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Inflation Report no. 3, 2023

The Governor of the National Bank of Moldova, Octavian Armașu presents the Inflation Report no. 3, 2023

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SUMMARY

Timely adoption of restrictive monetary policy measures during 2022 led to a change in the inflation trend. Thereby, after the peak reached in October 2022 (34.6%), the inflationary process was reversed and the downward trend of the annual inflation rate since the end of the previous year continued in the first half of this year. The annual inflation rate decreased from 22.0% in March 2023 to 13.2% in June 2023. At the same time, the annual inflation rate in the second quarter of 2023 was higher than anticipated in the Inflation Report, May 2023, remaining above the upper bound of the ±1.5 percentage point range, from the 5.0% inflation target. Therewith, the average annual inflation rate was 15.8% in the second quarter of 2023, 9.2 percentage points lower than in the previous quarter. This dynamic was driven by the base period effect of the previous year. However, the still high current value of the annual CPI rate reflects the effect of pronounced inflationary pressures from the previous year associated mainly with tariff adjustments, their second-round effects, the consequences of the war in Ukraine, and the dry conditions in the last summer, as well as colder weather in spring this year. At the same time, additional inflationary pressures in the first part of this year were exerted by the adjustment of excise duties. Modest demand is estimated to have exerted disinflationary pressures in the second part of 2022 and the first half of this year, helping to temper the influence of the above-mentioned factors. Therewith, the exchange rate dynamics generated a disinflationary impact on inflation evolutions this year. The downward trend in the annual industrial price rate has continued in the recent period, thus setting the stage for a moderation of price pressures on certain CPI subcomponents in the upcoming period. The downward trend in the annual CPI rate is anticipated to persist in the upcoming period amid still

modest domestic demand, declining electricity tariffs, and the effect of high base period from the previous year. The tense regional situation and the risks of its escalation, the increased energy price volatility, and the adjustments to tariffs maintain the significant uncertainty related to the short- and medium-term inflation forecasts.

The global economy is continuing its post-pandemic recovery, albeit at a very slow and in places fragmented pace. The effects of monetary policy tightening in major economies have tempered global demand and thus dampened upward trends in commodity prices. Therewith, although inflation rates are approaching target levels, monetary authorities are cautious in changing the stance of their monetary policy. In order to increase oil prices, Saudi Arabia and the Russian Federation announced further cuts in oil supply, but weak demand, especially from China, and sufficient oil supply from non-OPEC countries have stopped the significant increase in market prices. Natural gas prices in Europe reached pre-crisis levels as gas reserves in Europe were at a comfortable level for the upcoming cold season. International food prices continued their downward trend, with the exception of sugar prices, reflecting concerns about the effect of the El Nino phenomenon on the sugar cane harvest in Brazil and the significant appreciation of the Brazilian real against the US dollar. At the same time, the non-extension to 17 July 2023 of the agreement on the export of cereals through the Black Sea ports has led to an increase in cereal prices on international stock exchanges. In the region, risks related to the war in Ukraine remain high. The recent depreciation of the Turkish lira, despite the interest rate hike by the Central Bank of the Republic of Türkiye, will intensify appreciation pressures through the external trade channel.

The negative dynamics of economic activity observed in the second half of the previous year continued at the beginning of this year, but at a less pronounced pace. Thus, in the first quarter of 2023, GDP contracted by 2.4% compared to the same period of 2022, following the 8.7% decline in the fourth quarter of 2022. That dynamic was, however, slightly higher than anticipated in the Inflation Report, May 2023. The negative path of economic activity was driven, similarly to the previous period, by subdued domestic demand mainly due to falling real household incomes and still restrictive credit conditions, rising energy prices and increased uncertainty in the region. The seasonally adjusted series, however, reflect a 1.1% increase in GDP compared to the fourth quarter of 2022. Aggregate demand pressures on prices are estimated to have continued to exert a disinflationary impact earlier this year. It is worth noting that the NBS revised upwards GDP for 2022 by 0.9 percentage points up to -5.0%. From a usage perspective, in the first quarter of 2023, household consumption eased its decline from the previous year. At the same time, final government consumption increased at the beginning of 2023. Gross capital formation in the reference period generated a positive impact on GDP dynamics due to the sub-component change in inventories. Net exports had a negative impact on GDP dynamics in the first quarter of 2023. By resource category, in the first quarter of 2023 the decline in GDP was mainly driven by evolutions in industry, trade and construction. Their impact was partly mitigated by evolutions in health and social care, real estate transactions and information and communication. At the beginning of this year, both the economically active and the employed population continued the positive trend observed at the end of the previous year. An upward trend is also observed for the unemployment rate and the underemployment rate.

In the second quarter of 2023, the national public budget revenue increased by 6.8% above the level recorded in the same period of 2022. National public budget expenditure increased, being 18.6% above the level recorded in the second quarter of 2022. At the same time, during the second quarter of 2023, interest rates on the state securities market continued their downward trend.

In the second quarter of 2023, excess liquidity amounted to MDL 14.4 billion, up by MDL 2.6 billion from the previous quarter.

Monetary aggregates in the second quarter of 2023 recorded higher annual growth rates compared to the previous quarter, primarily driven by deposits in domestic currency.

Average interest rates on balance of loans in domestic currency decreased compared to the previous quarter by 0.08 percentage points, and on deposits – by 0.37 percentage points. Average interest rates on loans and deposits in foreign currency continued the upward trend.

Two meetings of the Executive Board of the National Bank of Moldova on monetary policy decisions were held during the second quarter of 2023. Following the assessment of the balance of domestic and external risks and the inflation outlook in the short- and medium-term, the Executive Board of the National Bank of Moldova, at its meetings on 11 May 2023 and 20 June 2023, decided to decrease the base rate applied to the main monetary policy operations by 4.0 percentage points consecutively, up to the level of 6.0% per annum.

At the regular monetary policy meeting of 9 August 2023, the Executive Board of the National Bank of Moldova adopted by unanimous vote to maintain the base rate applied to the main short-term monetary policy operations at the level of 6.0% per annum. At the same time, the required reserve ratio of funds attracted in MDL and non-convertible currency and that of funds attracted in freely convertible currency was maintained at the levels of 34.0% and 45.0% of the calculation base, respectively.

This decision was adopted in the context of further propagation of the stimulus effects conditioned by the decisions of the NBM in the last period, given the lags in their transmission, aiming to anchor inflationary expectations and ensure the necessary monetary conditions to restore and maintain inflation close to the inflation target of 5.0% over the medium-term. The decision of the NBM was prompted by the confirmation of the veracity of the last forecast of the National Bank of Moldova as well as the new round of forecasts.

The current round of forecasts is based on lower external demand and further moderation of pro-inflationary pressures. Technically (two consecutive quarters of negative GDP growth), the euro area economy is in recession, and further interest rate hikes by the ECB will further dampen household consumption. Fiscal consolidation is also expected to resume in the euro area after fiscal policies were stimulative during the pandemic and energy crises. In the Russian Federation, pro-inflationary pressures are expected to increase due to the depreciation of the Russian rouble in recent times. Therewith, economic sanctions and labour shortages will reduce its potential economic growth. The energy and food quotations on the international market have stabilised in recent months, but in the medium- to long-term supply shocks could help to resume their upward trend.

In the third quarter of this year, the annual inflation rate will be declining and will continue this trend until the first half of next year, moving thereafter close to the inflation target towards the end of the forecast horizon[1]. The annual inflation rate will be above the upper limit of the range in the third quarter of 2023 and from the following quarter will return to the range, remaining within the range until the end of the forecast period. It should be noted that annual inflation will enter the target range in October this year.

The annual rate of core inflation will decline in the first two quarters of the forecast, and from next year onwards it will increase moderately towards the end of the forecast period, with the exception of the last two quarters. The annual rate of food prices will follow a moderate downward trend over the entire forecast horizon. The annual pace of regulated prices will slow down significantly in the first half of the forecast horizon and from the third quarter of 2024 onwards will quickly return to a slightly positive but stable level. The annual rate of fuel prices will reach a minimum in the first quarter of the forecast horizon, then increase until the first half of next year and decline towards the end of the forecast period.

Over the whole forecast horizon aggregate growth will be negative, driven by tight real monetary conditions and the negative impact of external demand. The positive fiscal impulse will support domestic demand to some extent, with the exception of the last two forecast quarters.

Real monetary conditions for aggregate demand will be tight, but declining.

The current forecast for inflation, compared with that in the previous Inflation Report[2], has been revised insignificantly downward over the comparable period[3]. The current forecast of the annual rate of core inflation has been lowered over the entire comparable period. The annual pace of food prices has been revised upwards over the entire comparable period. The current forecast for the annual rate of regulated prices is revised downwards to the second quarter of 2024 and similar towards the end of the comparable period, except for the third quarter of 2024, when it will be higher. The forecast for the annual pace of fuel prices has been increased over the entire comparable period.

The moderation of inflation and its forecast within the target range against the background of excess liquidity and further declining interest rates provides a positive perspective for economic activity.

The National Bank of Moldova adjusts in advance the conditions on the money, credit, and foreign exchange markets, assuming the configuration of the monetary policy as necessary, thus aiming to keep inflation close to the target of 5.0% in the medium-term and creating all preconditions for the implementation of a macroeconomic policy mix associated with economic growth..

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1. Second quarter of 2025.
2. Inflation Report, May 2023.
3. Third quarter of 2023 – first quarter of 2025.

Vezi și

Tag-uri
Annual inflation rate [2]
core inflation [3]
External environment [4]
inflation forecast [5]
forecast [6]
forecasting inflation [7]

Sursa URL:
http://bnm.md/ro/node/66255

Legături conexe:

[1] http://bnm.md/files/Inflation_Report_August_2023.pdf [2] http://bnm.md/ro/search?hashtags[0]=Annual inflation rate [3] http://bnm.md/ro/search?hashtags[0]=core inflation [4] http://bnm.md/ro/search?hashtags[0]=External environment [5] http://bnm.md/ro/search?hashtags[0]=inflation forecast [6] http://bnm.md/ro/search?hashtags[0]=forecast [7] http://bnm.md/ro/search?hashtags[0]=forecasting inflation