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Monetary policy decision, 26 July 2017

Within the meeting of 26 July 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 8.0 percent annually;

2. to maintain the interest rates:
- on overnight loans at the current level of 11.0 percent annually;
- on overnight deposits at the current level of 5.0 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.

Executive Board of the NBM approved the Inflation Report no.3, 2017, which will be presented at a press conference on 03 August 2017.

This decision was taken based on the recent macroeconomic analysis and assessments, the new assumptions related to the current forecasting period and the needs to estimate the impact of the previous monetary policy actions. At the same time, there are premises of a slowdown in economic activity, a decrease of inflationary pressures on medium-term and it is noted a real appreciation of the national

currency.

NBM estimates negatively the output gap for the first four quarters, which recorded insignificant positive values until the end of the forecasting period. The economic activity below its potential level in the first four quarters will determine disinflationary pressures from the aggregate demand and respectively, slight inflationary pressures in the other part of the forecast.

According to the current forecast, the annual inflation rate will continue to record a higher level in the third quarter of 2017, after which it will fall rapidly to the lower limit of the target range. Inflation will return within the range of ± 1.5 percentage points from 5.0 percent inflation target in the first quarter of 2018 and will remain within it until the end of the forecasting period, mainly close to the lower limit. In 2017 and 2018, the annual average inflation rate will record the level of 6.5 percent and 4.4 percent, respectively.

The decision adopted by the Executive Board of the NBM aims at creating real monetary conditions able to reduce the inflation within the range of ± 1.5 percentage points from the 5.0 percent target on medium-term.

In the same context, NBM will continue to manage the liquidity excess through sterilization operations, according to the announced schedule [1].

The annual inflation rate [1] was 7.3 percent in June 2017 or by 0.1 percentage points less compared to the previous month. According to expectations, this interrupted temporary the upward trajectory in the first half of this year and continued to be above the upper limit of the range of ± 1.5 percentage points from 5.0 percent inflation target.

In June, The annual rate of core inflation[2] was 4.7 percent , decreasing by 0.1 percentage points compared to the previous month.

The inflation evolution in May 2017 is in line with the last forecasts of NBM. Thus, inflation in early year accelerated due to the shocks on short-term and to the household income increase. The aggregate demand is moderate and will not create additional inflationary pressures.

Data in the first two months of the second quarter of 2017 show signs of slowdown in economic activity. Thus, the annual growth rate of imports in April-May 2017 was 12.1 percent, while that of exports was 0.6 percent. At the same time, annual growth rate of industrial production volume recorded an average negative level of 1.2 percent and annual growth rate of the transported goods volume recorded on average 31.1 percent. In the same period, the turnover of the enterprises having retail trade as main activity recorded an average decrease of 5.7 percent, while the turnover of the enterprises having services rendering as main activity recorded 0.1 percent.

In the second quarter of 2017, lending and saving processes recorded different developments. The volume of new loans granted during the reporting period increased by 8.3 percent, while the volume of new attracted deposits decreased by 10.2 percent compared to the same period of last year. The total balance of credits decreased by 7.9 percent at the end of June 2017 compared to the same period of last year. At the same time, the total balance of deposits [3] accepted by licensed banks increased by 2.7 percent compared to the end of the second quarter of 2016.

In June 2017, the average rate of new loans granted in national currency decreased by 1.00 percentage points compared to the level recorded in March 2017, accounting for 10.03 percent annually. Respectively, the average rate of new deposits attracted in MDL decreased by 0.45 percentage points, reaching the level of 5.67 percent annually.

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.

Inflation Report no.3, 2017 includes a more detailed assessment of the macroeconomic situation, inflation forecast in the medium-term and potential risks and challenges that will be faced by the monetary policy in the next periods. The report will be published on 3 August 2017 as scheduled [4].

The next meeting of the Executive Board of the NBM on monetary policy will take place on 30 August 2017, according to the announced schedule [5].

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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) [2]. 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 [3].

[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).

[3] Except for sight deposits.

Evolution of the NBM interest rates [6]

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Tags

inflation rate [7]
base rate [8]
overnight credit [9]
overnight deposit [10]
CPI [11]
core inflation [12]
Monetary policy decisions [13]
Monetary policy decision [14]

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