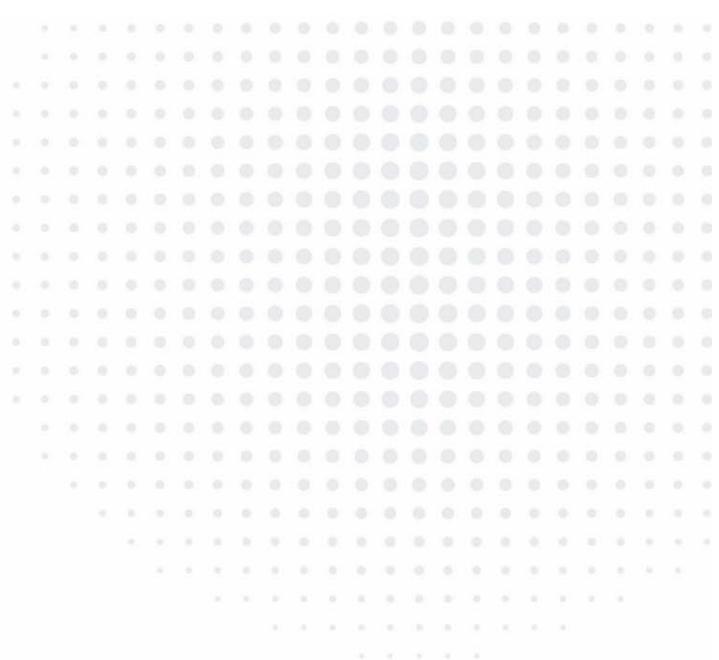




Inflation Report

November 2024



*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 978-9975-169-23-3
ISBN 978-9975-169-31-8 (PDF)

© National Bank of Moldova, 2024

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 shall aim to ensure the stability and viability of the banking system and support 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, November 2024 was considered and approved for publication at the meeting of the Executive Board of the NBM on November 5, 2024.

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, November 2024 is a translation of Raport asupra inflației, noiembrie 2024 in Romanian. In case of discrepancies, the version of the Report in the original language prevails.

Contents

Summary	8
1 Inflation evolution	11
1.1 Consumer price index	11
1.2 Inflation evolution and short-term forecast assessment from the Inflation Report, August 2024	16
1.3 Industrial production prices	17
2 External environment	18
2.1 World economy, financial and commodities markets	18
2.2 Developments in major economies	20
2.3 Economic developments in neighboring countries and main trading partners	22
3 Economic developments	23
3.1 Demand	23
3.2 Production	31
3.3 Labor market.	33
3.4 External sector	35
4 Monetary policy	36
4.1 Monetary policy instruments	36
4.2 Monetary indicators dynamics	38
5 Forecast	48
5.1 External Assumptions	48
5.2 Internal environment	50
5.3 Forecasts comparison	53
5.4 Risks and uncertainties	55
6 Monetary policy decisions	58

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
CIF	Cost, Insurance and Freight
CIS	Commonwealth of Independent States
CNY	Chinese Yuan
CPI	Consumer price index
ECB	European Central Bank
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EUR	European single 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
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
SB	State budget

SDR	Special drawing rights
SS	State Securities
SSIB	State social insurance budget
STA	Single treasury account
TTF	Title Transfer Facility
USA	United States of America
USD	US Dollar

Summary

Inflation

In the third quarter of 2024, the annual inflation rate followed an upward trajectory after the downward trend that began at the end of 2022. As a result, the annual inflation rate increased from 3.8% in June 2024 to 5.2% in September 2024, placing it within the variation range of the inflation target. At the same time, the average annual inflation rate was 5.0% in the third quarter of 2024, about 1.5 percentage points higher than in the previous quarter. The upward trajectory of the annual inflation rate was supported by some adverse sectoral developments, including dry conditions in the summer of this year, which caused food prices to rise. These were slightly mitigated by the effect of moderate domestic demand. Insignificant pressures continued to be exerted by food prices on the international market and by industrial production prices on the domestic market. Disinflationary pressures were driven by global oil prices. In the reference quarter, the annual rate of the CPI was lower than the one anticipated in the previous forecasting round (Inflation Report, August 2024), mainly due to the negative deviation recorded for the forecast of the annual rate of regulated prices.

Recently, prices in industry have fallen, setting the stage for a moderation of price pressures on certain subcomponents of the CPI in the period ahead. In addition, domestic demand will continue to exert a disinflationary impact in the coming period, which could, however, be mitigated by some tariff adjustments. Nevertheless, in the upcoming period, the annual CPI rate will remain within the variation range from the target. The manner in which tariffs are adjusted, as well as the tense situation in the region and the risks of its escalation, keep the inflation outlook highly uncertain.

External environment

The global economy in the second half of the current year continued to oscillate between trade and geopolitical tensions and the beginning of monetary policies easing in the USA and the euro area. During the reference period, alongside the additional sanctions against the Russian Federation, reciprocal trade tariffs were imposed between the EU and China. Geopolitical tensions escalated after the invasion of Russian territory in the Kursk region by Ukrainian troops and the intensification of bombings in the Middle East. At the monetary policy meeting in September 2024, the FRS lowered the interest rate range by 50 basis points. The ECB also decided at its monetary policy meeting on September 12, 2024, to reduce the deposit facility interest rate by 25 basis points. At the same time, the decision to decrease the spread between the interest rate on the main refinancing operations and the deposit facility interest rate from 25 to 15 basis points also came into effect. On October 23, 2024, the ECB cut interest rates again by 25 basis points. Oil prices hit their lowest level of the year in September 2024 amid concerns about declining demand in China. However, in early October 2024 they returned to previous levels due to heightened tensions in the Middle East. The price of natural gas in Europe also increased, amid concerns about the expiration of the contract of the natural gas transit through Ukraine at the end of 2024, although natural gas reserves in Europe are at record levels for this period. Also, in September 2024, for the first time since the end of 2022, a positive annual growth rate was recorded for the FAO index of agricultural and food prices on the international market, signaling a reversal of the trend.

Economy

In the second quarter of 2024, GDP continued its positive momentum since the beginning of this year. Thus, in the second quarter of 2024, GDP increased by 2.4% compared to the same period of 2023. However, this dynamic was lower than the one anticipated in the Inflation Report, August 2024. The upward trajectory of GDP was mainly supported by domestic demand, both from the population, in the context of real income growth, and from economic agents. Net external demand had a negative impact on GDP dynamics during this period. At the same time, some more pronounced positive developments in trade sector, financial and insurance activities, information and communication sector, and construction are worth mentioning. On the one hand, the agricultural and industrial sectors had a minor impact on GDP dynamics, while on the other hand, real estate transactions and transport and storage sector had a negative impact on the GDP trajectory. According to estimates, domestic demand continued to be moderate, signaled by the lower-than-expected development in household consumption, thus having a disinflationary impact. At the same time, the seasonally adjusted series reflects an 0.4% increase in GDP compared to the first quarter of 2024. Overall, GDP increased by 2.2% in the first half of the year compared to the same period of the previous year.

Monetary policy

In the third quarter of 2024, excess liquidity amounted to MDL 9.6 billion, down by MDL 355.3 million compared to the previous quarter.

The M3 monetary aggregate, in the third quarter of 2024, recorded an annual growth rate of 17.1%, with the main contribution coming from the balance of deposits in the national currency.

During the third 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 internal and external balance of risks and the inflation outlook in the short- and medium-term, the Executive Board of the National Bank of Moldova, at its meetings on August 6, 2024 and September 19, 2024, decided to maintain the base rate at the level of 3.60% annually (level set on May 7, 2024). At the same time, standing facility and repo rates were also maintained at their current levels. The required reserves ratio of funds attracted in MDL and non-convertible foreign currency and that of funds attracted in freely convertible foreign currency remained unchanged. These measures were adopted with the aim of stimulating aggregate demand, including by encouraging consumption, balancing the national economy and anchoring inflationary expectations.

At the same time, during the ordinary monetary policy meeting on November 5, 2024, the Executive Board of the National Bank of Moldova adopted, by an unanimous vote, the decision to maintain the base rate at the level of 3.60% annually, respectively the rates on standing facilities and repo operations were maintained. At the same time, the required reserves ratio of funds attracted in MDL and non-convertible foreign currency and that of funds attracted in freely convertible foreign currency was lowered starting with the period of application of required reserves from November 16, 2024, to December 15, 2024, to the levels of 27.0% and 36.0% of the calculation base, respectively.

This decision was taken in the context of further spillovers from previous monetary policy decisions, given the lags in their transmission. At the same time, the decision aims at lowering borrowing costs and thereby further supporting private sector lending and boosting the national economy.

The cumulative monetary policy stimulus measures, both the consecutive cuts in the base rate and the lowering of the required reserves ratio, will increase excess liquidity in the banking system by the end of this year. The current and projected volume of liquidity will allow banks to lend to economic agents and households, as well as to invest in state securities (SS).

In the third quarter of 2024, within the national currency segment, the weighted average interest rates on new loans and on term deposits continued their downward trend under the impact of the cumulative monetary policy stimulus measures. Thus, the weighted average rate on loans amounted to 8.63% and

that on deposits – 3.12%, down by 2.75 and 1.49 percentage points, respectively, compared to the third quarter of 2023.

The average interest rates on the balance of loans in national currency decreased compared to the third quarter of 2023 by 1.91 percentage points to 8.81%, and on term deposits – by 5.95 percentage points, reaching 3.51%.

Medium-term inflation projection

In the current forecast round, the external environment continues to present heightened risks and uncertainties, but overall, external assumptions are shaping the current trajectories. On the one hand, the disinflationary pressures related to falling prices have dissipated, and now a cycle of slight price increases is expected on the international market. On the other hand, global consumption continues to be weak, affecting production and costs. The effect of rising real household incomes and results from services activity will continue to be a driver of economic growth. The volatility of financial and commodity markets will be susceptible to geopolitical tensions in the Middle East and Ukraine, as well as to the outcome of the USA presidential elections.

The annual inflation rate will continue to rise slightly until the beginning of next year, thereafter, towards the end of the forecast horizon, it will show a downward trend¹, except for the fourth quarter of 2025, when it will increase slightly. Over the entire forecast period², the annual inflation rate will be positioned close to the target of 5.0% and will remain within the variation range throughout the forecast horizon. The annual core inflation rate will continue its downward trajectory until the first half of next year, after which it will fluctuate slightly until the end of the forecast horizon. The annual rate of food prices will increase until the beginning of next year, after which it will decline towards the end of the forecast horizon. The annual rate of regulated prices will continue to increase until the second quarter of the forecast, thereafter it will show a downward trend until the third quarter of 2025, followed by an increase towards the end of the forecast horizon, except for the last two quarters. The annual growth rate of fuel prices will continue to decline slightly and register negative values in the first quarter of the forecast period, thereafter it will rise continuously and, starting from the second half of next year, it will be close to zero by the end of the forecast period.

Negative aggregate demand over the entire forecast horizon will be driven by dry conditions in the summer of 2024, the cumulative real appreciation of the national currency, and relatively weak external demand in the current and early next year. The low real interest rate and positive fiscal impulse over the forecast period, the recovering and subsequently positive external demand from the fourth quarter of 2025 until the end of the forecast horizon will narrow the aggregate demand deficit.

Real monetary conditions will have a restrictive effect on domestic demand throughout the entire forecast horizon.

The current inflation forecast, compared to the one in the Inflation Report, August 2024, has been revised downward over the comparable period³. The annual core inflation rate has been adjusted downward for the entire comparable period. The current forecast of the annual rate of food prices has been increased until the first half of 2025 and decreased for the remainder of the comparable period. The annual rate of regulated prices has been revised downward until the third quarter of 2025 and upward towards the end of the comparable period. The forecast for the annual rate of fuel prices has been lowered for nearly the entire comparable period.

¹Third quarter of 2026

²Fourth quarter of 2024 – third quarter of 2026

³Fourth quarter of 2024 – second quarter of 2026

Chapter 1

Inflation evolution

1.1 Consumer price index

In the third quarter of 2024, the annual inflation rate followed an upward trajectory after the downward trend that began at the end of 2022. It continued to remain within the variation range of the inflation target. At the same time, from July to September 2024, the annual inflation rate was lower than anticipated in the Inflation Report, August 2024.

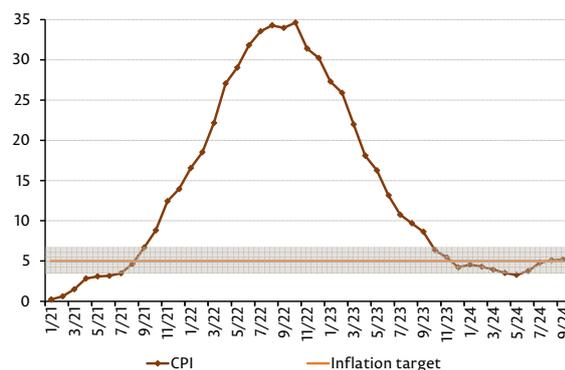
The annual inflation rate increased from 3.8% in June 2024 to 5.2% in September 2024, thus placing it within the variation range of the inflation target. Meanwhile, the average annual inflation rate was 5.0% in the third quarter of 2024, about 1.5 percentage points higher than in the previous quarter.

The upward trajectory of the annual inflation rate in the third quarter of 2024 was supported by some adverse sectoral developments. These were slightly mitigated by the effect of moderate domestic demand. Temperate pressures continued to be driven by the trajectory of international food prices and domestic industrial producer prices. Disinflationary pressures were driven by the trajectory of international oil prices.

In the CPI structure (Chart 1.2), the annual rate of regulated prices continued the upward trend that started in May 2024, after which it had a slightly downward dynamics and remained in negative territory. The annual rate of food prices showed an upward trend from July to September 2024. The annual rate of fuel prices recorded a pronounced downward trajectory in the third quarter of 2024. At the same time, the annual rate of core inflation remained relatively stable during this period.

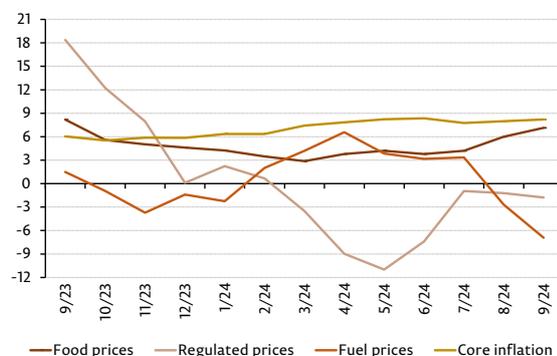
The trajectory of the annual CPI rate in the third quarter of 2024 was lower than anticipated in the previous forecasting round (Inflation Report, August 2024), mainly due to the negative deviation recorded for the forecast of the annual rate of regulated prices. In the following period, the annual CPI rate will remain within the variation range of the inflation target. The method of tariff adjustments, as well as the tense situation in the region and the risks of its escalation, keep the inflation forecast highly uncertain.

Chart 1.1: Annual CPI rate (%)



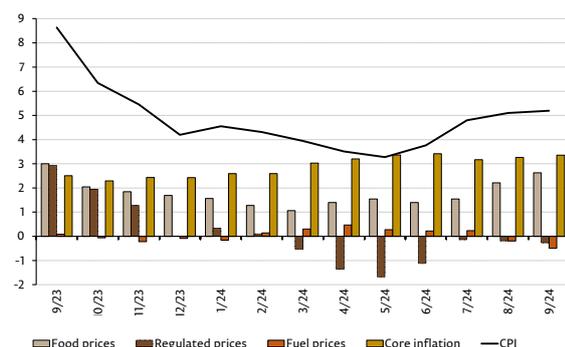
Source: NBS, NBM

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



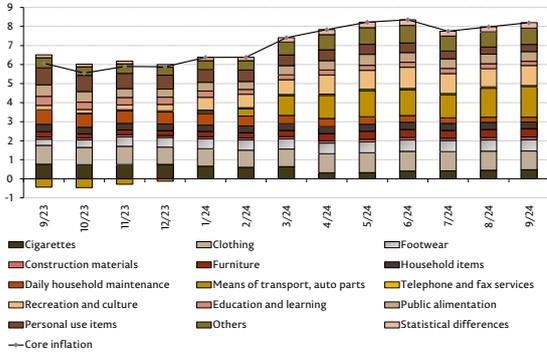
Source: NBS

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



Source: NBS, NBM calculations

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



Source: NBS, NBM calculations

Core inflation

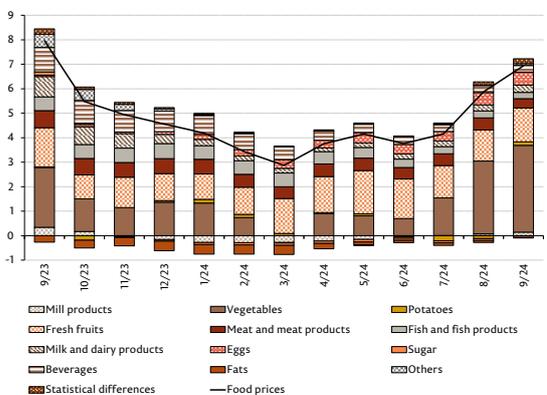
The annual core inflation rate recorded a relatively stable trajectory in the third quarter of 2024. Thus, the average annual rate of core inflation was 8.0%, only 0.1 percentage point lower than in the second quarter of 2024. During the quarter, it declined to 7.8% in July 2024 and then increased to 8.2% in September 2024.

According to estimates, similar to previous periods, aggregate demand continued to exert disinflationary pressures on core inflation in the third quarter of 2024, while cost pressures were relatively minor.

In terms of structure, the relatively high level of the annual core inflation rate was mainly supported by the contribution of the subcomponents "means of transport, auto parts", "clothing", "recreation and culture", "footwear", "public alimentation". Some of these developments were driven by adverse sectoral dynamics, such as the increase in import prices of vehicles, which led to higher prices for "means of transport", or the drought conditions in the summer of this year, which put pressure on prices in public alimentation. It is also worth mentioning the substantial increase in the prices of international tourist service packages, which influenced the "recreation and culture" subcomponent. A significant impact on core inflation continues to be exerted by the rise in prices of "cigarettes".

The subsequent trend in the prices of some important categories of goods and services included in core inflation, in the absence of supply-side imbalances, will continue to reflect the effect of moderate domestic demand.

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



Source: NBS, NBM calculations

Food prices

In the third quarter of 2024, the annual rate of food prices continued the upward trend began in the previous quarter, recording an average rate of 5.8% or 1.9 percentage points higher than in the second quarter of 2024.

It should be noted that the marked acceleration of the annual rate of food prices was determined by the intensification of inflationary pressures on the "vegetables" group, amid the hot weather recorded in July and August (*temporary inflationary shock*). In addition, the "fresh fruits", "meat and meat products", "eggs" and "fish and fish products" groups also contributed to the annual rate of food prices (Chart 1.5).

It should be noted that, similar to previous periods, the annual rate of processed products prices recorded modest growth rates, reconfirming the hypothesis of lack of inflationary pressures related to them. The lack of inflationary pressures on the international market, inflationary pressures through the exchange rate channel, the demand deficit on the domestic market, coupled with minor cost pressures, have contributed to the preconditions for modest growth rates of food prices on the domestic market.

The level of food prices on the international market was close to those recorded in the similar period of the previous year (Chart 1.6), thus not generating inflationary pressures on domestic prices. In the third quarter of 2024, the annual rate of food prices on the international market was -0.6%.

In the third quarter of 2024, the contribution of food prices to the formation of the annual total inflation rate increased by 0.7 percentage points to a level of 2.1 percentage points.

Regulated prices

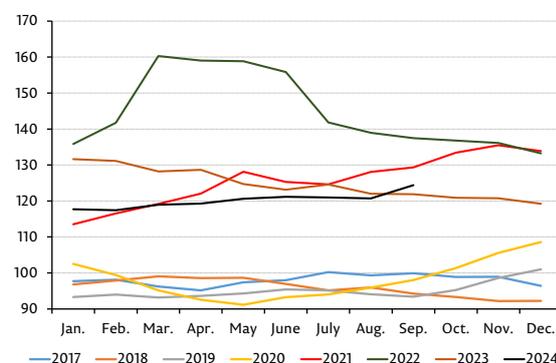
The annual rate of regulated prices continued its upward trajectory in July 2024, after which it followed a slight downward trend until September 2024, moving into negative territory.

The annual rate of regulated prices was -1.8% in September 2024, 5.6 percentage points higher than in June 2024. The annual average rate of regulated prices in the third quarter of 2024 was -1.3%, 7.8 percentage points higher than in the second quarter of 2024.

These dynamics were driven, on the one hand, by the increase in prices for healthcare services and medicines, water and sewage, as well as the effect of the base period, on the other hand, by the decrease in the tariff of thermal energy, which had corresponding effects on prices for central heating and hot water within the CPI, and by the decrease in prices for air services (Chart 1.7).

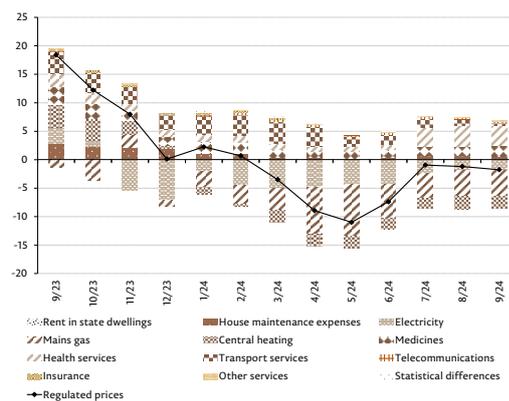
In July 2024, the prices of services related to the health component of the CPI increased by 16.7% compared to the previous month, driven by a rise in prices for medical services by 10.5%, specialized medical services – by 11.9%, dental services – by 26.3%, medical tests services provided by laboratories and radiology centers – by 5.2%, other paramedical services – by 58.1%, and inpatient treatment – by 20.3%. The decision was approved by the Government on February 28, 2024, reflected in the tariff adjustments in the Catalog of Single Tariffs for medical-health services provided by public institutions in the country⁴. This measure was driven by the increase in prices for medicines, diagnostic tests and maintenance costs, following the equipping of hospitals with more advanced equipment.

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

⁴https://gov.md/sites/default/files/document/attachments/nu-1085-ms-2024_0.pdf

It should be noted that, during August-September 2024, prices for health services in the private sector also increased cumulatively by approximately 2.3%, driven by price increases for medical services (by 3.4%), specialized medical services (by 1.1%), dental services (by 5.7%), medical tests services provided by laboratories and radiology centers (by 2.0%), other paramedical services (by 1.7%), and rehabilitation services at health resorts specializing in balneotherapy (by 10.6%). Similar to previous periods, there was a notable increase in the prices of medicines, which rose during the third quarter of 2024 by about 1.7%.

Also, during the reference quarter, a series of tariffs adjustments for water and sewerage services took place in different regions of the country, which essentially led to an increase in the prices of these services within the CPI. Thus, the NBS has reflected the tariff adjustments in the city of Balti⁵, Orhei⁶, Cahul⁷, Soroca⁸ and Ungheni⁹.

On July 23, 2024, ANRE approved a new tariff for thermal energy delivered by S.A. "Termoelectrica" in the amount of MDL 1,824/Gcal, about 14.7% lower than the previously approved tariff. This tariff adjustment was reflected in the CPI by lower prices for central heating and hot water. At the same time, in the period July-September 2024, prices related to transportation services decreased, mainly due to air travel services. It is noteworthy that after more than eight months of continuous price increases in the air services segment, the last three months saw a decrease in prices for the given services, especially in September 2024. This decrease can be associated with the access of more low-cost air operators into the domestic market with the geographical expansion of destination points.

In the upcoming period, central heating in the northern part of the country could become cheaper. The draft tariff in this regard is published on the official ANRE website¹⁰.

⁵<https://anre.md/anre-a-aprobat-tarifele-pentru-serviciile-publice-de-alimentare-cu-apa-canalizare-si-distributie-a-gazelor-naturale-3-884>

⁶<https://anre.md/anre-a-aprobat-tarifele-pentru-serviciile-publice-de-alimentare-cu-apa-canalizare-si-distributie-a-gazelor-naturale-3-884>

⁷<https://anre.md/anre-a-aprobat-tarif-ului-pentru-energia-termica-livrata-consumatorilor-si-pretul-la-energia-electrica-produsa-de-catre-sa-termoelectrica-3-897>

⁸<https://anre.md/anre-a-aprobat-si-avizat-noi-tarife-pentru-serviciile-publice-de-alimentare-cu-apa-si-de-canalizare-prestate-de-patru-titulari-de-licente-3-903>
⁹<https://anre.md/anre-a-aprobat-si-avizat-noi-tarife-pentru-serviciile-publice-de-alimentare-cu-apa-si-de-canalizare-prestate-de-patru-titulari-de-licente-3-903>

⁹<https://anre.md/anre-a-aprobat-si-avizat-noi-tarife-pentru-serviciile-publice-de-alimentare-cu-apa-si-de-canalizare-prestate-de-patru-titulari-de-licente-3-903>

¹⁰<https://anre.md/storage/upload/projects/announcements//tmp/php609kow/Structura%20proiectului%20tarifului%20pentru%20energia%20termic%C4%83%20livrat%C4%83%20consumatorilor.pdf>

Also, there is a request regarding the adjustment for increasing water and sewerage tariffs in Edinet by ANRE¹¹. At the same time, electric public transportation in Balti could become more expensive in the coming period¹². Some public consultations are underway for possible fare adjustments for public transportation in other regions as well. Thus, the Î.M. "Orhei Transport" is asking for an increase in the price of a bus ticket for public transportation in Orhei¹³.

Fuel and lubricants prices

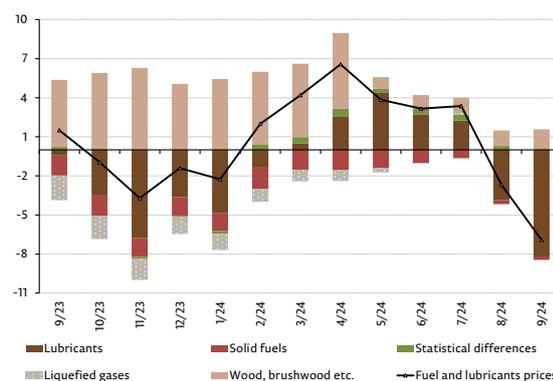
The annual rate of fuel and lubricants prices followed a pronounced downward trajectory in the third quarter of 2024, decreasing from 3.2% in June 2024 to -6.9% in September 2024, predominantly under the influence of "lubricants" prices.

The average annual rate of fuel and lubricants prices was -2.1%, 6.6 percentage points lower than in the second quarter of 2024 (Chart 1.8).

In the period July-September 2024, "lubricants" prices had a pronounced negative impact on the annual rate of fuel and lubricants prices. This trend was driven by the gasoline and diesel prices set by PECO stations during the reporting quarter. These decreases were dictated by the average Platts quotations for gasoline and diesel, which averaged about MDL 13,708.6/tonne and MDL 12,662.2/tonne on average during the reporting quarter. Thus, average Platts quotations for gasoline decreased by 11.3%, while the average Platts quotations for diesel decreased by 7.5% compared to the second quarter of 2024 (Chart 1.9). The decline in the above-mentioned quotations was supported by the downward trend in the price of Brent crude oil, which was 5.6% lower compared to the previous quarter.

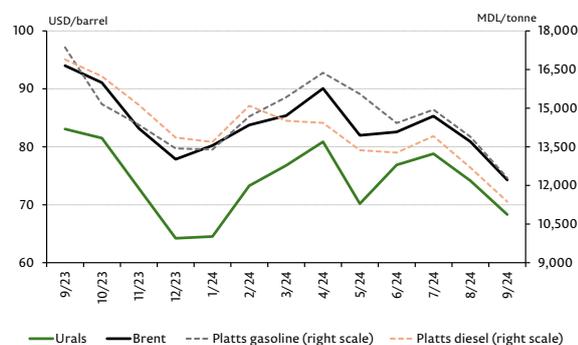
During the third quarter of 2024, "solid fuels" prices continued to exert a negative impact, while "wood, brushwood etc." prices generated a positive impact on the annual rate of fuel and lubricant prices.

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



Source: NBS, NBM calculations

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



Source: ANRE, NBM calculations

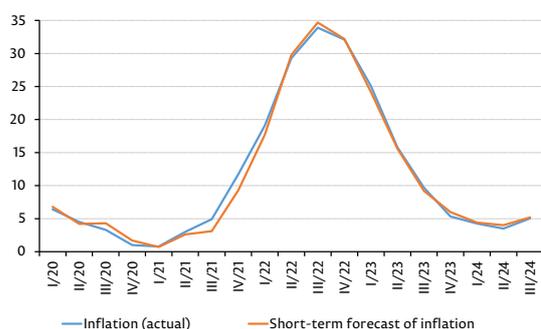
¹¹<https://anre.md/storage/upload/projects/announcements//tmp/phpcjwgOy/Hot%C4%83r%C3%Aere%20tarife%20Edinet%202024.pdf>

¹²<https://balti.md/cu-privire-la-initierea-procedurilor-de-consultari-publice-cu-societatea-civila-in-procesul-decizional-cu-privire-la-aprobarea-tarifelor-pentru-serviciile-regulate-de-transport-rutier-contra/>

¹³<https://www.orhei.md/index.php?pag=news&id=761&rid=7417&l=ro>

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

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 III, 2024/ Q III, 2023 (%)	Forecast* Q III, 2024/ Q III, 2023 (%)	Deviation (De facto- forecast) (p.p.)
CPI	5.0	5.2	-0.2
Core inflation	8.0	8.5	-0.5
Food prices	5.8	3.7	2.1
Regulated prices	-1.3	1.7	-3.0
Fuel prices	-2.1	1.1	-3.2

Source: NBS, NBM calculations

*Forecast from Inflation Report, August 2024

In the forecast round of the Inflation Report, August 2024, it was anticipated that the annual CPI rate would remain within the variation range of the inflation target and register an average value of 5.2% in the third quarter of 2024¹⁴. Inflation data for July-September 2024 show a trajectory slightly lower than the one anticipated in the previous forecast round (Inflation Report, August 2024).

In the third quarter of 2024, the average annual inflation rate amounted to 5.0% and was 0.2 percentage points lower than anticipated in the forecast (Table 1.1).

This was mainly due to the negative deviation in the forecast of regulated prices. Negative deviations from the forecast were also recorded for the core inflation and fuel price forecasts, but these had a more modest impact on the total deviation. In this regard, in the third quarter of 2024, the annual rate of prices of regulated services and products stood at -1.3%, 3.0 percentage points lower than anticipated in the context of a lower-than-expected adjustment of the medical services tariff. At the same time, the annual rate of fuel prices amounted to -2.1%, 3.2 percentage points lower than expected in the context of a lower trajectory of oil prices. In this regard, the average price of oil (Brent) in the third quarter of 2024 amounted to USD 80.15/barrel, about 7.1% lower than the price anticipated (USD 86.3/barrel) in the Inflation Report, August 2024. At the same time, the annual core inflation rate was 8.0%, 0.5 percentage point lower than the forecasted value. The above-mentioned negative deviations were mitigated by the positive deviation in the food price forecast. Thus, the annual rate of food prices was 5.8%, 2.1 percentage points higher than the anticipated value in the context of dry conditions during the summer months.

¹⁴In view of the more pronounced 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 made at a quarterly frequency. This value is an input into the medium-term inflation projection, which is similarly quarterly 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 need to be interpreted appropriately, also taking into account the assumptions/ forecasts for the remaining months of the quarter.

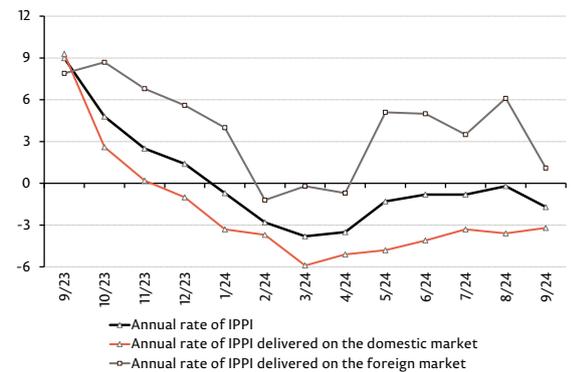
1.3 Industrial production prices

In the third quarter of 2024, the annual industrial price rate recorded an average level of -0.9%, remaining in the negative territory for the third consecutive quarter.

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 foreign market was in the positive territory (Chart 1.11).

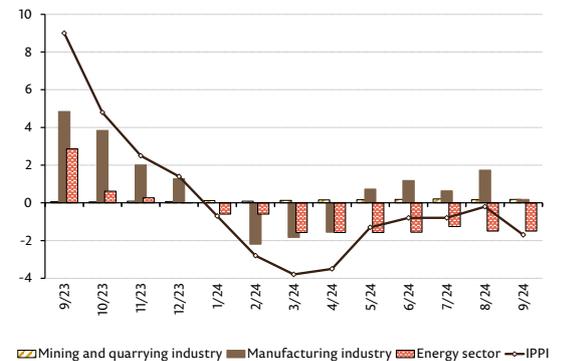
Analyzing the dynamics of the annual rate of industrial prices by main branches, we find a contraction supported by developments in the energy sector (Chart 1.12). Thus, during the analyzed period, the annual price rate in the energy sector was -21.8% or 2.3 percentage points higher than in the second quarter of 2024. At the same time, in the third quarter of 2024, the annual price rate in manufacturing industry recorded an average of 0.9% or 0.8 percentage points higher than in the previous quarter. In the third quarter of 2024, prices in the mining and quarrying industry increased by 9.2% in annual terms, contributing minimally to the total price dynamics in the industry.

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

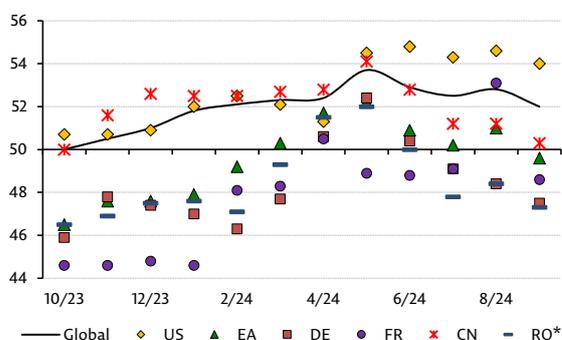
Chapter 2

External environment

The world economy in the second half of this year continued to oscillate between trade and geopolitical tensions and the beginning of monetary easing in the USA and the euro area. During the period under review, besides the additional sanctions against the Russian Federation, reciprocal trade tariffs were imposed between the EU and China. Geopolitical tensions escalated after the invasion of Russian territory in the Kursk region by Ukrainian troops and the intensification of bombings in the Middle East. At the monetary policy meeting in September 2024, the FRS reduced the interest rate range by 50 basis points. The ECB also decided at its monetary policy meeting on September 12, 2024 to lower the deposit facility interest rate by 25 basis points. During this period, the decision to reduce the spread between the interest rate on the main refinancing operations and the deposit facility interest rate from 25 to 15 basis points also came into effect. On October 23, 2024, the ECB again cut interest rates by 25 basis points. Oil prices hit their lowest level of the year in September 2024 amid concerns about declining demand from China. However, at the beginning of October 2024 they returned to previous levels due to heightened tensions in the Middle East. The price of natural gas in Europe also rose due to concerns about the completion of the gas transit contract through Ukraine at the end of 2024, even though natural gas reserves in Europe are at record levels for this period. Also, in September 2024, for the first time since the end of 2022, a positive annual growth rate was recorded for the FAO price index for agricultural and food products on the international market, signaling a reversal of the trend.

2.1 World economy, financial and commodities markets

Chart 2.1: Developments of the composite PMI indexes



Source: Markit

* for Romania the manufacturing PMI index is presented

PMI indexes indicate a worsening in global economic activity in recent months, particularly in the euro area, Romania and China. From the perspective of the indexes analyzed in chart 2.1, a stable trend in economic activity is observed in the USA, even though the data on industrial production is not encouraging. An exception to the trend was the composite PMI index for France in August 2024, when the Olympic Games took place in Paris and the services sector was strongly boosted by that event. Data for the euro area, especially Germany, point to a worsening of the economic situation compared to the second quarter of 2024. In particular, concerns have intensified regarding the consequences of the 2022 energy crisis and the latest round of monetary policy tightening implemented by the ECB. Also, during the reference period, concerns about economic growth in China returned, prompting the Chinese authorities to announce new measures aimed at stimulating the economy with CNY 100 billion (USD 14.1 billion) in the government's 2025 budget, in addition to another CNY 100 billion for construction projects. It should be mentioned that Zheng Shanjie, chairman of China's National Development and Reform Commission, said that China is on track to achieve its economic growth target of around 5%, but the economy is facing difficulties and an increasingly complex and extreme global environment.

The beginning of the FRS interest rate cut cycle has led to a sharp depreciation of the **US dollar**. On September 18, 2024, the FRS decided to reduce the interest rate range by 50 basis points to 4.75-5.0% (Chart 2.2). The developments in the USA presidential race further amplified the depreciation of the US dollar. Statistical data also prompted the depreciation of the US dollar. Annual inflation fell to 2.4% in September 2024, which amplified expectations regarding the magnitude of future interest rate cuts by the FRS.

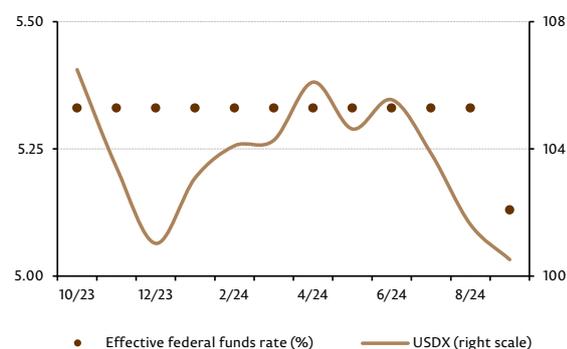
At the same time, labor force data show ambiguous signals from month to month. The unemployment rate fell to 4.1% in September 2024, after rising to 4.3% in July 2024. It was anticipated that the second reduction in the FRS interest rate range would be 50 basis points, but the decrease in the unemployment rate and statements from FRS representatives reassured the markets that the next monetary easing would be 25 basis points. It should be noted that the intensification of geopolitical tensions at the beginning of October 2024 increased the attractiveness of the US dollar.

During the period under review, **the single European currency** recorded a technical appreciation against the US dollar. It rose to its highest level in 12 months (Chart 2.3), indicating that the USA economy is much weaker than previously anticipated. Additionally, the increased bets on a more aggressive interest rate cut by the FRS reduced the attractiveness of the US dollar. However, the euro continues to be weak and the yields on German government bonds lower, as weaker-than-expected statistical data underpinned concerns that the region's economic recovery is very fragile, fueling expectations of more aggressive rate cuts by the ECB. At the monetary policy meeting on September 12, 2024, the ECB decided to reduce the interest rate on the deposit facility by 25 basis points. At the same time, the decision to reduce the spread between the interest rate on the main refinancing operations and the interest rate on the deposit facility from 25 to 15 basis points entered into force. On October 23, 2024, the ECB again reduced interest rates by 25 basis points.

Oil quotations fell significantly during the reporting period and reached their lowest level of the current year in September 2024 (Chart 2.4). The main factor behind the decline was concerns about economic activity in China and the announcement of new fiscal and monetary stimulus offered by the Chinese authorities. At the same time, geopolitical tensions in the Middle East eased over the reference period. Another factor was the downward revision of oil demand forecasts for 2025 by major energy agencies. For example, at the OPEC+ meeting in September 2024, participants postponed the increase in oil production by another two months, thus fueling concerns about a possible global oil glut. It should be mentioned that there were also factors contributing to the increase in oil prices during the period under review, for example, Ukraine's drone attacks on oil refining facilities in the Russian Federation or the closure of oil fields in Libya amid internal tensions.

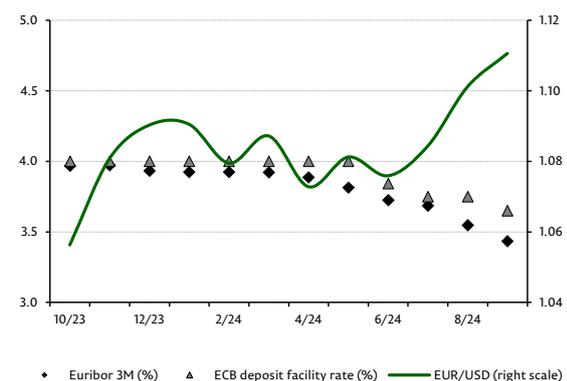
During the reference period, the natural gas market in Europe was turbulent and although storage reserves within the European area were continuously increasing, **the Netherlands TTF natural gas price** rose above the value of USD 400/1,000 cubic meters (Chart 2.5). Traders were concerned about the equipment maintenance planned for August and September on Norwegian

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



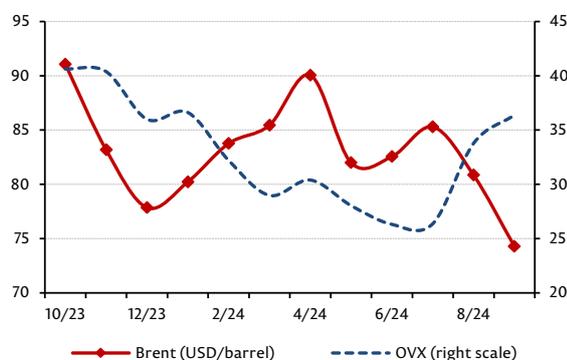
Source: FRS, Bloomberg
 *DXY is an index calculated by the weighted geometric average of the value of the US dollar against a basket of currencies: Euro – 57.6%, Japanese yen – 13.6%, Pound sterling – 11.9%, Canadian dollar – 9.1%, Swedish krona – 4.2%, Swiss franc – 3.6%

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



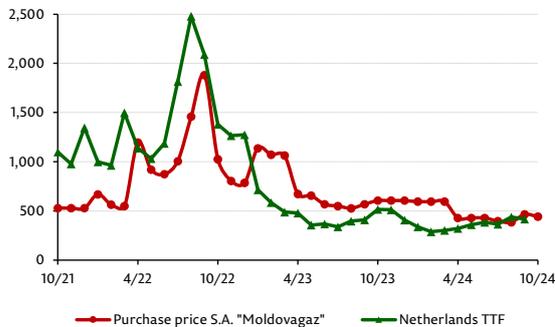
Source: ECB

Chart 2.4: Oil market



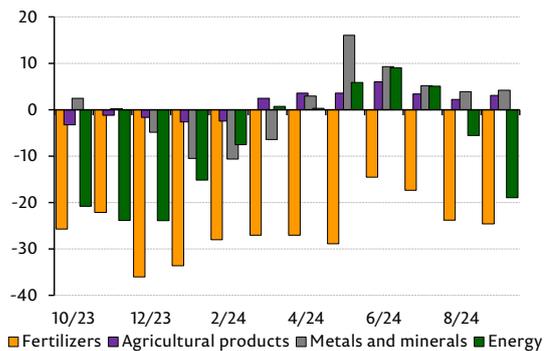
Source: World Bank, CBOE
 Note: CBOE – Chicago Board Options Exchange, OVX – Crude Oil Volatility Index

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



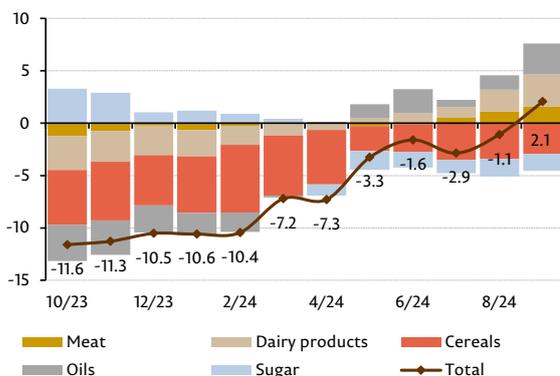
Source: S.A. "Moldovagaz", World Bank, NBM calculations

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



Source: World Bank, NBM calculations

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



Source: FAO, NBM calculations

fields, as well as the possible negative impact of the Atlantic hurricane season on LNG deliveries from USA. Gas prices in Europe also rose after Ukrainian troops captured the Sudzha point, which is currently the only operational transit station for Russian gas deliveries through Ukraine to the European Union. Subsequently, the situation improved as gas deliveries continued at a normal pace and sufficient supplies and low demand indicated that the market was well supplied. As of early September 2024, European's natural gas storage facilities were 93% full ahead of the cold season.

However, the market remains highly susceptible to the smallest supply shocks. For example, it was recently announced that Egypt is set to purchase 20 LNG cargoes starting in October 2024, raising concerns among traders about the balance of the European market as increased demand in other countries could reduce the volume of fuel reaching Europe. It is worth mentioning that the President of Azerbaijan, Ilham Aliyev, confirmed that the authorities in Moscow and Kiev contacted him to facilitate the transit of gas through Ukraine to Europe. For October 2024, S.A. "Moldovagaz" announced a purchase price for natural gas in the Republic of Moldova of USD 441.8/1,000 cubic meters.

International price indices calculated by the World Bank show a mixed trend, but overall the total price index recorded a negative growth rate of 12.4% in September 2024. At the same time, prices of fertilizers and energy resources fell on average by 24.6 and 19.0%, respectively, while prices of metals and minerals and agricultural products rose on average by 4.2 and 3.1% (Chart 2.6).

In September 2024, **international food prices** recorded a positive annual growth rate for the first time since the end of 2023 (up by 2.1% in September 2024). In monthly terms, prices increased across all food groups. After a decline for three consecutive months, international wheat prices rose in September 2024, largely due to concerns over unfavorable weather conditions for some key exporters. The excessively wet weather in Canada and the European Union caused delays in cereal harvesting. However, competitively priced deliveries from the Black Sea region limited the increase in cereal prices. The FAO rice price index fell by 0.7% in September, reflecting generally quiet trade activity and lower quotations of basmati rice from India, driven by freshly harvested agricultural crops and the Indian government's removal of the minimum price ceiling on basmati rice exports. The rise in the dairy products index was driven by high prices for all dairy products, with prices for whole milk powder increasing the most, spurred by strong import demand from Asia, despite seasonally high milk production in Oceania. The worsening harvest prospects in Brazil, due to prolonged dry weather and fires affecting sugar cane fields at the end of August, were the main factors behind the increase of international sugar prices (Chart 2.7).

2.2 Developments in major economies

In the second quarter of 2024, the **United States of America** gross domestic product grew by 0.7% compared to the previous

quarter and by 3.0% from the same period a year earlier (in seasonally adjusted terms). Estimated data for the third quarter of 2024 show an annualized GDP growth of 2.8%. During the first nine months of the year, industrial production in the USA contracted by 0.2% on average compared to the same period in the previous year. At the same time, the unemployment rate rose to 4.3% in July 2024 and then fell to 4.1% in September 2024. In September 2024, consumer prices rose by 0.2% compared to the previous month and 2.4% compared to September 2023. Currently, the trajectory of interest rate cuts by the FRS is unclear, as the statistical data shows mixed signals regarding economic developments and the outcome of the presidential election is uncertain.

In the third quarter of 2024, economic activity in the **euro area** increased by 0.4% compared to the previous quarter and by 0.9% compared with the same period last year. In the first eight months of this year, industrial production in the euro area contracted on average by 3.4%, of which 4.9% in Germany, 3.2% in Italy and 0.3% in France. At the same time, the Olympic Games in France in July-August 2024 boosted services and, overall, the recovery of tourism-related activities in Europe helped offset the losses in the industrial sector. The unemployment rate in the euro area remained at historically low levels, standing at 6.3% in September 2024. Consumer prices continued to decline in September 2024, with the annual harmonized inflation in the euro area registering a negative monthly rate of 0.1% and an increase of 1.7% on an annual basis. Estimated data for October 2024 indicate an increase in the annual harmonized inflation rate in the euro area to 2.0%. It should be noted that another factor behind economic growth in the euro area is domestic consumption, driven by the significant increase in real incomes, but also by the prospect of an easing of the monetary policy by the ECB.

China GDP recorded a growth rate of 4.7% in the second quarter of 2024, although it was more tempered than in previous quarters. In September, China announced stimulus to revive the economy. The People's Bank of China cut the short-term key interest rate and announced plans to reduce the amount of funds that banks are required to hold to the lowest level since 2018. According to the data, this was the first time since 2015 that a reduction in both indicators was announced on the same day. The governor of the People's Bank of China also unveiled a package of measures aimed at supporting the real estate sector, including a reduction in the cost of mortgage loans by USD 5.3 trillion and easing rules for purchasing secondary homes. To this end, the central bank will provide at least CNY 800 billion (USD 113 billion) to support liquidity of national stocks, stating that the possibility of creating a market stabilization fund is being considered. Also, in early October 2024, European Union countries approved additional tariffs imposed on electric cars made in China, ranging up to 35.3%, on top of the existing 10% duties. On the other side, the Beijing Government announced provisional tariffs of between 30% and 39% on European spirits brands. China is also considering raising import duties on European cars with large engines, as well as on European pork and dairy products. Consumer prices in China in September 2024 were stagnant compared to the previous month and were only 0.4% higher than in September 2023.

2.3 Economic developments in neighboring countries and main trading partners

In the second quarter of 2024, **Romania** gross domestic product grew by 0.3% (in seasonally adjusted terms) compared to the previous quarter, and compared to the same period of 2023, on a gross basis, it recorded a 0.9% increase. From January to August 2024, industrial production in Romania contracted by 2.0% on a gross basis and by 1.5% on a seasonally adjusted basis compared to the same period of 2023. In September 2024, consumer prices in Romania increased by 0.3% compared to the price level in the previous month and by 4.6% compared to the price level in September 2023.

In the reporting quarter, **Türkiye** economy grew by 0.1% (in seasonally adjusted terms) compared to the previous quarter and by 2.8% compared to the same period in 2023. In the January-August 2024 period, industrial production in Türkiye increased by 0.4% on an annual basis. Against the backdrop of the cumulative effect of the depreciation of the Turkish lira, consumer prices continued to rise in September, by 3.0% compared to the previous month and by 49.4% compared to September 2023. At the beginning of October 2024, Türkiye imposed anti-dumping taxes on certain steel imports from China, Russia, India and Japan, with the highest taxes being imposed on imports from China. The decision states that the imposed taxes will range from 6.10 to 43.31% of the CIF value. The decision aims to prevent unfair competition following challenges last year by domestic producers. The decision comes against the backdrop of growing trade tensions between China and the European Union regarding tariffs on electric cars, spirits and other goods, and following China's complaint to the World Trade Organization over import taxes imposed by Türkiye on Chinese electric cars.

In the second quarter of 2024, **Ukraine** gross domestic product grew by 0.2% compared to the previous quarter (in seasonally adjusted terms) and by 3.7% in annual terms, but taking into account the destruction caused by the war, this increase is tiny to reach the pre-war production levels. At the same time, statistics and forecasts for Ukraine's economy continue to be bleak as the war drags on and has greatly affected the industrial infrastructure and shipping. For the first half of 2024, the export of commodities increased by 0.3% compared to the first half of 2023, and imports by 9.0%. In the first half of this year, industrial production in Ukraine increased by 8.2% compared to the same period last year. Consumer prices continued to rise amid the depreciation of the Ukrainian hryvnia, with a monthly inflation of 1.5% in September 2024. Compared to September 2023, consumer prices in Ukraine increased by 8.6%.

Chapter 3

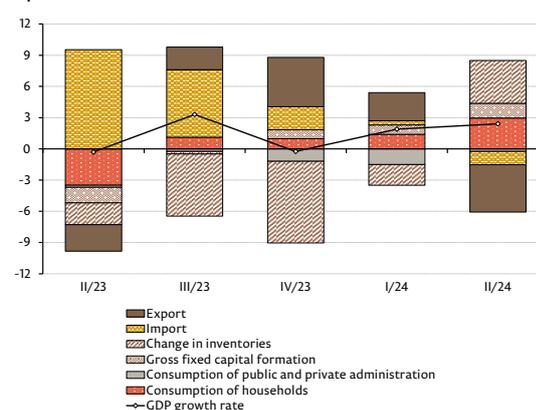
Economic developments

3.1 Demand

In the second quarter of 2024, GDP continued its positive trend since the beginning of the year, increasing by 2.4% compared to the same period in 2023. However, this dynamics was lower than anticipated in the Inflation Report, August 2024. The positive trend in GDP was mainly driven by domestic demand, both from the population, in the context of real income growth, and from economic agents. Net external demand had a negative impact on GDP dynamics during that period. At the same time, some more pronounced positive developments in trade, financial and insurance activities, information and communication, and construction sectors are worth mentioning. The agricultural and industrial sectors made a minor contribution to GDP growth. At the same time, real estate transactions sector, as well as transport and storage sector, had a negative impact on GDP dynamics. According to estimates, domestic demand continued to be moderate, as indicated by the still below-expected evolution of household consumption, exerting a disinflationary impact during that period. At the same time, the seasonally adjusted series reflects a 0.4% increase in GDP compared to first quarter of 2024. Overall, GDP increased by 2.2% in the first half of this year compared to the same period of the previous year.

From a utilization perspective, in the second quarter of 2024, household consumption continued the positive trend observed in previous periods, recording an increase of 3.7% compared to the second quarter of 2023, thus generating a positive impact of 3.0 percentage points on GDP dynamics (Chart 3.1). In the second quarter of 2024, final consumption of public administration declined by 0.9%, generating a negative impact of 0.2 percentage points on GDP dynamics. Investments, despite the increased uncertainty in the region, generated a positive impact of 5.5 percentage points on GDP dynamics. Structurally, it was primarily determined by the positive contribution from the change in inventories (4.1 percentage points), but also by the increase in gross fixed capital formation by 6.9%. However, a pronounced negative impact was caused by the dynamics of net exports of goods and services (-5.8 percentage points). Thus, exports in real terms decreased by 3.4% and generated a negative impact of 1.3 percentage points. At the same time, imports increased by 7.8% in the second quarter of 2024, generating a negative contribution of 4.6 percentage points to GDP dynamics.

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

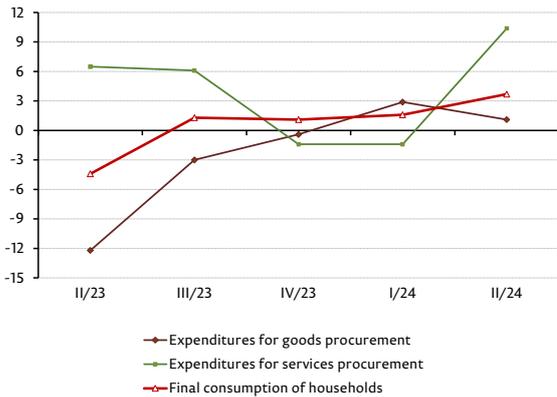


Source: NBS, NBM calculations

Household demand for consumption

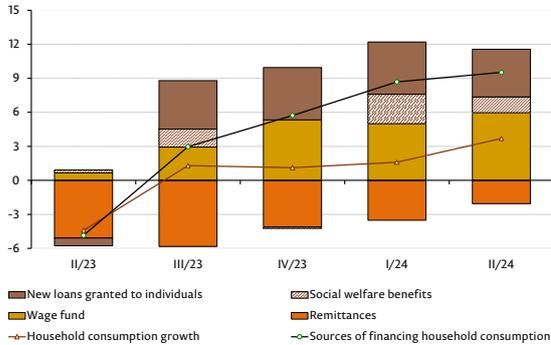
The positive annual dynamics of household consumption intensified in the second quarter of 2024.

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



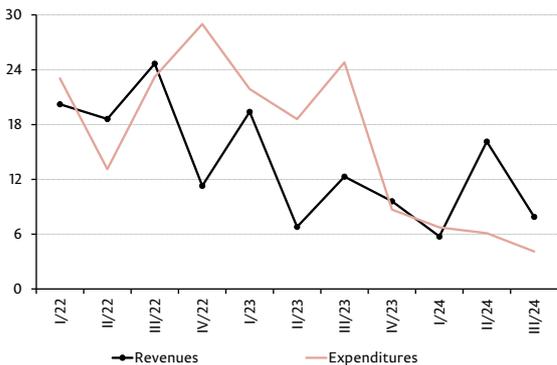
Source: NBS

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

Thus, the annual growth rate of household final consumption registered a level of 3.7%, 2.1 percentage points higher than in the first quarter of 2024. The respective dynamics of household consumption was supported by a 10.4% increase in expenditure for the purchase of services, while expenditure for the purchase of goods increased by 1.1% compared with the same period of the previous year (Chart 3.2).

The upward trend in household consumption was supported by the increase in income in real terms.

In this respect, the main sources of financing household consumption showed a pronounced positive dynamic in the second quarter of 2024 (Chart 3.3). Thus, new loans granted to households, the wage fund and social insurance recorded positive growth rates during the second quarter of 2024, generating positive contributions within the potential sources of financing household consumption. At the same time, remittances reflected a negative growth rate during that period.

Public sector

According to the data provided by the Ministry of Finance, during the third quarter of 2024, the national public budget revenues amounted to MDL 28.9 billion, 7.9% above the level accumulated in the same period of 2023 (Chart 3.4).

The major share of budget revenues was accumulated from taxes and duties, which accounted for 61.2%. The compulsory state social insurance contributions and mandatory health insurance premiums amounted to 28.7%, while the share of other revenues and grants amounted to 4.8% and 5.3% of total budget revenues, respectively.

National public budget expenditures in the third quarter of 2024 totaled MDL 29.0 billion, recording an increase of 4.1% compared to the same period of 2023. In the total expenditures, the largest share was allocated to social protection – 39.4%, education – 11.7%, and health protection – 16.2%.

It should be noted that, during the reporting period, transfers were made from the state budget (SB) to the state social insurance budget (SSIB), the mandatory health insurance fund (MHIF) and local budgets (LB) in the amount of MDL 10.5 billion, an increase of 1.6% compared to the same period of 2023 (Chart 3.5). The major share of transfers was directed to SSIB, 38.4% of total transfers, followed by transfers to local budgets, about 36.3%, and transfers to MHIF about 25.2%.

In this context, in the third quarter of 2024, the execution of the national public budget resulted in a deficit of MDL 94.3 million. In the similar period of 2023, the execution of the national public budget resulted in a deficit of about MDL 1.1 billion. The balances of the national public budget accounts as of September 30, 2024 amounted to MDL 11.7 billion.

In the third quarter of 2024, the single treasury account (STA) was characterized by negative 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 September 30, 2024, the balance of the STA amounted to about MDL 9.2 billion, registering an annual growth of 4.5% (Chart 3.7). At the same time, at the end of the reporting quarter, the balance of the Government's foreign currency deposit account at the National Bank of Moldova was the equivalent of MDL 3.4 billion, compared to MDL 2.8 billion on September 30, 2023.

State debt

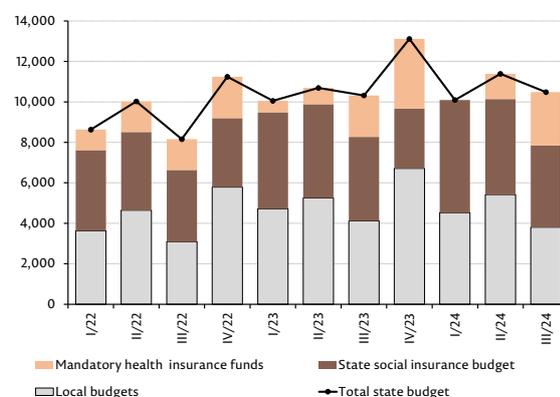
As of September 30, 2024, the balance of state debt of the Republic of Moldova amounted to approximately MDL 109.9 billion, in relation to GDP¹⁵ this accounted for 34.7% (Chart 3.9).

In annual terms, the state debt recorded a nominal increase of 11.8% (Chart 3.8), as a result of the increase in external state debt recalculated in national currency (with a major positive contribution of 9.2 percentage points) and internal state debt (with a positive contribution of 2.6 percentage points). As of September 30, 2024, the state debt was composed of 61.5% external state debt and 38.5% internal state debt.

As of September 30, 2024, the balance of external state debt amounted to about USD 3,876.8 million, higher than at the end of September 2023 by USD 653.1 million or 20.3%. When recalculated in national currency, the external state debt balance amounted to approximately MDL 67.5 billion (21.3% of GDP¹⁵), (Chart 3.9).

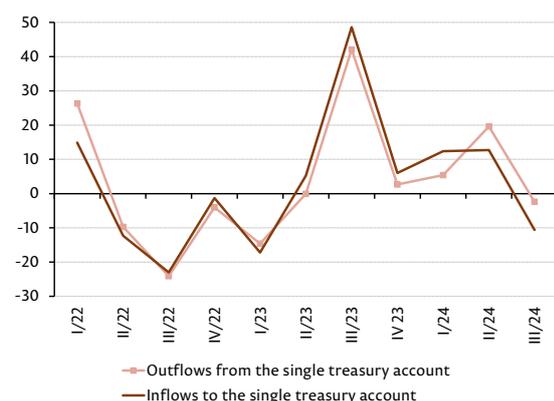
At the end of September 2024, the internal state debt amounted to about MDL 42.4 billion (13.4% of GDP¹⁵), (Chart 3.9), 6.4% higher than that as of September 30, 2023 (Chart 3.8). The increase in domestic state debt was driven by state securities (SS) issued on the primary market, the volume of which increased by 11.1%, and the onset of direct placements by individuals. As a result of these developments, domestic debt consisted of SS issued on the primary market (67.2%), SS issued for the enforcement of state guarantees (27.7%), converted SS (4.9%) and direct placements from individuals (0.2%).

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

¹⁵GDP estimated by the NBM.

Primary market for state securities (SS)

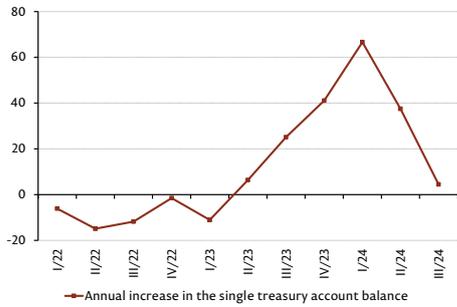
During the third quarter of 2024, the Ministry of Finance put into circulation state securities totaling MDL 7,966.6 million, 23.5% less than the initial offering volume. Compared to the previous quarter, the primary market of state securities continued to witness a decrease in demand from licensed banks by 31.8% (Chart 3.10). At the same time, banks' demand was 16.8% lower than the Ministry of Finance' offering, amounting to MDL 8,661.6 million.

During the reporting period, the average effective interest rates on 91-day, 182-day and 364-day maturity treasury bills increased compared to the previous quarter, by 0.03 percentage points, 0.3 percentage points and 0.3 percentage points, respectively. Additionally, compared to second quarter of 2024, the average effective interest rates on government bonds with maturities of 2 and 3 years increased slightly by 0.09 and 0.1 percentage points, respectively. In comparison to the previous quarter, auctions were held for government bonds with maturities of 5 years and 10 years, with average effective interest rates of 5.78% and 7.12%, respectively.

During this period, banks maintained their tendency to invest in securities with short-term maturities, while showing increased caution with regard to long-term commitments, particularly those with maturities of 5 years (Chart 3.11).

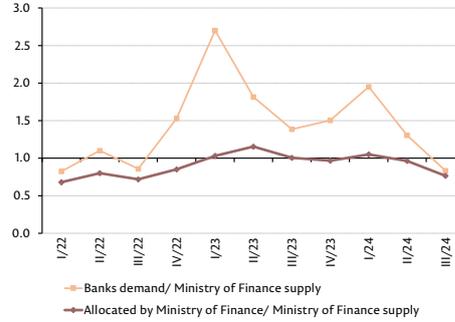
The structure of the portfolio of SS put into circulation during the reference period shows that the most requested SS were those with a maturity of 364 days, which accounted for 48.2% of total transactions, followed by 182-day treasury bills, whose share amounted to 47.7%, and the share of 91-day treasury bills was 2.6%. As for government bonds, the share of those with a maturity of 2 years amounted to 0.4%, that of government bonds with a maturity of 3 years – 0.2%, with a maturity of 5 years – 0.1%, and government bonds with a maturity of 10 years had a share of 0.8% (Chart 3.12).

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



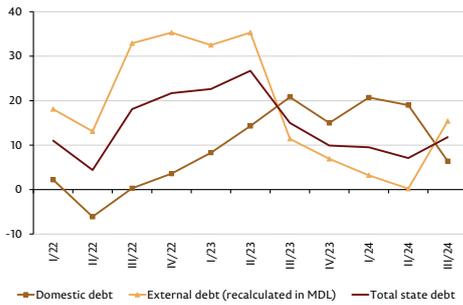
Source: NBM

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



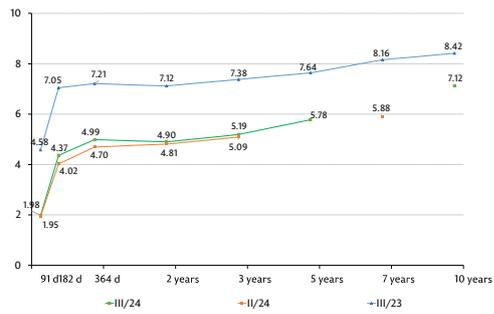
Source: NBM

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



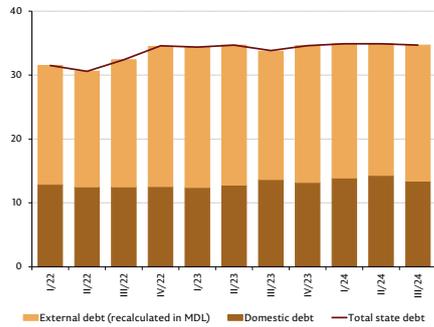
Source: Ministry of Finance

Chart 3.11: SS yield curve (%)



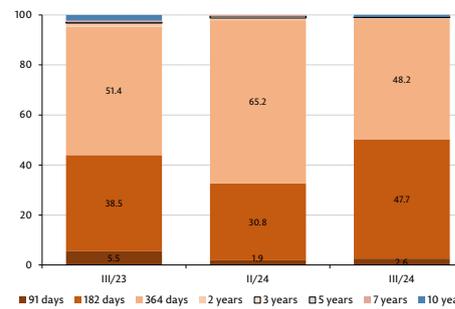
Source: NBM

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 (%)

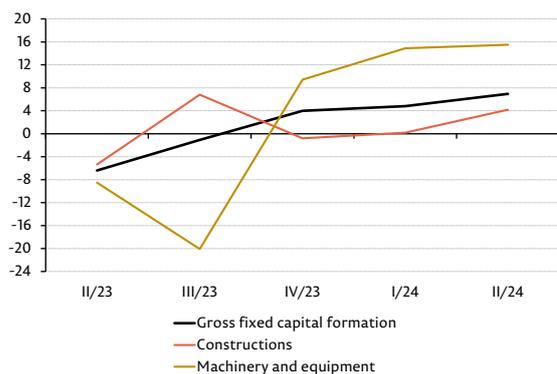


Source: NBM

Investment demand

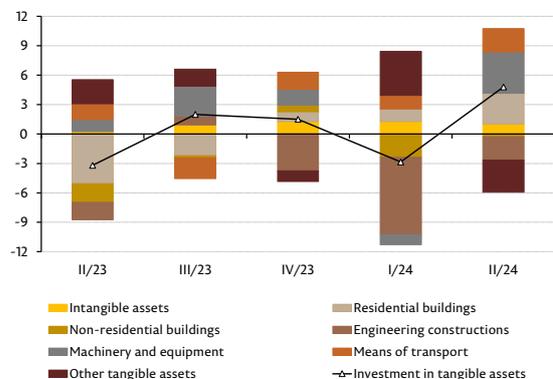
In the second quarter of 2024, the investment component generated a positive contribution of 5.5 percentage points to the dynamics of economic activity.

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

This impact was driven by the positive contribution of 4.1 percentage points from changes in inventories and 1.4 percentage points from gross fixed capital formation, which increased by 6.9% compared to the second quarter of 2023. The positive dynamics of gross fixed capital formation were driven by a 15.5% increase in investments directed towards "machinery and equipment" and a 4.2% increase in the subcomponent "buildings and special constructions" (Chart 3.13).

According to the operational data presented by the NBS, investment in fixed assets increased by 4.8% in the second quarter of 2024. In terms of the structure, by type of fixed assets, the subcomponents of investment in fixed assets, which determined the positive development, are intangible assets – by 1.0 percentage points, and of tangible fixed assets are "machinery and equipment" (4.2 percentage points), "residential buildings" (3.1 percentage points) and "means of transport" (2.4 percentage points). At the same time, negative contributions were determined by the subcomponents "other tangible assets" (-3.3 percentage points), "engineering constructions" (-2.4 percentage points) and "non-residential buildings" (-0.3 percentage points), (Chart 3.14).

From the perspective of sources of financing for investments in fixed assets in the second quarter of 2024, the positive dynamics of 4.8% was mainly due to own funds (by 8.1 percentage points). A negative impact was exerted by foreign investors' funds (-0.7 percentage points), state budget funds (-0.9 percentage points) and other sources (-1.6 percentage points), (Chart 3.15).

Net external demand¹⁶

The data on international merchandise trade, presented by the NBS for the second and third quarters of 2024, show a contraction in exports and an increase in imports. Part of this negative trend can be attributed to lower prices for energy resources, but also to a decrease in the re-export of petroleum products to Ukraine. Additionally, the export of agri-food products contracted in the third quarter of 2024, against the backdrop of the severe drought in the summer of this year, which affected the agricultural harvest. It should be noted that the revival in consumption boosted the dynamics of imports.

¹⁶Quarterly data on the development of international merchandise trade of the Republic of Moldova, expressed in thousands of US dollars, have been used.

The annual export rate in the second quarter of 2024 was -11.5% or 2.5 percentage points higher than in the first quarter of 2024. At the same time, data for the first two months of the third quarter of 2024 place the annual export rate at a marginally higher level than in the previous quarter (-10.9%). Thus, exports to EU countries made a negative contribution to the dynamics of total exports during the period under review (Chart 3.16). It is worth mentioning that, as of 2024, Ukraine is not included in the Commonwealth of Independent States group according to the European Union's Nomenclature, edition 2023, thus data comparability has deteriorated. As a result, the share of exports to CIS countries decreased significantly from about 24.4% (in the first eight months of 2023) to about 7.6% (in the first eight months of 2024).

By commodity groups, in 2024, the contraction in the export of mineral products¹⁷ mainly determined the negative dynamics of total exports (Chart 3.17). At the same time, the severe drought in the summer of 2024 significantly affected this year's agricultural harvest. As a result, exports of agri-food products in the third quarter of 2024 contracted, and the export capacity for the subsequent periods was severely impacted.

Analyzing the evolution of exports by product origin, it can be concluded that the sharp decrease in exports in the first six months of 2024 was driven by re-exports. It is worth mentioning that, in the third quarter of 2024, the contraction in the annual rate of exports was mainly determined by the export of domestic products (Chart 3.18).

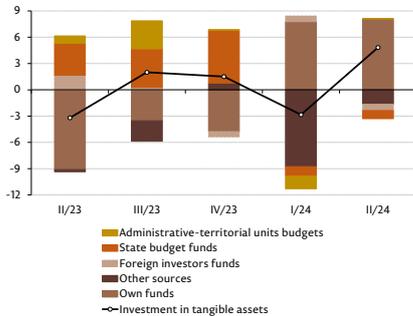
In the second quarter of 2024, the annual rate of imports was 4.6%, 11.2 percentage points higher than in the first quarter of 2024. At the same time, data for the first two months of the third quarter of 2024 show clear signs of a revival in imports. In terms of structure, the reclassification of Ukraine from the CIS group of countries has affected the comparability of the data¹⁸. At the same time, imports from EU countries are showing positive growth rates for the second consecutive quarter (Chart 3.18).

By commodity groups (Chart 3.19), the revival of the annual rate of imports in the third quarter of 2024 was supported by the increase in imports of "vehicles, optical instruments, sound recorders and reproducers", "metal, stone and ceramic articles", "chemical and wood products" and "foodstuff and animal products, beverages and fats" (Chart 3.20). However, after a period of five consecutive quarters, when the import of "mineral products" had a pronounced negative contribution to the total dynamics of imports, the contribution from this group was zero in the third quarter of 2024.

¹⁷This phenomenon was driven by a sharp fall in international energy resource prices and a steady reduction in the re-export of oil products to Ukraine.

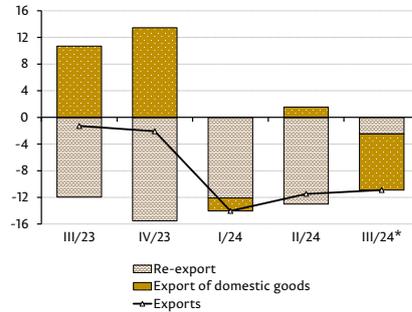
¹⁸The share of imports from CIS countries in the first eight months of 2024 was 3.9%, or 14.8 percentage points lower than in the same period of 2023.

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



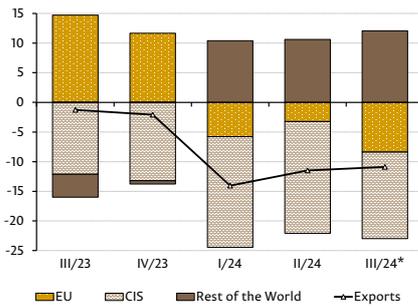
Source: NBS, NBM calculations

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



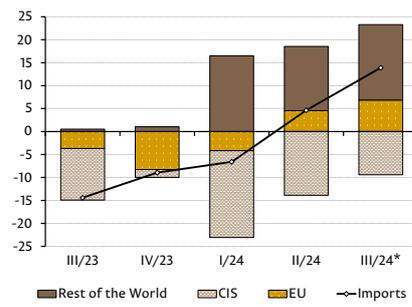
Source: NBS, NBM calculations
*July - August

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



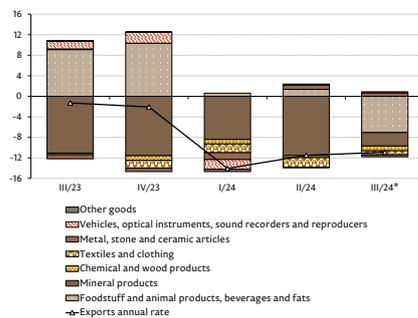
Source: NBS, NBM calculations
*July - August

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



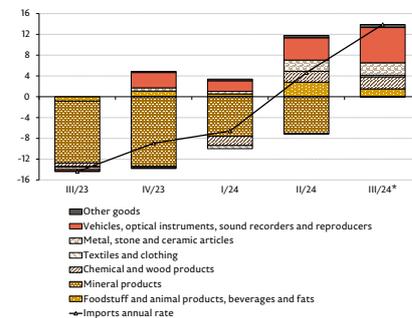
Source: NBS, NBM calculations
*July - August

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



Source: NBS, NBM calculations
*July - August

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



Source: NBS, NBM calculations
*July - August

3.2 Production

By resource categories, the GDP growth in the second quarter of 2024 was predominantly driven by the increase in GVA in the wholesale and retail trade sector by 7.2%, which had an impact of about 1.1 percentage points on the dynamics of GDP (Chart 3.21).

At the same time, a significant positive impact came from an increase in GVA in the financial and insurance sector and information and communication sector, by 11.9% and 5.8% respectively. GVA in accommodation and food service activities increased by 5.1%. The agricultural and industrial sectors had a minor impact on GDP dynamics. Thus, GVA in agriculture, forestry and fishing grew by 3.0%, contributing 0.2 percentage points to GDP dynamics. At the same time, GVA in the manufacturing industry increased by only 0.1%, in mining and quarrying – by 6.2%, while the energy industry contracted by 2.9%. GVA in the healthcare and social assistance sector increased by only 0.1%. The real estate and transportation and storage sectors had a significant negative impact on GDP dynamics. Thus, GVA in real estate transactions contracted by 5.8%, generating a negative impact of 0.5 percentage points on GDP dynamics. GVA in the transportation and storage sector contracted by 1.0%, determining a negative impact of 0.1 percentage points on GDP dynamics. Net taxes on products increased by 3.0%, contributing 0.4 percentage points to GDP dynamics.

Freight and passenger transport

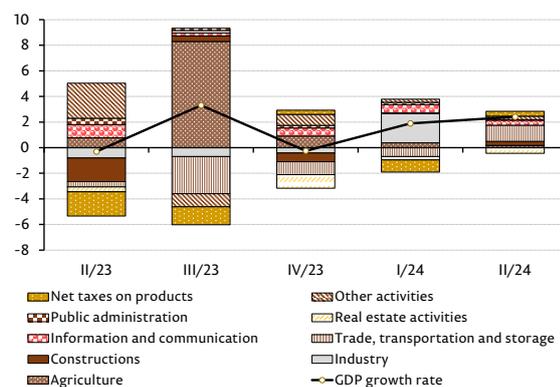
The annual rate of the volume of freight transported in the second quarter of 2024 increased sharply to 16.5%, 16.9 percentage points higher than in the first quarter of 2024 (Chart 3.22).

This development was mainly driven by an increase in the volume of freight transported by road by 26.0% compared to the same period last year. At the same time, the volume of freight transported by air increased by 31.5%. On the other hand, the volume of freight transported by rail and inland waterways decreased by 18.3% and 5.1%, respectively, compared to second quarter of 2023.

Positive but significantly more modest results were recorded in the passenger transportation sector in the second quarter of 2024. Thus, **the annual growth rate of the number of passengers transported reached a level of 0.9%, which was 9.7 percentage points lower than in the first quarter of 2024** (Chart 3.23).

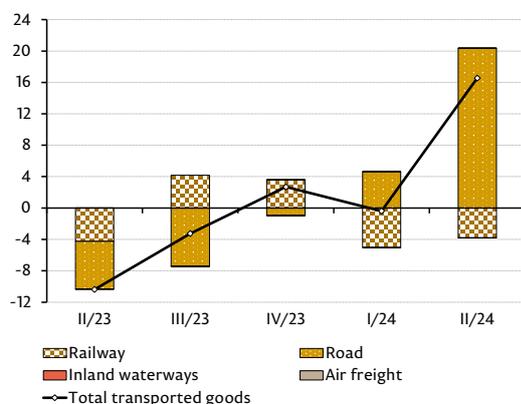
This development was driven by an increase in the number of passengers transported by road and air, by 32.6% and 31.2%, respectively, compared to the same period last year. At the same time, the number of passengers transported by waterway and railway decreased by 19.2% and 16.3%. Additionally, the number of passengers transported by trolleybuses decreased by 13.3% compared to the second quarter of 2023.

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



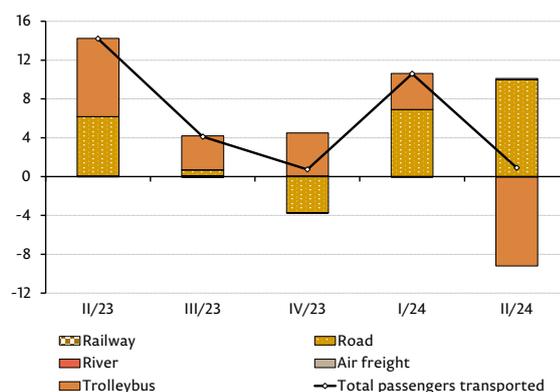
Source: NBS, NBM calculations

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



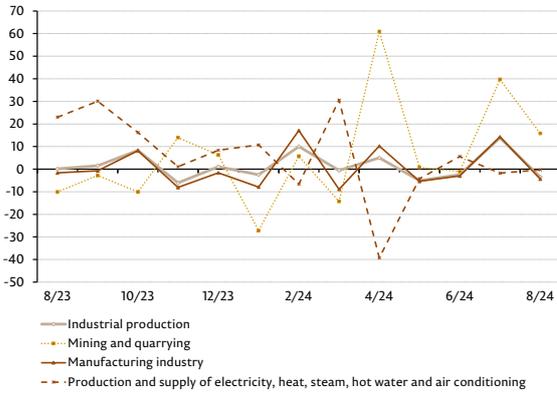
Source: NBS

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



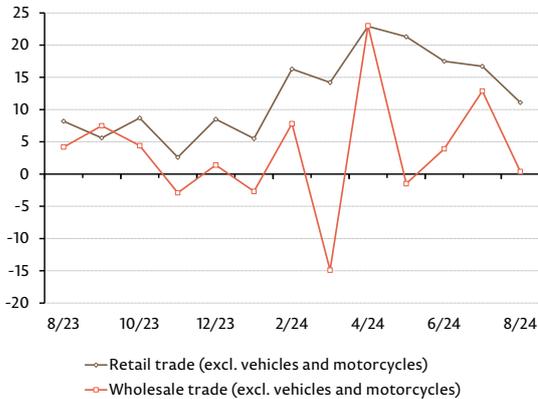
Source: NBS

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



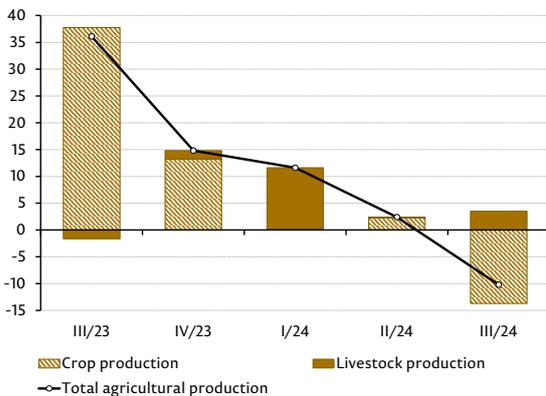
Source: NBS

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

Industrial production

In the first two months of the third quarter of 2024, the annual growth rate of the volume of industrial production recorded an average level of -5.2%, 6.0 percentage points higher than in the second quarter of 2024 (Chart 3.24).

This dynamics was supported by an increase in the annual growth rate of the volume of the manufacturing industry from 0.6% in the second quarter of 2024 to 5.0% in the July-August 2024 period. At the same time, the annual growth rate of the volume of the mining and quarrying industry increased by 7.5 percentage points compared to the second quarter of 2024, reaching a level of 27.8%.

In the sector "production and supply of electricity, heat, steam, hot water and air conditioning", the annual rate increased from -12.6% in the second quarter of 2024 to -1.1% in the period July-August 2024.

Internal trade

In the first two months of the third quarter of 2024, domestic retail trade (based on VAT statements¹⁹) recorded an average increase of 13.9%, 6.7 percentage points lower than in the previous quarter (Chart 3.25). At the same time, domestic wholesale trade (based on VAT statements) grew by an average of 6.7% in July-August 2024, 1.8 percentage points lower than in the second quarter of 2024.

Agricultural production

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

This trend was driven by a 16.7% decrease in crop production in the context of dry conditions in the summer of this year. This impact was partially offset by an increase in livestock production of 19.9%.

¹⁹https://statistica.gov.md/ro/statistici-privind-indicii-valorici-ai-vanzarilor-livrarilor-de-marfuri-si-servi-12_60432.html

3.3 Labor market

Labor force

In the first half of 2024, the annual dynamics of the economically active and employed population moved into negative territory. At the same time, the unemployment and underemployment rate²⁰ remained virtually unchanged in the second quarter of 2023.

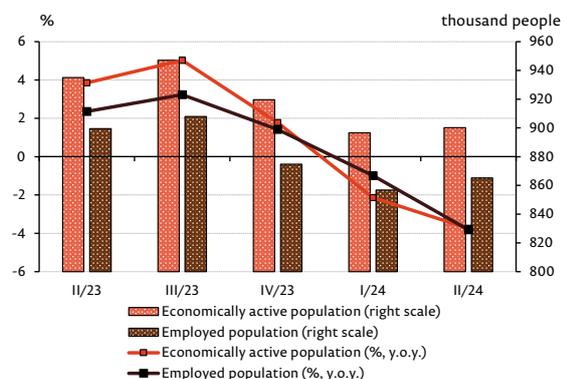
In the period from April to June 2024, the labor force totaled 900.1 thousand people, 3.7% lower than in the second quarter of 2023. At the same time, the employed population amounted to 865.2 thousand persons, 3.8% lower than in the same period of 2023 (Chart 3.27).

Within the employed population, negative developments were recorded in the agricultural sector (-14.9%), industry (-13.3%), trade (-6.8%), construction sector (-4.2%). At the same time, the increase in the employed population in the second quarter of 2024 was observed in the following sectors: transportation and communications – 12.7%, other activities – 8.8%, social services – 6.1% (Chart 3.28).

In the second quarter of 2024, the number of unemployed was 34.9 thousand persons or about 600 persons fewer than in the second quarter of 2023, while the unemployment rate stood at 3.9%, 0.1 percentage points higher than in the second quarter of 2023 (Chart 3.29).

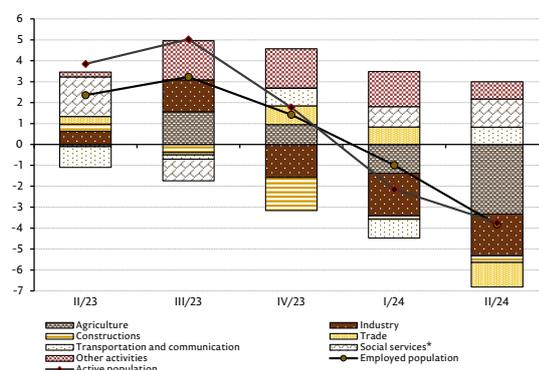
The underemployed population decreased to 25.6 thousand persons in the reference quarter from about 27.9 thousand persons, and the underemployment rate was 3.0% or 0.1 percentage points lower than in the second quarter of 2023.

Chart 3.27: Economically active population and employed population



Source: NBS, NBM calculations

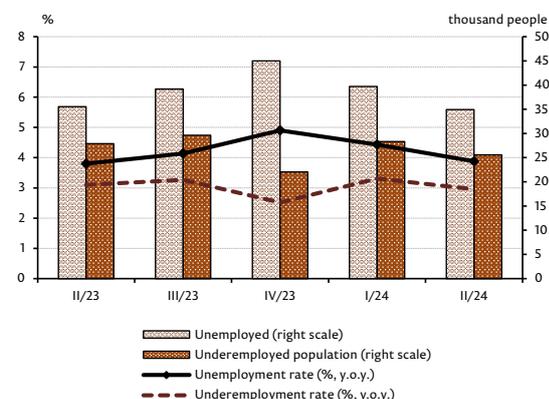
Chart 3.28: Contribution of sectors to the dynamics of the employed population (percentage points)



Source: NBS, NBM calculations

* Public administration, education, healthcare

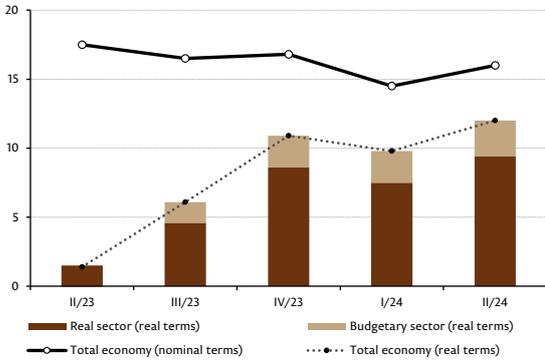
Chart 3.29: Developments of unemployed and underemployed population



Source: NBS, NBM, calculations

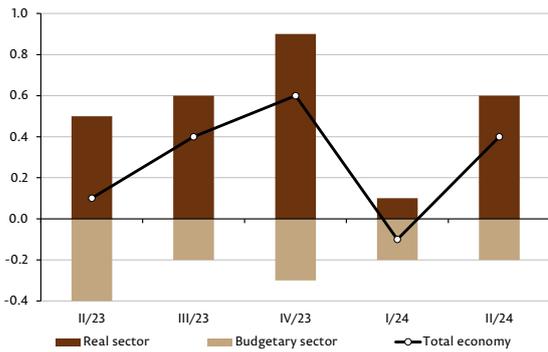
²⁰Underemployed persons: individuals who had a job, whose total number of hours actually worked during the reference period was less than 40 hours per week, who were willing and available to work overtime.

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



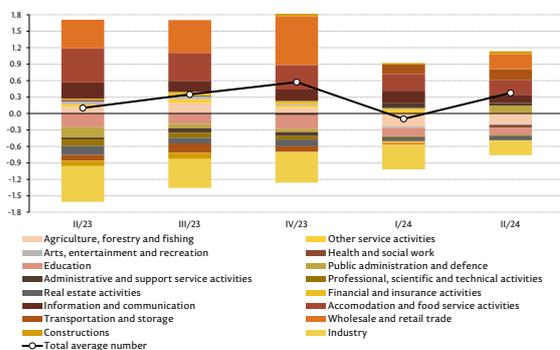
Source: NBS, NBM calculations

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

Wage fund

In the second quarter of 2024, the annual growth of the wage fund in the economy accelerated after the slowdown at the beginning of the year.

Thus, the wage fund per economy increased by 16.0% compared to the second quarter of 2023, 1.5 percentage points higher than at the beginning of this year. This dynamics was primarily supported by developments in the wage funds of the trade sector, which contributed by 2.7 percentage points, followed by health and social assistance sector (2.2 percentage points), industry sector (2.1 percentage points), education sector (1.7 percentage points), information and communication sector (1.7 percentage points) and public administration and defence sector (1.7 percentage points).

In real terms, adjusted by the CPI dynamics, the wage fund increased by 12.0% compared to the same period of the previous year, as a result of positive developments in both the real and the budgetary sectors (Chart 3.30).

In the second quarter of 2024, the average number of employees at the national economy level increased by 0.4% compared to the second quarter of the previous year. The number of employees in the real sector increased by 0.8%, with a contribution of 0.6 percentage points, while the number of employees in the budget sector contracted by -0.7%, with a contribution of -0.2 percentage points (Chart 3.31).

The distribution by sectors of the economy reveals more pronounced increases in the average number of employees, mainly in the following fields: accommodation and food service activities (11.9%), transportation and storage (3.4%), information and communication (3.3%), followed by administrative and support service activities (2.6%). On the other hand, a decrease in the number of employees is observed in real estate (-5.2%), agriculture, forestry and fishing (-3.5%), industry (-1.5%), professional, scientific and technical activities (-1.0%), education (-0.8%), (Chart 3.32).

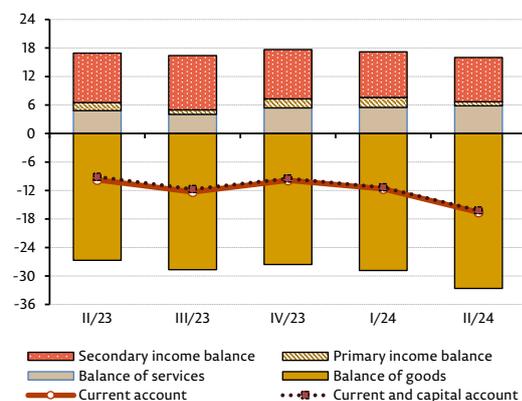
3.4 External sector

Current account

In the second quarter of 2024, the current account deficit on the balance of payments increased by 4.9 percentage points compared to the previous quarter, reaching 16.6% as a share of GDP (Chart 3.33).

The increase in the balance of payments deficit occurred due to the growth in the component with a negative contribution – "balance of goods". At the same time, the components with a positive contribution: "balance of primary income" and "balance of secondary income" decreased, while the "balance of services" increased during the reference period.

Chart 3.33: Current account share in GDP (%)



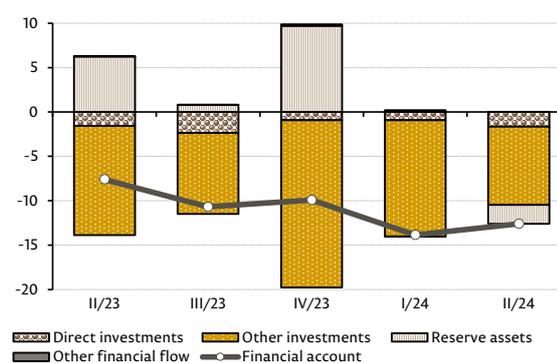
Source: NBM

Financial account

In the second quarter of 2024, the financial account, as a share of GDP, stood at 12.6%, 1.3 percentage points lower than in the first 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 second quarter of 2024, the "other investments" component showed a prominent development, thus contributing to a significant increase in net inflows of financial assets²¹. It should be noted that the net inflow of direct investment as a share of GDP amounted to 1.7%, 0.8 percentage points higher than in the first quarter of 2024. During this period, there were net releases of reserve assets (2.1% as a share of GDP).

Chart 3.34: Financial account share in GDP (%)

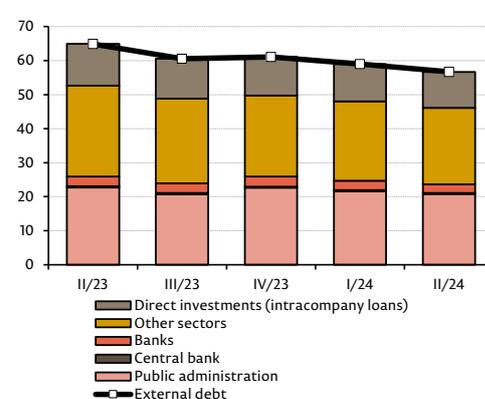


Source: NBM

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

In the second quarter of 2024, the share of external debt in GDP stood at 56.7%, 2.2 percentage points lower than in the first quarter of 2024 (Chart 3.35). There were no major changes in the external debt structure, thus, similar to previous periods, the major share in the total external debt as a share of GDP is held by economic agents²², with 25.0%, the government sector²³ accounts for 21.1% and direct investments with 10.6%.

Chart 3.35: External debt share in GDP (%)



Source: NBM

²¹In the second quarter of 2024, the "cash and deposits" component contributed to the significant increase in net financial inflows as part of "other investment".

²²The cumulative debt of "Banks" and "Other sectors"

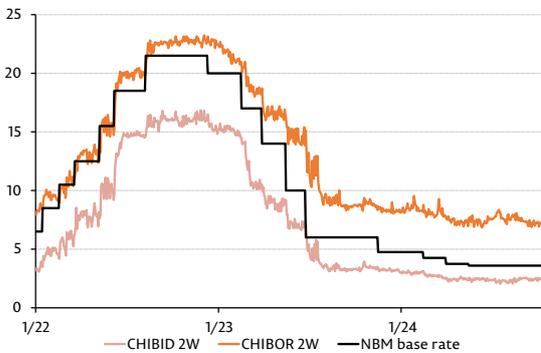
²³The cumulative debt of "Public administration" and "Central bank"

Chapter 4

Monetary policy

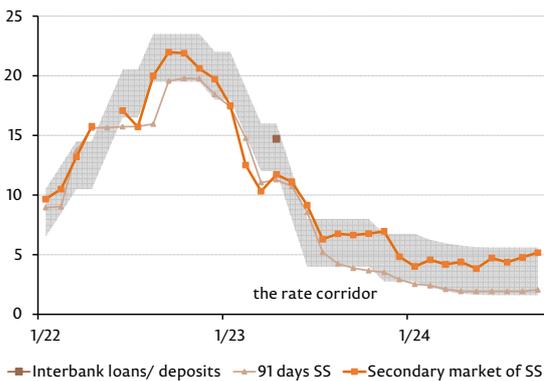
4.1 Monetary policy instruments

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



Source: NBM

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



Source: NBM

During the third 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 the monetary policy easing measures of the last period and aim to anchor inflation expectations, with the aim of keeping inflation within the target range in the medium term.

Yield curve CHIBOR was broadly consistent during the third quarter of 2024, showing only slight changes in both directions, with a more marked downward trend towards the end of the quarter. Thus, the CHIBOR 2W quotation at the end of September was slightly lower (-0.53 percentage points) than on the last day of the previous quarter, constituting 7.27% (Chart 4.1).

The trajectory of interest rates on state securities with a maturity of 91 days reflected the intention of the Ministry of Finance to channel the resources of investors on longer terms of state securities, both by reducing the volume offered and by rejecting some offers presented in the auctions. Thus, the value recorded by it stood at the level of 1.93% almost throughout the third quarter of 2024, registering a slight increase at the end of it.

In the secondary segment of the state securities market, the average interest rate on transactions was 4.69% (+0.54 percentage points compared to the second quarter of 2024, mainly due to the increase in transactions with government bonds), (Chart 4.2).

Money market operations

Sales of NBM certificates (NBC)

The net debtor position of the NBM related to 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 303.2 million from the second quarter of 2024 to MDL 9,204.4 million (Chart 4.3).

Repo operations

Liquidity-providing repo operations were conducted on a weekly basis with a 14-day maturity at fixed interest rates (base rate plus a margin of 0.25 percentage point) through open tenders. The volume of liquidity delivered during the quarter amounted to MDL 990.0 million. The outstanding balance of repo operations at the end of the quarter amounted to MDL 180.0 million.

Standing facilities

During the third 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 19,548.0 million, about 17.3% below the level of the previous quarter. At the same time, the average daily stock of these placements decreased to MDL 290.2 million (from MDL 377.6 million in the previous period). The amounts placed by banks varied between the minimum of MDL 15.0 million and the maximum of MDL 3,000.0 million.

The total amount of overnight credits granted by the NBM to banks in the third quarter of 2024 amounted to MDL 1,621.0 million, down by 31.6% compared to the previous period. The average daily balance of overnight loans amounted to MDL 31.8 million.

Interest rates on standing facilities in the period July-September 2024 have been maintained at the same level: 5.60% annually on overnight credits and 1.60% annually on overnight deposits.

Interbank credit/ deposit market

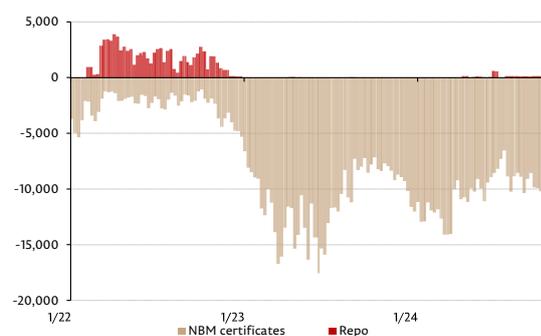
The excess liquidity in the banking system continues to keep the interbank credit/ deposit market passive, with banks intervening sporadically in the market.

In the third quarter of 2024 (after a pause of over a year), interbank transactions totaling MDL 175.0 million were recorded with an average interest rate of 3.60% annually, with overnight maturity.

Required reserves

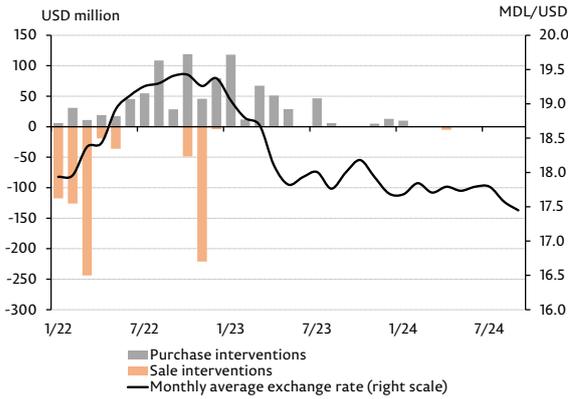
In the third quarter of 2024, the required reserve mechanism continued to perform its monetary control and liquidity management functions in the banking system.

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



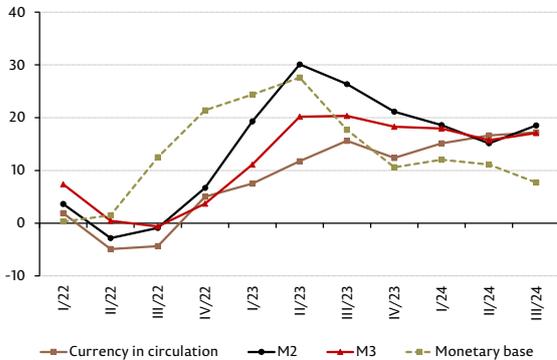
Source: NBM

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



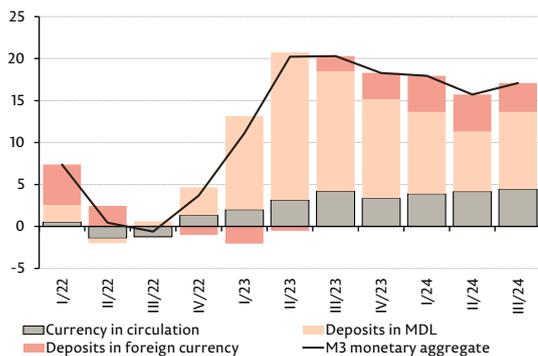
Source: NBM

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



Source: NBM

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



Source: NBM

During the quarter, the required reserve ratio from funds attracted in MDL and non-convertible foreign currency was decreased by 2.0 percentage points from 31.0% of the base to 29.0%, and the required reserve ratio from funds attracted in FCC (freely convertible currency) – from 41.0% to 39.0% of the base.

Required reserves in MDL maintained by banks between 16.09.2024 and 15.10.2024 amounted to MDL 22,997.9 million, a volume lower by MDL 1,029.4 million (-4.3%) than those maintained during 16.06.2024 – 15.07.2024.

With regard to required reserves from funds attracted in the FCC, over the maintenance period 16.09.2024 – 15.10.2024, they amounted to USD 246.3 million and EUR 625.0 million. Compared with the period 16.06.2024 – 15.07.2024, required reserves in US dollars increased by 3.2% and reserves in euro decreased by 4.9%.

Interventions on the domestic foreign exchange market

Between July and September 2024, the National Bank of Moldova did not intervene on the domestic foreign exchange market.

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 4.6 million, related to foreign exchange conversions with the World Bank institutions (International Bank for Reconstruction and Development and International Development Association), (Chart 4.4).

4.2 Monetary indicators dynamics

In the third quarter of 2024, the monetary aggregates M2 and M3 continued the upward trend of the previous quarter, thus the monetary aggregate M2 recorded an annual growth of 18.5% (3.4 percentage points higher than in the second quarter of 2024), while M3 – an annual growth of 17.1% (1.4 percentage points more than in the previous quarter). The monetary base declined by 7.7% annually (3.4 percentage points lower than in the second quarter of 2024), (Chart 4.5).

Money supply

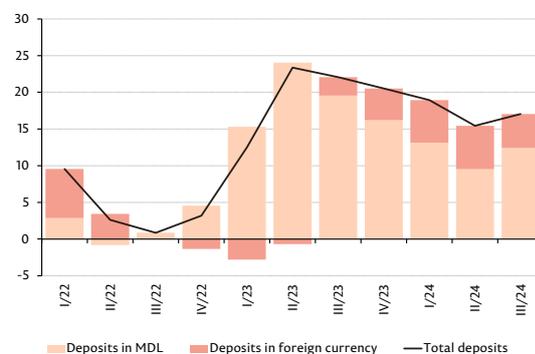
Overall, the monetary aggregate M3 grew moderately in the third quarter of 2024, supported by an increase in the contribution from deposits in national currency and currency in circulation, with a slight compensation from the contribution of foreign currency deposits, which declined slightly compared with the previous quarter. All this provided the monetary aggregate M3 with annual growth of 17.1% (Chart 4.6).

The balance of deposits in national currency increased by 19.3% annually, 4.9 percentage points above the level recorded in the previous quarter (Chart 4.8). This increase was further driven by a decline in term deposits of individuals and an increase in both sight and term deposits of corporations.

Deposits in foreign currency in the third quarter of 2024 recorded a slower growth of 13.0% annually, 4.5 percentage points lower than in the previous quarter, due to the slowdown in the growth of term deposits (Chart 4.11). The positive level of 10.3% of foreign currency term deposits was driven by a higher contribution of deposits by individuals (Chart 4.12). At the same time, sight deposits in foreign currency maintained their upward momentum, growing by 15.4% annually. This positive trend is mainly the result of an increase in individuals' sight deposits (Chart 4.13).

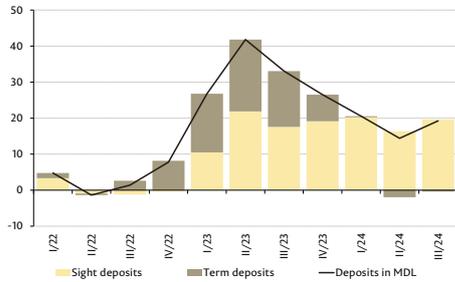
The rate of growth of money in circulation at the end of the third quarter of 2024 increased by 0.6 percentage points compared with the end of the previous quarter, constituting 17.2% on an annual basis. The quarter average contribution of money in circulation to M3 growth increased by 0.3 percentage point from the level recorded in the second quarter of 2024 (Chart 4.6). The dynamics of money in circulation were determined by both the cash inflow of receipts and the cash outflow of releases at commercial banks. In total receipts, the largest contribution was made by receipts from the sale of consumer goods. At the same time, the main components of commercial bank cash releases were: cash releases from ATMs and POS terminals.

Chart 4.7: Dynamics of total deposit balance (% contribution of components in annual growth)



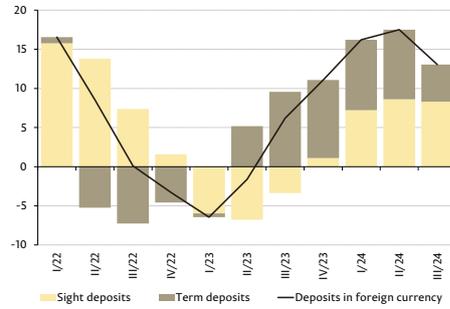
Source: NBM

Chart 4.8: Dynamics of the balance of deposits in MDL (% comp. contrib. in annual growth)



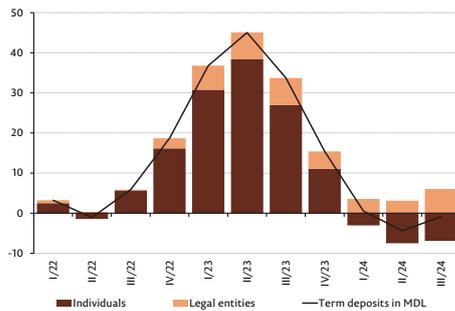
Source: NBM

Chart 4.11: Dynamics of the balance of deposits in foreign currency (% comp. contrib. in annual growth)



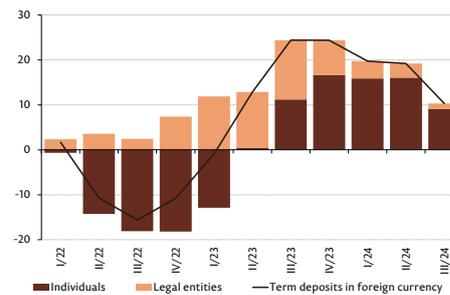
Source: NBM

Chart 4.9: Dynamics of the term deposits balance in MDL (% comp. contrib. in annual growth)



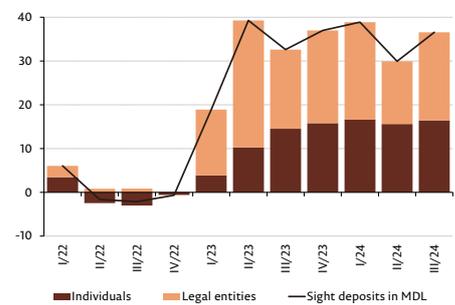
Source: NBM

Chart 4.12: Dynamics of the term deposits balance in foreign currency (% comp. contrib. in annual growth)



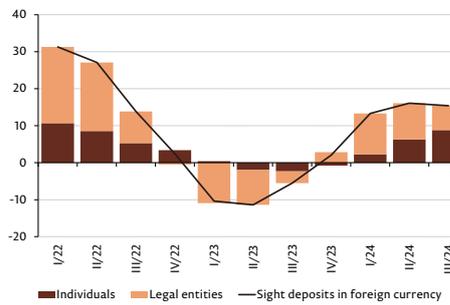
Source: NBM

Chart 4.10: Dynamics of the sight deposits balance in MDL (% comp. contrib. in annual growth)



Source: NBM

Chart 4.13: Dynamics of the sight deposits balance in foreign currency (% comp. contrib. in annual growth)



Source: NBM

Excess liquidity

In the third quarter of 2024, the average excess liquidity in the banking system decreased by MDL 355.3 million. It should be noted that, compared to the third quarter of 2023, the volume of excess liquidity decreased by MDL 407.3 million, reaching an average amount of MDL 9.61 billion (Chart 4.14).

Credit market

Evolution of the balance of credits granted by licensed banks²⁴

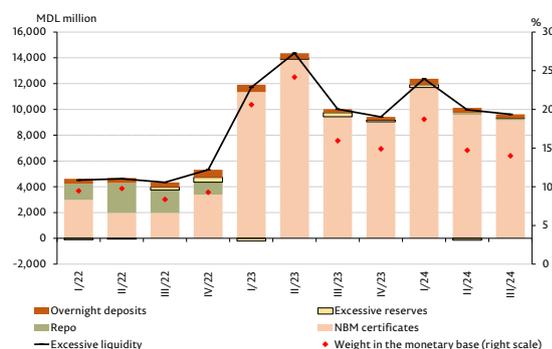
At the end of September 2024, the total balance of credits granted by licensed banks recorded an annual increase, amounting to MDL 72,110.5 million, higher than at the end of the third quarter of 2023 by 19.1% (Chart 4.15). Growth was stimulated only by the component in national currency, whose annual dynamics continued its upward trend, reaching 31.3%. The annual trend of the balance of credits granted in MDL was influenced by the increase in the balance of credits granted to legal entities by 37.7% and to individuals by 27.1%. The increase in the MDL balance also increased the share of this component. Thus, the balance of credits granted in national currency accounted for 76.2% of the total balance, higher than at the end of the third quarter of 2023 by 7.2 percentage points (Chart 4.16). It should be noted that the annual rate of the balance of credits in foreign currency and attached to the currency exchange rate remained in the negative level for the fourth consecutive quarter (Chart 4.15).

At the end of the third quarter of 2024, in the structure of the total portfolio of credits granted by licensed banks, the largest share, analogous to the previous quarters, belonged to credits granted to individuals (45.3%), followed by the share of credits granted to legal entities from the trade area (21.2%), (Chart 4.17).

Development of new loans granted by the licensed banks

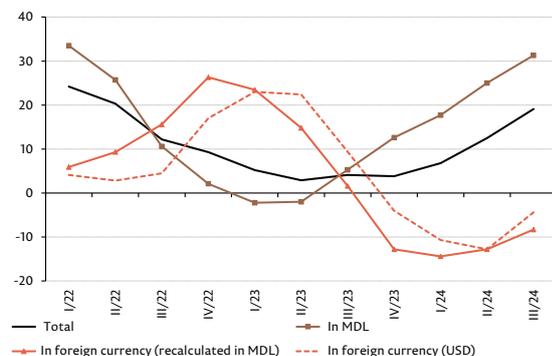
On the whole of the third quarter of 2024, the annual dynamics of the total volume of new credits granted by licensed banks constituted 37.8% (Chart 4.18), in the conditions of the continuous growth of crediting in the national currency. New credits granted in MDL recorded an annual growth rate of 43.3%. The dynamization of credits granted in national currency was driven by the increase in credits granted to both legal entities and individuals (Chart 4.19) as a result of gradual reductions in interest rates (Chart 4.23). The major contributions came from the growth in credits to both individuals for consumption and real estate, as well as to legal entities in trade, transportation, telecommunications and network development. The share of credits extended in domestic currency in the third quarter of 2024 amounted to 73.8% of total credits. At the same time, new credits granted in foreign currency and attached to the foreign exchange rate, due to legal entities, recorded positive annual rates (Chart 4.18).

Chart 4.14: Excess liquidity



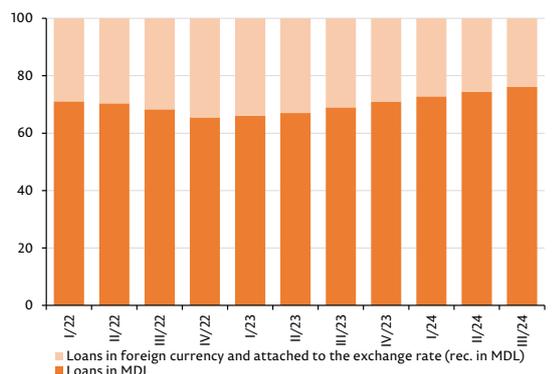
Source: NBM

Chart 4.15: Development of loans balance (% annual growth)



Source: NBM

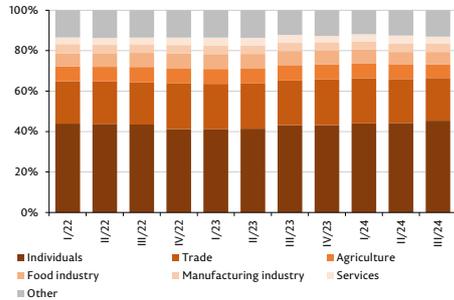
Chart 4.16: Development of loans shares, by subcomponents in the total balance (%)



Source: NBM

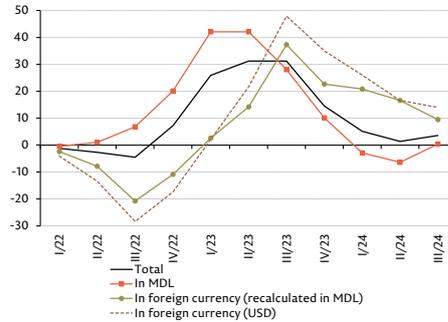
²⁴The data analysis was carried out on the basis of reports ORD 01.06 "Interest rates related to the balance of credits and deposits" submitted by licensed banks until October 11, 2024.

Chart 4.17: Loan balance structure (% in total)



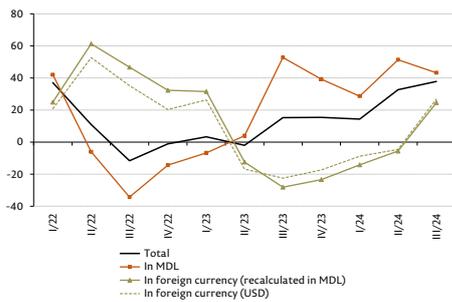
Source: NBM

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



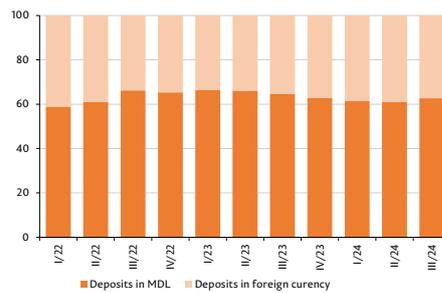
Source: NBM

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



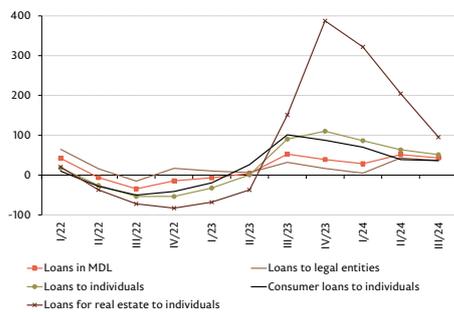
Source: NBM

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



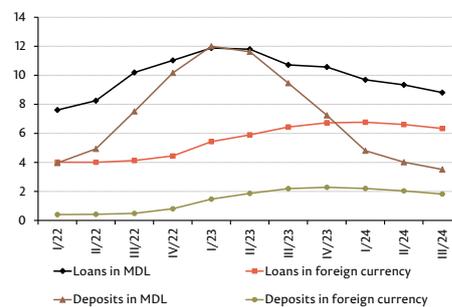
Source: NBM

Chart 4.19: Evolution of new granted loans 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 (deposit balance)²⁵

At the end of the reporting quarter, the total balance of term deposits attracted by licensed banks amounted to MDL 46,491.3 million, higher than on September 30, 2023 by 3.6% (Chart 4.20). The increase was generalized in terms of both monetary components. Thus, the MDL component recorded a positive but small annual growth rate of only 0.4%, as new term deposits placed by legal entities increased. The share of the balance of term deposits in MDL increased to 62.7% from 61.0% at the end of the second quarter of 2024 (Chart 4.21). It should be noted that the annual change in the balance of term deposits in foreign currency, recalculated in MDL, amounted to an increase of 9.5%.

Interest rates²⁶***Base rate development***

During the third 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 August 6 and September 19, 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 third quarter of 2024, the weighted average interest rate related to the balance of credits granted in MDL by licensed banks decreased compared to the third quarter of 2023 by 1.91 percentage points and constituted 8.81% annually (Chart 4.22), as a result of continuous reductions in interest rates on new transactions. The weighted average interest rate related to the balance of loans in foreign currency was 6.34% annually, lower than in the third quarter of 2023 by 0.10 percentage points.

Deposit balance interest rate development

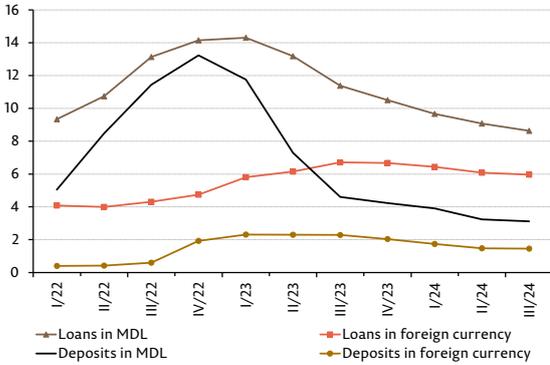
Over the reporting quarter as a whole, the weighted average interest rate related to the balance of term deposits in the national currency registered a more pronounced annual decrease than the rate on the loans segment (Chart 4.22). The weighted average interest rate related to the balance of term deposits in the national currency was 3.51% annually, lower than in the third quarter of 2023 by 5.95 percentage points. At the same time, the weighted average interest rate related to the balance of term deposits in foreign currency was 1.82% annually, decreasing compared to the one in the third quarter of 2023 by 0.37 percentage points.

²⁵Data analysis was based on the reports ORD 01.06 "Interest rates on loans and deposits balance" submitted by the licensed banks until October 11, 2024 and does not include sight deposits.

²⁶The analysis of rates has been carried out on the basis of the reports ORD 01.06 "Interest rates on loans and deposits balance" submitted by the licensed banks until October 11, 2024 and does not include rates on sight deposits.

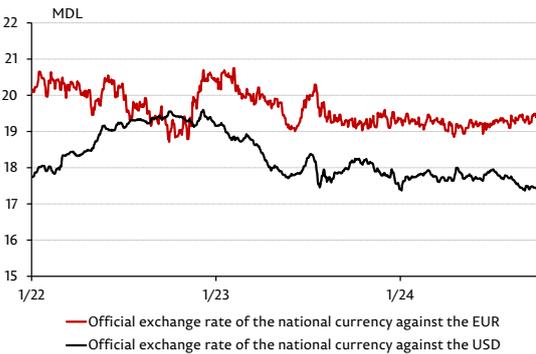
Development of interest rates on new loans and deposits granted/ attracted by the licensed banks

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



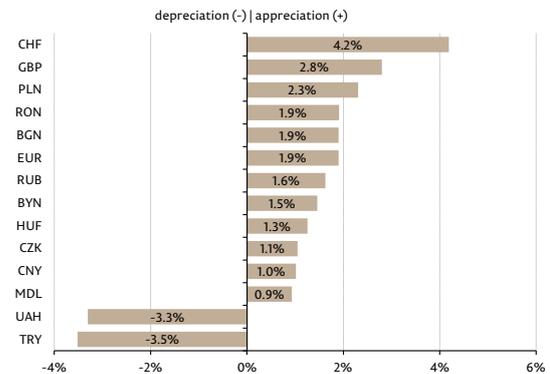
Source: NBM

Chart 4.24: Fluctuations of the official exchange rate of the Moldovan leu against the US dollar and the euro



Source: NBM

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



Source: NBM

In the third quarter of 2024, in the national currency segment, the weighted average interest rates on new credits granted and on term deposits continued to decrease (Chart 4.23), including under the impact of the transmission mechanism of the consecutive reductions of the base rate applied to the main monetary policy operations. Over the quarter as a whole, the weighted average interest rate on term deposits in MDL was 3.12% annually, lower than in the third quarter of 2023 by 1.49 percentage points (Chart 4.23). The weighted average interest rate on term deposits attracted in the national currency from individuals continued its decline (-1.43 percentage points compared to that of the third quarter of 2023) and amounted to 3.29% annually. Also, the weighted average interest rate on term deposits attracted from legal entities decreased, amounting to 2.71% annually (-1.47 percentage points compared to the third quarter of 2023).

The weighted average interest rate on new credits granted in the national currency, in the third quarter of 2024, was 8.63% annually, lower than in the third quarter of 2023 by 2.75 percentage points. The reduction reflected the decrease in the weighted average interest rate on loans granted to both legal entities (-3.16 percentage points, up to 7.96% annually) and individuals (-2.34 percentage points, up to 9.40% annually). At the same time, in the segment of credits granted in foreign currency and attached to the exchange rate, the weighted average interest rate was 5.96% annually, lower than in the third quarter of 2023 by 0.75 percentage points.

Nominal and real effective exchange rate development

According to the values at the end of the third quarter 2024, the nominal official rate of the national currency increased by 2.8% against the US dollar, and against the euro it decreased by 1.4% compared to their levels recorded at the end of the previous quarter (Chart 4.24).

In average values, the rate of the Moldovan leu increased against the US dollar by 0.9%, and against the euro it decreased by 1.0%, compared to the averages of the previous quarter.

As for the evolution of the currencies of the main trading partners, in the third quarter, most of the currencies registered stronger increases against the US dollar, compared to the 0.9% of the Moldovan leu: mainly the Swiss franc (+4.2%), Pound sterling (+2.8%), Polish zloty (+2.3%), Bulgarian leva, euro and Romanian leu (+1.9% each), Russian ruble (+1.6%), etc.

At the same time, a significant decrease of the Turkish lira (-3.5%) and the Ukrainian hryvnia (-3.3%) against the US dollar was highlighted (Chart 4.25).

Under these conditions, in real terms, the Moldovan leu decreased by 1.0% against the basket of currencies of the main trading partners of the Republic of Moldova (average of the third quarter of 2024 compared to the average of the second quarter of 2024). The biggest contribution to the REER decline was made by Romania (-0.4 percentage points) and the Russian Federation (-0.3 percentage points), (Chart 4.27).

In the third quarter of 2024, demand factors on the local intrabank foreign exchange market evolved non-specifically for the third quarter of the year, causing an insignificant shortage of foreign exchange. Overall, the local foreign exchange market recorded a relative balance, where the net supply of foreign exchange from individuals (USD 1,029.6 million) maintained its seasonal character, increasing both in annual terms, by 17.1%, as compared to the previous quarter, by 32.0%. At the same time, the net demand from legal entities was placed on a pronounced upward trend, where in annual terms it recorded an increase of 28.6%, and compared to the second quarter of 2024 it increased by 38.3%.

Despite the fact that net transfers from abroad in favor of individuals registered a decrease of 2.3% compared to the previous quarter²⁷, the supply of foreign currency from individuals was boosted by the process of de-dollarization of cash savings.

In the structure of the net supply of foreign currency from individuals, the major share still went to the single European currency (72.4%²⁸), (Chart 4.28).

Net foreign exchange demand from economic agents continued to grow for the second consecutive quarter, amounting to USD 1,145.5 million. The deterioration of the goods trade balance by 15.0%, according to data for eight months of the year, was the main factor contributing to the increase in net demand from legal entities.

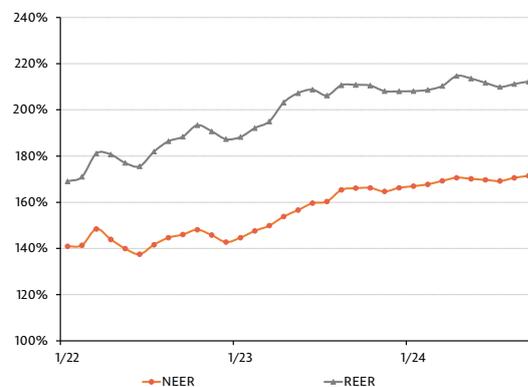
Compared to the same period of the previous year, on the foreign exchange demand side, there was an increase in demand from importers of various consumer goods, from the importer of electricity and natural gas, as well as from some operators in the transport sector, while on the supply side, that of some exporters of agricultural products decreased. At the same time, the increase in dividend payments was highlighted.

Under these conditions, the degree of coverage of the net demand for foreign currency from economic agents by the net offer of foreign currency from individuals amounted to 89.9% in the reference period (Chart 4.29), compared to 94.1% in the previous quarter and 98.7% in the third quarter of 2023.

The beginning of the third quarter of 2024 was characterized by an appreciation trend of the Moldovan leu against the US dollar, a trend that was maintained throughout the reporting quarter. In the first part of the quarter, the MDL/USD exchange rate showed a general upward trend, and later, starting from September 2024, it registered a relative stabilization, oscillating in a range with the lower limit of 17.37 MDL and the upper limit of 17.49 MDL for the dollar.

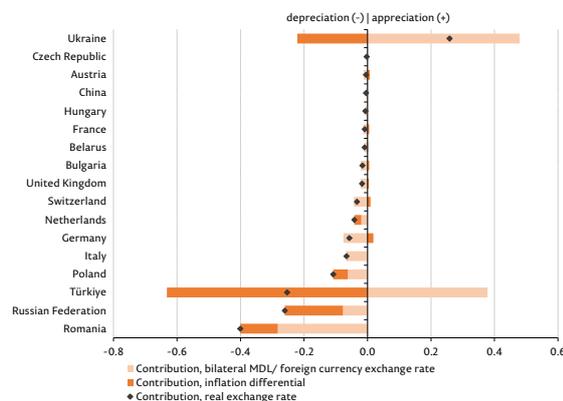
The dynamics of the official exchange rate of the Moldovan leu against the euro was also influenced by the evolution of the single European currency against the US dollar on international markets. The EUR/USD exchange rate rose in the first half of July against the backdrop of rising USA unemployment. The data suggest that the worsening labor market situation coupled with persistently high interest rates increase the likelihood of a recession in the USA,

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



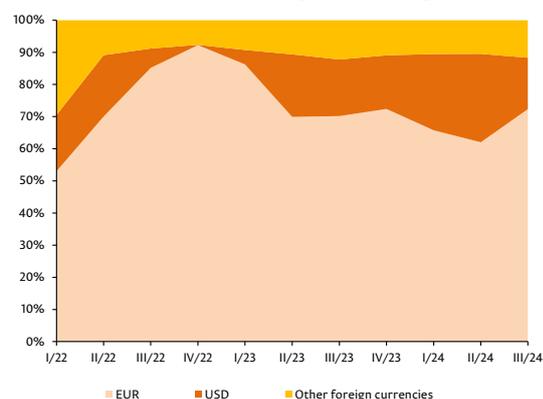
Source: NBM

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 third quarter of 2024



Source: NBM

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

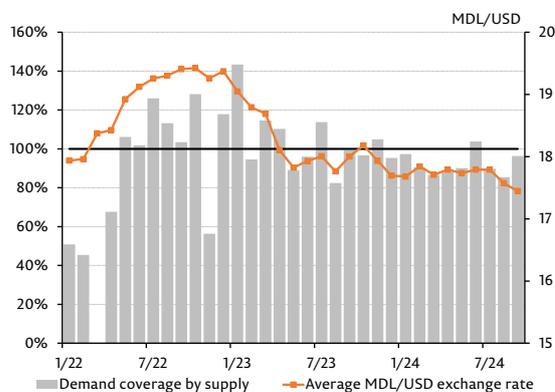


Source: NBM

²⁷According to the data of the first two months of the quarter.

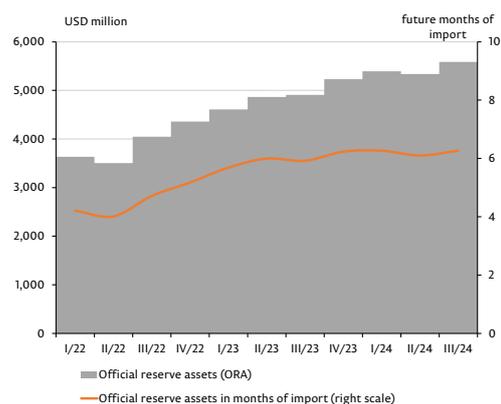
²⁸Share calculated by applying a constant exchange rate.

Chart 4.29: Net sales coverage degree by net supply and exchange rate dynamics



Source: NBM

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



Source: NBM – based on actual data and updated forecast

which has fueled investor concerns about the belated lowering of interest rates by the FRS, citing fears of more aggressive and faster interest rate cuts.

From the end of August until the first ten days of September, the upward trajectory of the single European currency in the first two months of the reporting quarter reversed, amid negative developments in euro area economic activity indicators, in particular the decline in Europe's largest economy – Germany and the contraction of the French economy, following the impetus provided by the new minority government that intends to significantly tighten fiscal policy.

In the second half of September, the EUR/USD exchange rate resumed its upward trend, ending the quarter below 1.12, up 4.3% from the end of the previous quarter, amid uncertainty about the outlook for the evolution of the monetary policy rates of the ECB and FRS for the following periods.

At the end of the quarter under review, the balance of official reserve assets amounted to USD 5,681.9 million (Chart 4.30), up by USD 393.2 million (+7.4%) compared to the end of the second quarter of 2024, mainly due to inflows related to external financing.

The largest disbursements were recorded as budget support, mainly in the form of loans, in the cumulative amount of USD 340.2 million:

- IMF – USD 175.5 million (the equivalent of SDR 132.9 million), of which:
 - the seventh loan tranche under the extended crediting and financing facilities (ECF/EFF) in the amount of USD 132.9 million;
 - the first loan tranche under the Resilience and Sustainability Financing Facility (RSFF) in the amount of USD 42.6 million;
- European Commission – USD 117.5 million (equivalent to EUR 107.6 million), of which:
 - macro-financial assistance of EUR 72.6 million (grant – EUR 22.5 million and loan – EUR 50.1 million);
 - EUR 35.0 million grant under the European Neighborhood Policy and enlargement negotiations.
- French Development Agency – USD 22.3 million (equivalent to EUR 20 million);
- The International Bank for Reconstruction and Development – USD 15.5 million (in the form of a grant) for the Program "Moldova – Development, Resilience and Opportunities for Well-Being" and the Competitiveness Development Policy Operation Program;
- European Investment Bank – USD 9.4 million (equivalent to EUR 8.5 million) within the framework of the project for the development of railway infrastructure in Moldova.

The Ministry of Finance of the Republic of Moldova also received loans and grants from external partners for investment projects totaling USD 23.0 million.

According to the situation at the end of the third quarter of 2024, official reserve assets continued to provide sufficient coverage of imports of goods and services (6.3 months of future imports²⁹).

²⁹Calculated 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, the external environment continues to present heightened risks and uncertainties, but overall, external assumptions are shaping the current trajectories. On the one hand, the disinflationary pressures associated with the fall in exchange rates have dissipated and a cycle of slightly rising prices on the international market is under way. On the other hand, global consumption continues to be weak, affecting output and costs. The effect of rising real household incomes and the performance of services activity will continue to be a driver of economic growth. The volatility in financial and commodity markets will be susceptible to geopolitical tensions in the Middle East and Ukraine, as well as to the outcome of the presidential elections in the USA.

In the table 5.1 the values of the main external assumptions assumed in the forecasting round of the Inflation Report, November 2024, are stated, with their subsequent description.

The economic growth in euro area will continue to be at the limit of its potential, and the expected effect of monetary easing of ECB will have a greater impact on the services sector. At the same time, industrial production will struggle to return to pre-energy crisis levels, as many producers have relocated to areas with cheaper energy resources and less sensitive to geopolitical effects. The current round of forecasts projects the euro area economy to grow by 0.7% in 2024 and 1.2% in 2025. At the same time, ***harmonized inflation in the euro area*** will be kept within the target of ECB and will average 2.3% in 2024 and 1.9% in 2025. The biggest risk to the euro area economy is from rising trade barriers that will affect international trade.

Forecast values for the parity path ***EUR/USD*** are on average of 1.09 for 2024 and of 1.11 for 2025. Both FRS and ECB are now in an easing monetary policy cycle and the rate differential will have an impact on the evolution of the reference currencies. But in the longer term, forecasts point to a return to historical averages. Also, the economy of the USA apparently is in better shape than the euro area, which again will have an impact on US dollar appreciation. Geopolitical tensions will favor the US dollar as a reserve asset. Last but not least, the results of the November 5 presidential elections in the USA will have a colossal impact on the US dollar's trajectory in the upcoming years (Chart 5.1).

As the price of oil has fluctuated weakly this year around 80 USD/barrel, this level is considered to be an acceptable balance between supply and demand even in the absence of other factors will stay there. Thus, in the current forecast round it is expected that the ***price of Brent oil*** will average 81.8 USD/barrel in 2024 and of 78.3 USD/barrel in 2025. The biggest risk to higher oil prices

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

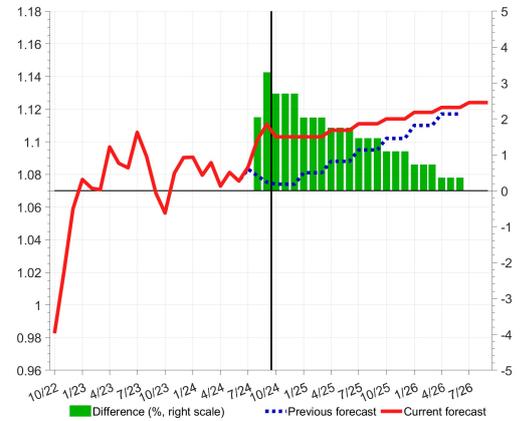
	2024	2025
Economic growth in the euro area (%)	0.7	1.2
Average annual inflation in the euro area (%)	2.3	1.9
EUR/USD	1.09	1.11
Brent oil prices (USD/barrel)	81.8	78.3
International food prices growth (%)	-2.5	4.0

Source: Bloomberg, Consensus Forecast, NBM calculations

is the intensification of tensions in the Middle East and the blockage of the Strait of Hormuz, through which a significant amount of oil is transported. In terms of lower oil prices, the biggest risk is a fall in consumer demand, especially from large consumers such as China (Chart 5.2).

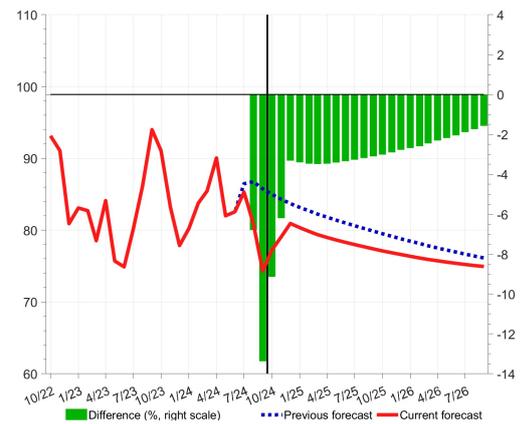
Global food prices have reversed the upward trend, which is why they are expected to gradually increase in the current forecast round. Supply and demand for most groups of products are fairly balanced, but agro-meteorological conditions will have a temporary impact on price formation for some agricultural and food products. There are also crops, such as cocoa beans, coffee beans, oranges and olive oil, for which the harvest has been affected over the years and the necessary measures to renew plantations have not been taken, leading to a structural increase in the prices of these crops in the long term. Thus, in the current round of forecasts, global food prices are expected to fall by an average of 2.5% this year and then to increase by an average of 4.0% in 2025 (Chart 5.3).

Chart 5.1: Exchange rate assumption EUR/USD



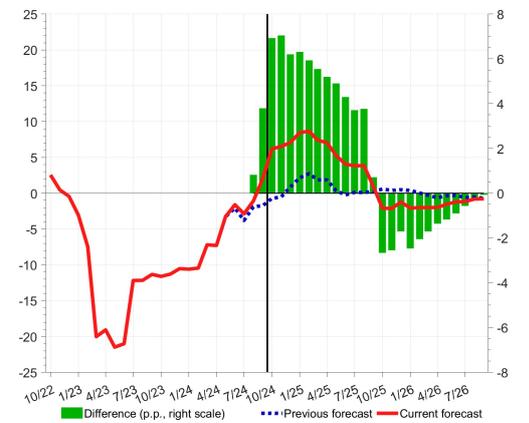
Source: BCE, Consensus Forecast, NBM calculations

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



Source: Bloomberg, NBM calculations

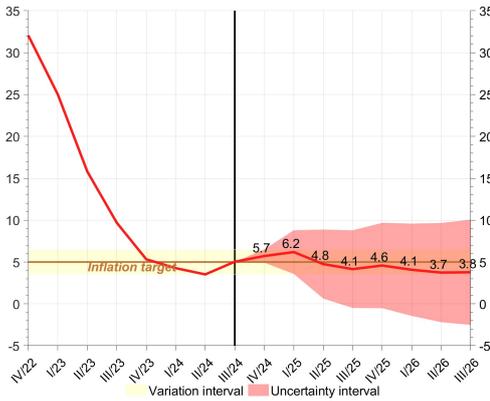
Chart 5.3: International food price assumption (%)



Source: FAO, Bloomberg, NBM calculations

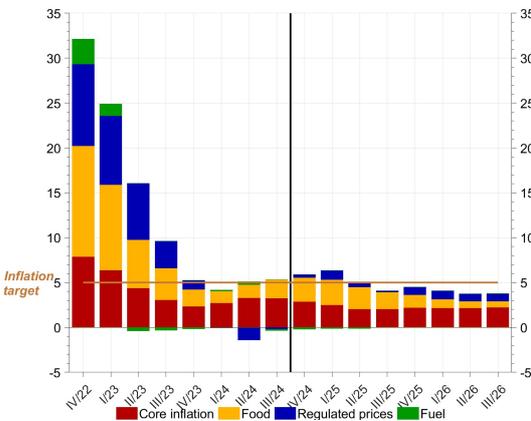
5.2 Internal environment

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



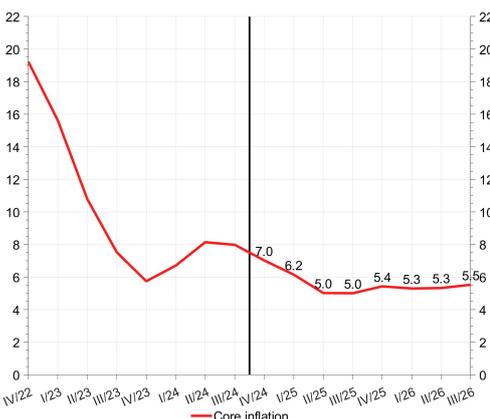
Source: NBS, NBM calculations

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



Source: NBS, NBM calculations

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



Source: NBS, NBM calculations

Inflation

The annual inflation rate will continue to increase slightly until the beginning of next year, after which it will trend down towards the end of the forecast horizon³⁰, except for the fourth quarter of 2025, when it will increase insignificantly. On the entire forecast period³¹, the annual inflation rate will be close to the target of 5.0% and will remain within the target range throughout the forecast horizon (Chart 5.4).

The annual pace of inflation is largely driven by the positive contribution of food prices, core inflation and less by regulated and fuel prices in the third quarter of 2026, but a negative impact will be seen in fuel prices for three consecutive quarters, starting from the fourth quarter of 2024 (Chart 5.5).

The positive impact of factors such as (1) a rising short-term forecast in the context of unfavorable agrometeorological conditions during July and August that affected the development of agricultural crops and the harvest of fresh vegetables, (2) the cumulative increase in global food prices through the fourth quarter of 2024, (3) the adjustment of excise taxes from early 2025 and 2026, (4) recent and anticipated upward adjustments in some tariffs will contribute to the increase in the annual pace of inflation. Also, (1) negative domestic demand, (2) the expectation of a declining trend for food prices on the international market from 2025 onwards, and (3) oil prices on the world market over the entire forecast horizon, except for the first quarter of 2025, will contribute to the decline in the annual rate.

The annual inflation rate will peak at 6.2% in the first quarter of 2025 and bottom out at 3.7% in the second quarter of 2026.

Average annual inflation will be 4.6% and 4.9% this year and next year, respectively.

The annual core inflation rate will continue on a downward path until the first half of next year, after which it will fluctuate modestly until the end of the forecast horizon (Chart 5.6).

The downward trend in the annual rate of core inflation through the second quarter of 2025 will be driven by (1) a declining near-term forecast, (2) negative domestic demand, (3) declining external inflation, and (4) the high base from the previous year. However, the adjustment in excise taxes in early 2025 and 2026 will mitigate the downturn and subsequently stabilize the annual rate of core inflation.

Average annual core inflation will be 7.5% and 5.4% in 2024 and 2025, respectively.

³⁰Third quarter of 2026

³¹Fourth quarter of 2024 – third quarter of 2026

The annual growth rate of food prices will increase until the beginning of next year, after which it will ease towards the end of the forecast horizon (Chart 5.7).

Upward trend in the annual rate of food prices until the first quarter of 2025 will be determined by (1) an increasing short-term forecast, in the context of unfavorable agrometeorological conditions during July and August that affected the development of agricultural crops, especially fresh vegetables, (2) the cumulative increase in global food prices until the fourth quarter of 2024. However, the decline in the annual rate of annual food price inflation from the second quarter of 2025 onwards will be influenced by (1) the expectation of a downward trend in global food prices from 2025 onwards, (2) negative aggregate demand over the entire forecast horizon, and (3) the high base in the current year.

Average annual food prices will be 5.1% and 5.8% in 2024 and 2025, respectively.

The annual rate of regulated prices will continue to increase until the second quarter of the forecast, thereafter it will trend down until the third quarter of 2025, followed by an increase towards the end of the forecast horizon, except for the last two quarters (Chart 5.8).

The annual rate will be determined by anticipated adjustments in the fourth quarters of 2024 and 2025 to a number of tariffs and services.

In the fourth quarter of 2024, the forecast includes the estimated effects in the context of the recent requests for changes in tariffs for district heating, water and sewerage.

At the same time, an upward trend similar to the previous forecasting round was observed for medicine prices and the "other" subcomponent.

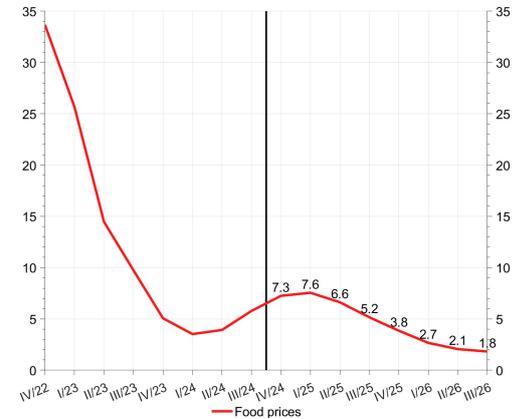
The average annual rate of regulated prices will be -2.3% and 4.0% in 2024 and 2025, respectively.

The annual growth rate of fuel prices will continue to decline slightly and register negative values in the first quarter of the forecast period, then it will increase continuously and, starting from the second half of next year, it will be close to zero by the end of the forecast period (Chart 5.9).

The negative annual rate of fuel prices over the entire forecast horizon is mainly due to (1) the expectation of a declining path for oil prices on the international market over the entire forecast horizon, except for the first quarter of 2025, and (2) negative domestic demand over the same period. However, the adjustment of excise taxes in early 2025 and 2026 will cause the rate to return to close to zero from the second half of next year to the end of the forecast period.

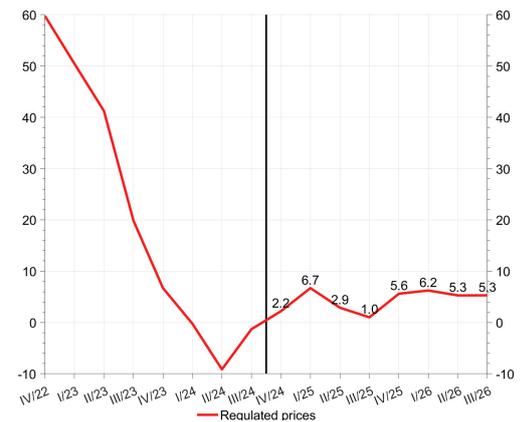
Average annual fuel price inflation will be 0.2% and -0.9% in 2024 and 2025, respectively.

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



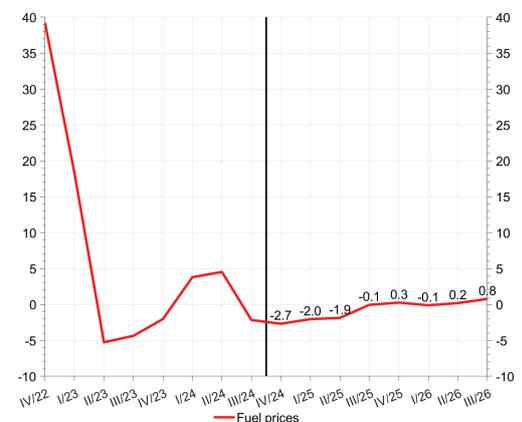
Source: NBS, NBM calculations

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



Source: NBS, NBM calculations

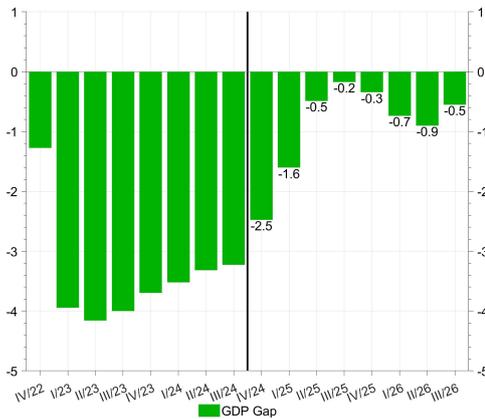
Chart 5.9: Fuel prices (% , comparing to the previous year)



Source: NBS, NBM calculations

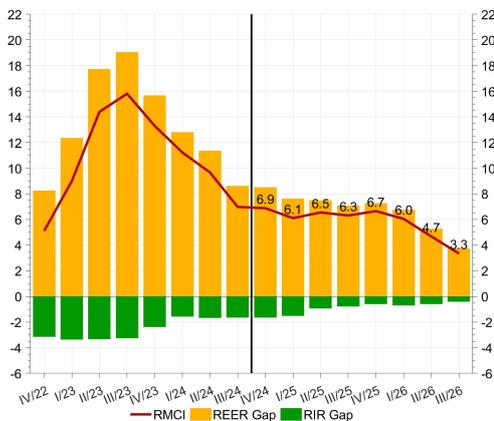
Demand

Chart 5.10: GDP deviation (%)



Source: NBM calculations

Chart 5.11: Real monetary conditions index and decomposition



Source: NBM calculations

Negative aggregate demand over the entire forecast horizon will be driven by dry conditions in the summer of 2024, cumulative real appreciation trending weaker for the domestic currency, and relatively weak external demand in the current year and early next year. The low real interest rate and positive fiscal impulse over the forecast period, recovering and subsequently positive external demand from the fourth quarter of 2025 through the end of the forecast horizon will narrow the aggregate demand deficit (Chart 5.10).

The impact of factors such as (1) dry conditions in the summer of 2024, (2) the restrictive effects of cumulative real appreciation that is trending downward, and (3) the slightly negative impact of external demand in the fourth quarter of 2024 will result in negative domestic demand. However, (1) the revival of household consumption financing sources in real terms, (2) the positive fiscal impulse over the forecast period, and (3) recovering and positive external demand from the fourth quarter of 2025 through the end of the forecast horizon will cause aggregate demand to recover.

The real effective exchange rate deviation, although predominantly decreasing, will continue to be restrictive on aggregate demand. At the same time, the negative impact of the real effective exchange rate will be mitigated by the stimulative nature of the real interest rate over the forecast horizon.

Monetary policy

Real monetary conditions will be restrictive on domestic demand over the forecast horizon (Chart 5.11).

Through the real effective exchange rate, monetary policy will be restrictive throughout the forecast period. Over the same period, however, monetary policy through the real interest rate will be stimulative.

The real development of the national currency over the forecast period will reduce the deviation of the real effective exchange rate from its equilibrium level, mitigating the restrictive impact on aggregate demand.

5.3 Forecasts comparison

The current inflation forecast has been revised downwards over the comparable period compared with the Inflation Report, August 2024³² (Chart 5.12).

Decrease in regulated prices forecast until the third quarter of 2025, of food prices from the second half of 2025, core inflation over the comparable period, and fuel prices through the third quarter of 2025 and into the first quarter of 2026 will cause the annual inflation rate to trend slightly lower. However, the upward revision to the forecast rates of food prices through the second quarter of 2025, regulated prices from the fourth quarter of 2025 onward, and less for fuel prices in the second quarter of 2026 will dampen the downward revision to the current forecast (Chart 5.13).

The decrease in the current forecast relative to the previous one is driven by (1) lower actual inflation than anticipated in the previous quarter, (2) a declining near-term forecast for the fourth quarter of 2024, (3) slightly more negative domestic demand in the fourth quarter of 2024, (4) reconsideration of the impact of dry conditions from the summer of 2024 through the first half of 2025, (5) the lower trajectory of oil prices on the international market over the comparable period, (6) anticipating some tariffs decreases in the fourth quarter of 2024, (7) a smaller increase in charges for services, and (8) reconsidering the reflection of the adjustment in charges for medical services provided by public health care institutions.

However, (1) the slightly higher trend of aggregate demand starting in the second quarter of 2025 for two consecutive quarters, (2) the higher projection for food prices on the international market over the entire comparable period, (3) the higher import price of natural gas than previously forecast, and (4) the anticipation of tariff increases in the fourth quarter of 2024 will dampen the downward revision to the annual pace.

The average annual inflation rate has been reduced by 0.1 percentage points for 2024 and by 0.4 percentage points for 2025.

The annual rate of core inflation was revised downwards over the whole comparable period (Chart 5.14).

The downward revision of the current forecast in relation to the previous one is driven by (1) lower actual inflation than anticipated in the previous quarter, (2) a downwardly revised near-term forecast for the fourth quarter of 2024, (3) slightly more negative domestic demand in the fourth quarter of 2024, and (4) a lower inflation trend for some economic partners in the early part of the horizon. The anticipation of slightly stronger domestic demand starting in the third quarter of 2025 for two consecutive quarters has dampened the downward revision to the current forecast.

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

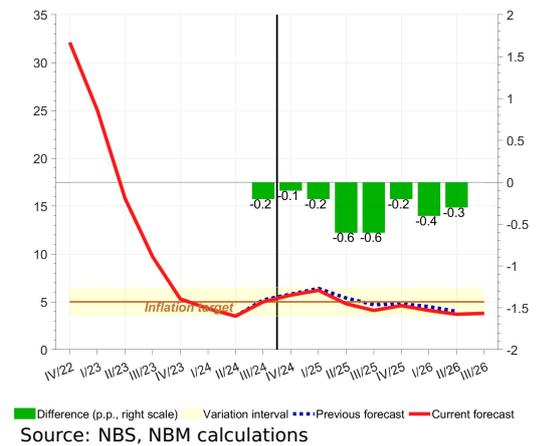


Chart 5.13: Decomposition of the difference between forecasts (percentage points)

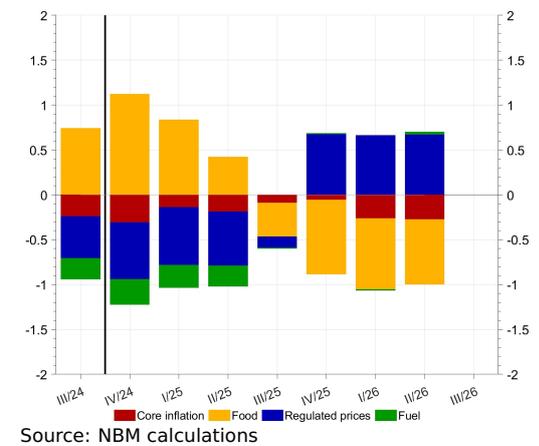
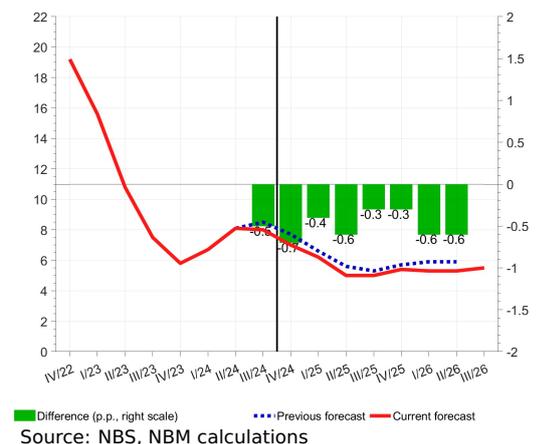
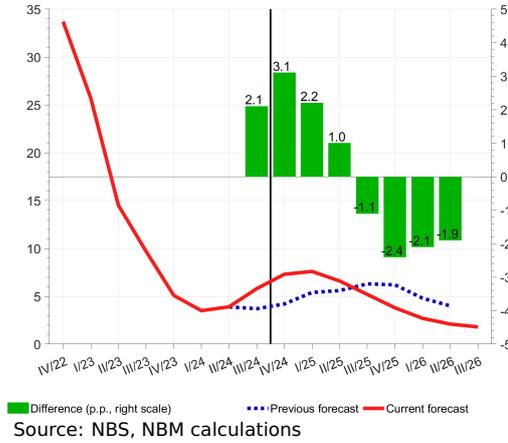


Chart 5.14: Core inflation (%), comparing to the previous year, percentage points)



³²Fourth quarter of 2024 – second quarter of 2026

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

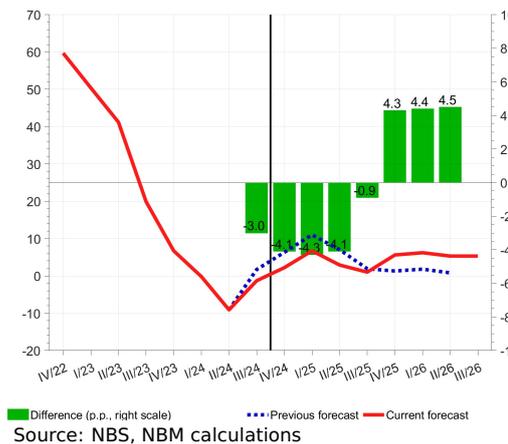


The forecast of the average rate of core inflation was lowered by 0.2 percentage points for 2024 and by 0.4 percentage points for 2025.

The current forecast for the annual pace of food prices has been raised through the first half of 2025 and lowered for the rest of the comparable period (Chart 5.15).

The upper projection of the current forecast in relation to the previous one is driven by (1) higher than anticipated actual inflation in the previous quarter, (2) an upward short-term forecast for the fourth quarter of 2024, and (3) an upper projection of global food prices over the entire comparable period. Reconsidering the impact of dry conditions from the summer of 2024 to the first half of 2025, (2) lower imported inflation starting in the second quarter of 2025 for four consecutive quarters are the factors that mitigated the upward revision of the current forecast.

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

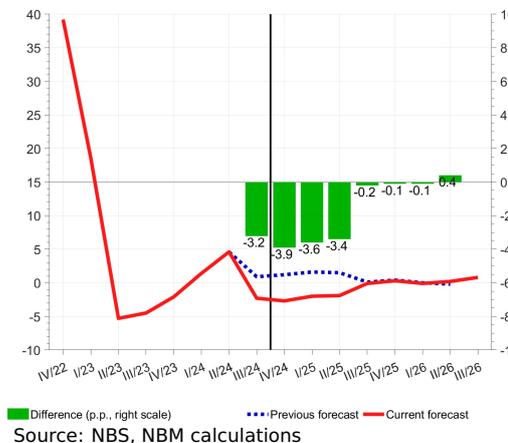


The forecast of the average rate of food prices was increased by 1.3 percentage points for the year 2024 and decreased by 0.1 percentage points for the year 2025.

The annual rate of regulated prices was revised downwards until the third quarter of 2025 and upwards towards the end of the comparable period (Chart 5.16).

Anticipated rate decreases in the fourth quarter of 2024, (2) a smaller increase for charges for services, and (3) reconsideration of the reflection of the adjustment to the adjustment to charges for medical services provided by public health care institutions caused the current forecast of regulated prices to be revised downward. However, the higher projection for the import price of natural gas over the entire comparable period and (2) the anticipation of rate increases in the fourth quarter of 2024 dampened the downward revision to the current forecast.

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



The forecast of the average rate of regulated prices has been lowered by 1.8 percentage points for 2024 and by 1.1 percentage points for 2025.

The forecast for the annual growth rate of fuel prices has been lowered for virtually the entire comparable period (Chart 5.17).

The lower forecast for the annual fuel price rate is driven by (1) lower actual inflation than anticipated for the previous quarter, (2) a declining near-term forecast for the fourth quarter of 2024, (3) a lower projection for international oil prices over the comparable period, and (4) lower domestic demand in the first quarter of the forecast. Anticipation of (1) a slightly higher trend for aggregate demand beginning in the second quarter of 2025 for two consecutive quarters and (2) higher imported inflation beginning in the first quarter of 2025, except in the second quarter of 2025, have dampened the downward revision to the forecast of the annual fuel price rate.

The forecast average fuel price rate has been lowered by 1.8 percentage points each for 2024 and 2025.

5.4 Risks and uncertainties

External sector

- **Intensifying geopolitical tensions (Middle East, Ukraine).** In the current year the biggest fluctuations in external indicators were caused by geopolitical tensions in the Middle East and the war between Russia and Ukraine. First, the prices of oil and other energy resources are affected, and as a second-round effect the prices of goods that are transported or require a lot of energy resources in the production process are affected. Also, reserve assets such as the US dollar, the price of gold or stock market indices react immediately to any geopolitical movement. Last but not least, demographic and labor indicators are affected, as these geopolitical tensions fundamentally change the demographic and capital structure (inflationary).
- **Fragmentation of international trade.** In recent months, an increasing number of countries have intensified their economic sanctions and trade tariffs against other countries, leading to fragmentation of international trade. While in the medium-to long-term trade is adjusting to new market conditions, in the short-term these disruptions create the conditions for higher production and transportation costs and subsequently contribute to higher prices for finished goods (inflationary).
- **Rising European natural gas quotations.** As European natural gas quotations are very sensitive to supply shocks, we anticipate that the onset of the cold season in Europe will further amplify this process, especially as the air temperature variable is added to the formation. If temperatures in Europe remain very cold for a prolonged period and the consumption of natural gas from reserves accelerates, natural gas prices will increase significantly. Another factor putting pressure on European natural gas quotations is the expiry of the Ukrainian gas transit contract at the end of 2024, and so far it is not known what the outcome will be and how countries such as Austria, Slovakia and Hungary will be affected (inflationary).
- **More subdued global economic growth.** After the many crises since 2020, the world economy is still expected to recover quickly, but the statistics are not encouraging. The problem could be much more complex than the evolution of an economic cycle and may be related to structural changes and production factors. Recently, China announced a new fiscal and monetary stimulus package – a further attempt to return to the level before the COVID-19 pandemic. The euro area economy continues to perform below potential and forecasts do not predict any miraculous recovery in the near future. The USA economy, although apparently in good shape, raises questions about the situation in the industrial sector (disinflationary).
- **The result of the November 2024 presidential elections in the USA.** In the current round of forecasts, external factors, dependent on the outcome of the USA,

presidential election, are increasingly uncertain. The election race looks very close and the outcome could produce fundamental changes in the global economy (uncertainty).

- ***The magnitude of monetary policies in the USA and euro area.*** As anticipated, both FRS and ECB have started to cut monetary policy rates and are expected to continue easing monetary policy. But with inflation in the USA and the euro area already close to target and economic growth weak, it is difficult to predict the pace at which rate cuts will continue. At the same time, in an increasingly complex external environment, in the event of adverse shocks, the expected paths of interest rates could be radically changed (uncertainty).

Real sector

- ***Uncertainties about the timing and magnitude of tariff adjustments for regulated services.*** The medium-term inflation forecast is based on a trend of prices for regulated services that corresponds to certain assumptions about international and regional energy prices and other relevant sector indicators. However, given that tariffs for some regulated services have a considerable 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).
- ***Decrease in the number of consumers in Moldova.*** The military conflict in Ukraine has caused 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 domestic 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 fruit 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 their harvesting, transportation, storage, but also their marketing in the country's marketing outlets. The recording of temperatures different from normal could lead to higher than forecast food prices in the next period (inflationary).
- ***Uncertainties about next year's agricultural production.*** Next year's agricultural harvest and the prices of food products on the domestic market will depend, to a large extent, on the agrometeorological conditions of that period. This way, developments within the agricultural sector and therefore the trajectory of food prices for the year 2025 continue to be marked by uncertainty. A more moderate agricultural harvest will generate significant inflationary pressures on food prices (uncertainty).

- **The possible escalation of the conflict in the Middle East will underpin higher prices for energy and other commodities of the CPI.** Rising international and regional oil prices will both increase fuel prices on the domestic market and create the conditions for higher prices for other energy resources and the adjustment of some tariffs locally. At the same time, the maintenance or escalation of tensions in the region will support increases in transportation costs and, as a result, final prices for 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 modest financing from external and domestic sources. The government will have to strengthen 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 result in insufficient fiscal stimulus to revive the economy more rapidly and mitigate the consequences of the recent crises (disinflationary).
- **State budget 2025.** The state budget law for 2025 is yet to be approved and published, which creates uncertainty in estimating and analyzing future developments in fiscal and public sector measures (uncertainty).
- **Salary rises in the budget sector.** The Moldovan Government, in order to protect low-income employees in budgetary units, to ensure fair and competitive salaries, is examining the possibility of increasing salaries in the budgetary sector from January 1, 2025, but the volume of these increases is not known at the moment (inflationary).
- **The compensation mechanism for heating costs.** The postponement of the adoption and publication of the draft Methodology for granting compensation for heating during the cold period of the year to certain categories of vulnerable consumers implies uncertainty in estimating and analyzing future developments in state budget expenditure. The volume of the compensations will be identified after the approval of the Law on the State Budget for 2025, they will be granted in the period from December 2024 to April 2025 (inflationary).

Chapter 6

Monetary policy decisions

Summary of the meeting of the Executive Board of the National Bank of Moldova of 21.03.2024 on the promotion of monetary policy

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

Attendees: Executive Board members – Mr. Vladimir Munteanu, First Deputy Governor – Deputy Governor of the Executive Board, Mrs. Tatiana Ivanicichina – Deputy Governor, Mr. Constantin Schendra – Deputy Governor

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

Guests: Mr. Daniel Savin – Director of the Financial Markets Department, Mr. Andrei Velicev – Head of Legal Advice and Litigation Division, Legal Department, Mrs. Alina Boboc – Head of the Financial Education and Communication Division

The meeting of the Executive Board regarding the promotion of the monetary policy began with the speech of Mr. Radu Cuhal, who presented the new macroeconomic information, both from the internal and external environment, included in the Report assessing the risk of inflation forecast deviation.

Referring to the evolution of inflation in the last period, Mr. Cuhal emphasized that, in February 2024, the annual inflation was for the fifth consecutive month within the target range, being 4.2%, 0.3 percentage points lower than in January. Among the factors that contributed to the decrease in inflation, Mr. Cuhal listed the drop in food prices on the international market, the high base and low demand. At the same time, it was noted that the stimulative monetary policy measures so far, the positive seasonal effect, fiscal policy adjustment and some adverse sectoral shocks have mitigated the decline in inflation.

Mr. Cuhal highlighted that the latest macroeconomic information largely confirms the validity of the latest forecast.

EB members noted that actual inflation was 0.5 percentage points lower than forecast. In this sense, it was found that the deviation was determined by the regulated prices, after a temporary gap occurred in the adjustment of the tariffs for medical services for the month of July.

Next, Mr. Cuhal presented the recent data on the external environment, pointing out that the euro area economy grew by only 0.4% in 2023, as a result of the energy crisis and the tightening of monetary policy. Attendees of the meeting noted that the price of oil has increased in recent weeks due to continued tensions in the Middle East and the depreciation of the US dollar. However, it was warned that oil prices continued to fall due to weak demand and increased non-OPEC supply, despite OPEC+'s recent decision to extend production curbs. Mr. Cuhal noted that the price of liquefied natural gas recently fell to the lowest levels since 2021. Likewise, food prices also continued to fall.

Discussions then focused on the evolution of the national economy, with Mr. Cuhal pointing out that it grew by only 0.2% in the fourth quarter of 2023. EB members noted that the modest growth was largely driven by the rich harvest which led to the increase in exports of agri-food products. It was found that household consumption continued to increase, on the other hand, public administration consumption continued to decrease, for two and three consecutive quarters, respectively. Mr. Cuhal warned that investments continued to fall for the third consecutive quarter, justifying this dynamic, from moderate to negative, by the insignificant increase in the real incomes of the population and by the great uncertainty in the region. Analyzing the sources of financing consumption, the attendees noted that transfers to individuals decreased by 15.9% in December 2023 and by 4.6%

in January 2024, and the payroll increased in real terms by 10.9% in the fourth quarter of 2023. Therefore, domestic demand was found to remain weak. On the supply side, communications, social services, accommodation and public catering evolved positively, while industry, construction, trade and transport contracted.

In the following, Mr. Cuhai presented the monetary conditions and highlighted that the interest rates on loans and new deposits in MDL also fell in February following the cumulative monetary policy stimulus. The weighted average rate on deposits in MDL was 3.81%, and that on loans – 9.63%, down by 0.37 and 0.34 percentage points, respectively, compared to January 2024. Mr. Cuhai revealed that the decrease in rates led to a 45.3% increase in the volume of new loans in MDL compared to the same period last year. Interest rates on foreign currency loans and deposits continued to fall.

Later, Mr. Cuhai presented the risks of the deviation of the inflation forecast, stressing that the balance of the risks of the inflation forecast is disinflationary, and the uncertainties regarding it remain pronounced. Among the main sources, EB members noted the tense situation in the region and in the Middle East, the adjustment of tariffs, the statistical reflection of compensations for energy resources granted to the population during the cold period of the year. Interest rates are expected to be lowered in advanced economies. Oil prices could be higher than expected, and natural gas and food prices – lower. Mr. Cuhai highlighted that the uncertain situation in the region causes the population and economic agents to have some pessimistic expectations, which could limit domestic consumption and investments.

In this context, the measures included in the draft decision regarding the actions of the NBM to promote monetary policy, proposed by Mr. Cuhai, were to reduce the base rate and interest rates on permanent facilities, by 0.5 percentage points each, and to maintain required reserves at current levels.

Thus, following the deliberations, the NBM Executive Board decided, with a unanimous vote, to reduce the base rate applied to the main short-term monetary policy operations to the level of 3.75% annually, as well as the reduction of interest rates on loans and overnight deposits to the levels of 5.75 and 1.75% annually, respectively. At the same time, the EB members decided to maintain the norm of mandatory reserves from funds raised in MDL and in non-convertible currency at the level of 33.0% of the calculation base and the norm of mandatory reserves from funds raised in freely convertible currency – at the level of 43.0% of the calculation basis.

The decision adopted by the NBM Executive Board unanimously:

- 1. The base rate applied to the main short-term monetary policy operations is set at 3.75% annually.**
- 2. Interest rates are set:**
 - a) for overnight loans, at the level of 5.75% annually;**
 - b) for overnight deposits, at the level of 1.75% annually.**
- 3. The norm of required reserves from funds attracted in MDL and in non-convertible currency is maintained at the current level of 33.0% of the calculation base.**
- 4. The norm of required reserves from funds attracted in freely convertible currency is maintained at the current level of 43.0% of the calculation base.**

Voting results of EB members

For – 4

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 on 07.05.2024
on the promotion of monetary policy

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

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

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

Guests: Mr. Mihnea Constantinescu, Mr. Veaceslav Negruta, Mr. Alexandru Savva – advisers to the Governor, Mr. Daniel Savin – Director of the Financial Markets Department, Mrs. Valentina Rusu – Director of the Legal Department, Mrs. Alina Boboc – Director of Financial Education and Communication Division, Mr. Natan Garstea – Director of Financial Stability Department, Mr. Andrei Rotaru – Director of Applied and Economic Research Department, Mr. Eugeniu Aftene – Director of Reporting and Statistics Department, Mr. Ion Burlea – Director of Continuous Supervision Division, Banking Supervision Department

At the beginning of the meeting of the Executive Board on the promotion of monetary policy, Mr. Radu Cuhai presented the latest macroeconomic developments from the internal and external environments, the new medium-term forecast, as well as the risks and uncertainties identified at the time of the elaboration of the Inflation Report, May 2024. Mr. Cuhai pointed out that the current forecast generally confirms the previously predicted trends.

Regarding the domestic inflationary process, Mr. Cuhai mentioned that the annual inflation dropped to the level of 3.9% in March 2024 or by 0.3 percentage points compared to December 2023. The average annual inflation rate was 4.3% in the first quarter of 2024, being marginally lower than expected. Mr. Cuhai emphasized that the deviation of -0.1 percentage points of actual inflation from the forecast was mainly caused by regulated prices, due to the delay in the adjustment of tariffs for medical services and the decrease in the tariff for natural gas in February.

Among the factors that contributed to the reduction of inflation, Mr. Cuhai listed the disinflationary demand, the reduction of food prices on the international market, the rich harvest of last year, the reduction of tariffs for communal services and the compensations for energy resources offered to the population during the cold period. At the same time, it was pointed out that the stimulative monetary policy measures adopted by the NBM so far, the adjustment of the fiscal policy and some adverse sectoral shocks have mitigated the decrease in inflation.

In the following, Mr. Cuhai presented the recent developments in the external environment. It was noted that the year 2024 began with increasing geopolitical tensions and maintaining inflationary pressures. The attendees of the meeting noted that the price of oil rose significantly in the first few months due to OPEC+ production cuts, the bypassing of the Red Sea by oil tankers and the escalation of tensions in the Middle East. Food prices changed their downward trend to a slight increase. Mr. Cuhai pointed out that natural gas quotations also increased periodically due to the decrease in supply for Europe as a result of the increase in purchases in Asia. Inventories in Europe, however, remain at record levels after a mild winter and a decline in industrial natural gas consumption. EB members noted that the persistence of inflationary pressures in some advanced economies, particularly in core inflation, led to expectations of a delay in lowering policy interest rates. Mr. Cuhai warned that economic growth is still very uneven worldwide. The US economy is in good shape, and the euro area is weakened by the crises of recent years. Economies in the region remain troubled by the aftermath of the war in Ukraine.

During the discussions related to the national economy, the attendees of the meeting found that the data published by the National Bank for the first two months of 2024 show mixed trends in economic activity. Regarding international trade, Mr. Cuhai pointed out that it does not show clear signs of recovery: both export and import registered negative rates of -12.5 and -7.5% annually, respectively. Retail trade, industrial production and wholesale trade increased by an average of 10.9; 3.8 and 2.5% annually, respectively.

Afterwards, Mr. Cuhai presented the monetary conditions, noting that the excess liquidity in the banking sector was MDL 12.3 billion, increasing by MDL 2.8 billion in the first quarter of 2024 compared to the previous quarter. The annual growth of the M3 monetary aggregate in the first quarter of 2024 was 17.9%, mostly due to

deposits in MDL. Mr. Cuhai emphasized that the monetary policy stimulus measures adopted so far led to a decrease in interest rates on new loans and deposits in MDL in the first quarter of 2024. Thus, the weighted average rate on loans was 9.66%, and on the deposits – 3.91%, decreasing by 4.63 and 7.85 percentage points, respectively, compared to the first quarter of 2023. The EB members noted that the decrease in interest rates led to an increase in the volume of new loans granted in MDL by 28.7% annually in the first quarter of 2024, mostly due to consumer and real estate loans granted to individuals. New loans in MDL granted to individuals increased in March 2024 by 63.7% annually.

Based on high-frequency data, Mr. Cuhai revealed that interest rates on new loans and deposits in MDL continue to fall. Thus, in the first three weeks of April, the weighted average rate on loans was 9.27%, and that on deposits – 3.31%, lower by 4.46 and 5.49 percentage points, respectively compared to the same period in 2023. The volume of new loans in MDL increased by 50.6% compared to the same period of the previous year.

In the continuation of the meeting, Mr. Cuhai presented the new inflation forecast, stressing that it is assumed that external demand will continue to be lower than historical averages, and external inflation will fall towards the targets set by the central banks. Monetary policy rates will fall more slowly than expected. Mr. Cuhai emphasized that the US dollar will continue to appreciate, being determined by the maintenance of high FRS interest rates for a longer period, the better economic situation of the US compared to other economies, but also the increase in the attractiveness of the dollar as a result of the increase global geopolitical tensions. The Russian ruble will depreciate due to the rebalancing of purchasing power parity, the increasingly difficult bypass of economic sanctions and the difficulties of working with new markets. Oil prices are expected to remain high due to geopolitical tensions and the extension of production curbs by OPEC+, which could lead to a significant oil shortage in the second half of the year. Natural gas prices are expected to continue to respond strongly to smaller supply shocks, and food prices are expected to rise moderately.

In this context, the annual inflation rate is expected to fluctuate insignificantly around the target of 5.0%, remaining within the variation range of ± 1.5 percentage points over the next eight quarters. The dynamics will be largely due to all the components. Aggregate demand will be disinflationary throughout the forecast period due to subdued domestic demand, tight monetary conditions and, to a lesser extent, weak external demand. It has been warned that the positive fiscal stimulus will mitigate the decline in aggregate demand.

EB members found that trends anticipated in previous rounds remain largely valid. The inflation forecast has been raised slightly for the entire comparable period, except for the second quarter of 2024, where it is similar, and the third quarter of 2025, where it is lower.

Mr. Cuhai highlighted that the risks and uncertainties of the forecast remain high. From the external environment, sources such as tensions in the Middle East, the war in Ukraine, temporary food supply and price shocks, the FRS's monetary policy, as well as the geopolitical configuration after the 2024 elections are emerging, which could lead to a change in economic policies. Among the main domestic uncertainties are the adjustment of tariffs, the flow of refugees, weather conditions and the future harvest.

In the continuation of the meeting, the draft decision was presented regarding the actions of the NBM to promote the monetary policy. The measures proposed by Mr. Cuhai were to reduce the base rate and the interest rates on the permanent facilities by 0.15 percentage points each, as well as the rules on the required reserves both from the funds drawn in MDL and non-convertible currency, as well as from the funds drawn in freely convertible currency – in two consecutive stages, with 2.0 percentage points each.

Thus, based on the analyzes and findings, the Executive Board of the NBM decided, with a unanimous vote, to reduce the base rate applied to the main short-term monetary policy operations to the level of 3.60% annually, as well as the reduction of interest rates on loans and overnight deposits up to the level of 5.60 and 1.60% annually, respectively. At the same time, the EB members decided to decrease the norm of required reserves from funds drawn in MDL and in non-convertible currency to the level of 31.0% of the calculation basis for the application period June 16, 2024 – July 15, 2024 and for the period of application July 16, 2024 – August 15, 2024 – up to the level of 29.0% of the calculation base. Regarding the norm of required reserves from funds drawn in freely convertible currency, the EB members decided to decrease it to the level of 41.0% of the calculation base for the application period June 16, 2024 – July 15, 2024 and for the application period July 16, 2024 – August 15, 2024 – up to the level of 39% of the calculation base.

At the same time, the NBM Executive Board approved for publication the Inflation Report, May 2024.

The EB members emphasized that through the adopted decision, the NBM aims to slow down the decrease in inflation and keep it within the limits of the target variation range, by further stimulating aggregate demand, including by encouraging consumption and investments, balancing the national economy and anchoring inflationary expectations.

The Executive Board highlighted that the decision extends the easing of monetary policy that began in December 2022, revealing that the effects will continue to be transmitted gradually through the decrease of interest rates in the money, deposit and credit markets.

The decision adopted by the NBM Executive Board unanimously:

- 1. The base rate applied to the main short-term monetary policy operations is set at 3.60% annually.**
- 2. Interest rates are set:**
 - a) for overnight loans, at the level of 5.60% annually;**
 - b) for overnight deposits, at the level of 1.60% annually.**
- 3. The norm of required reserves from funds drawn in MDL and in non-convertible currency is reduced as follows:**
 - a) starting with the period of application of required reserves in MDL June 16, 2024 – July 15, 2024, from 33.0% to 31.0% of the calculation base;**
 - b) starting with the period of application of required reserves in MDL July 16, 2024 – August 15, 2024, from 31.0% to 29.0% of the calculation base.**
- 4. The norm of required reserves from funds drawn in freely convertible currency is reduced as follows:**
 - a) starting with the period of application of required reserves in freely convertible currency June 16, 2024 – July 15, 2024, from 43.0% to the level of 41.0% of the calculation base;**
 - b) starting with the period of application of required reserves in freely convertible currency July 16, 2024 – August 15, 2024, from 41.0% to 39.0% of the calculation base.**

Voting results of EB members

For – 3

Against – 0

Chairman of the Executive Board

Secretary of the Executive Board

Anca-Dana DRAGU

Sergiu SURDU

List of Figures

1.1 Annual CPI rate (%)	11
1.2 Annual rate of the main CPI subcomponents (%)	11
1.3 Annual inflation evolution (%) and contribution of subcomponents (percentage points)	11
1.4 Contribution of subcomponents (percentage points) to annual core inflation dynamics (%)	12
1.5 Contribution of components (percentage points) to annual food prices dynamics (%)	12
1.6 Evolution of the international food price index, FAO index	13
1.7 Evolution of regulated prices (%) and contribution of subcomponents (percentage points)	13
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 (%)	16
1.11 Annual industrial price rate (%)	17
1.12 Annual industrial price rate (%) and its components contribution classified by main branches (percentage points)	17
2.1 Developments of the composite PMI indexes	18
2.2 Developments of the USD index (DXY*) in the context of FRS monetary policy	19
2.3 Developments of EUR/USD (monthly average) and interest rates in the euro area	19
2.4 Oil market	19
2.5 Developments of natural gas prices (USD/1,000 cubic meters)	20
2.6 Annual growth rate of international price indices (%)	20
2.7 Annual growth rate of international food prices (index FAO)(%)	20
3.1 Contribution of demand components to GDP growth (percentage points)	23
3.2 Developments in household final consumption in real terms (% , compared to the previous year)	24
3.3 Development of disposable income of the population (% , compared to the previous year) and subcomponents' contributions (percentage points)	24
3.4 Public revenue and expenditure dynamics (% , compared to the previous year)	24
3.5 Development of budgetary transfers (MDL million)	25
3.6 Development of the single treasury account flows (% , compared to the previous year)	25

3.7	Development of the single treasury account balance (% , compared to the previous year)	27
3.8	Developments of the annual growth rate of state debt (% , end of quarter)	27
3.9	Share of state debt in GDP (% , end of quarter)	27
3.10	Supply and demand ratio on the primary market for state securities	27
3.11	SS yield curve (%)	27
3.12	Structure of SS allocated on the primary market (%)	27
3.13	Annual investment dynamics (%)	28
3.14	Annual investment dynamics by type of fixed assets (% , real terms)	28
3.15	Annual investment dynamics by funding sources (% , in real terms)	30
3.16	Development of the annual rate of exports (%) and contribution by categories of countries (percentage points)	30
3.17	Development of the annual rate of exports (%) and contribution of the components by commodity groups (percentage points)	30
3.18	Development of the annual rate of exports (%) and contribution by origin (percentage points)	30
3.19	Development of the annual rate of imports (%) and contribution by categories of countries (percentage points)	30
3.20	Development of the annual rate of imports (%) and contribution of the components by commodity groups (percentage points)	30
3.21	Contribution of economy sectors to GDP growth (percentage points)	31
3.22	Development of freight transport (% , compared to the previous year)	31
3.23	Passenger transport development (% , compared to the previous year)	31
3.24	Industry development in real terms (% , compared to the previous year)	32
3.25	Internal trade (based on VAT statements) (% , compared to previous year)	32
3.26	Annual rate of total agricultural production (%) and contribution by sectors (percentage points)	32
3.27	Economically active population and employed population	33
3.28	Contribution of sectors to the dynamics of the employed population (percentage points)	33
3.29	Developments of unemployed and underemployed population	33
3.30	Wage fund in the economy (% , compared to the previous year) and sectors' contributions (percentage points)	34
3.31	Average number of employees per economy (% , compared to the previous year) and sectors' contributions (percentage points)	34
3.32	Contribution of the sectors of the economy to the dynamics of the number of employees (% , compared to the previous year)	34
3.33	Current account share in GDP (%)	35

3.34	Financial account share in GDP (%)	35
3.35	External debt share in GDP (%)	35
4.1	Monthly average reference rates on the interbank market and the base rate of the NBM (%)	36
4.2	Monthly development of the interest rates corridor (%)	36
4.3	Development of the daily balance of sterilization operations (MDL million)	37
4.4	Development of the official MDL/USD exchange rate and volume of daily transactions of the NBM	38
4.5	Change in monetary aggregates (% , annual growth)	38
4.6	Dynamics of the M3 monetary aggregate (% , contribution of the components in annual growth)	38
4.7	Dynamics of total deposit balance (% , contribution of components in annual growth)	39
4.8	Dynamics of the balance of deposits in MDL (% , comp. contrib. in annual growth)	40
4.9	Dynamics of the term deposits balance in MDL (% , comp. contrib. in annual growth)	40
4.10	Dynamics of the sight deposits balance in MDL (% , comp. contrib. in annual growth)	40
4.11	Dynamics of the balance of deposits in foreign currency (% , comp. contrib. in annual growth)	40
4.12	Dynamics of the term deposits balance in foreign currency (% , comp. contrib. in annual growth)	40
4.13	Dynamics of the sight deposits balance in foreign currency (% , comp. contrib. in annual growth)	40
4.14	Excess liquidity	41
4.15	Development of loans balance (% , annual growth)	41
4.16	Development of loans shares, by subcomponents in the total balance (%)	41
4.17	Loan balance structure (% in total)	42
4.18	Evolution of new granted loans (% , annual growth)	42
4.19	Evolution of new granted loans in MDL (% , annual growth)	42
4.20	Dynamics of term deposits balance (% , annual growth)	42
4.21	Evolution of the share of term deposits on subcomponents in the total balance (%)	42
4.22	Average interest rates on balance of loans and deposits (%)	42
4.23	Average interest rates on new volumes of loans and deposits (%)	44
4.24	Fluctuations of the official exchange rate of the Moldovan leu against the US dollar and the euro	44
4.25	Development of the currencies of countries – main trading partners in relation to the US dollar, average exchange rate in the third quarter of 2024/ second quarter of 2024 (%)	44
4.26	Dynamics of the nominal effective exchange rate (NEER) and real effective exchange rate (REER) of the MDL calculated on the basis of the weight of the countries – main trading partners (Dec.2000-100%)	45
4.27	Contribution of the main trading partners of the Republic of Moldova to the change in the real effective exchange rate in the third quarter of 2024	45

4.28	Net supply of foreign exchange from individuals broken down by main currencies (currencies are recalculated in USD at constant average exchange rate)	45
4.29	Net sales coverage degree by net supply and exchange rate dynamics	46
4.30	Development of official reserve assets expressed in months of imports of commodities and services (BPM6)	46
5.1	Exchange rate assumption EUR/USD	49
5.2	International Brent oil price assumption (USD/barrel)	49
5.3	International food price assumption (%)	49
5.4	CPI with uncertainty interval (% , compared to the previous year)	50
5.5	CPI decomposition (% , percentage points compared to the previous year)	50
5.6	Core inflation (% , comparing to the previous year)	50
5.7	Food prices (% , comparing to the previous year)	51
5.8	Regulated prices (% , comparing to the previous year)	51
5.9	Fuel prices (% , comparing to the previous year)	51
5.10	GDP deviation (%)	52
5.11	Real monetary conditions index and decomposition	52
5.12	CPI (% , comparing to the previous year, percentage points)	53
5.13	Decomposition of the difference between forecasts (percentage points)	53
5.14	Core inflation (% , comparing to the previous year, percentage points)	53
5.15	Food prices (% , comparing to the previous year, percentage points)	54
5.16	Regulated prices (% , comparing to the previous year, percentage points)	54
5.17	Fuel prices (% , comparing to the previous year)	54

List of Tables

1.1 The evolution and forecast of CPI and its components	16
5.1 Expected evolution of external variables (annual average)	48