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Monetary Policy

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Press release of the National Bank of Moldova, 31 March 2016

Within the meeting of the 31 March 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 19.0 to 17.0 percent annually.

2. To decrease the interest rates:
- on overnight loans by 2.0 percentage points from 22.0 to 20.0 percent annually;
- on overnight deposits by 2.0 percentage points from 16.0 to 14.0 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 level 35.0 percent of the base.

The analysis of the recent macroeconomic indicators shows the continuous slowdown of the annual inflation pace, 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 10.3 percent in February 2016 or by 3.1 percentage points less compared to the previous month. The slowdown of inflationary pace was due to the decrease of contributions from food prices, core inflation and regulated prices.

The continuous decrease of the annual inflation rate in February is in line with the latest forecast of the NBM (published in February 2016) and validates the correctness of monetary policy decisions taken in 2015. However, the annual inflation pace slowdowns faster than it was previously expected.

The annual rate of core inflation[1] was 10.6 percent in February 2016, decreasing by 3.6 percentage points compared to the previous month.

The economic activity recorded in 2015 a decrease of 0.5 percent, by 5.1 percentage points less than in 2014. This development was mainly determined by the drought in 2015 with negative effects on the agricultural sector and by the decrease of domestic demand and investments amid the deterioration of the regional economic climate. The national economy growth was supported by the depreciation of the national currency against the U.S. dollar, thus improving the competitiveness of domestic products.

At the same time, in the fourth quarter of 2015, GDP recorded a decline of 3.3 percent compared to the same period of 2014. In terms of uses, this dynamic is determined by the high decrease in household final consumption of 3.5 percent amid the stagnation of disposable income in real terms, while the fixed capital

gross formation decreased by 2.9 percent. Imports decreased by 8.4 percent during the reporting period due to the decrease in domestic demand and national currency depreciation, while exports were slightly lower by 0.5 percent compared to the fourth quarter of 2014. By categories of resources, the negative dynamic of GDP was mainly determined by the significant decrease of the gross value added in agriculture. Thus, in the fourth quarter of 2015, agriculture recorded a decline of 18.3 percent compared to the corresponding period of 2014. Negative evolutions, which generated a lesser impact, were recorded in trade, industry and constructions.

In terms of consumer demand, the annual average real wage growth in the economy in January 2016 was minus 3.4 percent, by 2.0 percentage points higher than in December 2015. Money transfers to individuals through the banks of the Republic of Moldova fell by 12.0 percent in January-February 2016 and by 8.1 percent in February 2015 compared with the same periods of 2015.

At the end of February 2016, the balance of loans granted to economy decreased by 13.0 percent compared to the same period of 2015. The balance of deposits recorded a decrease of 7.0 percent, similar to the previous month.

The average interest rates applied by banks to operations in national currency recorded a slight increase in February 2016. Thus, the average annual interest rate on the loan portfolio decreased insignificantly by 0.08 percentage points compared to the previous month, constituting 13.69 percent. The average annual interest rate on deposits in MDL was 15.14 percent, increasing by 0.39 percentage points compared to January 2015.

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, 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 postponing the approval of fiscal policy for 2016 and the uncertainties regarding the fiscal policy conduct. Thus, analysing the balance of risks, the annual rate of price growth is projected to gradually reduce, also due to the high base of comparison in 2015.

Against this background, within the meeting held on 31 March 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 19.0 to 17.0 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 normalisation of monetary policy stance, backed by expectations on the faster reduction of inflation, aims to promote a climate of monetary able to leverage the lending and savings, along with further adaptation of domestic economic environment to the volatility and uncertainty related to external macroeconomic situation.

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 28 April 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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