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Monetary policy decision, 28 June 2017

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Within the meeting of 28 June 2017, the Executive Board of the National Bank of Moldova adopted the following decision by unanimous vote:

1. to decrease the base rate applied on main short-term monetary policy operations by 1.0 percentage points, from 9.0 to 8.0 percent annually.

2. to decrease the interest rates:
- on overnight loans by 1.0 percentage points from 12.0 to 11.0 percent annually;
- on overnight deposits by 1.0 percentage points from 6.0 to 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.

This decision is based on the macroeconomic indicators dynamics in the last two-three months, which created premises for the economic activity slowdown and a decrease in inflationary pressures on medium-term. It was also noted that the national currency has overestimated moderately in real terms.

This decision aims to create real monetary conditions able to decrease the inflation within the range of ± 1.5 percentage points from the 5.0 percent target on medium-term and to stimulate the aggregate demand.

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

Annual inflation rate [1] in May 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 7.4 percent, by 0.8 percentage points higher compared to the previous month..

The annual rate of core inflation [2] was 4.8 percent in May 2017. 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.

In the first quarter of 2017, the economic activity recorded an increase of 3.1 percent compared to the same period of 2016. In terms of uses, this dynamic is determined by the domestic and external demand and the

increase in final household consumption by 4.2 percent. Exports increased by 23.0 percent, while imports - by 17.0 percent, which contributed significantly to the economic activity slowdown during the reporting period. By categories of resources, the positive evolution of GDP in the first quarter of 2017 was determined mainly by the contribution of trade and of the subcomponent transport, information and storage, which increased on average by 10.5 percent compared to the same period of last year. Agriculture and constructions increased by 1.8 percent and 2.7 percent, respectively. The gross value added in industrial sector was higher by 1.2 percent compared to the same period of last year.

In May 2017, the annual growth rate of exports decreased to the level of minus 13.6 percent, while that of imports recorded 1.9 percent and the industrial production volume recorded the value of minus 9.3 percent. At the same time, the annual growth rate of the transported goods volume reached the level of 15.8 percent.

In May 2017, lending and saving processes recorded different developments. The volume of new loans granted during the reporting period increased by 9.7 percent, while the volume of new attracted deposits decreased by 7.4 percent compared to the same period of last year. The total balance of credits decreased by 10.1 percent at the end of May 2017 compared to the same period of last year. The total balance of deposits increased by 1.9 percent compared to the end of May 2016, as a result of the increase in balance of deposits in national currency.

In May 2017, the weighted average interest rate of new loans granted in national currency decreased by 0.22 percentage points compared to the level recorded in April 2017, accounting for 10.41 percent. The weighted average interest rate on new deposits attracted in MDL recorded in May 2017 an insignificant decrease of 0.04 percentage points compared to the previous month, accounting for 5.31 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.

The next meeting of the Executive Board of the NBM on monetary policy will take place on 26 July 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) [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).

Evolution of the NBM interest rates [5]

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