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Monetary Policy

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Press release of the National Bank of Moldova, 28 January 2016

Within the meeting of the 28 January 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 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.**

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 current level 35.0 percent of the base.

Executive Board of the NBM approved the Inflation Report no.1, 2016, which will be presented at a press conference on 4 February 2016.

The analysis of the recent macroeconomic indicators shows the continuation of the upward trend of the annual inflation rate, which is maintained above the upper limit of the range of ± 1.5 percentage points from the target of 5.0 percent.

The annual rate of inflation was 13.6 percent in December 2015, increasing by 0.1 percentage points compared to the previous month. The acceleration of the inflation growth rate was determined by the depreciation of the national currency at the end of 2014 and during 2015 with implications on food prices, regulated prices and core inflation.

The annual rate of core inflation[1] was 14.6 percent in December 2015, increasing by 0.5 percentage points compared to the previous month.

Economic growth rate turned negative in the third quarter of 2015, decreasing by 3.7 percent compared to the third quarter of 2014. Deceleration of economic growth was generated mainly by the decrease in consumption of households on the backdrop of stagnation of disposable income in real terms, decline in agriculture and lower external demand in early 2015.

In the first two months of the fourth quarter of 2015, exports decreased by 15.5 percent and imports by 29.0 percent compared to the same period of the previous year. Industrial output decreased by 5.2 percent.

In terms of consumer demand, the annual average real wage growth in the economy in October - November

2015 was 6.5 percent, by 6.2 percentage points lower that in the third quarter of 2015. Money transfers to individuals through the banks of the Republic of Moldova fell by 30.0 percent in January-December 2015 and by 9.1 percent in December 2015 compared with the same period of 2014.

At the end of December 2015, the balance of loans granted to economy decreased by 6.7 percent compared to the same period in 2014. The balance of deposits decreased by 3.8 percent.

The average interest rates applied by banks to loans and deposits in national currency recorded an upward trend in the fourth quarter of 2015. Thus, the average annual interest rate on the loan portfolio increased by 0.86 percentage points compared to the third quarter of 2015, constituting 13.28 percent. The average annual interest rate on deposits in MDL was 13.70 percent, by 1.86 percentage points more compared to the previous quarter.

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 development of inflation. At the same time, the main internal risks are associated with the postponement of fiscal policy approval in 2016 in the light of the fiscal policy behaviour.

Against this background, within the meeting held on 28 January 2016, 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 in 2015 are adequate and continue to propagate in the national economy, including by influencing the interest rates on loans and deposits in MDL, expecting to reduce the inflation.

This decision is aimed at anchoring inflation expectations by bringing and maintaining inflation close to the target of 5.0 percent in the medium term, with a possible deviation of ±1.5 points percentage, in a manner that help to take lending and saving process forward.

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 domestic demand.

According to the new round of forecasting, the annual average rate of inflation for 2016 and 2017 will reach the level of 10.1 percent and 6.6 percent, respectively, while returning back within the limits of the variation range of the target in the third quarter of 2017. Executive Board of the NBM will analyse the statistics that will be published in the next period and the perspectives on inflation to determine the appropriate moment to start to ease the monetary policy in 2016.

Inflation Report no.1, 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 4 February 2016 as scheduled.

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 25 February 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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