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Monetary Policy

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Press release of the National Bank of Moldova, 25 August 2016

Within the meeting of the 25 August 2016, 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 10.0 percent annually;

2. to maintain the interest rates:
- on overnight loans at the current level of 13.0 percent annually;
- on overnight deposits at the current level of 7.0 percent annually;

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

4. to maintain the required reserves ratio from financial means attracted in MDL and non-convertible currency at the current level 35.0 percent of the base;

The analysis of the most recent statistic data shows the downward trend of the annual inflation rate for the seventh consecutive month, although it is still above the upper limit of the range of ± 1.5 percentage points from the 5.0 percent target.

The annual inflation rate was 7.0 percent in July 2016 or by 0.4 percentage points less compared to the previous month.

The deceleration of the annual inflation rate in July is in line with the latest forecast of the NBM (published in August 2016) and validates the correctness of monetary policy decisions taken in 2015 and at the beginning of the year..

The annual rate of core inflation[1] was 8.8 percent in July 2016, decreasing by 0.5 percentage points compared to the previous month.

The unfavourable development of macroeconomic indicators in June 2016 shows negative signs related to the economic activity dynamics in the second quarter of 2016 and reveals the persistence of disinflationary pressures from the aggregate demand.

In June 2016, exports decreased by 12.9 percent compared to the same period of 2015 and imports by 7.7 percent. Industrial production recorded a level of -2.1 percent and the volume of transported goods recorded a level of -9.4 percent. At the same time, the turnover of retail trade increased by 4.2 percent, while that of trade in services decreased by 7.0 percent.

In terms of consumer demand, the annual average real wage growth in the economy was 1.7 percent in June

2016, by 2.1 percentage points higher that in May 2016. Money transfers to individuals through the banks of the Republic of Moldova fell by 9.1 percent in January-July 2016 and by 13.4 percent, in nominal terms, in June 2016, compared with the same periods of 2015.

In July 2016, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period decreased by 14.0 percent, while new attracted deposits increased by 9.2 percent compared to the same period of last year. The total balance of credits at the end of July decreased by 12.8 percent compared to the same period of last year, while total balance of deposits rcorded an increase of 1.0 percent compared to July 2015.

The average rate of new loans granted in national currency decreased by 0.15 percentage compared to the level recorded in June 2016, accounting for 14.00 percent. The rate of new deposits attracted in MDL decreased by 0.85 percentage points in July 2016, up to the level of 9.85 percent.

The monetary policy continues to be affected by the complexity of risks and uncertainties associated with the development of internal and external environment. The external disinflationary risks associated with the weak economic activity in the Euro area countries and the recession of the Russian Federation - the main trading partners of the Republic of Moldova, with repercussions on short-term decrease in foreign currency income of the households and domestic exporters through the remittances and foreign trade channel. This, in turn, influenced the further inflation development. Potential risks to inflation arise from the increased volatility of the international financial foreign exchange markets, the oil prices evolution and the uncertainties regarding the international prices for raw materials and food products. The main internal risks arise from postponing the adjustment of regulated tariffs. At the same time, the existing meteorological conditions favour an increase in agricultural production compared to the previous year, which will influence negatively the growth rate of food prices during two-three consecutive quarters and will determine the further decrease of consumer inflation. Thus, analysing the balance of risks, the disinflationary risks are prevailing significantly and a fast decrease process of the prices annual growth rate is anticipated, also due to the high base of comparison in 2015.

It should be mentioned that the monetary policy measures adopted by the NBM at the beginning of the year 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.

In assessing the inflation outlook in the short and medium term, within the meeting held on 25 August 2016, the members of the Executive Board of the NBM decided by unanimous vote to maintain the policy rate at the currrent level of 10.0 percent annually.

The decision is aimed at anchoring inflation expectations in the context of restoring and maintaining the inflation rate close to the target of 5.0 percent over the medium-term, with a possible deviation of ± 1.5 percentage points. The gradual calibration of monetary policy conduct aims to ensure adequate real monetary conditions for supporting the lending and savings and for boosting the domestic demand, along with further adaptation of domestic economic environment to the volatility and uncertainty related to external environment.

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

At the same time, National Bank will continue to offer banks liquidity, according to the schedule announced

for 2016, through REPO operations with the term of 14 days, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 points percentage.

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 September 2016, according to the announced schedule.

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[1]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 [1]

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