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Monetary Policy

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Monetary policy decision, 27 September 2017

Within the meeting of 27 September 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 7.5 percent annually.

2. to maintain the interest rates:
- on overnight loans at the current level of 10.5 percent annually;
- on overnight deposits at the current level of 4.5 percent annually.

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

This decision was taken based on the recent macroeconomic assessments, the analysis of the forecasts for inflation development on medium and short-term and the needs to estimate the impact of the previous monetary policy action. Thus, inflationary pressures on medium-term offset due to the slowdown in economic activity.

In August 2017 The annual inflation rate [1] was 7.3 percent, being similar to that of the previous month. The annual rate of core inflation[2] was 4.8 percent, decreasing by 0.2 percentage points compared to July 2017.

The inflation development in August 2017 was in line with the last forecasts of the NBM. Thus, inflation

accelerated since early year due to the factors of supply, the impact of adjusting certain utilities tariffs and the effect of low base period in 2016. The aggregate demand remained moderate and will not create additional inflationary pressures.

In the second quarter of 2017, the economic activity recorded an increase of 2.5 percent compared to the same period of 2016. At the same time, the external demand records mitigations compared to the previous periods. Although current data on macroeconomic indicators dynamic reflect increases, the economic activity will be below its potential level, generating disinflationary pressures.

In August 2017, lending and saving processes recorded different developments. The volume of new loans granted during the reporting period increased by 3.3 percent compared to August 2016, while that of new deposits decreased by 26.2 percent.

The weighted average interest rate on new credits granted in MDL decreased in August 2017 by 0.24 percentage points compared to the previous month, accounting for 9.76 percent annually. At the same time, the average rate of new deposits granted in national currency increased by 0.54 percentage points, accounting for 5.78 percent annually.

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

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

The NBM will further monitor and anticipate the domestic and external economic developments, so that by 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 25 October 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]

See also

Tags

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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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