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Monetary Policy

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Press release of the National Bank of Moldova, 30 December 2015

Within the meeting of the 30 December 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 November 2015 the level of 13.5 percent, increasing by 0.3 percentage points compared to the previous month, mainly due to the impact from food prices and core inflation. The contribution from food prices increased up to the level of 5.0 percentage points, while that of core inflation maintained the level of 4.8 percentage points. At the same time, the contribution from regulated prices was slightly lower compared to the previous month (3.3 percentage points).

The annual rate of core inflation[1] constituted in November 14.1 percent, being similar to that of the previous month.

Recent statistics data show that the economic growth rate turned negative in the third quarter of 2015, decreasing by 3.7 percent compared to the same period of last year. The negative dynamics of GDP was determined by the accentuated decease in households' consumption of 5.2 percent compared to the third quarter of 2014, amid the stagnation of their disposable income in real terms. Imports of goods and services decreased by 4.4 percent during the reporting period due to the decrease in domestic demand, while exports were slightly lower by 0.2 percent compared to the third quarter of 2014. At the same time, investments generated in the third quarter of 2015 a negative impact on the economic activity of 1.2 percentage points, of which gross fixed capital formation decreased by 4.8 percent. By categories of resources, the negative dynamics of GDP was mainly determined by the accentuated decrease of the gross value added in agriculture. Thus, in the third quarter of 2015, agriculture recorded a decline of 17.4 percent compared to the corresponding period of 2014. Negative evolutions, but which generated a less significant impact, were recorded in the energy industry, construction and trade - 5.1, 1.8 and 2.3 percent, respectively.

Transport of goods decreased by 17.6 percent during January - November 2015, compared to the same period of the previous year, while the industrial output increased by 3.5 percent.

In the first ten months of 2015, exports and imports decreased by 16.1 and 24.1 percent respectively, compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in the economy in October 2015 was

minus 6.4 percent, by 4.1 percentage points lower than that of the previous month. Money transfers to individuals through the banks of the Republic of Moldova fell by 31.5 percent in January-November 2015 and by 15.0 percent in November 2015 compared with the same period of 2014.

In November 2015, the decrease in the balance of credits granted to the economy mitigated in annual terms, recording a level of minus 5.2 percent (compared to 13.3 percent in October 2015), while the balance of deposits recorded a decrease of 12.2 percent compared to November 2014.

In November 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 0.46 percentage points compared to the previous month, constituting 13.35 percent. The average interest rate for deposits in MDL increased by 0.47 percentage points compared to October, registering a level of 13.71 percent.

The monetary policy continues to be affected by the complexity of risk balance, with the persistence of inflationary risks. The external risks to inflation remained significant, given the weak economic activity of the euro area countries and the recession deepening in 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, with implications for further inflation development. The escalation of geopolitical tension in the region could cause additional inflationary pressures.

The risks to inflation associated mainly to the depreciation of the national currency since the beginning of this year, 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 maintain 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 the 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 30 December 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 is based on the fact that the monetary policy measures adopted by the NBM at the beginning of the year until now are to be transposed into the national economy, 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 30 December 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 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 28 January 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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