

19.06.2019

## Monetary policy decision, 19 June 2019

At the meeting of 19 June 2019, the Executive Board of the National Bank of Moldova adopted unanimously the following decision:

1. to increase the annual base rate applied to the main short term monetary policy operations by 0.5 percentage points, from 6.5% to 7.0%;
2. to increase the interest rates as follows:
  - for overnight credits – by 0.5 percentage points, from 9.5% to 10.0% annually;
  - for overnight deposits – by 0.5 percentage points, from 3.5% to 4.0% annually;
3. to preserve the rate of required reserves from funds attracted in Moldovan currency and non-convertible currency at the current level of 42.5% of the calculation base.
4. to increase the rate of required reserves from funds attracted in freely convertible currency starting with the period of application of required reserves in freely convertible currency, 16 July 2019 – 15 August 2019, by 3.0 percentage points and set the level of 17.0% from the calculation base.

Hotărârea respectivă a fost determinată de recenta analiză a evoluțiilor macroeconomice și de evaluarea riscului abaterii prognozei publicate în cadrul Raportului asupra inflației nr.2, mai 2019, fiind luate în calcul anticipările cu privire la mediul extern și evoluțiile recente din economia națională.

The respective decision was triggered by the recent analysis of macroeconomic evolutions and the assessment of the forecast deviation risk, which was published in the Inflation Report no. 2 in May 2019 and considering the anticipations regarding the external factors and the recent dynamics of domestic economy.

The operative data provided by the National Bureau of Statistics (NBS) on the economic activity shows a significant increase of the aggregate demand above the potential and a rise of inflationary pressures. These indicators confirm the materialization of risks described and published in the Inflation Report of May 2019.

In this context, the dynamics of the GDP for the first quarter of 2019 was associated with the dynamics in the transportation of goods and trade. Therefore, in March 2019, the transportation of goods increased by 47.0%, while the trade of goods and services increased in the first quarter of 2019 by 17.1% and 18.0%, respectively. Compared to the similar period of the previous year, the significant rise of 22.6% in the payroll fund showed preconditions for the continuous increase of consumption. In March 2019, the export and import recorded increases, however, the figures were slightly inferior to the rates recorded in the first months of the year.

With regard to the lending process, in May 2019, the licensed banks of the Republic of Moldova issued new loans in a higher amount than in the similar period of 2018, by 9.1%. This evolution

was caused by the rise in the annual dynamics of loans issued in domestic currency, which share increased up to 69.6%. At the same time, the average weighted interest rate of loans issued in domestic currency by the licensed banks decreased by 0.55 percentage points, compared to May 2018. Therefore, the balance of credits issued for the domestic economy at the end of May 2019 increased by 13.0%, including those in domestic currency – by 17.2% and those in foreign currency – by 7.4%, compared to the similar period of the previous year.

In May 2019, the inflation annual rate amounted to 4.6% within the variation range of  $\pm 1.5$  percentage points, from the target of 5.0%. The data on inflation from the period April – May 2019, the evolution of the foreign exchange rates and the growth of population anticipations show the risk of a higher trajectory of inflation over the entire forecast horizon.

In the conditions of overcoming the political crisis and the inauguration of a new government, the resumption of external financing is expected. This can contribute to preserving a positive tax impetus for the next year.

In the context of increased inflationary pressures and validity of forecast published in May this year, the Executive Board of the NBM decided to increase the rate applied for the main monetary policy operations by 0.5 percentage points and the rate of required reserves of freely convertible currency – by 3.0 percentage points.

The simultaneous increase of the base rate and the rate of required reserves of freely convertible currency is a first step in the mitigation of inflationary pressures and expectations, financial intermediation disincentive of currency and stimulation of savings. These actions will create monetary conditions capable to keep inflation within the variation range of  $\pm 1.5$  percentage points from the inflation target of 5.0% on medium term.

In the following period, the NBM will continue to monitor and anticipate the internal and external macroeconomic evolutions, risks and uncertainties associated with short and medium-term evolutions of inflation. The new forecast round set for July 2019 will outline the opportunity of decisions regarding the increase of monetary policy instruments value in order to assure the stability of prices.

The next meeting of the Executive Board of the NBM on monetary policy will be held on 31 July 2019, according to the published calendar.