Published on (https://www.bnm.md)

24.05.2017

Monetary policy decision, 24 May 2017

Within the meeting of the 24 May 2017, the Executive Board of the National Bank of Moldova adopted the following decision by unanimous vote:

1. to maintain the base rate applied on main short-term monetary policy operations at the current level of 9.0 percent annually;

2. to maintain the interest rates:
- on overnight loans at the current level of 12.0 percent annually;
- on overnight deposits at the current level of 6.0 percent annually;

3. to maintain the required reserves ratio from financial means attracted in MDL and non-convertible currency at the current level 40.0 percent of the base.

4. to maintain the required reserves ratio from financial means attracted in freely convertible currency at the level of 14.0 percent of the base.

Annual inflation rate [1] in April 2017 was above the upper limit of the range of ± 1.5 percentage points from 5.0 percent inflation target. This recorded the level of 6.6 percent, by 1.5 percentage points higher compared to the previous month.

In April 2017, the annual rate of core inflation[2] was 4.9 percent. increasing by 0.3 percentage points compared to the previous month.

The inflation acceleration in April 2017 is in line with the last forecasts of NBM (May 2017).

The dynamic of macroeconomic indicators in the first quarter of 2017 shows premises of further economic recovery in the reporting period. Thus, in March 2017, the exports increased by 31.5 percent compared to the same period of 2016, imports by 17.6 percent and the volume of transported goods by 13.7 percent. In the first quarter of 2017, the volume of global agricultural production increased by 1.1 percent compared to the same quarter of 2016.

In April 2017, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period increased by 6.0 percent, while the volume of new attracted deposits decreased by 7.3 percent compared to the same period of last year. The total balance of credits decreased by 8.9 percent at the end of April 2017 compared to the same period of last year. At the same time, the total balance of deposits increased by 4.7 percent compared to the end of April 2016.

In April 2017, the average rate of new loans granted in national currency decreased by 0.40 percentage points compared to the level recorded in March 2016, accounting for 10.63 percent annually. The average rate of new deposits attracted in MDL decreased by 0.77 percentage points, reaching the level of 5.35 percent in April 2017.

The monetary policy conduct continues to be adjusted based on the risks and uncertainties of internal and external environment. External risks are associated with international oil and food prices. Potential internal risks and uncertainties to inflation arise from the impact of changes in excise duties of fiscal policy, fiscal deficit and harvest of this year. At the same time, the uncertainty for adjustment of regulated services tariffs are additional risks.

Against this background, within the meeting held on 24 May 2017, the members of the Executive Board of the NBM decided by unanimous vote to maintain the policy rate at the current level of 9.0 percent annually.

This decision aims to reduce the inflation range of ± 1.5 percentage points from 5.0 percent inflation target on medium-term, overlapping with the support of saving and lending processes.

It should be mentioned that **the monetary policy measures adopted by the NBM during 2016 are to be transposed into the national economy through various transmission channels, including by influencing interest rates on loans and deposits in national currency, thus exerting further effects on inflation development.**

NBM will continue to manage the liquidity excess through sterilization operations, according to the announced schedule [3].

NBM will further monitor and anticipate the domestic and international economic environment developments, so that by the flexibility of operational framework specific for the inflation targeting strategy to ensure price stability in the medium term.

The next meeting of the Executive Board of the NBM on monetary policy will take place on 29 June 2017, according to the announced schedule [4].

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[1] Annual inflation rate represents the increase of consumer prices during a month this year compared with the same month last year. It is calculated as a ratio (expressed in percentage terms) between the price index during a month this year and price index during the same month last year, calculated on the same basis, minus 100. Statistical surveys on consumer prices are carried out by the National Bureau of Statistics (NBS) [1]. NBM sets its inflation target at the level of 5.0 percent annually, calculated based on the consumer price index (inflation rate for the last twelve months – each month of this year compared with the same month of last year), with a possible deviation of ±1.5 percentage points. (Source: Medium-term monetary policy strategy of the NBM [2].

[2] Core inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data prepared and published from January 2012 are calculated by the NBS according to the modification of Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of 19 January 2012 (the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices).

Evolution of the NBM interest rates [5]

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base rate [7]

overnight credit [8]

overnight deposit [9]

CPI [10]

core inflation [11]

Monetary policy decisions [12]

Monetary policy decision [13]

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