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Monetary Policy

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

Within the meeting of the 25 February 2016, 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 0.5 percentage points from 19.5 to 19.0 percent annually.

2. To decrease the interest rates:
- on overnight loans by 0.5 percentage points from 22.5 to 22.0 percent annually;
- on overnight deposits by 0.5 percentage points from 16.5 to 16.0 percent annually.

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

4. To maintain the required reserves ratio from financial means attracted in MDL and foreign currency at the level 35.0 percent of the base.

The analysis of the recent macroeconomic indicators shows the appearance of prerequisites for the inversion of inflation trend, although it is still above the upper limit of the range of ±1.5 percentage points from the 5,0 percent target.

The annual rate of inflation was 13.4 percent in January 2016, decreasing by 0.2 percentage points compared to the previous month. The slowdown of inflation rate occurred because of lower contributions from core inflation and regulated prices.

The decrease of the annual inflation rate in January is in line with the latest forecast of the NBM (published in February 2016) and validates the correctness of monetary policy decisions taken in 2015.

The annual rate of core inflation[1] was 14.2 percent in January 2016, decreasing by 0.4 percentage points compared to the previous month.

Unfavourable dynamics of external trade and agricultural production in the fourth quarter of 2015 indicates a further contraction of economic activity in the reporting period and reveals a gradual increase in disinflationary pressures from aggregate demand. Thus, exports decreased by 13.6 percent and imports by 29.4 percent compared to the same period of the previous year. Agricultural production decreased by 19.1 percent.

In terms of consumer demand, the annual average real wage growth in the economy in the fourth quarter of 2015 was minus 6.2 percent, by 5.8 percentage points lower than in the third quarter of 2015. Money transfers to individuals through the banks of the Republic of Moldova fell by 16.2 percent in January 2016 compared with the same period of 2015.

At the end of January 2016, the balance of loans granted to economy decreased by 9.6 percent compared to the same period in 2015. Balance of deposits recorded a contraction of 7.0 percent.

The average interest rates applied by banks to loans and deposits in national currency recorded a slight increase in January 2016. Thus, the average annual interest rate on the loan portfolio increased slightly by 0.03 percentage points compared to the previous month, constituting 13.61 percent. The average annual interest rate on deposits in MDL was 14.75 percent, by 0.59 percentage points more compared to December 2015.

The monetary policy continues to be affected by the complexity of risk balance and uncertainties associated with the development of internal and external environment. The external risks to inflation remain significant, given the weak economic activity of the euro area countries and the recession faced by the Russian Federation - the main external trade partners of the Republic of Moldova. The external risks are propagated through the channel of remittances in favour of population and external trade, leading to lower foreign currency income of population and domestic exporters in the short-term with implications for the future dynamics of inflation. Potential internal risks to inflation arise from postponing the approval of fiscal policy for 2016 and the uncertainties surrounding fiscal policy stance.

On the other hand, higher energy and food prices on international markets mitigate the inflationary pressures. Thus, analysing the balance of risks, the annual rate of price growth is projected to gradually reduce, also due to the high base of comparison in 2015.

Against this background, within the meeting held on 25 February 2016, the members of the Executive Board of the NBM decided by unanimous vote to decrease the policy rate by 0.5 percentage points from 19.5 to 19.0 percent annually.

This 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 normalisation of monetary policy stance, backed by expectations on the reduction of inflation, aims to promote a climate of monetary able to leverage the lending and savings, along with further adaptation of domestic economic environment to the volatility and uncertainty related to external macroeconomic situation.

In order to support the proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity excess through sterilization operations, according to the announced schedule.

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 31 March 2016, according to the announced schedule.

[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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