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Monetary Policy

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Press release of the National Bank of Moldova, 27 October 2016

Within the meeting of the 27 October 2016, the Executive Board of the National Bank of Moldova adopted the following decision:

1. to decrease the base rate applied on main short-term monetary policy operations by 0.5 percentage points from 9.5 to 9.0 percent annually;

2. to decrease the interest rates:
- on overnight loans by 0.5 percentage points from 12.5 to 12.0 percent annually;
- on overnight deposits by 0.5 percentage points from 6.5 to 6.0 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;

Executive Board of the NBM approved the Inflation Report no.4, 2016, which will be presented at a press conference on 27 October 2016.

The analysis of recent statistics shows the appearance the downward trend of the annual inflation rate for the ninth consecutive month, which is still below the upper limit of the range of ±1.5 percentage points from the 5.0 percent target in September 2016.

The annual rate of inflation was 3.0 percent in September 2016, decreasing by 0.6 percentage points compared to the previous month.

The annual rate of core inflation[1] was 6.7 percent in September 2016, decreasing by 0.8 percentage points compared to the previous month.

The dynamics of macroeconomic indicators in the first two months of the third quarter of 2016 show signs of revival of the economic activity during the reporting period. During July-August 2016, exports increased compared to the same period of 2015 by 16.5 percent, imports by 4.9 percent and industrial output grew at an average level of 0.9 percent. At the same time, the volume of goods transported increased on average by 4.6 percent, the turnover for the retail trade by 4.6 percent and the volume of trade in services decreased by an average of 4.4 percent.

In terms of consumer demand, the annual average real wage growth in the economy in August 2016 was 8.4 percent, by 7.5 percentage points more than in July 2016. Money transfers to individuals through the banks of the Republic of Moldova fell by 5.6 percent in January-September and by 0.3 percent in September in nominal terms, compared with the same period of 2015.

Lending and saving processes in in the third quarter of 2016 have evolved differently. The volume of new loans decreased by 6.5 percent during the reporting period and new attracted deposits increased by 10.5 percent compared to the same period last year. The total balance of loans decreased by 16.4 percent as of the end of September compared to the same month of the previous year. At the same time, total balances of deposits over the last twelve months grew by 3.4 percent.

The average rate of new loans granted in national currency decreased by 0.56 percentage points, compared to June 2016, accounting for 13.59 percent. The rate on new deposits attracted in MDL decreased by 3.11 percentage points, up to the level of 7.60 percent in September 2016.

According to a new round of forecasting, the average annual inflation rate for 2016 and 2017 is expected to record levels of 6.3 percent and 4.6 percent, respectively. Depending on the complexity of risks and uncertainties associated with the evolution of inflation in the medium term, the NBM has reshaped the annual average forecast of inflation compared to the previous forecast published in August 2016, reducing it by 0.4 percentage point for 2016, and increasing it by 0.2 percentage points for 2017.

The monetary policy continues to be affected by the complexity of risk balance and uncertainties associated with the development of internal and external environment. External inflationary risks are associated with increased international prices for food and raw materials along with the uncertainty related more pronounced volatility of the international price of oil. Potential internal risks and uncertainties to inflation arise from the impact of changes in excise duties in terms of fiscal policy stance for 2017 and from the 2017 harvest.

Against this background, within the meeting held on 27 October 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 9.5 to 9.0 percent annually.

This decision is aimed at 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. Gradual calibration of monetary policy stance seeks to ensure real monetary conditions appropriate for stimulating lending and savings and boosting domestic demand, combined with adapting further domestic economic environment to volatilities and uncertainties of the external environment.

The dynamics of the output gap remains negative in the next eight quarters. An economic activity below its potential level will cause in the long-term increased disinflationary pressures from aggregate demand.

Inflation Report no.4, 2016 includes a more detailed assessment of the macroeconomic situation, inflation forecast in the medium-term and potential risks and challenges that will be faced by the monetary policy in the next period. The report will be published on 27 October 2016 as scheduled.

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 24 November 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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Tags
inflation rate [2]
base rate [3]
overnight credit [4]
overnight deposit [5]
CPI [6]
core inflation [7]
Monetary policy decisions [8]
Monetary policy decision [9]

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