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Monetary Policy Decision, 05.12.2024

The Executive Board of the National Bank of Moldova, at its meeting on 5 December 2024, adopted by unanimous vote the following decision:

1. to maintain the base rate applied to the main short-term monetary policy operations at 3.60 percent annually.
2. to maintain interest rates as follows:
   a) on overnight loans, at the level of 5.60 percent annually;
   b) on repo operations, at the level of 3.85 percent annually;
   c) on overnight deposits, at the level of 1.60 percent annually.
3. to reduce the required reserve ratio of funds attracted in MDL and non-convertible foreign currency, as follows:
   a) starting with the period of application of required reserves in MDL from 16 December 2024 to 15 January 2025, from 27.0 percent to the level of 25.0 percent of the calculation base;
   b) starting with the period of application of required reserves in MDL from 16 January 2025 to 15 February 2025, from 25.0 percent to the level of 22.0 percent of the calculation base.
4. to reduce the required reserve ratio of funds attracted in freely convertible foreign currency, as follows:
   a) starting with the period of application of required reserves in freely convertible foreign currency from 16 December 2024 to 15 January 2025, from 36.0 percent to the level of 34.0 percent of the calculation base;
   (b) starting with the period of application of required reserves in freely convertible foreign currency from 16 January 2025 to 15 February 2025, from 34.0 percent to the level of 31.0 percent of the calculation base.

The National Bank of Moldova adopted this decision in the context of the further transmission of the effects of previous monetary policy decisions, given the lags related to their transmission.

The NBM's decision to reduce the required reserve ratio for two consecutive periods of application aims to increase the predictability of monetary policy in the context of information asymmetry and to adjust the behavior of money market participants in order to create the necessary monetary conditions to keep inflation in the medium term within the range of ±1.5 percentage points of the 5.0 percent target.

At the same time, the decision to concurrently reduce the required reserve ratios in MDL and in freely convertible foreign currency will reduce borrowing costs, further supporting the lending process, and having a positive impact on the national economy.

It should be noted that the cumulative monetary policy stimulus measures will increase excess liquidity in the banking system and allow banks to lend to individuals and legal entities, as well as invest in state securities.

Recent macroeconomic data broadly confirms the main assumptions and conclusions reflected in the

November 2024 Inflation Report.

Annual inflation stood at 5.3 percent in October 2024, by 0.1 percentage point higher than in September, and remained close to the 5.0 percent target. Inflation developments in October followed a trajectory similar to that anticipated in the November 2024 Inflation Report. Structurally, the upward trend in the annual inflation rate in October 2024 was mainly driven by core inflation and food prices, offset by the dynamics of regulated and fuel costs. The rise in food prices in October 2024 was caused by the hydrological drought during the summer of this year, which affected the agricultural harvest.

Recent tariffs increases point to the risk of a higher-than-expected inflation trajectory over the next 3-4 months but they will not have a significant impact on inflation developments in the medium term.

External environment. The world economy is evolving amid intensifying global trade and geopolitical tensions, with inflationary pressures persisting. The outlook for the monetary policies of the Fed and the ECB has shifted, with a much more significant decline in ECB interest rates expected in the context of weaker economic growth in the euro area and inflation remaining below the target. European natural gas prices rose with the onset of the heating season, coupled with increased demand and concerns over the expiration of the gas transit contract through Ukraine at the end of 2024. The FAO Food Price Index of international food prices rose for the second consecutive month in October this year, indicating a reversal of the trend.

Economic activity. Operational data published by the NBS for September show mixed signals in economic activity. Thus, the annual rate of exports registered a level of -19.3% amid a decrease in agricultural production, while the annual rate of imports increased by 10.0%. The annual rate of industrial production was -3.3 percent. Retail trade registered an annual increase of 8.7 percent in September 2024, while wholesale trade contracted by 1.5 percent. Agricultural production in the third quarter of 2024 was 10.2 percent lower than in the same quarter of the previous year. Wage growth in the third quarter of 2024 increased by 14.2 percent, showing clear signs of a revival in consumption, which supports economic growth. Investments rose by 3.8 percent compared to the third quarter of 2023. In this context, the positive GDP dynamics are expected to continue in the third quarter of 2024.

Monetary conditions. The impact of the consecutive cuts in the base rate applied to the main monetary policy operations continued to be reflected in the downward trend of interest rates on loans granted in national currency.

According to weekly statistical data, the average interest rates in the first three weeks of November 2024 showed a downward trend for new loans granted in MDL by licensed banks. Thus, the weighted average interest rate on new loans granted in MDL decreased to 8.24 percent in the third week of November. The weighted average interest rates on term deposits in national currency showed a slight upward trend, reaching 3.55 percent annually.

The continuous downward trend in interest rates on loans granted in MDL positively influenced the dynamics of weekly volumes of loans, with the growth rate in the first three weeks of November reaching 89.8 percent annually. At the same time, the moderate increase in interest rates on term deposits in MDL contributed to a decrease in the volume of deposits in the first three weeks of November, which fell by 8.6 percent annually.

Forecast update. The balance of risks to the inflation forecast is neutral, with a slight inflationary bias in the short term. Uncertainties remain pronounced. The main sources include the tense situation in the region,

subdued regional demand due to reciprocal sanctions, uncertainties regarding agricultural production, and the adjustment of tariffs for communal services.

The NBM will continue to monitor the domestic and external macroeconomic situation with caution, the risks and uncertainties associated with inflation developments in the short and medium term and, when appropriate, will intervene by adjusting monetary policy instruments in order to achieve the fundamental objective of ensuring and maintaining price stability.

The current assessment of real monetary conditions in the deposit, credit and foreign exchange markets indicates a favorable environment for ensuring that inflation remains within the range of ±1.5 percentage points from the 5.0 percent target, a level considered optimal for the growth and economic development of the Republic of Moldova in the medium term.

The next meeting of the Executive Board of the NBM regarding the implementation of monetary policy will take place on 5 February 2025, according to the approved schedule [1].

NBM Interest rates [2]

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