

11.12.2019

Within its meeting of 11 December 2019, the Executive Board of the National Bank of Moldova adopted unanimously the following decision:

1. to decrease the base rate applied to the main short-term monetary policy operations by 2.0 percentage points, from 7.5 percent to 5.5 percent annually.

2. to decrease interest rates:

- a) on overnight loans by 2.0 percent, from 10.5 percent to 8.5 percent annually;
- b) on overnight deposits by 2.0 percent, from 4.5 percent to 2.5 percent annually.

3. to decrease the required reserves ratio in Moldovan lei and non-convertible currencies as follows:

- a) for the period of application 16 January 2020 – 15 February 2020 of the required reserves in Moldovan lei, by 0.5 percentage points and is set at the level of 42.0 percent of the calculation base;
- b) for the period of application 16 February 2020 – 15 March 2020 of the required reserves in Moldovan lei, by 0,5 percentage points and is set at the level of 41.5 percent of the calculation base;
- c) for the period of application 16 March 2020 – 15 April 2020 of the required reserves in Moldovan lei, by 0,5 percentage points and is set at the level of 41.0 percent of the calculation base.

4. to increase the required reserves ratio in freely convertible currencies as follows:

- a) for the period of application 16 January 2020 – 15 February 2020 of the required reserves in freely convertible currencies by 1.0 percentage points and is set at the level of 18.0 percent of the calculation base;
- b) for the period of application 16 February 2020 – 15 March 2020 of the required reserves in freely convertible currencies by 1.0 percentage points and is set at the level of 19.0 percent of the calculation base;
- c) for the period of application 16 March 2020 – 15 April 2020 of the required reserves in freely convertible currencies by 1.0 percentage points and is set at the level of 20.0 percent of the calculation base.

This decision was adopted based on the evaluation of the risk associated to the inflation forecast deviation published in the Inflation Report no.4, 2019, due to an update of assumptions with new information on internal and external environment, to the evolutions on credit and deposit markets and to those on foreign exchange market.

As anticipated, the main factors that stimulated the increase in annual inflation rate in the fourth quarter of 2019 were the aggregate supply, the increase in unit labour cost and the seasonal effect of the period.

In November 2019, the annual inflation rate constituted 7.1 percent, mainly due to the increase in the annual rate of food prices by 11.8 percent, which was determined by the pressures from the aggregate supply and the unfavourable agrometeorological weather conditions of this year for some fruit and vegetables categories.

At the same time, the annual inflation rate was influenced by the increase in people income and core inflation, which recorded the level of 6.2 percent. The influence of the proinflationary factors mentioned above was partially mitigated by the appreciation trend of the national currency in the last period. This factor, along with the downward trajectory of international oil prices, supported the decrease in fuel prices within CPI by 1.3 percent compared to November 2018. The regulated prices in November 2019 increased by 2.5 percent compared to the same month last year, reflecting mainly the adjustment of the electricity tariff from the summer last year.

In this context, the inflation development in October and November, along with internal and external macroeconomic conditions defined after the forecasting round, included in the Inflation Report no.4, denotes the risk of lower inflation trajectory compared to that anticipated in the fourth quarter of 2019.

At the same time, according to new available information, there exists the risk of downward deviation of the medium-term inflation forecast for the entire forecasting horizon. So, both for the end of this year and for the years 2020 and 2021 it is anticipated the prevalence of disinflationary risks. These result in the delay of the positive seasonal effect, more appreciated trajectory of the foreign exchange rate, along with the decrease in the international food prices, which could mainly amplify the deceleration of the annual inflation rate during 2020 and, respectively, its placement under lower limit of the target variation range.

However, the NBM found out the availability of the medium-short forecast published in November 2019. Thus, starting with the first quarter 2020, inflation will decelerate under the impact of the decrease in aggregate demand amid the mitigation of the consumption and external demand as a result of the slowdown in the world economic activity, relative stagnation of the growth rate of international food and raw materials prices.

The adopted monetary policy measures aim to maintain the inflation within the variation range of 5.0 percent. This objective will be achieved through the encouragement of the widely use of the national currency in the investments and savings process, as well in the lending activity. This decision will contribute to the stimulation of the internal economic activity, including the private and government consumption demand, will boost the investment activity and will support the external trade. However, the achievement of this objective will be also ensured by balancing the conditions of the financial intermediation in national and foreign currency.

Also, the assessments and findings set out within the meeting of the NBM Executive Board revealed the enhancement of the transmission mechanism function and the opportunity of a further potential decrease of the value of the monetary policy instruments in the following quarters. This opportunity aims to create monetary conditions able to maintain inflation within the variation range of $\pm 1,5$ percentage points from the inflation target of 5.0 percent on short-term.

NBM will further monitor and anticipate the internal and external macroeconomic developments, risks and uncertainties associated to inflation development on short and medium-term, so that, by applying, at the appropriate moment, the monetary policy instruments to ensure the maintenance of price stability.

Next meeting of the NBM Executive Board on monetary policy will be held on 29 January 2022, according to the published schedule.