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Monetary Policy

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

Within the meeting of the 28 April 2016, the Executive Board of the National Bank of Moldova adopted the following decision by unanimous vote:

1. to decrease the base rate applied on main short-term monetary policy operations by 2.0 percentage points from 17.0 to 15.0 percent annually;

2. to decrease the interest rates:
- on overnight loans by 2.0 percentage points from 20.0 to 18.0 percent annually;
- on overnight deposits by 2.0 percentage points from 14.0 to 12.0 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.2, 2016, which will be presented at a press conference on 05 May 2016.

The analysis of the recent macroeconomic indicators shows the downward trend of the annual inflation rate for the third consecutive month, although it is still above the upper limit of the range of ± 1.5 percentage points from the 5.0 percent target.

The annual inflation rate was 9.4 percent in March 2016 or by 0.9 percentage points less compared to the previous month. This slowdown was mainly due to the decrease of the contributions from food prices and core inflation.

The annual rate of core inflation[1] was 10.2 percent in March 2016, decreasing by 0.4 percentage points compared to the previous month.

The unfavourable dynamic of external trade and industrial production in the first two months of the first quarter of 2016 shows the further contraction of the economic activity in the reporting period and reveals the persistence of the disinflationary pressures from the aggregate demand. Thus, exports decreased by 18.5 percent compared to the same period of 2015, imports by 13.8 percent and industrial production by 2.3 percent. In the first quarter of 2016, transport of goods decreased by 13.3 percent compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in the economy in January-February 2016 was minus 2.0 percent, by 4.2 percentage points higher than in the fourth quarter of 2015. Money transfers to individuals through the banks of the Republic of Moldova fell by 8.0 percent in January-March

2016 and in March 2015 by 2.2 percent, in nominal terms, compared with the same periods of 2015.

In the first quarter of 2016, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period decreased by 14.0 percent, while new attracted deposits decreased by 10.7 percent compared to the same period of last year. The total balances of loans and deposits decreased at the end of March 2016 by 9.9 percent and 3.6 percent, respectively, compared to the same period of last year.

The average rate of new loans granted in national currency was by 0.48 percentage points less compared to February 2016, accounting for 15.53 percent. The rate of new deposits attracted in MDL increased in March 2016 by 0.25 percentage points, up to the level of 14.69 percent.

Against this background, within the meeting held on 28 April 2016, the members of the Executive Board of the NBM decided by unanimous vote to decrease the policy rate by 2.0 percentage points from 17.0 to 15.0 percent annually.

The decision is 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. The gradual calibration of monetary policy conduct, supported by the expectations on inflation rate decrease, aims to promote a monetary climate able to foster the lending and savings, along with further adaptation of the domestic economic environment to the volatility and uncertainty related to external macroeconomic situation.

The output gap dynamic will remain negative during the next eight quarters. The evolution of the economic activity, below its potential, will determine disinflationary pressures from the domestic demand, although more moderate compared to the previous forecasting.

According to the new round of forecasting, the annual average inflation rate will reach in 2016 and 2017 the level of 7.0 percent and 4.8 percent respectively, with the return within the range of variation in the third quarter of 2016. The NBM decreased the average inflation forecast by 3.1 percentage points for 2016 and by 1.8 percentage points for 2017, respectively, compared to the previous forecast published in February 2016. The projected trajectory of the annual inflation rate was revised downwardly due to low contributions from all inflation components.

The monetary policy continues to be affected by the complexity of risks and uncertainties associated with the development of internal and external environment. The external risks to inflation remained significant, disinflationary, 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, which reflects the future dynamics of inflation. Potential internal risks to inflation arise from the volatility of international prices for raw materials and the uncertainties on oil prices. Thus, analysing the balance of risks, the annual rate of price growth is projected to reduce gradually, also due to the high base of comparison in 2015.

Inflation Report no.2, 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 periods. The report will be published on 5 May 2016a 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 26 May 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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