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Monetary Policy

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Press release of the National Bank of Moldova, 26 November 2015

Within the meeting of the 26 November 2015, 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 19.5 percent annually;

2. To maintain the interest rates:

- on overnight loans at the current level of 22.5 percent annually;

- on overnight deposits at the current level of 16.5 percent annually .

The annual inflation rate reached in October 2015 the level of 13.2 percent or by 0.6 percentage points more compared to the previous month, mainly due to higher contribution from core inflation and food prices by 4.8 and 4.7 percentage points, respectively. The contribution of regulated prices was slightly higher than the previous month (3.4 percentage points).

In October 2015, the annual rate of core inflation[1] was 14.1 percent, increasing by 0.5 percentage points compared to September 2015.

Exports and imports decreased by 16.6 and 23.4 percent in the first nine months of 2015, compared to the same period of the previous year, while the industrial output increased by 4.0 percent.

Transport of goods decreased by 15.2 percent during January - September 2015 compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in the economy in September 2015 recorded a slight improvement, constituting minus 2.3 percent compared to minus 2.7 percent recorded in the previous month. Money transfers to individuals through the banks of the Republic of Moldova fell by 32.8 percent in January-October 2015 and by 33.9 percent in October 2015 compared with the same period of 2014.

At the end of October 2015, the balance of loans granted to economy decreased by 13.3 percent and that of deposits by 2.4 percent compared to the end of October 2014.

In October 2015, the average interest rates applied by banks to loans and deposits in national currency recorded an upward trend. Thus, the average annual interest rate on the loan portfolio in national currency increased by 0.18 percentage points compared to the previous month, constituting 12.89 percent. The average interest rate for deposits in MDL has increased by 0.54 percentage points versus the previous month, registering a level of 13.24 percent.

The monetary policy continues to be affected by the complexity of risk balance, with a prevalence of

inflationary risks. 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 remittances channel in favour of population and the external trade, leading to lower foreign currency income of population and domestic exporters in the short term. This may subsequently influence inflation. The escalation of geopolitical tension in the region could cause additional inflationary pressures.

The situation in the domestic banking system and the incentive fiscal policy, with the prevalence of social element in the structure of public expenditures contribute to the relatively high level of consumption, which influences the dynamics of consumer prices as from the end of the previous year. Risks to inflation associated mainly with the depreciation of the national currency since the beginning of this year, which will subsequently determine the IPC in the future periods, through the prices of imported goods and tariffs of regulated services, higher excise duty on some categories of goods and later by second-round effects to leave temporarily the upper limit of the variation range of ± 1.5 percentage point from the inflation target of 5.0 percent. Inflationary pressures are expected to be persistent in the following quarters, including due to unfavourable agri-meteorological conditions of this year and the low base of comparison in the previous year.

Against this background, within the meeting held on 26 November 2015, the members of the Executive Board of the NBM decided by unanimous vote to maintain the policy rate at the level of 19.5 percent annually. This decision of the Executive Board of the NBM is reasoned by the fact that the monetary policy measures adopted by the NBM since the beginning of the current year until now are still to act through different transmission channels in the national economy, including by influencing the interest rates on loans and deposits, so that exerting further effects on the inflation development.

The decisions of the Executive Board of the NBM of 26 November 2015 are 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.

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 2015 - 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, including household consumption dynamics, remittances and changing foreign trade conditions, 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 30 December 2015, 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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