorate, Financial Markets Department, Mrs. Simona-Gabriela Tartacuta – Advisor to the Governor

Mr. Radu Cuhal was given the floor at the beginning of the meeting of the Executive Board on monetary policy, who presented the latest macroeconomic developments, both in the domestic and external environment, the current medium-term forecast, as well as the risks and uncertainties identified at the time of the Inflation Report, August 2024. Mr. Cuhal emphasized that the current forecast broadly validates the previously projected trends.

With regard to recent inflation developments, Mr. Cuhal noted that annual inflation was 3.8% in June 2024, 0.1 percentage point below the March 2024 level. Mr. Cuhal emphasized that in June this year, the annual inflation rate returned to the ± 1.5 percentage point corridor of variation from the 5.0% target after temporarily leaving it in May. Among the factors that determined the downward evolution of inflation in the second quarter 2024 Mr. Cuhal listed the moderate internal demand, the trajectory of international prices for food, the internal prices for agricultural and industrial production, as well, of the prices for fuels and regulated ones. At the same time, it was emphasized that aggregate demand continues to have a modest disinflationary impact on the annual inflation rate, which will be mitigated by some tariff adjustments, such as the increase in health care tariffs that came into effect in July. At the same time, it was noted that in the second quarter of 2024, the annual inflation rate amounted to 3.5% and was 0.5 percentage points lower than anticipated in the forecast of the Inflation Report, May 2024, mainly due to the negative deviation recorded for the forecast of fuel prices.

In the discussions associated with the external environment, Mr. Cuhal highlighted that global economic activity has strengthened at the beginning of the year, moving towards its potential. It was noted that the euro area economy is recovering, the unemployment rate is at historic lows, and annual inflation has eased to 2.5% in June 2024. At the same time, Mr. Cuhal noted that inflationary risks remain elevated, raising the prospect of higher interest rates for longer periods of time amid escalating trade tensions and geopolitical uncertainties. Analyzing quotations on international markets, the price of natural gas in Europe has fallen back to the USD 300-400/1,000 cubic meters set from the beginning of this year, as natural gas deliveries from Norway resume. Oil prices continued to fall due to weak global demand and rising oil stocks. However, the price of Brent crude oil remained above USD 80/barrel. Index FAO international food prices remained unchanged in June 2024 compared to May 2024.

Mr. Cuhal then presented the conditions of the national economy, noting that the data published by NBS for the first two months of the second quarter of 2024 show mixed trends in economic activity. In this regard, it was found that exports contracted by 12.7% annually during April-May 2024, while the annual rate of imports increased by 4.95%. Retail trade and wholesale trade grew on average by 22.0 and 10.7% annually, respectively. Industrial

production averaged -0.1%. Mr. Cuhai concluded that the positive dynamics of GDP continue in the second quarter of 2024.

In what followed, discussions centered on monetary conditions and it was noted that excess liquidity in the banking sector is at a sufficient level to maintain lending in the immediate period ahead. Thus, its level in the second quarter of 2024 amounted to MDL 10.0 billion, slightly decreasing compared to the previous quarter. Mr. Cuhai pointed out that the cumulative monetary policy stimulus measures led to a continued decline in interest rates on new loans and deposits in MDL in the second quarter of 2024. Thus, the weighted average interest rate on loans amounted to 9.08% and on deposits to 3.24%, down by 4.1 and 4.05 percentage points, respectively, compared to the second quarter of 2023. Mr. Cuhai emphasized that the consecutive reduction in interest rates led to an increase in the volume of new loans granted in MDL by 51.4% annually in the second quarter of 2024. It was emphasized that this dynamic was driven by the increase in loans granted both for consumption and real estate to individuals and to legal entities in the trade sector.

Further, Mr. Cuhai presented the current inflation forecast, emphasizing that the annual inflation rate is expected to have a relatively stable trend for the entire forecast period. Thus, average annual inflation for the years 2024 and 2025 will be 4.7 and 5.3% respectively, revised by -0.3 and 0.7 percentage points respectively.

EB members noted that the trends anticipated in previous rounds largely remain valid. The current inflation forecast has been revised downward for the second half of this year and upward for the second quarter of 2025 – the first quarter of 2026. Among the factors contributing to the downward revision of the annual inflation rate forecast Mr. Cuhai mentioned lower forecasts for international food and oil prices. As for the upward revision, Mr. Cuhai listed the impact of dry conditions in the summer of 2024 on food prices in the first half of 2025, the anticipation of less restrictive aggregate demand throughout the comparable period, and a higher forecast for natural gas prices.

Mr. Cuhai stressed that the cumulative monetary policy stimulus measures of both consecutive cuts in the base rate and lowering the reserve requirement ratio will increase excess liquidity in the banking system by the end of this year. Thus, the current and projected volume of liquidity will allow banks to lend to economic agents and households and to invest in SS.

Among the risks and uncertainties to the forecast of medium-term inflation were highlighted the disinflationary aggregate demand, the vulnerability of prices to the domestic fruits and vegetables in the next period, the uncertainties regarding the volume of agricultural production of 2024 and 2025, the evolution of the regulated prices, the regional prices, anticipations on international raw materials and parity EUR/USD. Therefore, Mr. Cuhai concluded that, although there are risks to the evolution of the annual inflation rate, it will remain within the range over the forecast horizon.

During the meeting there was presented the draft decision on actions of NBM of promoting monetary policy. The measures proposed by Mr. Cuhai were to maintain the base rate and the interest rates on standing facilities, the repo rate, as well as the required reserve rules both on the funds attracted in MDL and non-convertible foreign currency and on the funds attracted in freely convertible foreign currency at current levels.

On the basis of the analyses and findings, the Executive Board of the NBM decided, by unanimous vote, to maintain the base rate applied to the main short-term monetary policy operations at the level of 3.60% annually, the interest rates on overnight loans and overnight deposits at the levels of 5.60 and 1.60% annually, respectively, on repo operations at the level of 3.85% annually, the required reserve ratio from funds attracted in MDL and non-convertible foreign currency at the current level of 29.0% of the calculation basis and the required reserve ratio from funds attracted in freely convertible foreign currency at the current level of 39.0% of the calculation basis.

The Executive Board emphasized that this decision is taken against the background of further decisions of the effects of past monetary policy decisions, given the lags in their transmission.

In addition, the EB members confirmed that the current assessment of actual monetary conditions in the deposit, credit and foreign exchange markets indicates a favorable situation to ensure that inflation remains within the variation range ± 1.5 percentage points of the 5.0% medium-term target.

The Executive Board of the NBM approved for publication the Inflation Report, August 2024.

Decision adopted by the Executive Board of NBM by unanimous vote:

- 1. The base rate applied to the main short-term monetary policy operations is maintained at 3.60% annually.**
- 2. Interest rates are maintained:**
 - a) for overnight loans, at the level of 5.60% annually;**
 - b) for repo, at the level of 3.85% annually;**
 - c) for overnight deposits, at the level of 1.60% annually.**
- 3. The required reserve ratio from the means attracted in MDL and non-convertible foreign currency is maintained at the current level of 29.0% of the calculation basis.**
- 4. The required reserve ratio from the means attracted in freely convertible foreign currency is maintained at the current level of 39.0% of the calculation basis.**

Voting results of EB members

For – 4

Against – 0

Deputy Chairman of the Executive Board

Secretary of the Executive Board

Vladimir MUNTEANU

Sergiu SURDU

List of Figures

1.1 Annual CPI rate (%)	12
1.2 Annual rate of the main CPI subcomponents (%)	12
1.3 Annual inflation evolution (%) and contribution of subcomponents (percentage points)	12
1.4 Contribution of subcomponents (percentage points) to annual core inflation dynamics (%)	13
1.5 Contribution of components (percentage points) to annual food prices dynamics (%)	13
1.6 Evolution of the international food price index, FAO index	14
1.7 Evolution of regulated prices (%) and contribution of subcomponents (percentage points)	14
1.8 Contribution of components (percentage points) to the annual increase in fuel and lubricants prices (%)	15
1.9 Evolution of average Platts quotations and Urals and Brent oil prices	15
1.10 Annual rate of CPI (%)	15
1.11 Annual industrial price rate (%)	16
1.12 Annual industrial price rate (%) and its components contribution classified by main branches (percentage points)	16
2.1 Developments of the composite PMI indexes	17
2.2 Developments of the USD index (DXY*) in the context of FRS monetary policy	18
2.3 Developments of EUR/USD (monthly average) and interest rates in the euro area	18
2.4 Oil market	18
2.5 Developments of natural gas prices (USD/1,000 cubic meters)	19
2.6 Annual growth rate of international price indexes (%)	19
2.7 Annual growth rate of international food prices (FAO index)(%)	19
3.1 Contribution of demand components to GDP growth (percentage points)	24
3.2 Development in household final consumption in real terms (% , compared to the previous year)	25
3.3 Development of disposable income of the population (% , compared to the previous year) and subcomponents' contributions (percentage points)	25
3.4 Public revenue and expenditure dynamics (% , compared to the previous year)	25
3.5 Development of budgetary transfers (MDL million)	26

3.6	Development of the single treasury account flows (% , compared to the previous year)	26
3.7	Development of the single treasury account balance (% , compared to the previous year)	28
3.8	Development of the annual growth rate of state debt (% , end of quarter)	28
3.9	Share of state debt in GDP (% , end of quarter)	28
3.10	Supply and demand ratio on the primary market for state securities	28
3.11	SS yield curve (%)	28
3.12	Structure of SS allocated on the primary market (%)	28
3.13	Annual investment dynamics (%)	29
3.14	Annual investment dynamics by type of fixed assets (% , real terms)	29
3.15	Annual investment dynamics by funding sources (% , in real terms)	31
3.16	Development of the annual rate of exports (%) and contribution by categories of countries (percentage points)	31
3.17	Development of the annual rate of exports (%) and contribution of the components by commodity groups (percentage points)	31
3.18	Development of the annual rate of exports (%) and contribution by origin (percentage points)	31
3.19	Development of the annual rate of imports (%) and contribution by categories of countries (percentage points)	31
3.20	Development of the annual rate of imports (%) and contribution of the components by commodity groups (percentage points)	31
3.21	Contribution of economy sectors to GDP growth (percentage points)	32
3.22	Development of goods transport (% , compared to the previous year)	32
3.23	Passenger transport development (% , compared to the previous year)	32
3.24	Industry development in real terms (% , compared to the previous year)	33
3.25	Internal trade (based on VAT statements) (% , compared to previous year)	33
3.26	Annual rate of total agricultural production (%) and contribution by sectors (percentage points)	33
3.27	Economically active population and employed population	34
3.28	Contribution of sectors to the dynamics of the employed population (percentage points)	34
3.29	Developments of unemployed and underemployed population	34
3.30	Wage fund in the economy (% , compared to the previous year) and sectors' contributions (percentage points)	35
3.31	Average number of employees per economy (% , compared to the previous year) and sectors' contributions (percentage points)	35
3.32	Contribution of the sectors of the economy to the dynamics of the number of employees (% , compared to the previous year)	35

3.33	Current account share in GDP (%)	36
3.34	Financial account share in GDP (%)	36
3.35	External debt share in GDP (%)	36
4.1	Monthly average reference rates on the interbank market and the base rate of the NBM (%)	37
4.2	Monthly evolution of the interest rates corridor (%)	37
4.3	Development of the daily balance of sterilization operations (MDL million)	38
4.4	Development of the official MDL/USD exchange rate and volume of daily transactions of the NBM	39
4.5	Change in monetary aggregates (% , annual growth)	39
4.6	Dynamics of the monetary aggregate M3 (% , contribution of the components in annual growth)	40
4.7	Dynamics of total deposit balance (% , contribution of annually increasing components)	40
4.8	Dynamics of the deposits balance in MDL (% , contribution of annually increasing components)	41
4.9	Dynamics of the term deposits balance in MDL (% , contribution of annually increasing components)	41
4.10	Dynamics of the sight deposits balance in MDL (% , contribution of annually increasing components)	41
4.11	Dynamics of the deposits balance in foreign currency (% , contribution of annually increasing components)	41
4.12	Dynamics of the term deposits balance in foreign currency (% , contribution of annually increasing components)	41
4.13	Dynamics of the sight deposits balance in foreign currency (% , contribution of annually increasing components)	41
4.14	Excessive liquidity	42
4.15	Evolution of the balance of loans (% , annual growth)	42
4.16	The evolution of the weights of loans by subcomponents in the total balance (%)	42
4.17	Loans balance structure (% in total)	43
4.18	Evolution of new granted loans (% , annual growth)	43
4.19	Evolution of new loans granted in MDL (% , annual growth)	43
4.20	Dynamics of term deposits balance (% , annual growth)	43
4.21	Evolution of the share of term deposits by subcomponents in the total balance (%)	43
4.22	Average interest rates on balance of loans and deposits (%)	43
4.23	Average interest rates on new volumes of loans and deposits (%)	45
4.24	Official exchange rate fluctuations of the Moldovan leu against the US dollar and the euro	46
4.25	Development of the countries currencies – main trading partners against the US dollar, average exchange rate in the fourth quarter of 2024/ third quarter of 2024 (%)	46

4.26	Nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the MDL dynamics calculated on the basis of the weight of the countries – main trading partners (Dec.2000-100%)	46
4.27	Contribution of the main trading partners of the Republic of Moldova to the change in the real effective exchange rate in the fourth quarter of 2024	47
4.28	Net supply of foreign currency from individuals broken down by main currencies (currencies are recalculated in USD at constant average exchange rates)	47
4.29	The degree of net sales coverage by net supply and the official exchange rate dynamics	47
4.30	Development of the official reserve assets expressed in months of imports of goods and services (BPM6)	48
5.1	Exchange rate assumption EUR/USD	50
5.2	International Brent oil price assumption (USD/barrel)	50
5.3	International food price assumption (%)	50
5.4	CPI with uncertainty interval (% , compared to the previous year)	51
5.5	CPI decomposition (% , percentage points compared to the previous year)	51
5.6	Core inflation (% , compared to the previous year)	51
5.7	Food prices (% , compared to the previous year)	52
5.8	Regulated prices (% , compared to the previous year)	52
5.9	Fuel prices (% , compared to the previous year)	53
5.10	GDP deviation (%)	53
5.11	Real money conditions index and decomposition	53
5.12	CPI (% , compared to previous year, percentage points)	54
5.13	Decomposition of the difference between forecasts (percentage points)	54
5.14	Core inflation (% , compared to the previous year, percentage points)	54
5.15	Food prices (% , compared to the previous year, percentage points)	55
5.16	Regulated prices (% , compared to previous year, percentage points)	55
5.17	Fuel prices (% , compared to the previous year)	56

List of Tables

1.1 The evolution and forecast of CPI and its components	16
5.1 Expected evolution of external variables (annual average)	49