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Monetary Policy

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Press release of the National Bank of Moldova, 29 October 2015

Within the meeting of 29 October 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 .

Executive Board of the NBM approved the Inflation Report no.4, 2015, which will be presented at a press conference on 05 November 2015.

The annual inflation rate reached in September 2015 the level of 12.6 percent or by 0.4 percentage points more compared to the previous month, mainly due to higher contribution from core inflation, food prices and regulated prices by 4.6, 4.4 and 3.3 percentage points, respectively.

In September 2015, the annual rate of core inflation[1] accounted for 13.6 percent, by 0.2 percentage points more compared to August 2015.
According to the information published by the NBS, exports and imports decreased by 23.6 and 25.7 percent in the first two months of the third quarter of 2015, compared to the same period of the previous year, while the industrial output increased by 2.2 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 July - August 2015 was 0.6 percent, by 3.6 percentage points lower that in the second quarter of 2015. Money transfers to individuals through the banks of the Republic of Moldova fell by 32.7 percent in January-September 2015 and by 35.6 percent in September 2015 compared with the same period of 2014.

At the end of September 2015, the balance of loans granted to economy decreased by 8.3 percent compared to the end of September 2014, while that of deposits recorded a negligible negative annual increase of 0.1 percent.

In the third quarter of 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 1.57 percentage points compared to the second quarter of 2015, constituting 12.42 percent. The average interest rate for deposits in MDL increased by 1.74 percentage points versus the previous quarter, registering a level of 11.84 percent.

The monetary policy continues to be affected by the complexity of risk balance, with the persistence of inflationary risks. Weak economic activity in the Euro area countries and the recession of the Russian Federation - the main trading partners of the Republic of Moldova maintain the risk of lowering of foreign currency income of households and domestic exporters in short-term, through remittances and foreign trade channel. This may subsequently influence inflation and the escalation of geopolitical tensions in the region may cause additional inflationary pressures.

The situation in the domestic banking system, stimulative fiscal policy, with the prevalence of social element in the structure of public expenditures contributes to maintaining the level of consumption, which influences the dynamics of consumer prices as from the end of the previous year. The depreciation of the national currency since the beginning of this year has increased the inflationary pressures, which will subsequently determine in the future periods, through the prices of imported goods and tariffs of regulated services, the increase in exercise duties on some categories of goods and later by second-round effects, the IPC to leave temporarily the upper limit of the variation range of ± 1.5 percentage point from the inflation target of 5.0 percent. It is anticipated that inflation will increase in the coming quarters, including due to the unfavourable agro-meteorological conditions of this year and low calculation base of the previous year.

Against this background, within the meeting held on 29 October 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.

The decision of the Executive Board of the NBM of 29 October 2015 is based on the fact 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.

The decisions of the Executive Board of 29 October 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.

Over the next eight quarters, the output gap will be negative. The evolution of the national economy below its potential denotes a weak domestic demand, which would determine future inflationary pressures.

According to a new round of forecasting, the average annual inflation rate for 2015 and 2016 is expected to record levels of 9.7 percent and 11.9 percent, respectively. NBM increased the average inflation forecast for 2015 and 2016 by 0.4 percentage points and 0.3 percentage points, respectively, compared to the previous forecast published in August 2015. Based on available data, due to the depreciation of the national currency, higher food prices as a consequence of dry weather conditions recorded this year and further increases in regulated tariffs, there is a risk that inflation may temporarily rise above the upper limit of the range of ± 1.5 percentage point from the target of 5.0 percent, with the return within the range of variation in the third quarter of 2017.

Inflation Report no.4, 2015 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 05 November 2015 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 2015, 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 26 November 2015, according to the announced schedule.

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* *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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