National
Bank of Moldova

Inflation Report

No. 2, May 2017

Note

Statistical data were taken from the National Bureau of Statistics,

Ministry of Economy, Ministry of Finance,

Eurostat, International Monetary Fund,

National Energy Regulatory Agency,

State Hydrometeorological Service.

Likewise were selected certain statistical data provided by the international community and by the Central Banks of the neighboring states.

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List of acronyms

ANRE	National Agency for Energy Regulation
CHIBOR	Average interest rate at which the contributors banks are available to lend funds in MDL to other banks, on the interbank monetary market
CPI	Consumer Price Index
ECB	European Central Bank
EUR	European Single Currency
Fed	Federal Reserve System
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPI	Industrial Production Index
MDL	Moldovan leu
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
NEER	Nominal effective exchange rate of the national currency
OPEC	Organization of the Petroleum Exporting Countries
REER	Real effective exchange rate of the national currency
RUB	Russian ruble
SS	State Securities
USD	U.S. Dollar

Summary

Inflation

In the first quarter of 2017, the annual average inflation rate was 4.3 percent, by 1.8 percentage points more compared to the previous quarter. In March 2017, inflation increased up to the value of 5.1 percent. As a result, this fell within the target inflation range set in the Medium-term monetary policy strategy. The increase of annual inflation rate during the reporting period was determined mainly by the increase in tariffs for healthcare services, the adjustment of excise duty for some categories of products, certain pressures from aggregate demand, increase of oil prices and by the effect of a low base period of 2016. The annual rate of core inflation also recorded a more pronounced upward trend, increasing up to 4.6 percent in March 2017. The annual rate of food prices increased from 2.8 percent in December 2016 to 5.0 percent in March 2017. The fuel prices increased from 1.6 percent in December to 12.5 percent in March 2017. At the end of the first quarter of 2017, the regulated prices increased by 3.6 percent than the same period of the previous year. In the first quarter of 2017, the actual annual inflation rate was higher to that anticipated within the forecasting round presented in the Inflation Report no. 1, 2017, due mainly to the unexpected increase in tariffs for healthcare services.

External environment

The beginning of 2017 marked the world economy by a consolidated effort of the oil exporting countries to fulfil the plan of decreasing the oil production volume, which contributed to the international oil quotes stabilization. Another important event was the increase in reference range of interest rates of the Federal Reserve System from 0.5-0.75 to 0.75-1.0 percent, an event that created a new wave of volatility on foreign exchange market. At the same time, in the first months of 2017, most of countries published their summary statistics on the economic activity results of 2016, which determined the confirmation or, reversely, the modification of forecasts on the development of each economy and of the world economy as a whole. A relevant example in this regard is the increase in forecasted value of gross domestic products in the euro area for 2017, after that Eurostat announced that the euro area economy increased by 1.7 percent in 2016.

Economic developments

In the fourth quarter of 2016, GDP recorded an increase of 6.5 percent compared to the same period of 2015. The annual

dynamic of the economic activity in the second half of 2016 was significantly higher than in the first half of the year. The positive evolution of GDP in the fourth quarter of 2016 was due mainly to the agricultural sector dynamic, which created premises for the increase in export, as well the increase in household consumption and a positive evolution of the change in inventories. Thus, the exports recorded an increase of 19.9 percent in the fourth quarter of 2016. At the same time, the household consumption increased by 4.6 percent mainly due to the increase by 5.0 percent in consumption of goods and services in kind and also due to the increase in household disposable income during the reporting period. The investments contributed positively to GDP dynamics due mainly to the component change in inventories, given that the gross fixed capital formation recorded an increase of 1.0 percent compared to the same period of 2015. The final consumption of public administration decreased by 0.3 percent in the fourth quarter of 2016. The economic activity dynamics was offset by the increase of imports by 9.4 percent compared to the fourth quarter of 2015. The pronounced dynamics of the agricultural sector has also generated positive developments in related sectors. Thus, in the fourth quarter of 2016, the wholesale and retail trade increased by 10.2 percent, manufacturing – by 5.3 percent, transport and storage – by 14.5 percent. During the reporting period, the number of employed people decreased by 1.9 percent compared to the fourth quarter of 2015. However, the unemployment rate accounted for 3.8 percent, being lower than in the same period of 2015.

Monetary policy

During the first quarter of 2017, there were held three meetings of the Executive Board of the National Bank on Moldova on monetary policy decisions. Following the assessment of the balance of internal and external risks, to which the economy of the Republic of Moldova could be subject and inflation outlook in the short and medium-term, the Executive Board of the National Bank of Moldova decided to maintain the base rate applied on main monetary policy operations at the level of 9.0 percent annually.

In the first quarter of 2017, the dynamic of monetary aggregates was positive, the quarterly average in annual terms constituted 19.6 percent for M2 (by 1.7 percentage points higher than in the fourth quarter of 2016) and 10.5 percent for M3 (by 1.1 percentage points higher than the previous quarter).

The average interest rates on deposits in national currency continued its downward trend and consequently, the average rates on credits granted by banking system recorded a tempered decline.

During the reporting period, compared to the fourth quarter of 2016, the annual average interest rates related to the balance of credits recorded a decrease of 0.78 percentage points on credits in national currency and of 0.27 percentage points on credits in foreign currency, recording the levels of 11.32 and 5.58 percent, respectively. The average interest rate on deposits in MDL was 7.59 percent during the first quarter of 2017, decreasing by 1.38

percentage points compared to the previous quarter. The interest rate of placements balance in foreign currency constituted on average 2.13 percent, lower by 0.08 percentage points than in the fourth quarter of 2016.

Medium-term inflation forecasting

According to the current round of forecasting, the output gap will record positive values in the first four quarters of the forecasting horizon and negative values in the other next quarters. The placement of the economic activity above its potential level, on medium-term, will cause disinflationary pressures, while the negative values of output gap during the last four quarters of the forecasting horizon will generate disinflationary pressures. The real monetary conditions will have a heterogeneous impact on the demand. The real effective exchange rate will manifest incentive effects in the first quarter of the forecasting period, after which it will produce restrictive monetary conditions for the rest of the forecasting horizon. The real interest rate will be incentive for the entire forecasting horizon, except the last two forecasting quarters when it will be insignificant restrictive.

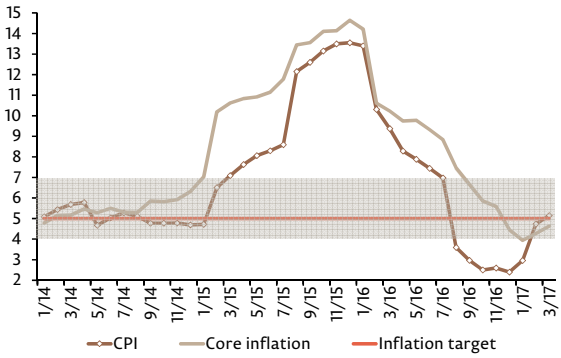
According to the current projection, the annual average CPI inflation rate will record an upward trend until the fourth quarter of 2017, after which it will decrease until the end of the forecasting horizon. Starting with the second quarter of 2017, the annual inflation rate will be above the range of variation during four consecutive quarters. Thereafter, this will fall within the target inflation range by the end of the forecasting horizon. This will record the maximum level of 8.1 percent in the fourth quarter of 2017, while the minimum level of 4.1 percent in the fourth quarter of 2018. Compared to the previous forecast, the average annual values of the inflation rate are higher by 1.6 percentage points in 2017 and by 0.2 percentage points in 2018.

Chapter 1

Inflation development

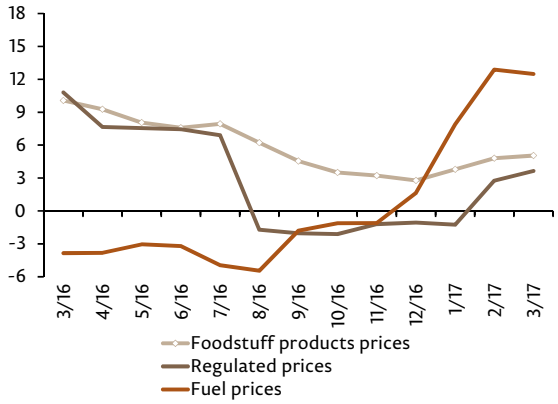
The annual inflation rate recorded an upward dynamics since the beginning of this year, increasing to the level of 5.1 percent in March. As a result, in February 2017, it fell within the target inflation range set in the Medium-term monetary policy strategy. The average annual inflation rate in the first quarter of 2017 was 4.3 percent and was higher than the previous quarter. The increase of annual inflation rate during the reporting period was due mainly to the increase in tariffs for healthcare services, adjustment of excise duty for some categories of products, pressures arisen from aggregate demand, increase of oil prices and due to the effect of a low base period of 2016. The annual rate of core inflation recorded a less pronounced upward trajectory. In the first quarter of 2017, the actual annual inflation rate was higher to that anticipated within the forecasting round presented in the Inflation Report no. 1, 2017, due mainly to the unexpected increase in tariffs for healthcare services.

Chart 1.1: The annual rate of CPI and core inflation (%)



Source: NBS, NBM calculus

Chart 1.2: The annual rate of food, regulated and fuel prices (%)



Source: NBS

1.1 Consumer price index

In the first quarter of 2017, the annual inflation rate recorded an upward trend, after the pronounced downward trend during the previous year. Thus, it increased from 2.4 percent in December 2016 up to 5.1 percent in March 2017 (Chart 1.1). In February 2017, this fell within the range of 5.0 percent ± 1.5 percentage points stipulated in the Medium-term monetary policy strategy. The annual average CPI rate in the first quarter of 2017 was 4.3 percent, by 1.8 percentage points higher than the previous quarter.

In February and March 2017, the annual rate of core inflation recorded lower levels than total inflation. Similarly, the core inflation recorded an upward trend during the first quarter of 2017. However, it was recorded lately. Thus, the downward trend of inflation from previous year concluded in January 2017, accounting for 3.9 percent. In March 2017, the annual rate of core inflation accelerated up to the value of 4.6 percent. In the first quarter of 2017, the average rate of core inflation was 4.3 percent, by 1.0 percentage points less compared to the previous quarter. As a result, the contribution from core inflation on the annual rate of CPI decreased by 0.3 percentage points, up to 1.3 percentage points in the first quarter of 2017.

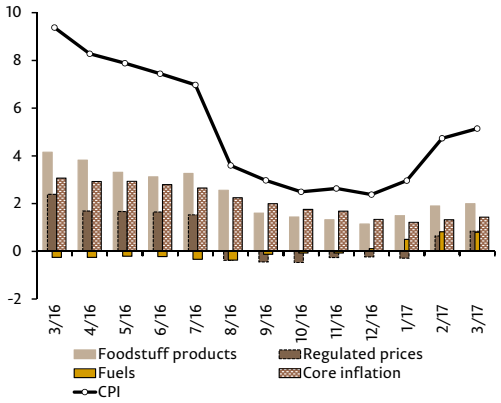
The upward trajectory of the annual CPI inflation rate was determined mainly by the high pressures from regulated prices and oil prices. Thus, the contribution from regulated prices increased by 0.7 percentage points, accounting for 0.4 percentage

points in the first quarter of 2017, as a result of the increase in tariffs for healthcare services. At the same time, the contribution from oil prices increased by 0.7 percentage points, as a result of the increase in petroleum products prices and adjustment of excise duty in early 2017.

The acceleration of annual inflation rate was also supported by the food prices, as a result of certain less favourable meteorological conditions in the first month of the year and of some pressures from the aggregate demand. Their contribution to the CPI dynamics increased from 1.3 percentage points to 1.8 percentage points. Taking into account the relative stable national currency against U.S. dollar during the reporting period, this does not exerted inflationary pressures on prices (Chart 1.3).

Within the components' structure, non-food prices increased in March 2017 by 5.2 percent, prices of services – by 5.1 percent, while food prices were by 5.0 percent higher than in March 2016.

Chart 1.3: The evolution of the annual inflation (%) and subcomponents contribution (p.p.)



Source: NBS, NBM calculus

Core inflation

In the first quarter of 2017, the average annual rate of core inflation was 4.3 percent, by 1.7 percentage points less compared to the previous quarter. However, at the beginning of this year, the annual rate of core inflation recorded an upward trajectory, increasing from 3.9 percent in January up to 4.6 percent in March.

The slight aggregate demand recovery and the adjustments of the State fiscal policy for 2017, as well certain sectoral shocks constituted the main sources of the inflationary pressures for core inflation during the reporting period.

The "cigarettes" segment recorded a significant contribution to the prices upward dynamic in the first quarter of 2017 (Chart 1.4). The changes operated in the State fiscal policy for 2017 on excise duty increase have been reflected in high prices for these articles.

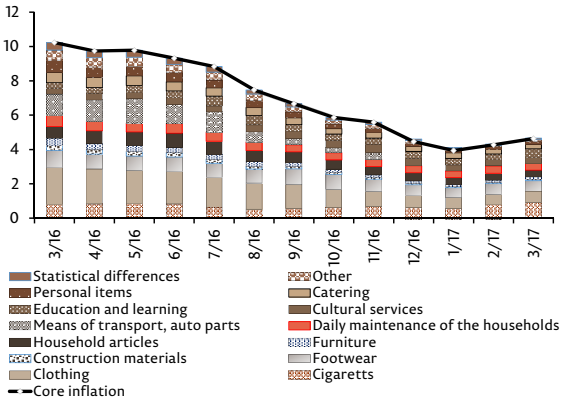
At the same time, the inflationary pressures occurred as a result of higher prices for "clothes", "footwear", "household articles".

The increase in fees for nursery and kindergarten was reflected in the positive contribution from the subcomponent "education and training" to the core inflation dynamic. New taxes for children's food ratio in educational institutions came into force in early March, after the publication of the Government Decision in the Official Monitor of the Republic of Moldova. Thus, this sectoral shock, generated by decisional factors, contributed to the upward development of core inflation.

At the same time, there was recorded a decrease in prices of means of transport. Although the changes made in fiscal policy framework also aimed to increase the excise duty for some categories of transport, the possible increases of prices were levelled out mainly by the appreciation of 0.6 percent of national currency against U.S. dollar and by 4.0 percent against euro (in the first quarter of 2017 compared to the first quarter of 2016), given that a large part of the items of this category monitored by NBS depend on the MDL/USD and MDL/EUR quotation.

By subcomponents, in March 2017 compared to March 2016, there were recorded the most significant increases in prices of "cigarettes" (21.6 percent), "education and training" (11.8 percent), "footwear" (9.3 percent), "clothing" (4.4 percent) etc.

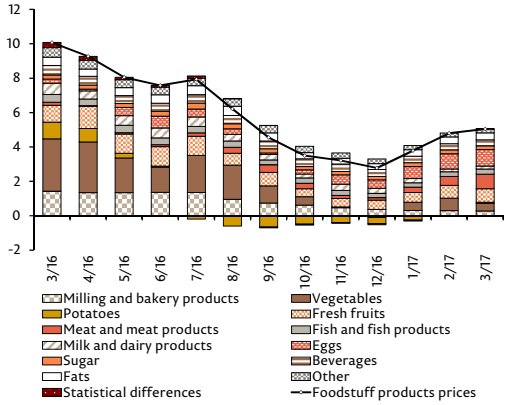
Chart 1.4: The subcomponents contribution (p.p.) to the annual rate of core inflation (%)



Source: NBS, NBM calculus

Food prices

Chart 1.5: The components contribution (p.p.) to the annual rate of food prices (%)



Source: NBS, NBM calculus

In the first quarter of 2017, the annual rate of food prices recorded an average level of 4.5 percent, by 1.4 percentage points higher than the fourth quarter of 2016.

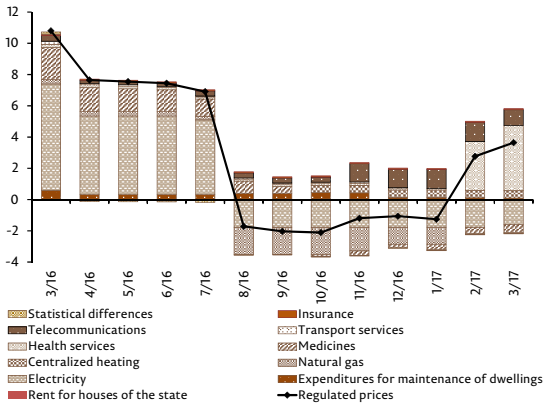
The upward dynamics of annual rate was caused mainly by the increase in contributions from groups "fresh vegetables", "eggs", "potatoes", "meat and meat products" and "fresh fruits" (Chart 1.5). The increase in prices of potatoes, fresh vegetables and fruits was determined mainly by the registration of a low temperature and rainfall in January as usually. Thus, the less favourable meteorological conditions affected both the number of traders and conditions for storing and selling these products. At the same time, the increase in eggs prices during the first quarter was determined by the decrease in supply of these products on domestic market. It should be mentioned that the upward trend of annual rate of food prices was also supported by the positive aggregate demand, which generated inflationary pressures during the quarter.

On international market, in the first quarter of 2017, the annual rate of food prices recorded an average level of 15.9 percent, by 5.7 percentage points higher than the fourth quarter of 2016.

The increase of 5.0 percent in annual terms of food prices in March 2017 was mainly due to the increase in prices of "eggs" (53.3 percent), "fresh fruits" (11.2 percent), "sugar" (10.9 percent), "fats" (8.7 percent) "fish and fish products" (6.3 percent) and "meat and meat products" (3.8 percent).

Regulated prices

Chart 1.6: The components contribution (p.p.) to the annual rate of regulated prices (%)



Source: NBS, NBM calculus

The annual rate of regulated prices recorded an upward dynamic in the first quarter of 2017, increasing from -1.1 percent in December 2016 up to 3.6 percent in March 2017. At the same time, the quarterly average rate in the reporting quarter was 1.7 percent, by 3.2 percentage points higher than in the fourth quarter of 2016.

The upward evolution of regulated services prices was determined mainly by the increase in tariffs for health services (Chart 1.6), as a result of adjusting the Catalogue of uniform tariffs for healthcare services[1]. These changes resulted in the increase of the healthcare services subcomponent of CPI by 48.2 percent and by 16.8 percent in February and March, respectively. According to the Ministry of Health, the previous medical tariffs have not covered the real costs of expensive consumables, as well the public medical institutions were endowed with performant medical equipment for diagnostic and treatment purposes, so these price adjustments were unavoidable (Box 1).

At the same time, in the first quarter of 2017, the positive contribution of the telecommunication services prices intensified over the regulated prices. In this context, at the beginning of the

[1] http://lex.justice.md/md/341845/

year, Moldtelecom S.A. operated changes in internet subscriptions that generated the increase in contribution of this component to CPI[2].

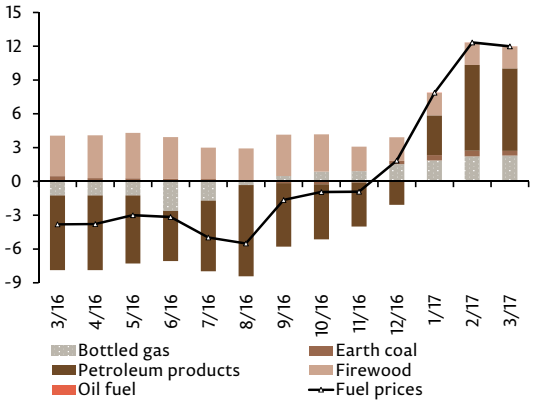
In March, ANRE updated the tariffs for electricity and heat energy. However, the impact of high tariffs for heat energy is to be further reflected. The impact of high electricity tariff was partially reflected in March, this component increasing to CPI by 1.0 percent compared to February. However, the contribution of electricity over the annual rate of regulated prices continued to be negative and mitigated the positive impact of the above-mentioned subcomponents. Medicines prices exerted during the reporting period a negative impact over the annual rate of regulated prices.

Fuel prices

During the first quarter of 2017, the annual rate of fuel prices recorded an upward dynamics, increasing from 1.6 percent in December 2016 up to 12.5 percent in March 2017. The average growth rate of these prices was 11.1 percent during the reporting period, by 11.3 percentage points higher than the fourth quarter of 2016 (Chart 1.7).

The formation of the annual rate of fuel prices during the first quarter of 2017 was driven mainly by rising fuels prices. The contribution generated by them reached a level of 6.2 percentage points, by 9.8 percentage points higher compared to the fourth quarter of 2016. This dynamics was supported by the increase in international oil prices. Thus, the price of Urals brand oil in the first quarter of 2017 reached USD 52.1 per barrel, increasing by 8.7 percent compared with the previous quarter. It should be mentioned that starting with September 2016 the annual rate of prices for the "bottled gas" subcomponent turned positive. Thus, in the first quarter of 2017, the contribution of this subcomponent was 2.1 percentage points, by 1.0 percentage points more compared to the previous quarter. The positive contribution from fuels and liquefied gas prices were also determined by the adjustment of oil products excise duty for 2017 (Box 2). During the reporting period, the contribution generated by "firewood" prices reached 2.0 percentage points to the annual rate formation of fuel prices, by 0.6 percentage points lower compared with the fourth quarter of 2016. A positive contribution to annual rate formation of fuel prices was also exerted by the "earthcoal" prices. Thus, in the first quarter of 2017, the contribution of this subcomponent to annual rate formation was 0.5 percentage points, by 0.5 percentage points higher compared to the fourth quarter of 2016.

Chart 1.7: The components contributions (p.p.) to the annual growth of fuel prices (%)



Source: NBS, NBM calculus

[2]http://www.moldtelecom.md/news/13893

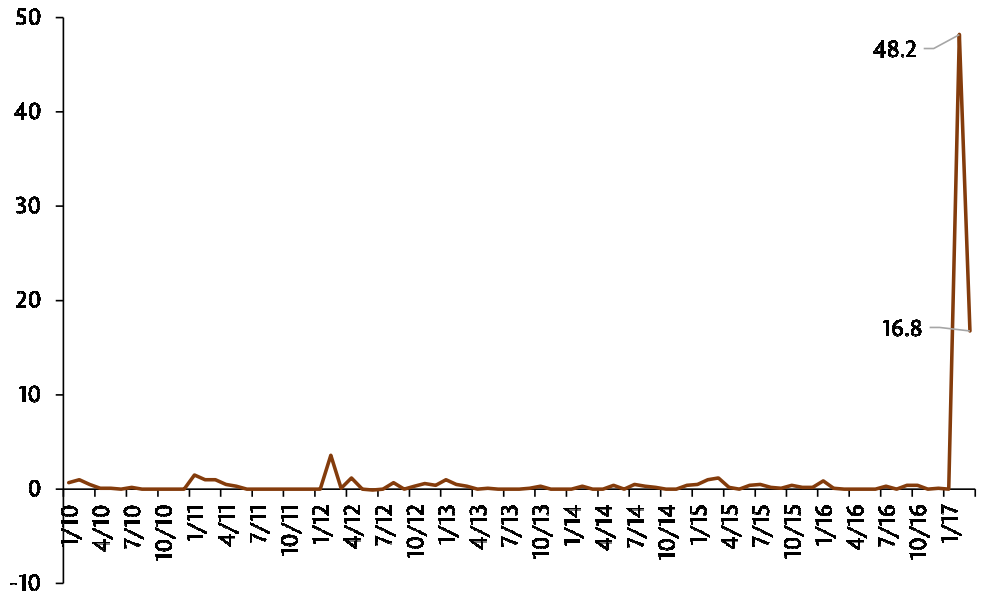
Box 1

Recent adjustments to healthcare service tariffs and their impact on CPI

Setting healthcare service tariffs is of a certain specific nature, compared with other authority regulated service tariffs. On one hand, they are strictly regulated by tariffs approved by the Ministry of Health, public healthcare facilities that operate under self-funding principle within the compulsory healthcare insurance, non-profit facilities and are directly contracted by the National Healthcare Insurance Company (NHIC)[1]. This fact contributed to listing healthcare services in the regulated prices structure within the CPI price index group components[2]. On the other hand, many healthcare services are provided in the private sector (especially specialized outpatient healthcare assistance, diagnosis laboratories, seldom primary and in-patient healthcare assistance) and thus are not under the eye of NHIC in what concerns expenditures.

The healthcare service tariffs provided both by public and private facilities are influenced by several factors, among which the national currency exchange rate, wage expenditures, seasonal factor etc. Still, the healthcare services tariffs provided by public facilities are adjusted according to the existing regulations, which occurs seldom. According to the law, the healthcare service tariffs are adjusted once in two years[3], depending on the last consumer price index and annual macroeconomic forecast of the Ministry of Economy on inflation forecast, and, if required, if the annual expected norm is exceeded, indexing is additionally carried out, starting at 3 percent[4] threshold.

Chart no. 1: The monthly evolution of healthcare service prices (%)



Source: NBS, NBM calculus

At the same time, private sector tariffs for healthcare services are constantly fluctuating, depending on the aforementioned factors. Due to this, one can note ongoing fluctuations of services included in health component within CPI. They are generated by tariff adjustments in the private sector (Chart no. 1). Ongoing adjustments, although minor, of service tariffs provided by private facilities made, in time, a significant gap between public and private facilities' healthcare service tariffs.

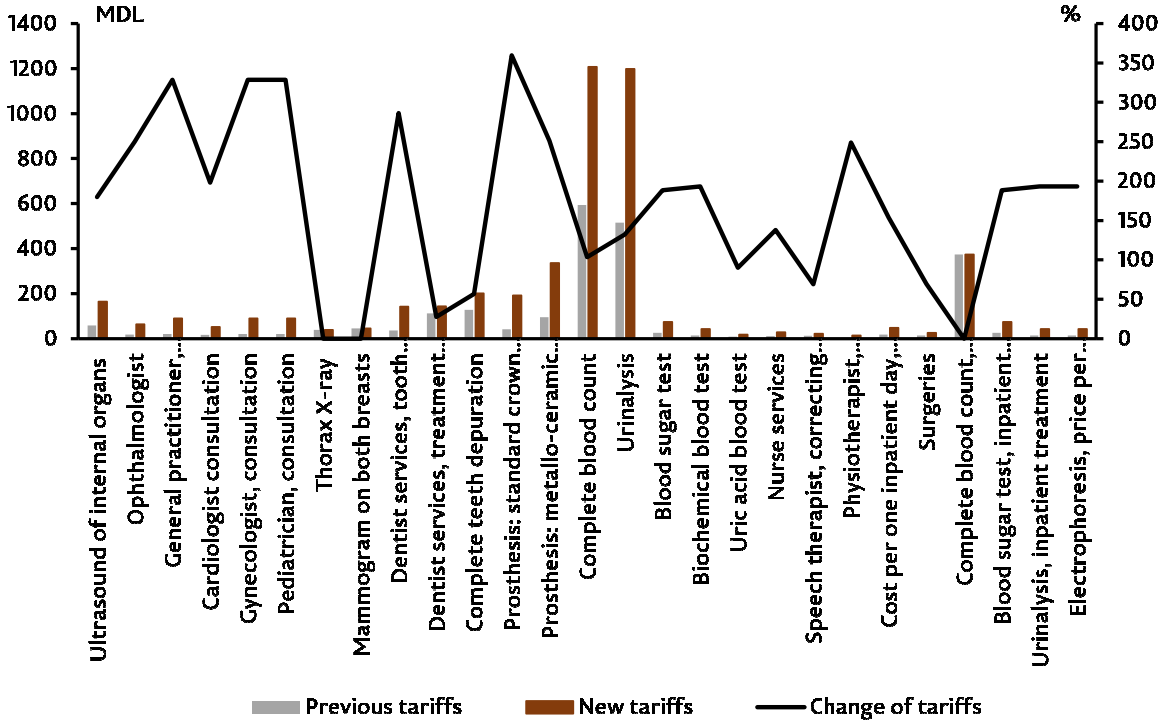
Given that they are spread on a broader timeframe, monthly variations of healthcare subcomponent within CPI, generated by private sector evolutions, are significantly lower than their dynamic generated by the adjustments from February 2012, and especially from February 2017.

[1] Law on health protection (No 411-XII, of 28 March 1995, amended and supplemented).
[2] http://www.statistica.md/public/files/Metodologia_Inflatia_de_baza.pdf
[3] http://www.ms.gov.md/?q=stiri/detinatorii-polite-vor-beneficia-tratamente-gratuite-indiferent-marimea-tarifelor-serviciile
[4] http://lex.justice.md/md/341845/

In this sense, adjustments to public facilities' healthcare service tariffs were carried out in December 2011, the impact of which was disclosed for February-April 2012. At that time, according to the predictions, healthcare service tariffs in the Republic of Moldova should have been increased by 7.2 percent[5]. Nevertheless, the growth recorded by NBS for this component was of about 5 percent.

In the first quarter of 2017, the public healthcare services increased cumulatively by about 65.0 percent, following the modification of the Catalogue for single healthcare service tariffs, which, as previously noted, was last time modified in 2011. According to the forecasting update round of February 2017, the impact of healthcare service increase approved on 30 December 2016 is higher than the one disclosed by NBS[6]. The difference between the real and the predicted figures was predominantly determined by the different structure of the Catalogue for single healthcare service tariffs, that shows the entire range of available services provided by the public healthcare facilities against a fee and the services that are covered by the compulsory healthcare insurance provided by public and private healthcare facilities, compared with NBS monitoring list that is restricted to healthcare services with a higher share in the people's household consumer expenditures structure.

Chart no. 2: The previous and new tariffs for some healthcare services (left scale) included in the CPI structure[7] (%)



Source: NBS, Ministry of Health, NBM calculus

Analysis of the new tariffs included in the aforementioned Catalogue shows a considerable growth of healthcare service tariffs (Chart no. 2), compared with the previous ones, for most subcomponents, be it specialist advice, treatment of a tooth decay, ultrasound, X-ray etc. Also, the cost per bed day increased. Besides the fact that one inpatient day will cost more, the fee does not include catering and medication. Thus, if an in-patient day in the therapeutic ward cost MDL 144, now it will cost MDL 209; the cost for one in-patient day in cardiology ward will amount to MDL 345, against MDL 218, as it used to be until now. The fee for one in-patient day in the surgery ward will be of MDL 345, while in the cardiovascular surgery ward - MDL 446, instead of MDL 299 per inpatient day.

[5] http://www.timpul.md/articol/din-2012-tarifele-la-serviciile-medico-sanitare-in-moldova-se-vor-majora-cu-7-29952.html
[6] Estimates have been carried out based on tariff comparison included in the Catalogue of single healthcare tariffs for 2011 and the Catalogue adjusted by GD1460 of 30.12.16, MO40-49/10.02.17 art.99. The impact on the CPI was estimated by comparing the aforementioned catalogue with the list of healthcare services monitored by NBS.
[7] NBM estimates.

Also, one inpatient day in the reanimation ward will cost about MDL 1000, instead of MDL 533, as it used to be. The surgeries are also getting more expensive, depending on their nature. For example, a peripheral aneurysm surgery will cost MDL 4600 instead of MDL 1900. Mastectomy due to a malignant tumor will cost MDL 2000, instead of MDL 500.

Ministry of Health explains tariff adjustment in an informative note published on its official website[8] arguing that the previous healthcare service tariffs did not cover all expensive consumables and that, in the meantime, the public healthcare facilities have been provided with high-end medical equipment to set diagnosis and carry out treatment. That is why these tariff adjustments could not be avoided. The Ministry of Health outlined that the new tariffs for healthcare services will not affect the citizens of the Republic of Moldova who held a healthcare insurance policy. To be exact, about 86 percent of people will have access to free healthcare services and compensated care, while the Government will cover the expenses of people with small revenue or those unemployed[9].

[8] http://www.ms.gov.md/?q=stiri/detinatorii-polite-vor-beneficia-tratamente-gratuite-indiferent-marimea-tarifelor-serviciile
[9] According to the law on compulsory healthcare insurance, the Government covers the cost of healthcare policy for 15 categories of people: children, pupils, students, residents, interns, pregnant women and women who have recently given birth or are breastfeeding, disables people, unemployed, mothers with four or more children and social allowance beneficiaries.

Box 2

Excise duty growth's impact on CPI

The modification of prices for some categories of goods included in the CPI is driven by the adjustment of some government Fiscal Policy provisions. Thus, the increase of excise duty quota, which according to the Fiscal Code are some state taxes established for some consumer goods, has a direct impact on the inflation.

According to Art.122 of the Fiscal Code, two categories of excise duties are set for excise goods: in absolute value to the measuring unit of good and/or ad valorem in percent from the good's value. The amount and type of excise duty quotas, depending on the type of goods, are shown in Appendices no. 1 and 2 to Title IV of the Fiscal Code[1].

Excise duty quotas for some goods are reviewed from time to time both to boost state budget accruals and to promote its certain policies. Thus, the growth of excise duty quotas for oil products on the territory of the Republic of Moldova is carried out based on gradually bringing the excise duty quotas in line with the quotas set by the EU legislation, according to the schedule established in the RM-EU Association Agreement[2]. Thus, under European directives, the minimal excise duty quota for petrol makes up EUR 359 per 1000 l, for diesel fuel – EUR 330 per 1000 l and for liquefied gas – EUR 125 per 1000 kg[3].

The increase of excise duty quota for filter and non-filter cigarettes is similarly explained. This quota will gradually grow so that it lifts up to the level recorded by the countries in the region, including the European standards. Thus, according to the commitments assumed by the Republic of Moldova on bringing the structure of excise duty rates applied on processed tobacco in line with the EU directives, the Republic of Moldova will apply a quota of no less than EUR 90 per 1000 cigarettes by 2025.

Besides aligning to the EU standards and accruing new financial resources to the budget, the excise duty adjustment can also trigger other beneficial objectives, such as cut of tobacco products consumption, as they are products with a negative effect on people's health and society development in general[4].

Table no. 1: Excise duty quotas for some CPI subcomponents

	Measuring unit	2016	2017	2018	2019
Excise goods					
Beer MDL/l	*MDL/l*	**2.38**	**2.5**	**2.5**	**2.5**
Wine MDL/l	*MDL/l*	**12.34**	**12.96**	**13.61**	**14.29**
Alcohol <80% MDL/l	*MDL/l*	**85.83**	**90.12**	**94.63**	**99.36**
Cigarettes					
With filter	*1000 pieces/value in MDL*	**300 MDL+12%, but no less than 400 MDL**	**360 MDL+12%, but no less than 480 MDL**	**410 MDL+12%, but no less than 540 MDL**	**460 MDL+12%, but no less than 610 MDL**
Non-filter	*MDL/1000 pieces*	**60 MDL**	**120 MDL**	**160 MDL**	**200 MDL**
Fuels					
Petrol, MDL/ton	*MDL/ton*	**4137**	**4560**	**4961**	**5414**
Diesel fuel, MDL/ton	*MDL/ton*	**1720**	**1926**	**2092**	**2280**
Bottled gas MDL/ton	*MDL/ton*	**2577**	**2875**	**3124**	**3406**

Source: Fiscal Code of RM

[1] http://www.lex.md/fisc/codfiscaltxtro.htm#TITLUL IV
[2] http://www.mfa.gov.md/img/docs/Acordul-de-Asociere-RM-UE.pdf
[3] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32003L0096
[4] http://particip.gov.md/proiectview.php?l=ro&idd=3398

If excise duty quotas were previously adjusted on an annual basis, usually at the beginning of the year, the Fiscal Policy for 2017 stipulates a significant excise duty increase and their establishment for a 3-year timeframe for some categories of goods included in the CPI structure in order to ensure the predictability of the Fiscal Policy and law. Excise duty adjustment will contribute to price increase of some CPI components that are subject to excise duties.

Table no. 2: Estimated impact related to the increase of excise duty quotas for some CPI subcomponents (percentage points)

	2017	2018	2019
Total CPI	0.2	0.2	0.2
Food price inflation	**0.03**	**0.03**	**0.03**
Alcoholic beverages	**0.9**	**0.8**	**0.8**
Vodka	2.4	2.4	2.5
Wines	0.9	1.0	1.0
Beer	0.4	0.0	0.0
Core inflation	0.4	0.3	0.3
Cigarettes	7.5	6.8	6.3
Vehicles and trails	0.4		
Fuel price inflation	0.8	1.0	1.0
Bottled gas	1.4	1.5	1.7
Fuels	1.3	1.5	1.6

Source: NBM

Although excise duty modification affects a significant number of goods within CPI, the impact is predominantly felt in CPI due to the following subcomponents: alcoholic products, cigarettes, fuels and liquefied gas, vehicles. This fact can be explained by the share that these products hold in the CPI structure. Excise duty modification for aforementioned products is presented in Table no. 1. Other excise goods, such as jewellery, perfumes, furs etc. hold a smaller share in the CPI structure, so that when modified, their quotas do not have a sizeable effect on price growth.

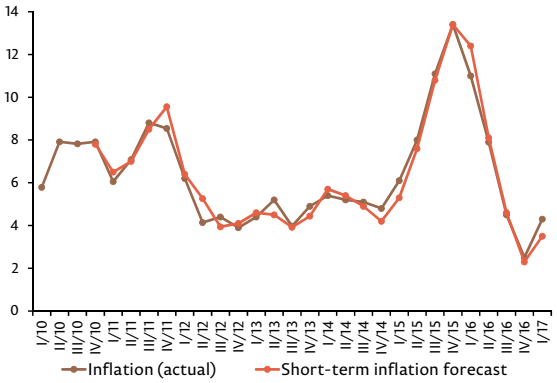
Excise duty modification according to the Fiscal Policy for 2017 will have a significant effect on several CPI subcomponents. Table no. 2 shows the estimated effect of excise duty quotas adjustment on CPI for 2017, 2018 and 2019. Usually, this impact is disclosed within CPI in the first months of the year. Nevertheless, the effect of excise duty modification can be delayed due to the availability of significant under old excise duties, as is the case with the cigarettes.

Thus, it is estimated that the predicted growth of excise duties for 2017, 2018, 2019 will trigger about 0.2 percentage points per year on the consumer price inflation rate during the aforementioned timeframes. Within CPI subcomponents, fuel prices and core inflation will be strongly affected, while food prices will witness a minor impact.

1.2 Comparing the forecasts of the Inflation Report no. 1, 2017 with the inflation developments in the first quarter of 2017

Data on CPI in the first quarter of 2017 show an inflation increase by 0.8 percentage points than it was anticipated (3.5 percent) within the forecasting round of January 2017 published in the Inflation Report no. 1, 2017 (Chart 1.8). The pronounced positive deviation was determined mainly by the deviation of 2.2 percentage points of the regulated prices forecasts (-0.5 percent) (Table 1.1). This was due to the impact of the unexpected increase in prices of health component that was reflected in February and March. At the same time, the registration of a positive deviation was also favoured by the evolution of food prices and that of core inflation. Thus, food prices recorded a higher value by 0.5 percentage points compared to the forecast presented in the Inflation Report no. 1, 2017, as a result of the registration of colder-than-usual meteorological conditions during January 2017, thus generating more pronounced inflationary pressures over the prices of fresh vegetables and fruits. Core inflation recorded a deviation of 0.3 percentage points compared to the anticipated value, due mainly to the reflection of the impact of increased excise duty for cigarettes earlier than the previous years. The fuel prices forecast recorded a negative deviation of 0.3 percentage points. However, taking into account the reduced share in CPI structure, this deviation has not generated a significant impact on the inflation forecast on short-term. The dynamic of the exchange rate during the reporting period was lower than anticipated, so that this offset, to some extent, the inflationary pressures generated by the aforementioned factors.

Chart 1.8: The evolution and forecast of CPI since the implementation of inflation targeting regime (%)



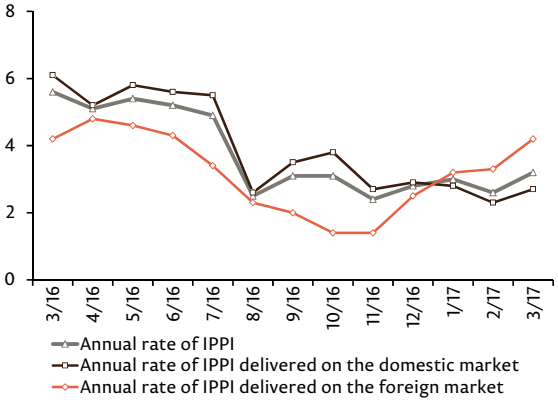
Source: NBM

Table 1.1: The evolution and forecast of CPI and its components

	De facto (%)	Forecast IR 1, 2017	Deviation (p. p.)
	Q I, 2017/ Q I, 2016	Q I, 2017/ Q I, 2016	De facto-forecast
CPI	**4.3**	**3.5**	**0.8**
Core inflation	4.3	4.0	0.3
Food	4.5	4.0	0.5
Regulated prices	1.7	-0.5	2.2
Fuels	11.1	11.4	-0.3

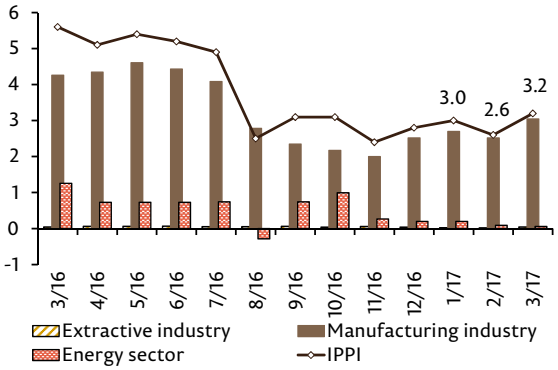
Source: NBS, NBM calculus

Chart 1.9: The IPPI annual rate (%)



Source: NBS

Chart 1.10: The IPPI annual rate (%) and the contribution of its components categorised by main branches (p.p.)



Source: NBS, NBM calculus

1.3 Industrial output prices

In the first quarter of 2017, the annual rate of prices in industry recorded an average level of 2.9 percent or by 0.1 percentage points higher compared to the fourth quarter of 2016. The upward dynamics of the IPPI annual rate was influenced by the dynamics of prices of the products delivered to foreign market (Chart 1.9). In this regard, the annual rate of IPPI delivered to foreign market increased by 1.8 percentage points, reaching the level of 3.6 percent. At the same time, the annual rate of prices of products delivered to domestic market recorded the level of 2.6 percent or by 0.5 percentage points lower than the fourth quarter of 2016.

The evolution of annual rate of prices in industry shows that its dynamics was determined mainly by the evolution of prices in manufacturing (Chart 1.10). In the first quarter of 2017, the prices in manufacturing industry contributed on average by 2.8 percentage points to the IPPI annual rate formation, or by 0.6 percentage points more than in the fourth quarter of 2016. It should be mentioned that the dynamics of prices in manufacturing industry was influenced by the increase in prices of "food industry" and "textile products". At the same time, the contribution from prices of energy sector was 0.1 percentage points, while the contribution from extractive industry prices remained insignificant (0.03 percentage points).

Chapter 2

External environment

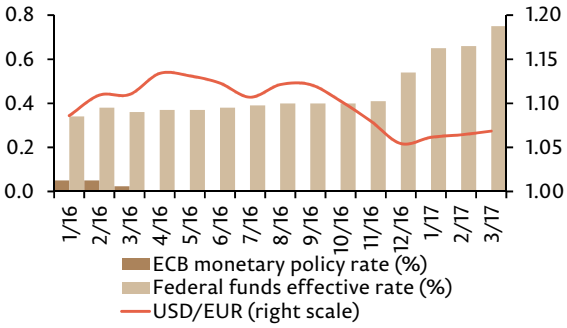
2.1 World economy, financial and raw materials markets

The beginning of 2017 was marked in the world economy by the consolidated effort of oil exporting countries to fulfil the plan of decreasing the oil production volume, which contributed to the stabilization of international oil quotes. Another important event was the increase in interest rate reference range of the Federal Reserve System from 0.5-0.75 to 0.75-1.0 percent, an event that created a new wave of volatility on foreign exchange market. At the same time, in the first months of 2017, most of countries published their summary statistics on the economic activity results of 2016, which determined the confirmation or, reversely, the modification of forecasts on the development of each economy and of the world economy as a whole. A relevant example of the analyse is the increase in forecasted value of gross domestic products in the euro area for 2017, after that Eurostat announced that the euro area economy increased by 1.7 percent in 2016.

In the first three months of 2017, U.S. dollar presented an increased volatility, which amplified the uncertainties on international market (Box 3). However, U.S. dollar appreciated, as a result of the Federal Reserve System decision to increase the reference range of interest rates by 0.25 percentage points, up to 0.75-1.0 percent (Chart 2.1). Thus, on quarterly average, U.S. dollar appreciated by 3.9 percent against Japanese yen, by 1.3 percent against the European single currency (Chart 2.1), by 0.9 percent against the Canadian dollar, by 0.4 percent against the Swiss franc and by 0.2 against the Pound sterling. At the same time, U.S. dollar depreciated by 1.3 percent against the Swedish krona. The currencies of main emerging economies recorded an opposite trend compared to U.S. dollar. Thus, the Turkish lira depreciated during the reporting period by 12.7 percent, the Argentinian peso – by 1.5 percent and Chinese yuan – by 0.8 percent. The Brazilian real and the Indian rupee appreciated in the first quarter of 2017 on average by 4.6 and 0.7 percent against U.S. dollar.

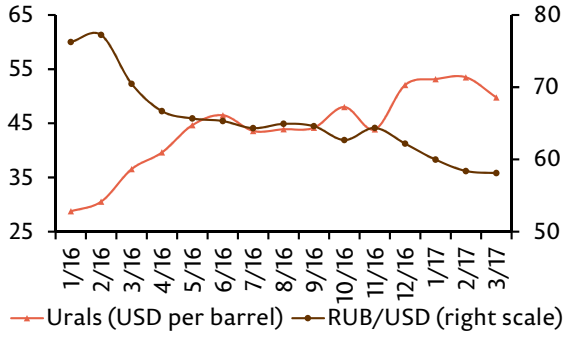
An intensification of contrasts of the foreign exchange trends was registered in the region, which generates an increased volatility. Given the stability of oil prices, the Russian ruble appreciated on average by 6.7 percent against the U.S. dollar and by 8.1 percent against the European single currency in the first quarter of 2017 (Chart 2.2).

Chart 2.1: The evolution of USD/EUR parity (monthly average) in the context of the monetary policy promoted by ECB and Fed



Source: ECB, Fed

Chart 2.2: The evolution of RUB/USD (monthly average) under the influence of the oil price developments



Source: Central Bank of the Russian Federation, Ministry of Economic Development of the Russian Federation

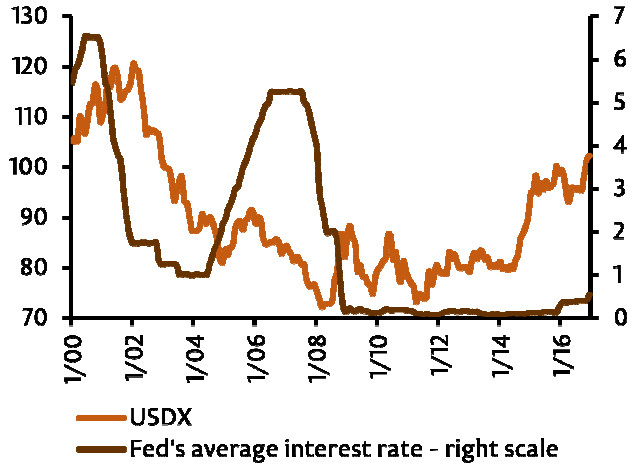
Box 3

Analysis of U.S. dollar development under the Federal Reserve System's monetary policy

From the second half of 2014, world economy is under a significant and ongoing appreciation of the U.S. dollar against other currencies of international circulation. This phenomenon is backed by the Federal Reserve System's (Fed) monetary policy conduct that opposes relevant monetary policies on other currencies of international circulation. Fed has three main goals – workforce occupation to the highest degree, stable prices and long-term moderate interest rates in the U.S. economy. The Great recession in the U.S. economy that triggered the increase of unemployment rate up to 10.0 percent (in October 2009) and the odd increase of prices (annual inflation rate of 5.6 percent in July 2008, when the historical average and the targeted level is of 2.0 percent), pushed Fed to take unprecedented incentive monetary policy measures. Thus in 2008-2014, Fed implemented three consecutive programs of quantitative easing that assumed the purchase of financial assets. This cut the value of the U.S. dollar, recording an alternating depreciation against other currencies of international circulation.

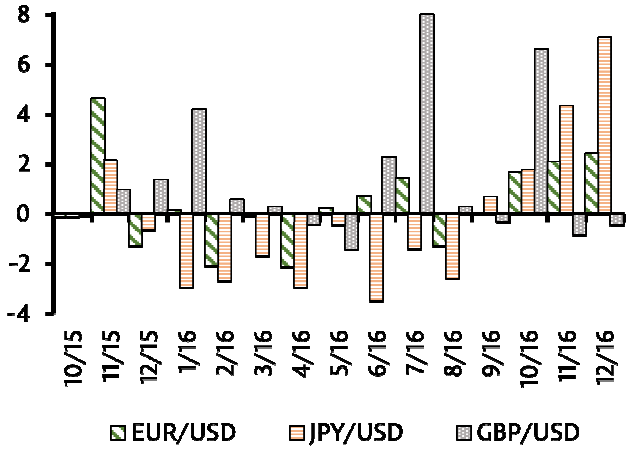
In October 2014, Fed completed the last program and conditioned the increase of interest rate range under monetary policy goals and economic conditions. Thus, while waiting for interest rate increase, the financial markets anticipated the effects, thus conditioning the gradual appreciation of the U.S. dollar, even if Fed has sufficiently delayed the increase of interest rate, although the European Central Bank (the European single currency being the second most traded currency) gradually reduced the monetary policy rate to 0.0 percent and started an asset purchase program similar to Fed quantitative easing programs. Interest rates were increased the first time on 15 December 2015, when Fed increased the interest rate range up to 0.25-0.5 percent. The U.S. dollar appreciation amid this event amplified in 2016 with the predictions on a new increase of interest rate range. However, only one year later, on 14 December 2016 Fed did increase the interest rate range again by 0.25 percentage points, although the unemployment rate reached a minimum of 4.6 percent in November 2016 after August 2007 and the annual inflation grew to the target value of 2.0 percent in December 2016. The U.S. dollar appreciation related to Fed interest rate range increase in December 2016 a triggered the growth of USDX[1] index up to 102.21, the highest level since 2003 (Chart no. 1).

Chart no. 1: USDX index evolution amid Fed's monetary policy



Source: Fed, Bloomberg

Chart no. 2: Average monthly appreciation (-)/depreciation (+) of advanced economy currencies against U.S. dollar



Source: ECB, Bank of Japan, Bank of England, NBM calculus

[1] USDX is an index calculated by weighted geometrical average of U.S. dollar value relative to the value of a basket of foreign currencies: euro - 57.6%, Japanese yen – 13.6%, Pound sterling – 11.9%, Canadian dollar - 9.1%, Swedish krona – 4.2%, Swiss franc – 3.6%.

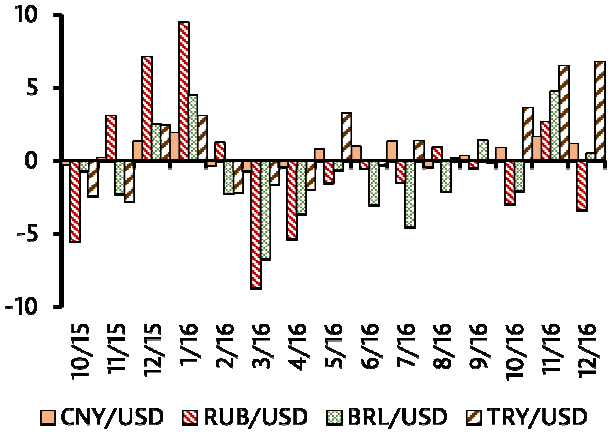
As it has already been noted, the U.S. dollar appreciation amplified as opposed to the monetary policies of the main currencies of international circulation. Now, both the European Central Bank and the Bank of Japan implement quantitative easing programs. Thus, during 2016, the European single currency depreciated against the U.S. dollar on average by 0.2 percent, while the biggest depreciation of 2.4 percent being recorded in December 2016.

The Japanese yen appreciated against the U.S. dollar during 2016 on average by 10.1 percent, but, as of September 2016 it started depreciating and in December 2016 recorded an increase of 7.1 percent of JPY/USD parity. At the same time, in December, GBP was the single currency of international circulation that appreciated against the U.S. dollar (by 0.4 percent), due to its major cumulative depreciation following the referendum of 23 June 2016 when the United Kingdom of Great Britain and Northern Ireland voted for its exit from the European Union. In general, GBP depreciated against the U.S. dollar by 13.3 in 2016 (Chart no. 2).

Similar to the main currencies of international circulation, the emerging economies' currencies were subject to depreciation pressures against the U.S. dollar, but related factors reduced or amplified the pressures. For example, during 2016, the Russian ruble depreciated on average by 10.1 percent against the U.S. dollar. However, it started on an upward trend in February 2016 when oil prices began to grow and in December 2016 appreciated by 3.4 percent against the U.S. dollar. The Turkish lira depreciated by 11.1 percent in 2016. Depreciation pressures amplified due to high security risks and economy deterioration. Also, the Chinese yuan and the Brazilian real depreciated on average by 5.8 and 4.3 percent against the U.S. dollar, respectively (Chart no. 3).

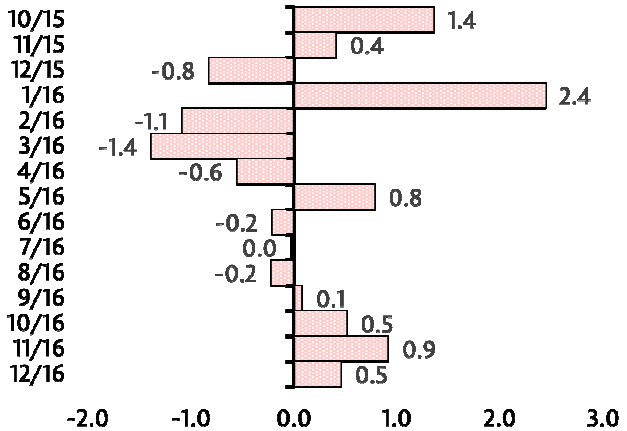
Chart no. 4 shows that the Moldovan leu also followed international trends, depreciating against the U.S. dollar. Thus, in 2016, the Moldovan leu depreciated on average by 5.9 percent against the U.S. dollar. The biggest depreciation of 2.4 percent was recorded in January 2016. During the whole fourth quarter of 2016, the Moldovan leu slightly depreciated against the U.S. dollar and in December 2016 recorded a nominal depreciation of 0.5 percent.

Chart no. 3: Average monthly appreciation (-)/depreciation (+) of emerging economy currencies against U.S. dollar



Source: Central Bank of People's Republic of China, Central Bank of the Russian Federation, Central Bank of Brazil, Central Bank of Turkey

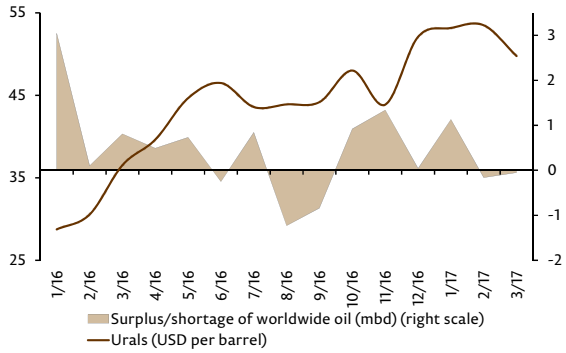
Chart no. 4: Average monthly appreciation (-)/depreciation (+) of Moldovan leu against U.S. dollar



Source: National Bank of Moldova, NBM calculus

During the reporting period, the Ukrainian hryvnia depreciated by 4.5 percent against the U.S. dollar and by 3.1 percent against the European single currency. The Romanian leu depreciated by 1.7 percent against the U.S. dollar and by 0.3 percent against the European single currency in the first quarter of 2017. For comparison, during the analysed period, the Moldovan leu appreciated in nominal terms by 0.4 percent against the U.S. dollar and by 1.8 percent against the European single currency.

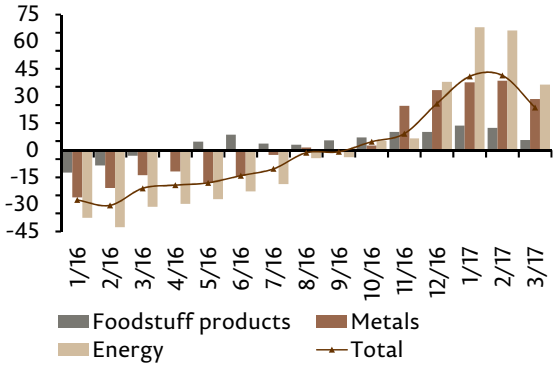
Chart 2.3: The developments on the world oil market



Source: Ministry of Economic Development of the Russian Federation, U.S. Energy Information Administration

In the first quarter of 2017, the Urals brand average oil price reached the value of USD 52.1 per barrel. At the same time, the oil price increased on monthly base by 2.1 and 0.6 percent in January and February 2017 and decreased by 7.0 percent in March 2017. The increase in oil prices is due to the OPEC decision of 30 November 2016 and of other non-OPEC 11 countries of 10 December 2016 to reduce the level of oil production in the first half of 2017. According to the International Energy Agency, the OPEC countries fulfilled the biannual plan of reducing the oil production in proportion of 98 percent, while other countries involved reduced the oil production in proportion of 37 percent in February 2017. It should be mentioned that, pursuant to the same data, Saudi Arabia fulfilled the plan in proportion of 135 percent, while the Russian Federation only by 40 percent. The continuous increasing perspectives of oil price were disseminated in March 2017 by the return to operation of oil shale wells in the United States of America and by the increase in oil production in other non-OPEC countries, which contributed to the increase in global oil supply as a whole. It should be mentioned that the oil demand and supply was to balance worldwide in March 2017, after one month when it was recorded a deficit of 200 thousand oil barrels per day, while in January 2017 it was registered a surplus of 1.1 million barrels per day (Chart 2.3).

Chart 2.4: The annual growth rate of world prices indexes (%)



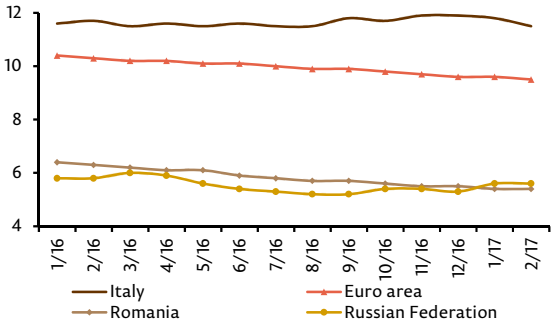
Source: IMF, NBM calculus

According to the IMF data, in March 2017, the international raw materials prices decreased by 3.8 percent compared to February 2017 and increased by 23.6 percent compared with March 2016. The international food prices decreased by 2.8 percent compared to the previous month and increased by 5.6 percent compared to March 2016. The prices of metals decreased in March by 1.0 percent on monthly base after five consecutive increasing months, but these were higher by 28.3 percent compared to March 2016. The energy resources quotes contributed the most to the international prices index, which decreased in March by 5.6 percent compared to the previous month and increased by 36.3 percent compared to March 2016. The significant increase of commodity prices in the first two months of 2017 was determined by the increase in oil prices, broad investment projects announced by the new president of USA and, as a whole, by the improvement of the forecasts for the world economy development. The slight decline in March is due to the reversal for the moment of the oil price trend. Most likely, in the next months, the significant volatility of the raw materials quotes will persist under the influence of the oil price evolution and U.S. dollar parity (Chart 2.4).

An ambiguous situation is registered on the labour markets chosen by Moldovan migrants for working purposes. In February 2017, the unemployment rate in the euro area decreased by 0.1 percentage points, up to 9.5 percent. At the same time, after a slight increase, the unemployment rate in Italy is decreasing again, being 11.5 percent in February 2017.

In Romania, the unemployment rate is continuously decreasing, accounting for 5.4 percent in February 2017, which is significantly lower than the average in the last years. In the Russian Federation, the unemployment rate is increasing due to the seasonal effect of the cold period of the year. In the first two months of 2017, the unemployment rate in the Russian Federation increased by 0.3 percentage points, up to 5.6 percent compared to the end of 2016 (Chart 2.5).

Chart 2.5: The unemployment rate in the euro area, Italy, Romania and Russian Federation (%)



Source: Eurostat, Federal State Statistics Service of the Russian Federation

2.2 Development of significant economies

In the fourth quarter of 2016, the gross domestic product of the USA grew by 0.5 percent compared to previous quarter and by 2.0 percent compared to the same period of 2015. Overall, in 2016, the gross domestic product of the USA grew by 1.6 percent, by 1.0 percentage points less compared to 2015. The drastic slowdown of the economic growth was based on the adverse consequences of the long period of low energy resources prices over industrial output and the decrease in net export value under the conditions of the U.S. dollar appreciation and low inflation level. 2017 begun with a slight increase of industrial output by 0.2 percent in January-February 2017 compared to January-February 2016. The unemployment rate in March 2017 recorded a decrease of 0.2 percentage points, up to the level of 4.5 percent, which represented a new minimum record after the economic crisis of 2008. In March 2017, the consumer prices in the USA increased by 0.1 percent than the previous month and by 2.4 percent than in March 2016 (Table 2.1). The Federal Reserve System decided on 15 March 2017 to increase the range of interest rate from 0.5-0.75 to 0.75-1.0 percent, due to the stability of positive trends in the U.S. economy, as well the decrease in the unemployment rate and the stable level of prices close to 2.0 percent targeted on long-term.

Table 2.1: The evolution of GDP, CPI and IPI in the selected economies (%)

	GDP QIV,16/ QIII,16 (s.a.)	GDP QIV,16/ QIV,15	IPI Jan.-Feb.17/ Jan.-Feb.16	CPI Mar.17/ Mar.16
USA	0.5	2.0*	0.2	2.4
Euro area	0.4	1.7*	0.6	1.5
Germany	0.4	1.8*	0.5	1.6
France	0.4	1.1*	-0.4	1.0
Italy	0.2	1.0*	1.1	1.2
Romania	1.3	4.7	5.5	0.2
Russian Federation	0.5	0.3	-0.3	4.3
Ukraine	1.9	4.8	0.4	15.1

Source: Eurostat, national bureaus of statistics concerned
*based on seasonally adjusted series

The gross domestic product of the euro area increased by 0.4 percent in the fourth quarter of 2016 compared to the previous quarter and by 1.7 percent (per seasonally adjusted series) compared to the fourth quarter of 2015. At the same time, overall, the gross domestic product in the euro area increased by 1.7 percent during 2016. In the first two months of 2017, the industrial production increased by 0.6 percent compared to the same period of 2016. At the same time, the unemployment rate in the euro area continued its downward trend in February 2017, decreasing up to 9.5 percent, being the lowest level since May 2009. As a result of the consumption increase and the gradual increase of energy resources prices, the annual inflation in the euro area increased up to 1.5 percent in March 2017, of which food prices increased by 1.8 percent, energy resources prices – by 7.4 percent, while prices of services increased by 1.0 percent (Table 2.1).

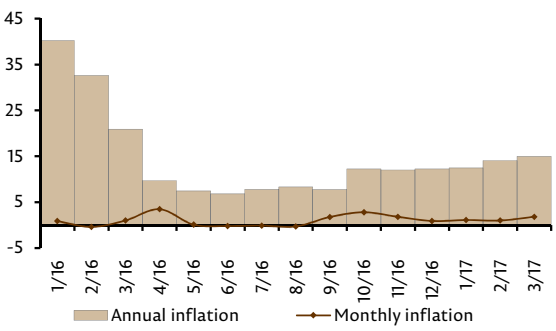
2.3 Development of the neighbour countries' economies and main trading partners

The gross domestic product of Romania increased in the fourth quarter of 2016 by 1.3 percent in real terms compared to the third quarter of 2016 and compared to the fourth quarter of 2015, it recorded an increase of 4.7 percent per gross series and of 4.8 percent per seasonally adjusted series. Overall, the gross domestic product in Romania increased by 4.8 percent in 2016. In January-February 2017, industrial output increased compared to the same period of the previous year by 5.5 percent per gross series and by 5.6 percent per adjusted series, depending on the number of working days and seasonality. Labour market in Romania records a continuous slight downward trend. In March 2017, consumer prices increased by 0.1 percent compared to the previous month and by 0.2 percent compared to the prices of March 2016. For the 40-th consecutive month, the level of consumer prices in Romania is below the lower limit of the range targeted by the National Bank of Romania (Table 2.1).

In the fourth quarter of 2016, after more decline quarters, the economy of the Russian Federation increased on average by 0.5 percent compared to the third quarter of 2016 and by 0.3 percent compared to the fourth quarter of 2015. At the same time, the gross domestic product in the Russian Federation decreased in 2016 on average by 0.2 percent. It should be mentioned that, according to the data revised by Rosstat, the gross domestic product decreased by 2.8 percent in 2015 compared to 3.7 percent initially estimated. In the first quarter of 2017, industrial output decreased by 16.9 percent compared to the previous quarter and increased by 0.1 percent compared with the first quarter of 2016. In the first two months of 2017, the unemployment rate maintained the level of 5.6 percent, increasing by 0.3 percentage points compared to the end of 2016. In March 2017, inflation continued the downward trend and the consumer prices increased by 0.1 percent compared to the previous month and by 4.3 percent compared to March 2016. It should be mentioned that the Central Bank of the Russian Federation aims for the inflation level of 4.0 percent at the end of 2017 (Table 2.1).

In the fourth quarter of 2016, the gross domestic product of Ukraine grew by 1.9 percent compared to the previous quarter and by 4.8 percent compared to the fourth quarter of 2015. Overall, in 2016, the economy of Ukraine increased on average by 2.3 percent. In January-February 2017, the industrial output in Ukraine increased by 0.4 percent, the construction production by 21.0 percent and agricultural output decreased by 1.7 percent. At the same time, on an annual basis, the exports increased in January 2017 by 48.1 percent and imports by 29.4 percent (Table 2.1). The consumer prices and the industrial output prices continued to increase in March 2017 in annual terms, consumer prices increasing by 15.1 percent, while industrial output prices – by 38.3 percent (Chart 2.6).

Chart 2.6: The evolution of consumer prices in Ukraine (%)



Source: State Statistics Service of Ukraine

Chapter 3

Economic developments

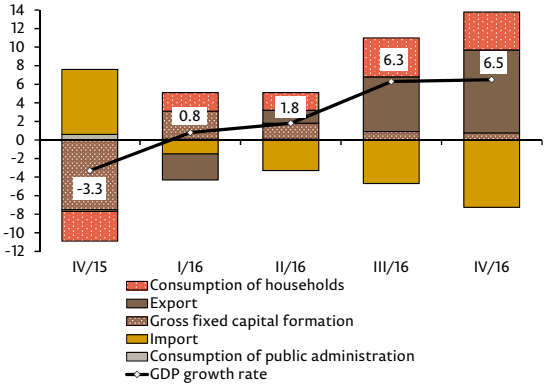
3.1 Demand and production

According to the information published by the NBS, in the fourth quarter of 2016, GDP continued its positive evolution signalized in the previous periods. However, during the second half of the year, the economic growth was more pronounced, GDP recording an increase of 6.3 percent in the third quarter and of 6.5 percent in the fourth quarter, due mainly to the favourable evolution in the agricultural sector compared to 2015, which created premises for the increase in export and consumption of goods and services in kind and a positive development of the change in inventories. The increase in GDP is also reflected by the seasonally adjusted series. According to this, GDP was by 0.6 percent higher in the fourth quarter compared to the third quarter.

Demand

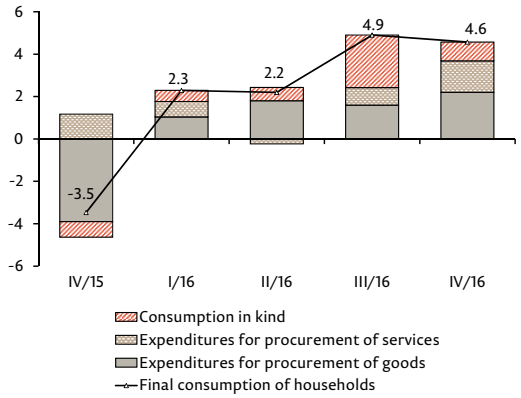
In terms of uses (Chart 3.1),the record of an annual positive rate of GDP in the fourth quarter of 2016 was due both to the domestic and external demand. Thus, the final household consumption increased by 4.6 percent, generating a contribution of 4.1 percentage points to annual rate formation of GDP. Compared to the first half of 2016, in the third and fourth quarters, the dynamics of the household consumption was more accentuated, being determined mostly by the consumption of goods and services in kind, which recorded an increase of 15.8 percent and, respectively, by 5.0 percent due to the positive evolution in the agricultural sector. After the insignificant dynamic in the first nine months of the year, reflecting a modest domestic demand, in the fourth quarter 2016 both the procurement of goods and procurement of services recorded a more accentuated dynamic, increasing by 4.3 and 6.2 percent, respectively, compared to the same period of 2015. The final consumption of public administration recorded a decrease of 0.3 percent at the end of 2016. The investment component generated a positive contribution of 0.7 percentage points. However, this was more due to the associated impact of the component change in inventories favoured by the development in agriculture. The gross fixed capital formation was by 1.0 percent higher to that recorded in the fourth quarter of 2015. The developments in the agricultural sector have also favoured the increase in exports by 19.9 percent, which generated a contribution of 8.9 percentage points to the GDP growth dynamics. The economic activity dynamics was significantly offset in the fourth quarter of 2016 by the increase of imports by 9.4 percent compared to the fourth quarter of 2015.

Chart 3.1: The contribution of demand components to GDP growth (p.p.)



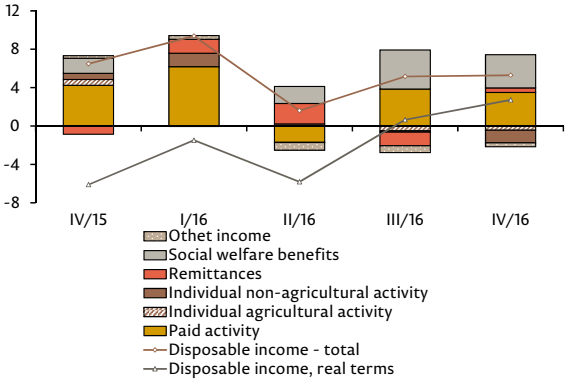
Source: NBS, NBM calculus

Chart 3.2: Components' contribution (p.p.) to the final consumption of households' growth (%)



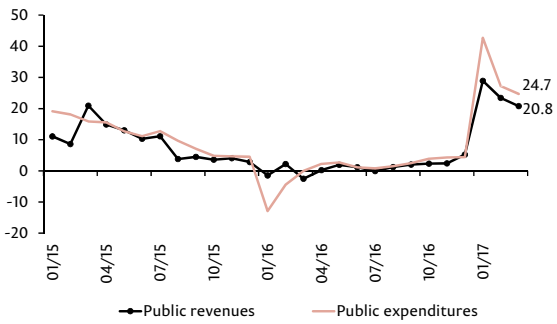
Source: NBS, NBM calculus

Chart 3.3: Evolution of personal disposable income (%, versus the same period of the previous year) and subcomponents' contribution (p.p.)



Source: NBS, NBM calculus

Chart 3.4: The dynamics of public revenues and expenditures (%, annual growth)



Source: Ministry of Finance

Household consumer demand

In the fourth quarter of 2016, the annual growth rate of final household consumption recorded a level of 4.6 percent, by 0.3 percentage points less than the previous quarter. The respective dynamics of the household consumption was determined by the positive evolution of all main subcomponents thereof. Thus, the expenditure for the procurement of goods increased by 4.3 percent, contributing to annual growth rate formation of final household consumption by 2.2 percentage points (Chart 3.2). The consumption in kind recorded a positive annual dynamics, increasing by 5.0 percent, due to favourable conditions for agricultural production during 2016, thus contributing with 1.5 percentage points to annual growth rate formation. At the same time, the expenditure for the procurement of goods increased by 6.2 percent compared to the fourth quarter of 2015, generating a positive contribution of 0.9 percentage points.

The annual dynamics of household consumption was favoured by the positive evolution of household disposable income. In this regard, in the fourth quarter of 2016, the annual rate of the household disposable income recorded a level of 5.3 percent or by 0.1 percentage points higher than in the third quarter of 2016 (Chart 3.3).This value of annual rate was determined mainly by the dynamic of the income from social benefits and employed activity, which generated contributions of 3.5 percentage points to annual rate formation. It should be mentioned that the contribution of remittances increased by 1.9 percentage points than the previous quarter, while the contributions from individual non-agricultural activity decreased by 1.2 percentage points. Thus, the income from remittances generated a positive contribution of 0.5 percentage points to annual rate formation, while the income from personal non-agricultural activity generated a negative contribution of 1.3 percentage points. Income from individual agricultural activity and other income generated a negative contribution of 0.8 percentage points to the annual rate formation. In the fourth quarter of 2016, annual growth rate of household disposal income in real terms recorded a level of 2.7 percent, by 2.0 percentage points higher than the third quarter of 2016.

Public sector

Execution of national public budget

According to data provided by the Ministry of Finance, government revenues amounted to MDL 11993.2 million in the first three months of 2017, exceeding by 20.8 percent the revenues collected in the same period of 2016 (Chart 3.4).The major part of budget revenues has accrued on the account of tax-related revenues, which accounted for a share of 66.8 percent (MDL 8006.0 million). The compulsory insurance contributions and premiums accounted for 28.8 percent (MDL 3452.3 million), while the share of other income and grants accounted for 4.1 percent (MDL 497.3 million) and 0.3 percent, respectively, (MDL 37.6 million) of total budget revenue.

In the first three months of 2017, national public budget expenditures totalled MDL 12260.7 million, recording an increase of 24.7 percent compared to the same period of 2016. The social protection expenditure held the largest share (37.8 percent) of the

total expenditures, education held 17.6 percent and health protection 12.6 percent. The state services of general interest and services in the economy held the share of 9.9 percent and 10.3 percent, respectively, while the public order and national security – 7.4 percent of expenditures, other areas enjoying a modest funding.

In the first three months of 2017, national public budget execution resulted in a deficit in the amount of MDL 267.5 million. During the same period of 2016, national public budget execution resulted in a profit of MDL 90.5 million. As of 31 March 2017, the general government accounts balances increased by MDL 989.2 million compared to 01 January 2017, accounting for MDL 5769.7 million.

Government debt

As of 31 March 2017, the government debt balance of the Republic of Moldova accounted for MDL 51649.2 million, by 1.7 percent higher than at the end of 2016. At the end of March 2017, the state debt was formed by the external state debt in the proportion of 57.8 percent and domestic state debt in the proportion of 42.2 percent. Compared to 31 March 2016, the government debt increased by 48.4 percent or by MDL 16854.5 million, due to the increase of domestic state debt (with a positive contribution of 39.1 percentage points) and external government debt (with a positive contribution of 9.3 percentage points).

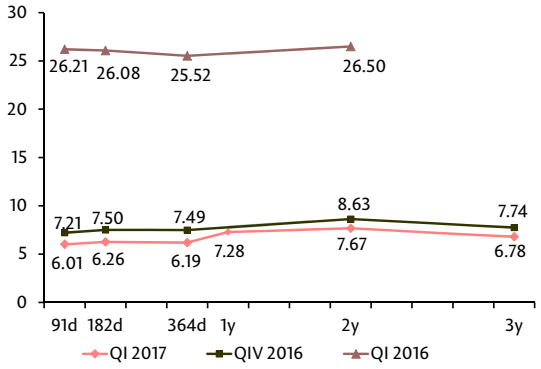
During January-March 2017, the balance of external government debt increased by about MDL 589.6 million or by 2.0 percent, accounting at the end of March 2017 for MDL 29855.8 million. At the same time, the balance of external government debt in foreign currency amounted to USD 1532.7 million, recording an increase of USD 68.0 million or 4.6 percent compared to the beginning of the year. During the first three months of 2017, net external borrowing reached a positive value, accounting for about USD 41.8 million. At the same time, USD exchange rate fluctuation against other currencies reached positive values and accounted for USD 26.2 million.

As of 31 March 2017, internal government debt accounted for MDL 21793.4 million, higher by about MDL 273.8 million or 1.3 percent than at the end of 2016. As compared to the same period of 2016, internal government debt increased by 2.7 times. The change in internal government debt occurred mainly due to the issue of SS in October 2016 for the execution by the Ministry of Finance of payment liabilities derived from state guarantees no.807 of 17 November 2014 and no.101 of 01 April 2015 in the amount of MDL 13.3 billion, and the increase of SS issued on primary market by about 4.4 percent. Therefore, at the end of March 2017, internal debt constituted of SS issued on primary market (29.3 percent) and SS converted (9.5 percent) and SS issued for execution of state guarantees (61.2 percent).

SS yield curve

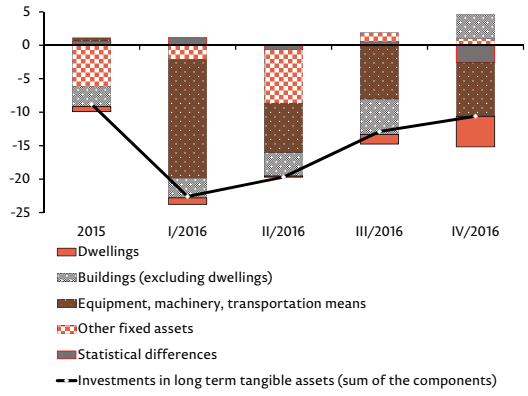
In the first quarter of 2017, the volume of SS traded in the primary market amounted to MDL 2729.5 million, by 25.9 percent more than the previous quarter. The volume of SS released into circulation during the reporting period was by 19.8 percent lower than the volume initially announced by the Ministry of Finance.The

Chart 3.5: SS yield curve (%)



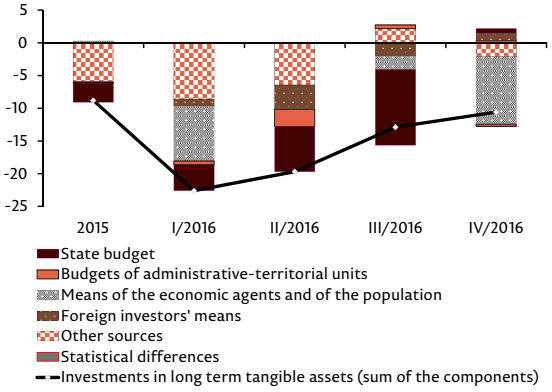
Source: NBM

Chart 3.6: Contribution of fixed assets type (p.p.) to the annual dynamics of investment in long-term tangible assets (%)



Source: NBS

Chart 3.7: Contribution of funding sources (p.p.) to the annual dynamics of investment in long-term tangible assets (%)



Source: NBS

ratio between the demand from participants in auctions and supply from the issuing authority was 1.17.

The average effective interest rate on treasury bills with a maturity of 91 days was 6.01 percent, decreasing by by 1.2 percentage points than the previous quarter. Treasury bills of 182 days were placed at an average effective rate of 6.26 percent, by 1.2 percentage points less than the fourth quarter of 2016, and those with a maturity of 364 days – 6.19 percent, by 1.3 percentage points less than the previous quarter (Chart 3.5). It should be mentioned that starting with December 2015, the auctions of treasury bills of 21 days were not conducted.

Government bonds with a maturity of 2 years were traded at an average effective rate of 7.67 percent, by 1.0 percentage points less compared to the previous quarter. It should be mentioned that since November 2016, the placement of government bonds were took up on primary market with a maturity of 3 years, which were traded in the first quarter of 2017 at an average effective interest rate of 6.78 percent, decreasing by 1.0 percentage points compared to the previous quarter.

At the same time, on 28 March 2017, in accordance with the Law on amending and completing the Law of state budget for 2017 no.33 of 17 March 2017, there were placed on primary market government bonds with a maturity of 1 and 2 years through which were attracted MDL 508.9 million for the creation of liquidity reserve in order to improve government debt management.

The treasury bills with a maturity of 364 days held the largest share in the volume of SS in circulation during the reporting period, accounting for 32.4 percent of total transactions, followed by treasury bills of 182 days, with a share of 27.1 percent, while the share of treasury bills of 91 days held the share of 18.7 percent. The share of government bonds with a maturity of 2 years was 14.9 percent, government bonds with a maturity of 1 year was 6.0 percent and the government bonds with a maturity of 3 years – 0.9 percent.

Investment demand

In the fourth quarter of 2016, the investment component generated a positive contribution of 0.7 percentage points to GDP annual dynamic. This was determined both by the increase of 1.0 percent of the gross capital formation and the positive contribution from the component change in inventories (0.5 percentage points).

At the same time, according to data provided by NBS, investments in long-terms tangible assets continued to record a negative annual dynamic, but less pronounced compared to the previous periods (Charts 3.6 and 3.7). In this regard, these were by 10.6 percent less than in the fourth quarter of 2015. By subcomponents, this dynamic was determined by the decrease in investments in the building construction sector by 35.1 percent and the subcomponent equipments, machinery and means of transport by16.6 percent. The aforementioned negative impact was slightly offset by the increase of investments in the non-residential sector by 16.6 percent (Charts 3.6).

In terms of funding sources of the long-term tangible assets, their negative dynamic was determined mainly by the decrease in

investments amid the household and enterprises own funds by 15.6 percent compared to the same period of 2015. The investments financed by other sources recorded negative evolutions (-13.1 percent). This impact was partially offset by the increase in investments from the account of the foreign investors by 23.3 percent and state budget by 11.3 percent (Chart 3.7).

Net external demand[3]

In the fourth quarter of 2016, the annual rate of exports (expressed in USD) recorded a level of 18.0 percent or by 2.1 percentage points higher compared to the thid quarter of 2016. This evolution was mainly determined by the exports revival to the EU countries, which increased in annual terms by 33.2 percent, generating a positive contribution of 21.9 percentage points (Chart 3.8). At the same time, the exports to CIS countries and to those classified as "The rest of the World" decreased by 10.4 and 13.3 percent, determining a negative contribution of 2.4 and 1.5 percentage points, respectively. It should be mentioned that the exports to CIS countries recorded negative growth rates for the fifteenth consecutive quarter.

Analysing the exports by category of goods (Chart 3.9), it should be noted that the group "foodstuff, products of the animal kingdom, beverages and fats" recorded positive contributions for the second consecutive quarter (14.1 percentage points), due to the increase in annual terms of the export of such products by 28.7 percent. The increase in exports of agri-food products was supported in the second half of 2016 by the agricultural sector revival, thus the volume of agricultural production increased by 18.2 percent in 2016.

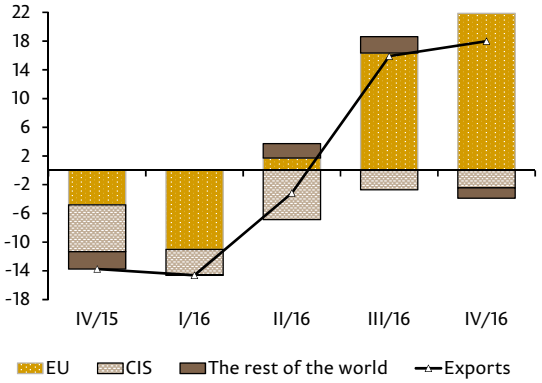
At the same time, the increase in exports of "vehicles, optical and sound recorders and reproducers" and "textile and clothing" by 16.8 and 10.9 percent also contributed to the increase in volume of exports, generating thus positive contribution of 2.7 and 1.5 percentage points, respectively. The positive development of "textile and clothing" exports during 2016 was also supported by the increase, during the reporting period, in the volume of industrial output in the sectors "manufacture of textile products" (31.8 percent), "manufacture of clothing articles" (15.1 percent) and "manufacture of footwear, tanning or working hides" (10.1 percent).

After a period of two years and half, when the annual growth rate of imports was negative, in the second half of 2016 this turned positive. In the fourth quarter of 2016, the imports of goods increased by 9.8 percent compared to the same quarter of 2015.

It should be mentioned that the revival of imports in the fourth quarter of 2016 was supported by their evolution by all categories of countries (Chart 3.10). Thus, imports from EU and CIS countries increased by 10.0 and 9.1 percent, contributing to the increase in annual rate of imports by 4.7 and 2.4 percentage points, respectively. At the same time, imports from the countries classified as "The rest of the World" increased by 10.3 percent, generating a contribution of 2.7 percentage points to the formation of the annual growth rate of imports (Chart 3.10).

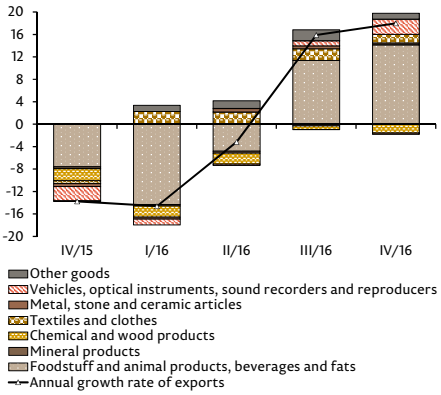
[3]It has been used quarterly data on the development of foreign trade of the Republic of Moldova, expressed in thousands of USD.

Chart 3.8: Evolution of exports annual rate (%) and contribution by categories of countries (p.p.)



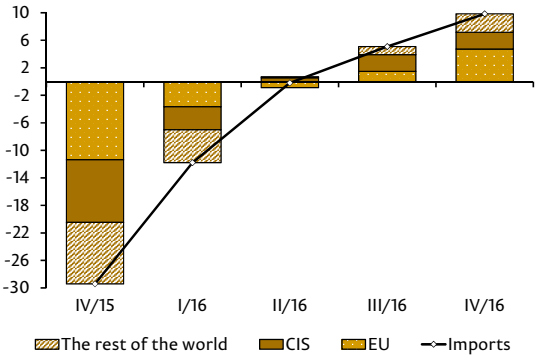
Source: NBS, NBM calculus

Chart 3.9: Evolution of exports annual rate (%) and subcomponents contribution by groups of goods (p.p.)



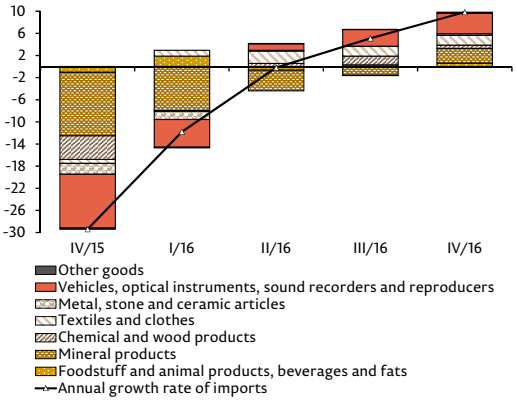
Source: NBS, NBM calculus

Chart 3.10: Evolution of imports annual rate (%) and subcomponents contribution by categories of countries (p.p.)



Source: NBS, NBM calculus

Chart 3.11: Evolution of imports annual rate (%) and subcomponents contribution by groups of goods (p.p.)



Source: NBS, NBM calculus

Chart 3.12: The evolution in real terms of foreign trade (%)

Source: NBS

By groups of goods (Chart 3.11), the increase in annual rate of imports was mainly influenced by the evolution of imports of "vehicles, optical and sound recorders and reproducers", "mineral products" and "textile and clothing", which generated positive contributions of 3.7, 2.7 and 1.8 percentage points, respectively.

Data on foreign trade of the Republic of Moldova for the first two months of the first quarter of 2017 show positive signs of its further pronounced development (Chart 3.12). The annual rate of imports in the first two months of 2017 recorded the level of 21.3 percent, by 11.5 percentage points higher than the fourth quarter of 2016. At the same time, the annual rate of exports recorded a level of 23.9 percent, or by 5.9 percentage points higher compared to the fourth quarter of 2016.

Production

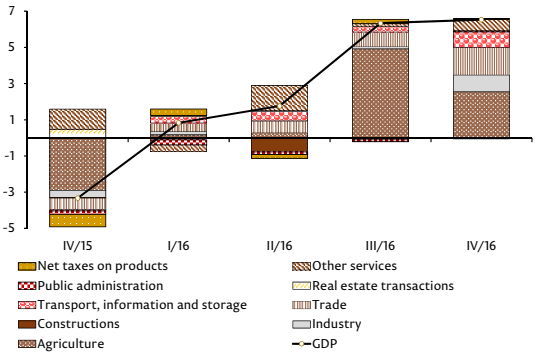
By categories of resources, although in a less pronounced extent than in the previous quarter, the GDP positive evolution at the end of 2016 was determined mainly by the increase in gross value added in agriculture by 17.6 percent (Chart 3.13) compared to the fourth quarter of 2015, contributing thus by 2.6 percentage points to GDP dynamic, as a result of some favourable meteorological conditions for this sector during 2016. This dynamics also favoured positive developments in related sectors. Thus, in the fourth quarter of 2016, wholesale and retail trade increased by 10.2 percent, manufacturing – by 5.3 percent, transport and storage – by 14.5 percent. Information and communication sector also recorded positive developments, recording an increase of 4.9 percent, which generated a noticeable impact on the GDP growth. In the fourth quarter of 2016, net taxes on products recorded an increase of 0.1 percent compared to the same period of 2015. At the same time, constructions recorded an insignificant negative dynamic during the reporting period, decreasing by 0.2 percent.

In the first two months of the first quarter of 2017, the annual growth rate of industrial production recorded an average level of 1.9 percent, by 1.6 percentage points lower than the fourth quarter of 2016 (Chart 3.14). This dynamic was determined by the slowdown of annual growth rate of manufacturing (from 2.4 percent in the fourth quarter of 2016 to 1.2 percent in the first two months of the first quarter of 2017) and of that from the "production and supply of electricity, gas, hot water and air conditioning" sector (from 16.7 percent in the fourth quarter of 2016 to 9.7 percent in the first two months of the first quarter of 2017). At the same time, the annul growth rate of the volume of the extractive industry during the period January-February 2017, maintained the level of the fourth quarter of 2016.

In the first two months of the first quarter of 2017, the annual rate of the transported goods volume recorded a medium level of 13.4 percent, by 10.7 percentage points higher compared to the fourth quarter of 2016. It should be mentioned that this pronounced increase of annual rate was driven mainly by the increase in the volume of goods transported by rail and road (Chart 3.15). At the same time, in January-February 2017, enterprises of rail, road, river and air transport have transported goods by 13.4 percent more compared to the same period of 2016. This evolution was determined by the increase in annual terms of the volume of goods transported by rail (28.0 percent) and road (4.1 percent). At the same time, the transport of goods by air and river decreased in annual terms by 7.3 and 78.2 percent, respectively.

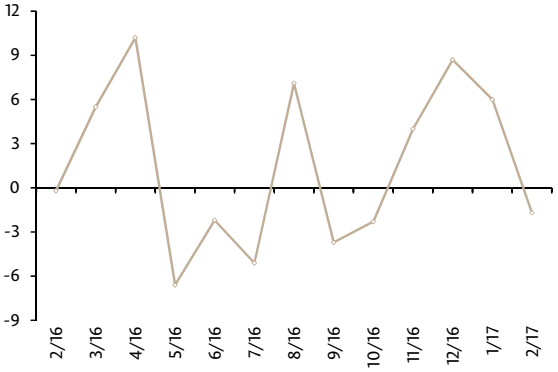
Data on domestic trade, for the first two months of 2017 reflect a slight increase of trade in services, while the trade in goods decreased (Chart 3.16). Thus, in the reporting period, the turnover of the enterprises having retail trade as main activity recorded a level of -6.6 percent, by 9.6 percentage points lower to the fourth quarter of 2016. However, the turnover of the enterprises having services rendering as main activity recorded an average increase of 0.3 percent, by 1.4 percentage points higher compared to the previous quarter.

Chart 3.13: The contribution of economic sectors to GDP growth (p.p.)



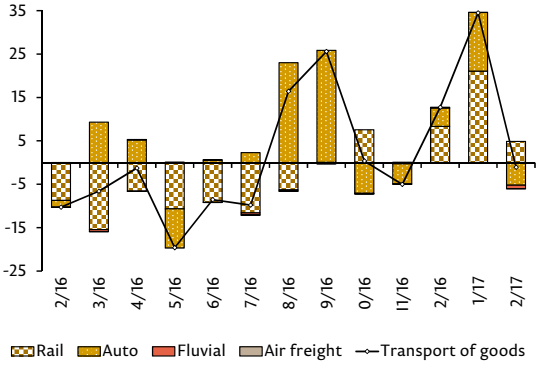
Source: NBS

Chart 3.14: Evolution in real terms of industry (%, versus the same month of the previous year)



Source: NBS

Chart 3.15: Evolution of goods transport (%, versus the same month of the previous year)

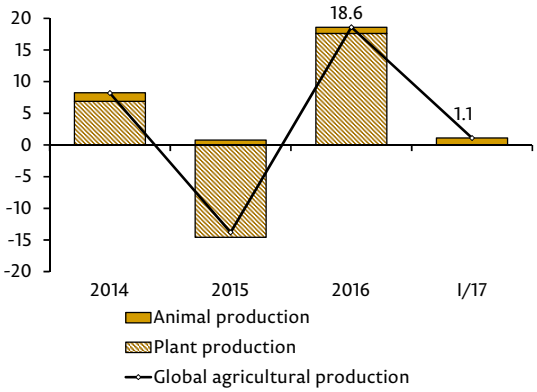


Source: NBS

Chart 3.16: Evolution of domestic trade (%, versus the same month of the previous year)

Source: NBS

Chart 3.17: Global agricultural production (%, versus the same period of the previous year)



Source: NBS

Agricultural production

In the first quarter of 2017, the volume of global agricultural production increased by 1.1 percent compared to the same quarter of 2016 (Chart 3.17). This evolution was exclusively determined by the increase in volume of livestock production by 1.1 percent, which held during the reporting period a share of 99.0 percent of total volume of the global agricultural production. Thus, the dynamic of the livestock sector was generated by the increase in production of "eggs" (by 2.1 percent) and "cattle and poultry" (by 2.8 percent). At the same time, the milk production recorded a decrease of 4.1 percent.

3.2 Labour market

In the fourth quarter of 2016, both the number of employed population and that of economically active population decreased compared to the end of 2015. At the same time, the unemployment rate was slightly lower compared to the fourth quarter of 2015.

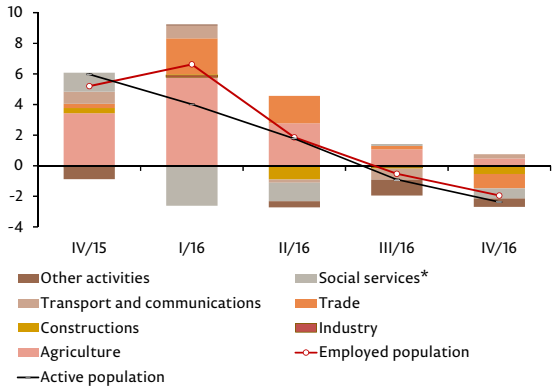
Workforce

Although the economic activity recorded in the second half of 2016 a pronounced increase, the annual rate of economically active population and employed population recorded a downward trajectory during the reporting period. As a result, in the fourth quarter of 2016, the number of economically active population and employed population decreased by 2.4 percent and 1.9 percent respectively, compared to the same period of 2015. At the same time, taking into account the domestic economy structure, the decrease in number of employed population at the end of 2016 was determined mainly by the its decrease in constructions, trade and social services sectors by 9.6, 5.4 and 3.2 percent respectively. The negative contribution from these sectors was slightly offset by the increase in number of employed population in agriculture and transport and communications by 1.7 and 4.5 percent respectively (Chart 3.18).

The unemployment rate accounted for 3.8 percent in the fourth quarter of 2016, being lower than in the same period of 2015 (4.2 percent). The unemployment rate adjusted seasonally was 3.9 percent and was slightly higher than in the third quarter of 2016. In the fourth quarter of 2016, the employment rate adjusted seasonally recorded an insignificant decrease up to the level of 40.3 percent (Chart 3.19). According to data provided by the ANOFM[4], the number of people laid off decreased at the end of the fourth quarter of 2016 by about 1.0 percent compared to the same period of 2015, while the number of vacancies increased by about 38.4 percent.

In the fourth quarter of 2016, the number of inactive population increased by 1.5 percent compared to the same period of 2015 (Chart 3.20). During this period, the number of people discouraged to find a desired job increased by 21.2 percent compared to the end of 2015. At the same time, the number of persons working or looking for a job abroad decreased by 3.6 percent.

Chart 3.18: Annual growth rate of employed population (%) and its formation by national economy sectors (p.p.)

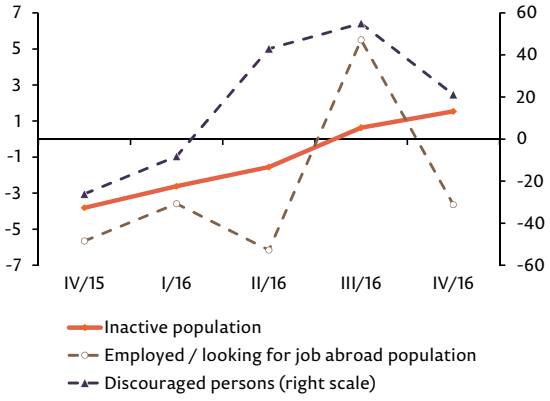


Source: NBS, NBM calculus
*Public administration, education, health and social care

Chart 3.19: Evolution of the unemployment and employment rate (%)

Source: NBS, NBM calculus

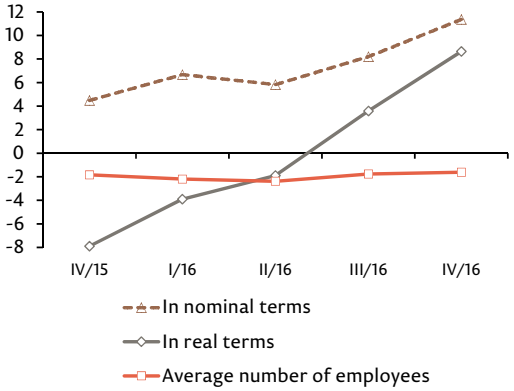
Chart 3.20: Evolution of the annual growth rates of inactive population and some its subcomponents (%)



Source: NBS, NBM calculus

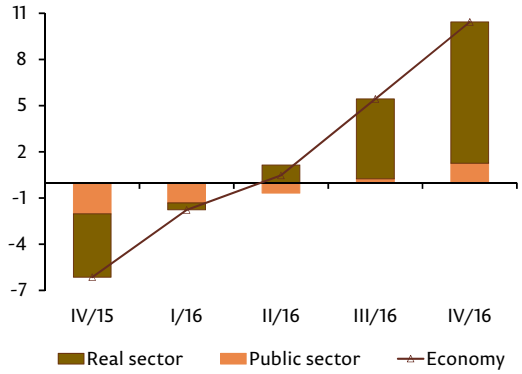
[4]The National Agency for Employment

Chart 3.21: Wage bill in the economy and average number of employees (%, versus the same period of the previous year)



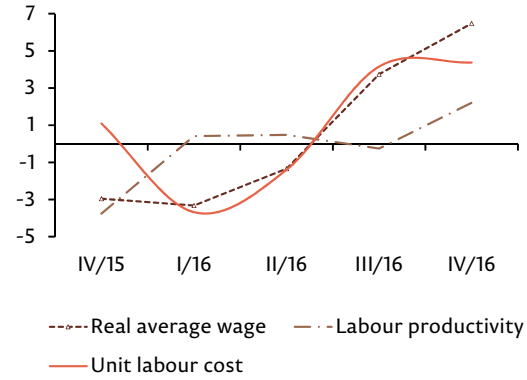
Source: NBS, NBM calculus

Chart 3.22: Real contributions of economy sectors (p.p.) to real earnings growth (%, versus the same period of the previous year)



Source: NBS, NBM calculus

Chart 3.23: Average real wage and productivity in industry (%, versus the same period of the previous year)



Source: NBS, NBM calculus

Wages

In the fourth quarter of 2016, wage bill in the economy increased by 11.4 percent compared to the fourth quarter of 2015. Deflated by CPI, this increased by 8.6 percent. At the same time, the average number of employees at the level of the national economy decreased by 1.6 percent than in the fourth quarter of 2015 (Chart 3.21). The average wage of an employee in the national economy increased in the fourth quarter of 2016 by 13.2 percent compared to the same quarter of 2015. The budgetary and real sectors of the economy registered an increase in the average wage by 7.8 and 15.0 percent, respectively, compared to the fourth quarter of 2015.

The annual average real wage growth in the economy accelerated up to the level of 10.4 percent in the fourth quarter of 2016. This dynamic was determined by the positive evolution of the average wage in real terms of the budgetary sector (5.2 percent), and of the real sector (12.2 percent), contributing positively with the value of 1.3 and, respectively, 9.2 percentage points over the evolution of the real average wage in economy (Chart 3.22).

The annual rate of the real average wage in industry was 6.5 percent in the fourth quarter of 2016, higher by 2.7 percentage points compared to the third quarter of 2016 (Chart 3.23). The annual dynamic of the labour productivity in industry was 2.2 percent, increasing by 2.5 percentage points than the third quarter of 2016. In this regard, the annual growth rate of the labour unit cost in industry increased by about 0.2 percentage points, reaching the level of 4.4 percent.

3.3 External sector

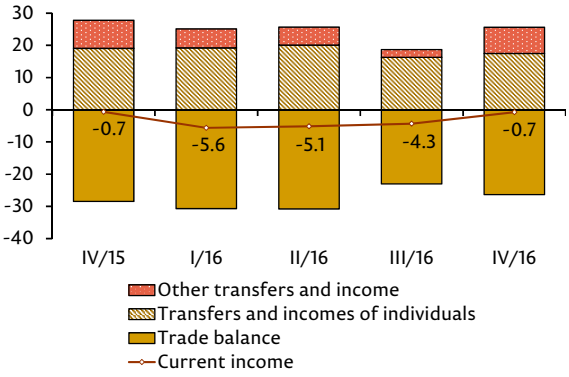
In the fourth quarter of 2016, current account deficit[5] of the balance of payments decreased, representing 0.7 percent as share to GDP, by 3.6 percentage points lower than the previous quarter (Chart 3.24).The decrease in the balance of payments deficit was due tot the significant increase of the components with positive contribution – other transfers and income, as well transfers and income of individuals, while the negative balance of the trade balance as share to GDP increased. Thus, the aforementioned components with positive contribution increased as a share to GDP by 5.7 and 1.2 percentage points compared to the third quarter of 2016, respectively. In the fourth quarter of 2016, the trade balance deficit increased as a share of GDP by 3.3 percentage points than the third quarter of 2016, reaching a level of 26.4 percent. This development was driven, on the one hand, by the increase of the share of imports to GDP by 12.3 percentage points, while on the other hand, by the increase of the share of exports by 8.8 percentage points.

During the reporting period, the export of goods and services increased as a share of GDP to the level of 47.3 percent (Chart 3.25). This development was driven by the increase of the share of agri-food products exports by 6.8 percentage points, to the level of 18.2 percent in GDP, the share of exports of services increased by 1.2 percentage points, to the level of 13.4 percent in GDP, while that of exports of non-food products increased by 0.9 percentage points (15.7 percent in GDP). Within the exports structure, the agri-food products prevailed and accounted for 38.6 percent, non-food products constituted 33.1 percent, while services – 28.3 percent.

In the fourth quarter of 2016, the share of imports of goods and services as a share in GDP increased by 12.3 percentage points compared to the previous quarter, reaching a level of 73.9 percent. It should be mentioned that all import components to GDP recorded higher values than those recorded in the third quarter of 2016. Thus, non-food products and agri-food products increased by 4.4 and 2.7 percentage points respectively. As a share of GDP, these components were 42.0 and 9.4 percent, respectively. At the same time, energy resources and services recorded increases of 3.8 and 1.5 percentage points, respectively. As a share of GDP, these components were 10.1 and 12.4 percent, respectively. Within the structure of imports, the share of non-food products constituted 56.9 percent, services – 16.7 percent, energy resources – 13.7 percent and agri-food products – 12.7 percent.

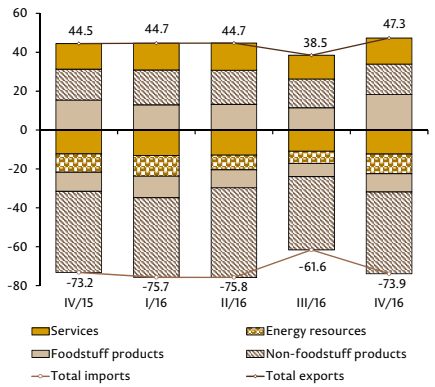
During the reporting period, exports reflected in the trade balance covered to a higher extent the respective imports (64.0 percent) compared with the third quarter of 2016 (62.4 percent). At the same time, according to the NBS data for the fourth quarter of 2016, the trading partners of the Republic of Moldova, such as Romania, Russian Federation, Ukraine, Germany, Italy, Turkey and

Chart 3.24: Current account share in GDP (%)



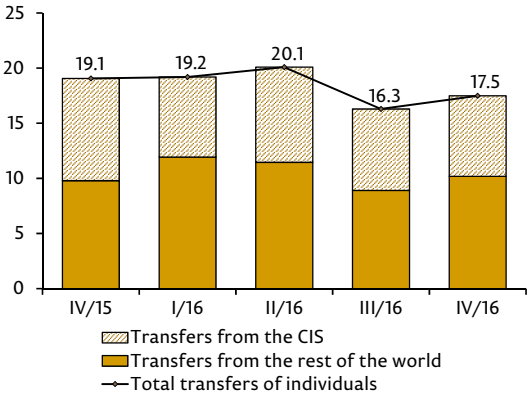
Source: NBM

Chart 3.25: Share of exports and imports in GDP (%)



Source: NBM

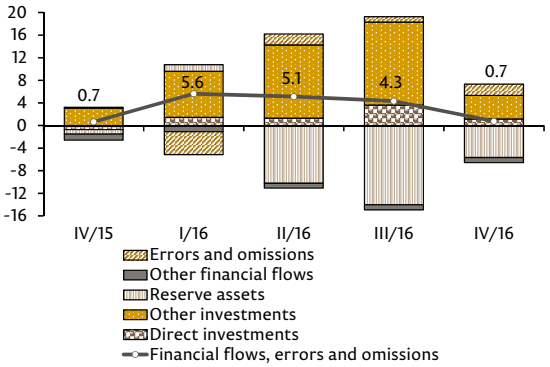
Chart 3.26: Share of transfers in GDP (%)



Source: NBM

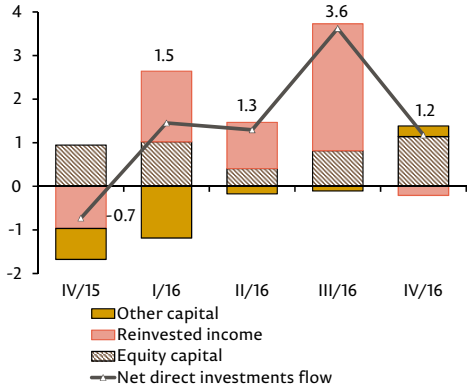
[5]For the analysis of the current account, the standard terminology according to IMF has not been used. The category "Total transfers of individuals" includes the compensation for work and remittances (current account items), the remaining items, except for those included in the trade balance, grouped in the category Other transfers and other income.

Chart 3.27: Share of financial flows in GDP (%)



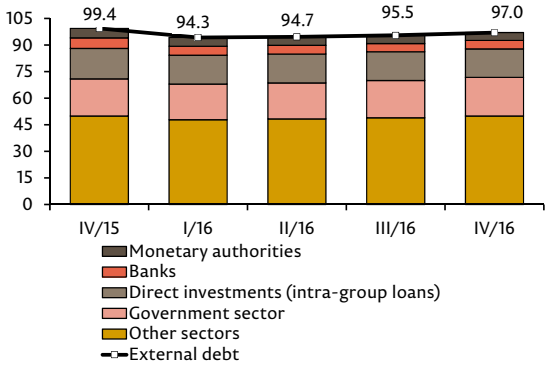
Source: NBM

Chart 3.28: Share of direct investments in GDP (%)



Source: NBM

Chart 3.29: Share of external debt in GDP (%)



Source: NBM

Belarus have owned 55.2 percent of total commercial transactions carried out within export-import operations with goods and services.

In the fourth quarter of 2016, the share of transfers and income of individuals working abroad recorded an increase (of 1.2 percentage points) as a share in GDP compared to the previous quarter, thus reaching the level of 17.5 percent (Chart 3.26). The upward trend was driven by increased transfers from countries classified as the "Rest of the World". Thus, in the fourth quarter of 2016, funds transferred from the CIS countries as a share of GDP was 7.3 percent, by 0.1 percentage points less compared to the third quarter of 2016, while the funds transferred from countries classified as the "Rest of the World"[6] held a share of 10.2 percent in GDP, by 1.3 percentage points more than in the previous quarter. According to geographical distribution, the transfers from countries classified as "Rest of the World" accounted for 58.3 percent and from CIS countries – 41.7 percent during the reporting period.

The financial flows mitigated in the fourth quarter of 2016, while their volume to GDP decreased by 3.6 percentage points compared to the third quarter of 2016, reaching the level of 0.7 percent (Chart 3.27). The slowdown of financial flows was determined by the development of "other investment" and "direct investments". The positive contribution of the component "other investment" was supported mainly by the downward evolution of the item "foreign currency and deposits". At the same time, it should be mentioned that the volume of net loans contracted by government sector recorded an pronounced increase for the second consecutive quarter, thus these contributed to the partial mitigation of the negative effect generated by the evolution of the item "foreign currency and deposits". At the same time, financial inflows evolved downwardly, being influenced by the increase in official reserve assets (negative contribution from the component "reserve assets" is net lower than in the third quarter of 2016).

During the reporting period, direct investments to GDP recorded a downward development, recording the level of 1.2 percent or by 2.4 percentage points lower than in the third quarter of 2016. Within the structure, the decrease in direct investment share to GDP was determined by the disappearance of the positive contribution from the component "reinvested income". At the same time, investments in "share capital" recorded an increase to GDP for the second consecutive quarter (Chart 3.28).

In the fourth quarter of 2016, the share of external debt in GDP recorded the level of 97.0 percent, by 1.5 percentage points higher than the previous quarter (Chart 3.29). It should be mentioned that "government sector" (0.8 percentage points) and "other sectors" (1.0 percentage points) contributed to the increase of external debt as a share to GDP compared to the third quarter of 2016. At the same time, these developments have not influenced significantly the structure of external debt. Thus, similarly to the previous periods, the economic agents hold the largest share of 54.7 percent in total external debt, followed by government sector with a share of 26.2 percent and direct investment – 16.1 percent.

[6] Transfers received from all world countries, excluding the CIS countries.

Chapter 4

Monetary Policy

4.1 Monetary Policy Instruments

Interest rate policy

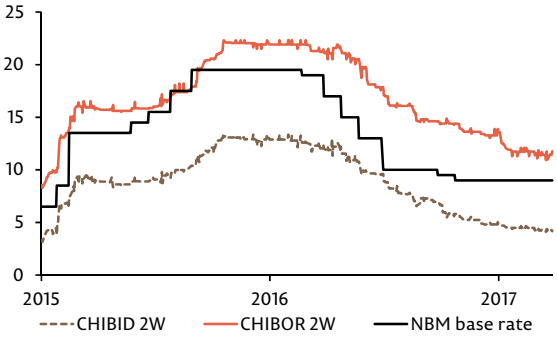
The annual inflation rate below the lower limit of the range of ±1.5 percentage points from 5.0 percent inflation target and the signs of continuous recovery of the economic activity grounded the decisions to maintain the monetary policy rate at the level of 9.0 percent annually during the first quarter of 2017.

CHIBOR 2W yield curve recorded a significant decline in January 2017, turning, after a long period, within the limits of the rates corridor set out by the NBM. During the next months, this oscillated around the value recorded at the end of January 2017. CHIBOR 2W was at the end of March 2017 was lower to that of the last day of the previous quarter (-1.51 percentage points), amounting to 11.77 percent (Chart 4.1).

A slight downward sliding of the monthly interest rates trajectory of state securities (SS) of 91 days in the first month of quarter 1, 2017 was followed by the registration of an upward trend at the beginning of February 2017, due to the gradual decrease of investors' supply for this type of placements. The average interest rate on SS of 91 days in the last month of the quarter represented 6.51 percent annually (+0.67 percentage points compared to the value recorded in the last month of the previous quarter). The interbank monetary market rates maintained the level of the previous quarter of 9.00 percent annually.

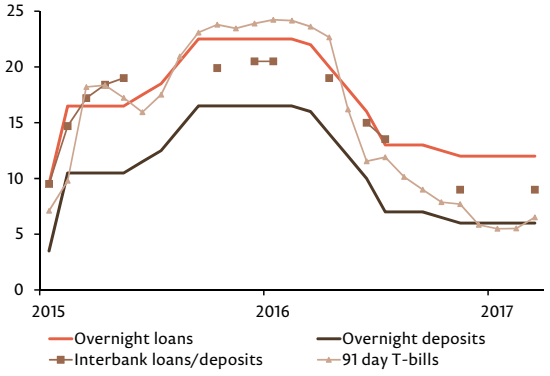
In the first quarter of 2017, the average quarterly yield for the selling-buying operations on the secondary market of state securities equalled to 6.20 percent, decreasing by 1.28 percentage points compared to the fourth quarter of 2016, given the increase of the weighted average term of maturity from 277 days up to 304 days. The traded volume amounted to MDL 5.1 million, decreasing by MDL 2.1 million compared to the previous period. The bank-client transactions prevailed in total transactions recorded, constituting 66.7 percent of total transactions.

Chart 4.1: The average monthly reference rates on interbank market and the NBM base rate (%)



Source: NBM

Chart 4.2: The monthly evolution of interest rates corridor (%)

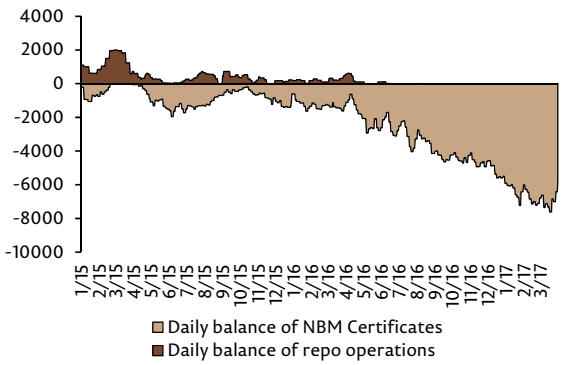


Source: NBM

Open market operations

During the first quarter of 2017, NBM continued to strengthen the net debtor position to the banking system, as a result of the significant tenders submitted by the participants and accepted

Chart 4.3: The daily balance of money market operations (MDL, million)



Source: NBM

integrally by the NBM within the auctions of NBM Certificates placement (CNB) (Chart 4.3).

NBM Certificates-selling operations

The National Bank of Moldova conducted twice a week NBM Certificates placement auctions, with the maturity of 14 days, announcing the maximum interest rate equivalent to the NBM base rate. During the first quarter of 2017, the weighted average rate of liquidity-absorbing operations constituted 9.00 percent annually.

Thus, the stock of NBM Certificates at the end of the reporting quarter decreased slightly compared to that recorded at the end of the previous quarter, accounting for MDL 5822.9 million. The average balance of Certificates placements increased by MDL 1924.3 million, accounting for MDL 6712.3 million.

Lending activity

As of 31 March 2017, the credit indebtedness of the licensed banks to National Bank of Moldova constituted MDL 0.3 million, represented entirely by loans granted in 1992-2002 for crediting the construction of housing cooperatives.

Compared to the fourth quarter of 2016, the balance of loans granted to banks decreased by MDL 0.1 million.

As a result of the loan portfolio assessment made in March 2017, no impairment allowances were accounted for the loans granted.

Standing facilities

Standing facilities regime (overnight deposits and credits) set by the NBM allowed banks to manage their liquidity efficiently.

The interest rates of the NBM standing facilities during the first quarter of 2017 were maintained at the same level, accounting for overnight deposit – 6.0 percent annually, while overnight credit – 12.0 percent annually.

During the reference quarter, the banks used daily overnight deposit facility similar to the previous quarter, recording a daily average balance of MDL 1075.7 million, higher than the previous quarter by about 15.2 percent. The amounts of the overnight placements varied between the minimum of MDL 5.0 million and the maximum of MDL 1200.0 million.

Overnight credit facility was not requested by banks during the quarter, due to the liquidity excess in the banking system.

Required reserves

In the first quarter of 2017, required reserves mechanism continued to exercise the function of monetary control and liquidity management. The required reserves ratio both in MDL and foreign currencies, USD and EUR, remained unchanged during the reporting quarter, amounting to 35.0 and 14.0 percent of the base.

The required reserves in MDL maintained by banks in the period of 8 March 2017 – 07 April 2017 amounted to MDL 10495.7 million, higher to those maintained at the end of the previous quarter (8 December 2016 – 7 January 2017) by MDL 432.0 million (about 4.3 percent).

As of 31 March 2017, required reserves in FCC maintained by banks at the National Bank amounted to USD 61.6 million and EUR 109.4 million. Compared to 31 December 2016, the required reserves in USD increased by 0.5 percent, while those in EUR – by 3.7 percent.

At the end of the quarter, during the meeting of 29 March 2017, the Executive Board of the NBM decided to increase the required reserves ratio in MDL by 2.0 percentage points, being set out at the level of 37.0 percent of the base, as from beginning of the maintenance period of 8 April 2017 – 7 May 2017.

The required reserves ratio from financial means attracted in freely convertible currency remained unchanged.

Interbank money market

In the first quarter of 2017, due to the persistence of the liquidity excess in the banking system, the interbank market of loans/deposits continued to be passive. A single transaction was recorded only in March 2017, in an insignificant volume of MDL 25.0 million, at an interest rate of 9.0 percent annually, with a minimum market maturity.

State's deposits placed with the National Bank of Moldova

At the end of March 2017, in order to create the liquidity reserve necessary for reducing the risk to refinance the state debt, the Ministry of Finance, based on the provisions of the Law of state budget for 2017 no.279 of 16 December 2016, with further completions and modifications, placed with the National Bank term deposits in the amounts of MDL 508.9 million, at an average interest rate of 7.56 percent annually.

Thus, as of 31 March 2017, the balance of deposits placed by the Ministry of Finance with the NBM was MDL 548.9 million. The weighted average interest rate on deposits was 7.66 percent annually, while the weighted average term – 584 days.

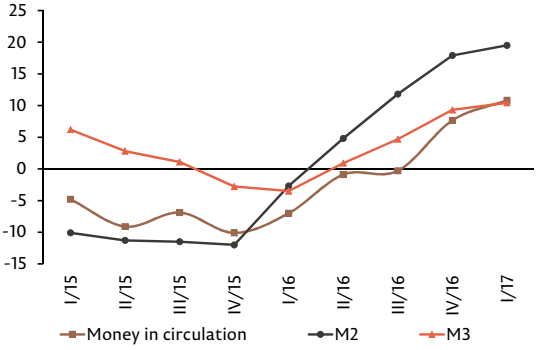
Intervention on the domestic foreign exchange market

NBM intervened in the domestic foreign exchange market in January-March 2017, as a purchaser of foreign currency.

During the reporting period, the volume of NBM transactions carried out on the interbank foreign exchange market against MDL was USD 28.48 million (on the currency date), including currency conversions in the form of purchases with the World Bank institutions (International Bank for Reconstruction and Development and International Development Association) in the amount of USD 0.39 million.

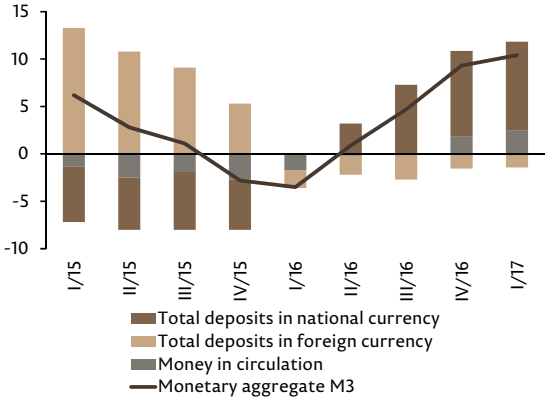
At the same time, the NBM has not carried out swap operations during the reporting period.

Chart 4.4: The dynamics of monetary aggregates (%, annual growth)



Source: NBM

Chart 4.5: The dynamics of monetary aggregate M3 (%, components contribution to the annual growth)



Source: NBM

4.2 Dynamics of monetary indicators

In the first quarter of 2017, the growth rate of monetary aggregates was positive, the quarterly average in annual terms constituted 19.6 percent for M2 (by 1.7 percentage points higher than in the fourth quarter of 2016) and 10.5 percent for M3 (by 1.1 percentage points higher than the previous quarter) (Chart 4.4).

Money supply

During the first quarter of 2017, broad money supply recorded an annual average growth of 10.5 percent, due to the increase of deposits in MDL and money in circulation, concomitantly with the negative influence of the decrease of deposits in foreign currency. Thus, the average increase of 10.5 percent of money supply M3 was conditioned by the increase in balance of deposits in MDL by 9.4 percentage points, increase of money in circulation by 2.5 percentage points and the decrease in balance of deposits in foreign currency by -1.4 percentage points (Chart 4.5).

At the same time, the structure of money supply M3 recorded changes as compared to the fourth quarter of 2016. The quarterly average share of deposits in national currency increased by 1.3 percentage points compared to the previous quarter and equalled to 42.4 percent. The share of deposits in foreign currency decreased by 0.4 percentage points, amounting to 34.3 percent, while the share of money in circulation decreased by 0.9 percentage points, reaching the value of 23.3 percent as quarterly average.

Money in circulation increased by 10.8 percent (MDL 1769.6 million) compared to the first quarter of 2016. The development of money in circulation was influenced in the first quarter of 2017 by higher cash collection flow than the cash release flow from banks' cash offices. The collections from consumption goods trade held the largest share of total collections (46.3 percent of total collection flow) and the collections on current accounts and deposit accounts of individuals (11.4 percent of total collection flow). At the same time, the main components of the cash release from banks' cash offices were: cash releases to buy foreign currency from individuals (30.8 percent of total cash release flow) and financial means releases for ATMs and POS terminals (20.8 percent of total releases flow).

The balance of deposits in national currency maintained the same level of the average growth rate during the reporting period, recording the value of 25.0 percent. Deposits in foreign currency recorded on average a decrease of 3.6 percent annually, by 0.3 percentage points more compared to the fourth quarter of 2016. The growth rate of the total balance of deposits increased during this period on average by 0.5 percentage points compared to the fourth quarter of 2016, recording an annual average growth rate of 10.4 percent.

Lending market

In January-March 2017, the total balance of credits recorded a downward trend, falling at the end of the quarter to the value of MDL 33454.3 million, decreasing by 9.2 percent compared to the end of March 2016 (Chart 4.6).

In terms of currency structure, the annual negative dynamics of loans balance was mostly due to the decrease of loans both in national currency and foreign currency. In total loan portfolio, the loans granted in national currency held a share of 56.2 percent, while those granted in foreign currency of 43.8 percent (Chart 4.7).

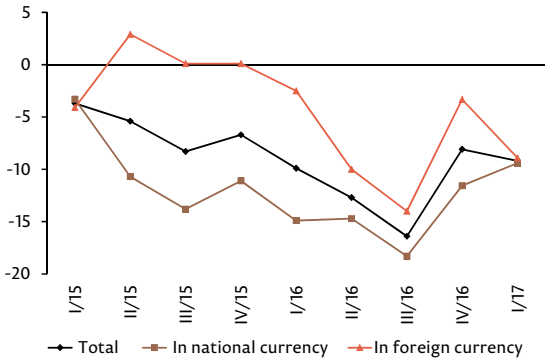
At the end of March 2017, the balance of loans in MDL granted by licensed banks from the Republic of Moldova amounted to MDL 18812.5 million, decreasing by 9.4 percent compared to March 2016.

During the first quarter of 2017, the evolution of the balance of loans in MDL was determined by the decrease in volume of loans granted to legal entities by 16.7 percent annually, accounting for MDL 11704.0 million (with a share of 62.2 percent of total loans in MDL). At the same time, the volume of loans granted to individuals increased by 5.9 percent annually, accounting for MDL 7108.5 million (with a share of 37.8 percent of total loans in MDL).

The evolution of the balance of credits in foreign currency by the end of the first quarter of 2017 recorded a decrease in annual terms of 8.9 percent compared to the end of the first quarter of 2016, recording the level of MDL 14641.8 million. The downward trend of loans in foreign currency, recalculated in MDL, was driven largely by the development of loans granted to legal entities (with a share of 98.0 percent of total loans in foreign currency), which constituted MDL 14356.3 million on 31 March 2017 and by 8.9 percent lower compared to the end of the first quarter of 2016. Loans in foreign currency granted to individuals recorded a negative annual growth rate of 6.5 percent at the end of the first quarter of 2017, accounting for MDL 285.5 million.

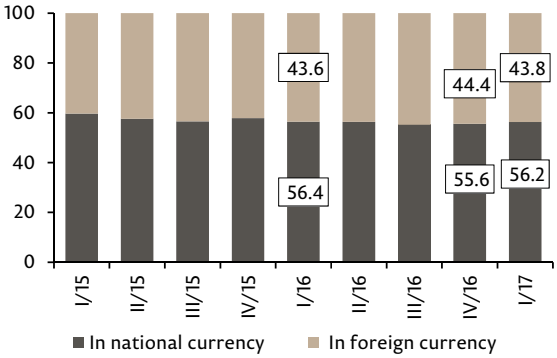
The trade sector held the largest share in the structure of loan portfolio by sectors. At the end of the reporting quarter, this sector recorded an annual decrease of 15.8 percent for the loans granted in national currency and by 9.7 percent for loans in foreign currency. The share of credits targeted to this sector was 22.4 percent in national currency (-1.7 percentage points than in March 2016) and 39.1 percent in foreign currency (-0.4 percentage points than in March 2016).

Chart 4.6: The evolution of loans balance (%, annual growth)



Source: NBM

Chart 4.7: The shares of loans balance (%)

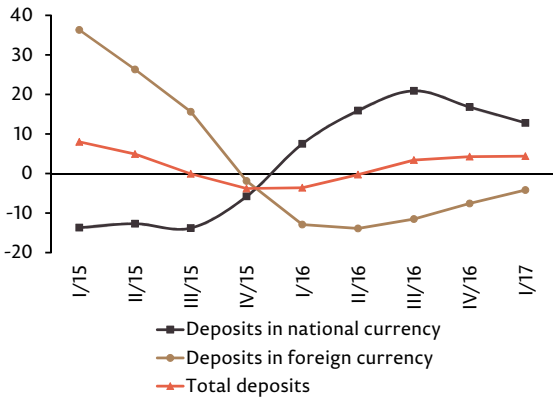


Source: NBM

Deposit market

During the first quarter of 2017, the annual total balance of deposits attracted by the banking system in annual terms recorded positive values similar to the previous quarter. Thus, at the end of March 2017, the total balance of deposits recorded the value of MDL 32677.8 million and an annual growth rate of 4.4 percent, close to that recorded at the end of the previous quarter.

Chart 4.8: The evolution of deposits balance (%, annual growth)



Source: NBM

The positive dynamics of the balance of deposits was influenced by the upward trend only of the component in national currency compared to the same period of 2016. The annual growth rate of deposits in national currency recorded the level of 12.8 percent annually, lower by 4.0 percentage points than the previous quarter. In turn, the annual growth rate of deposits in foreign currency recorded a decline of 4.2 percent annually, higher by 3.4 percentage points compared to the previous quarter (Chart 4.8).

The balance of deposits in national currency increased up to MDL 17858.2 million. During the first quarter of 2017, the upward trend of deposits in MDL was determined by the evolution of placements attracted from individuals, the share of which increased up to MDL 15982.3 (89.5 percent of total portfolio of deposits in national currency). Deposits attracted in MDL from legal entities recorded an annual growth rate of 21.1 percent, their share in the last 12 months increased by 0.7 percentage points, reaching the level of 10.5 percent of total deposit portfolio.

The annual dynamics of deposits in foreign currency recorded a decline of 4.2 percent, reaching the level of MDL 14819.6 million. This decrease was due to the decrease of deposits from individuals by 5.4 percent, accounting for MDL 12832.0 million (86.6 percent of total deposits in foreign currency). At the end of the first quarter of 2017, deposits from legal entities recorded an annual increase of 4.4 percent, accounting for MDL 1987.6 million (13.4 percent of total deposits in foreign currency).

Interest rates

Base rate

In the first quarter of 2017, there were held three meetings of the Executive Board of the National Bank on Moldova on monetary policy decisions. Following the assessment of the balance of internal and external risks, to which the economy of the Republic of Moldova could be subject and inflation outlook in the short and medium term, the Executive Board of the National Bank of Moldova decided, during three meeting, to maintain the base rate applied on main monetary policy operations at the level of 9.0 percent annually. These decisions, as a result of the inflation return to downward trend and the gradual normalisation of the monetary policy conduct, aimed to promote a monetary climate 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, with the aim to anchor the inflation expectations, restore and keep inflation close to the target of 0.5 percent on medium term, with a possible deviation of ±1.5 percentage points.

During the first quarter of 2017, the average interest rates on credits granted by licensed banks continued the downward trend and their average amounted to 11.32 percent for the credits in national currency (-0.78 percentage points compared to the fourth quarter of 2016) and 5.58 percent for the credits in foreign currency (-0.27 percentage points compared to the fourth quarter of 2016). This evolution shows the continuing effect of the transmission mechanism effect of the consecutive base rate decreases applied

on main monetary policy operations, approved by the Executive Board of the National Bank of Moldova during 2016. At the same time, the annual average interest rate on loans in national currency decreased by 2.36 percentage points, while the average annual interest rate on loans in foreign currency – by 1.07 percentage points compared to the first quarter of 2016 (Chart 4.9).

The decrease in average interest rate on the credit balance in national currency was caused by the decrease in average rate on credits granted both to legal entities and individuals. The average quarterly rate on loans granted to legal entities decreased by 0.89 percentage points compared to the fourth quarter and constituted 10.62 percent. The annual average interest rate for loans in MDL granted to individuals reached in the first quarter of 2017 the level of 12.50 percent, decreasing by 0.62 percentage points compared to the previous quarter. During the first quarter of 2017, the cost of loans in foreign currency decreased due to the downward development both of the interest rates on loans granted to legal entities (by 0.28 percentage points, up to the level of 5.54 percent annually) and the interest rates of loans granted to individuals (by 0.11 percentage points, up to the level of 7.51 percent annually).

Interest rate of deposits

Following the downward trend of base rate applied on main monetary policy operations of the National Bank of Moldova, the average interest rates on deposits continued their downward trend.

The average interest rate of deposits in MDL amounted to 7.59 percent in the first quarter of 2017, lower by 1.38 percentage points than the previous quarter and by 7.52 percentage points than the first quarter of 2016 (Chart 4.9). The evolution of the average interest rates for placements in MDL was influenced by the decrease of the average interest rates for deposits from legal entities up to the level of 6.85 percent (-0.93 percentage points than the previous quarter), while from individuals up to 7.68 percent (-1.43 percentage points than the previous quarter).

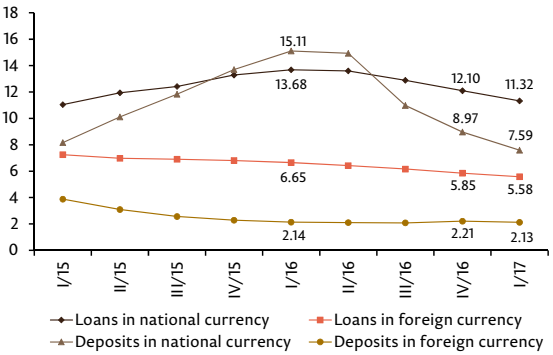
The interest rate of placements in foreign currency constituted on average 2.13 percent, lower by 0.08 percentage points than in the previous quarter. The quarterly decrease was influenced both by the decrease in average interest rates for deposits from legal entities by 0.10 percentage points, up to 2.06 percent annually and for those from individuals by 0.08 percentage points, up to 2.14 percent annually.

Banking margin

The banking margin (the difference between the average interest rates on loans and deposits) for the operations in national currency recorded a positive level in the first quarter of 2017, amounting to 3.73 percentage points, by 0.60 percentage points more compared to the previous quarter (Chart 4.10). This development was due to the more accentuated downward trend of the rates on deposits attracted by the banking system.

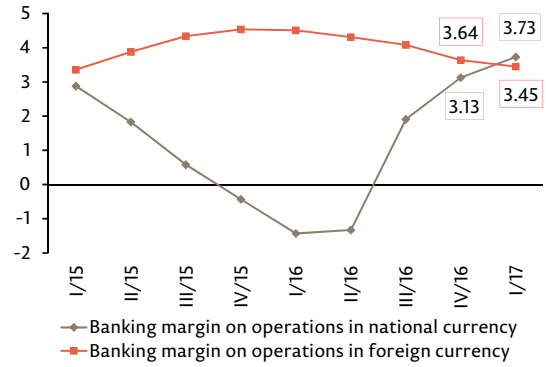
The evolution of banking margin for operations in foreign currency recorded a downward trend, constituting 3.45 percent, decreasing by 0.19 percentage points compared to the fourth quarter of 2016, being influenced by the decrease in interest rate on credits granted in foreign currency during the reporting period.

Chart 4.9: The average interest rates (%)



Source: NBM

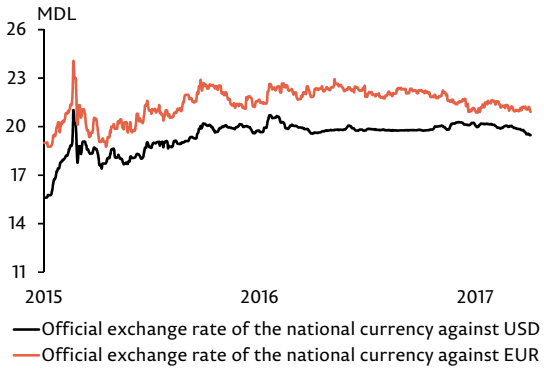
Chart 4.10: The evolution of banking margin (p.p.)



Source: NBM

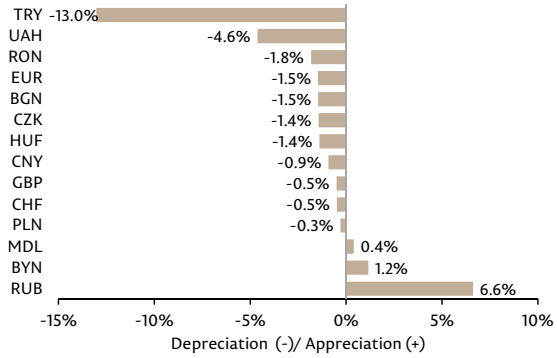
Nominal exchange rate and real effective rate

Chart 4.11: The fluctuations of the official exchange rate of MDL against USD and EUR



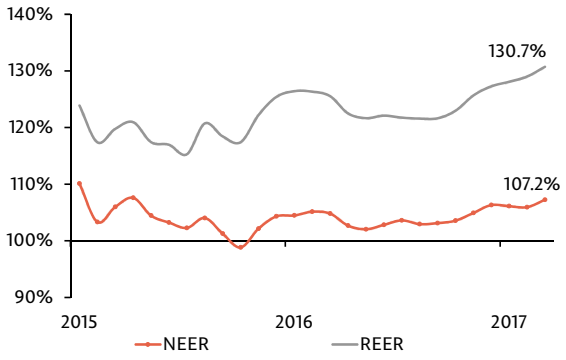
Source: NBM

Chart 4.12: The evolution of currencies in the region and currencies of the major trading partners of the Republic of Moldova against the U.S. dollar, QI 2017/QIV 2016



Source: NBM

Chart 4.13: The dynamics of nominal effective exchange rate (NEER) and real effective exchange rate (REER) of MDL calculated based on the major trading partners weights (Dec.2000=100%)



Source: NBM

During the first quarter of 2017, the official exchange rate of national currency appreciated against the USD by 2.5 percent compared to the end of 2016, while against EUR recorded an insignificant depreciation – of 0.1 percent (Chart 4.11). During the reporting quarter, the average official exchange rate of national currency against USD appreciated by 0.4 percent and against EUR – by 1.8 percent.

In the first quarter of 2017, MDL appreciated in real terms by 2.7 percent against the currencies of major trading partners. Similar to the previous quarter, most of partners contributed to this dynamic, mainly Romania – by 1.2 percentage points, Ukraine and Turkey – by about 0.4 percentage points (Chart 4.12).

During the first quarter of 2017, the appreciation pressures on Moldovan leu occurred when the situation on foreign exchange market was balanced compared to the previous quarter, currency demand being wholly satisfied by currency supply. Additionally, the increase of foreign currency net purchases of the individuals against the uncovered needs of foreign currency of the importers by the end of the reporting period determined the oversupply of foreign currency, amplifying the appreciation of the national currency.

In the first quarter of 2017, the net foreign currency supply from individuals amounted to USD 394.9 million, increasing by 12.4 percent compared with the fourth quarter of 2016. At the same time, the net supply was under the level recorded in the first quarter of 2016 (USD 418.7 million), amid the intensification of net transfers from abroad in favour of individuals[7]. The contribution of transfers to net foreign currency supply was offset mainly by the preference of individuals to hoard in foreign currency, a trend also recorded during the previous quarter. In the first quarter of 2017, the balances of foreign exchange accounts of individuals increased by USD 19.1 million[8]. In disaggregation by currency, net supply of EUR increased by 41.0 percent[8], while net supply of USD and RUB[8] decreased by 16.2 and 25.4 percent, respectively.

Net demand of foreign currency from economic agents evolved due to the revival of external trade activity[9] compared to the first quarter of 2016. At the same time, the significant increase of foreign currency purchases from exporters (about 22.0 percent) compared to the sales to importers (about 8.0 percent) determined the decrease in net demand from economic agents by 3.5 percent, up to USD 394.3 million. The increase in purchases from economic agents was supported by a higher supply of foreign currency from some exporters of agricultural products (cereals, oilseed products, sugar, etc.). At the same time, the increase in sales of foreign currency to importers was mitigated by a reduced demand from importers of energy resources (by 9.2 percent) compared to the first quarter of 2016.

[7] Within the limits of available data, in January-February 2017, transfers increased by 17.0 percent compared to January-February 2016.
[8] Data recalculated at a constant exchange rate.
[9] According to available data for the first two months of 2017.

In these circumstances, the coverage of net demand of foreign currency by net supply of foreign currency accounted for 100.2 percent in the first quarter 2017 compared with 88.5 percent[10] in the fourth quarter of 2016 and 102.5 percent in the first quarter of 2016 (Chart 4.16).

Referring to the monthly dynamic of the MDL exchange rate against USD at the end of January, this increased by 0.3 percent compared to the last day of December 2016, while on average values it remained practically at the level of the previous month. The conditions created at the end of 2016, when it was recorded a high demand of foreign currency from certain importers (of energy resources, pharmaceutical products etc.), have exposed the national currency to depreciation pressures at the beginning of 2017. Thereafter, due to the slowdown in foreign currency needs from importers and a relative stable supply of foreign currency from individuals during January 2017, the exchange rate of Moldovan leu recorded an appreciation trend against USD, which also continued in the first week of February 2017. The purchases of foreign currency in higher volumes in the mid-February 2017 by importers of natural gas and electricity conditioned an exchange rate correction, this turning by the end of February close to the levels recorded at the end of the previous month.

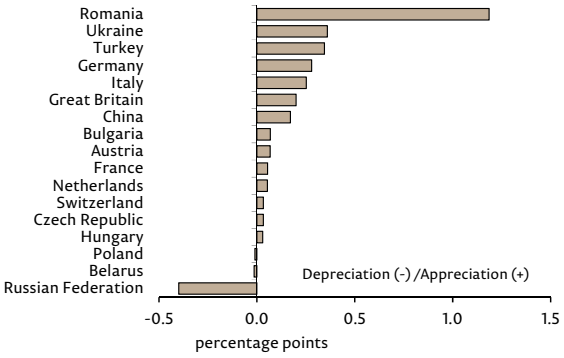
In March 2017, net supply of foreign currency from individuals, amounting to USD 149.0 million, exceeded the net demand of foreign currency from economic agents (USD 144.6 million), creating premises for national currency appreciation. At the same time, the registration of a more pronounced surplus of foreign currency in the second half of the month conditioned the acceleration of the Moldovan leu appreciation. Pursuant to the level recorded at the end of the month, national currency appreciated against USD by 2.6 percent compared to February, while the appreciation in monthly average values was 1.2 percent. In these circumstances, in the last decade of March 2017, National Bank of Moldova carried out interventions of purchasing USD 28.0 million, mitigating the appreciation of the national currency.

Regarding the dynamic of the exchange rate of the national currency against euro, this was marked by the uneven fluctuations of EUR against USD on international markets, which during the first quarter of 2017 were generated mainly by the political uncertainties in EU and USA and the decisions of monetary policy of the ECB and Fed of the developments of both economies. In January 2017, EUR recorded a sound appreciation due to the economic growth revival in the main countries of the euro area and to the amelioration of deflationary risks. In this context, MDL/EUR exchange rate depreciated in January by 2.3 percent according to values at the end of the month and by 0.5 percent in average values.

In February 2017, optimistic forecasts for the EU economic growth have not managed to reduce the negative influence over EUR generated by the election campaigns in some important countries of the euro area, where anti-EU candidates are outlined. Consequently, the exchange rate of Moldovan leu against EUR appreciated by the end of month by 0.9 percent compared to the end of January, while on average values appreciated less – by 0.3 percent.

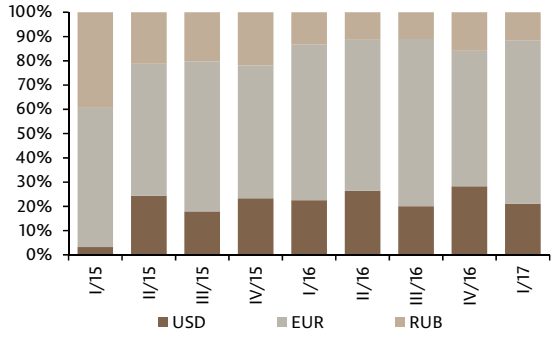
[10]Data updated.

Chart 4.14: The contribution of the major trading partners of the Republic of Moldova to the real effective exchange rate modification in the first quarter of 2017



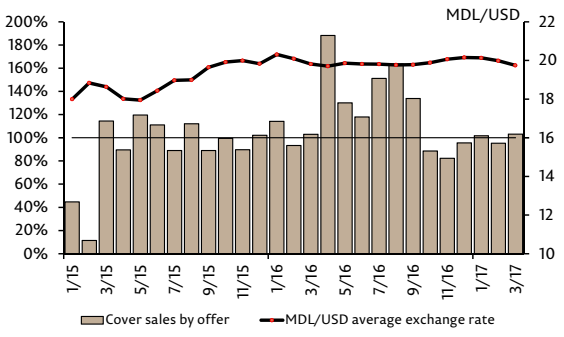
Source: NBM

Chart 4.15: The foreign currency structure of net foreign currency supply (foreign currencies are recalculated in USD at an constant exchange rate)



Source: NBM

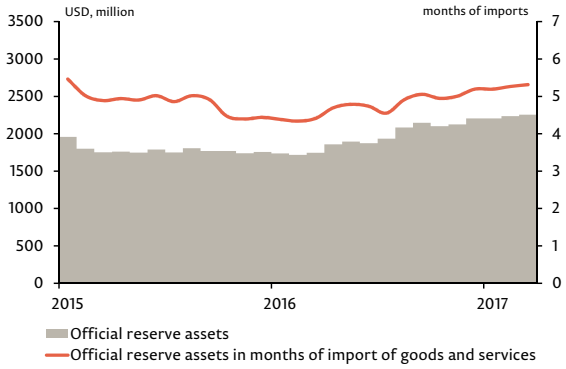
Chart 4.16: The coverage rate of net demand of foreign currency by the net supply and the dynamics of the official exchange rate



Source: NBM

In March 2017, political dissent, for this time in USA, compounded by the reveal of a package of reforms in health field, submitted by the current president of the USA in USA Congress, exerted significant influences over the EUR quote against USD on international markets. Thus, despite the decision of the Federal Open Market Commission to increase the reference rate by 0.25 percentage points, USD recorded during March a depreciation trend against EUR, except for last days of the month, when a downward correction of the EUR/USD exchange rate occurred. In these circumstances, national currency appreciated less against EUR – by 1.2 percent in March, compared to the MDL advance against USD, according to the values recorded by the end of month, and by 1.0 percent on average monthly values.

Chart 4.17: The evolution of official reserve assets expressed in months of import of goods and services



Source: NBM

At the end of the first quarter of 2017, the balance of official reserve assets amounted to USD 2256.5 million, increasing by USD 50.6 million (2.3 percent) compared to the end of the fourth quarter of 2016 (Chart 4.17), mainly as a result of the interventions of purchasing foreign currency made by the NBM and the disbursement of the second tranche in the amount of EUR 50.0 million (equivalent of USD 53.0 million) of the loan granted by the Government of Romania to support the state budget.

At the same time, inflows in the form of external financial assistance were recorded during the quarter from the World Bank institutions (IBRD and IDA), which offered loans in the amount of USD 2.7 million within the projects: The consolidation of the social assistance efficiency (USD 1.8 million), Competitiveness enhancement project II (USD 0.3 million), Competitive Agriculture, Heath Sector Modernisation (by USD 0.2 million) and Adapting to climate change and forestry in Moldova (USD 0.1 million).

As of 31 March 2017, the official reserve assets continued to ensure a sufficient level of coverage of the imports of goods and services (5.3 months of import[11]).

[11]Calculated based on the import of goods and services forecast for 2017.

Chapter 5

Medium-term inflation forecasting

5.1 Assumptions of the external environment

The events of the first quarter of 2017 highlighted the assumptions on pro-inflationary pressures related to the development of the external environment. The concern related to the enforcement of the agreement to cut oil production by OPEC and other involved countries upholds the upward trend of oil prices. Another factor is the enhanced antagonism between the monetary policy of major economies resulting from the gradual tightening of monetary policy by the Federal Reserve System, which generates constant appreciation of the U.S. dollar. Moreover, the depreciation pressures that emerging and developing economies, including the Republic of Moldova, face are additive pro-inflationary pressures. Also, the predictions on the evolution of the economy of the main trading partners and the emigration trend of people from the Republic of Moldova for employment purposes signal that the external demand will grow. Last but not the least, the international quotations for raw material, most importantly – for food, are increasing which will have an effect on the consumer prices through import of goods (Table 5.1).

In 2016, the euro area economy managed to record an average growth of the gross domestic product of 1.7 percent under the incentive monetary policy that supported consumption and the reduced parity of the European single currency that contributed to export boost. Thus, in the current forecasting round, the prediction on the growth of GDP in the euro area in 2017 was increased from 1.4 to 1.7 percent. However, for 2018, it is anticipated that the euro area economy will grow on average by 1.5 percent (Chart 5.1).

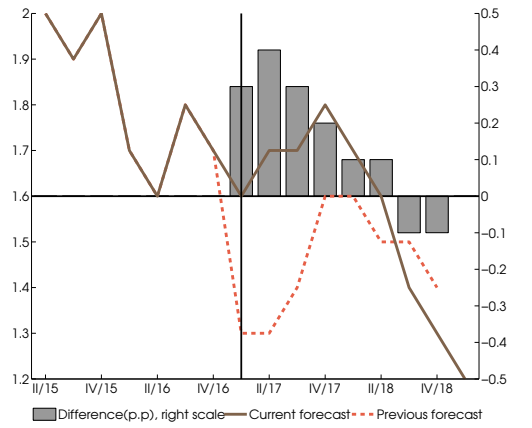
In 2016, the economy of the Russian Federation straitened on average by 0.2 percent, however, in the last quarter GDP growth recorded a positive trend which marked the end of the recession. Thus, in the current forecasting round, it is anticipated that GDP of the Russian Federation will increase by 1.2 percent in 2017 and by 1.6 percent in 2018. Moreover, the Russian officials' forecast are more optimistic compared with the international environment, piling up additional uncertainties. As a direct result of the Russian economy's nature, related uncertainties and risks are strongly linked with the oil price evolution. That's why, in the following quarters as statistical information is being collected, the predictions on the growth of the Russian Federation's economy will be duly adjusted (Chart 5.2).

Table 5.1: The expected evolution of external variables (annual average)

	2017	2018
Economic growth in the euro area (%)	1.7	1.5
Economic growth in the Russian Federation (%)	1.2	1.6
Average annual inflation in the euro area (%)	1.6	1.4
Average annual inflation in the Russian Federation (%)	4.2	4.6
USD/EUR	1.06	1.07
RUB/USD	58.7	60.3
Urals brand oil prices (USD/barrel)	53.7	54.3
International food prices growth (%)	4.2	3.8

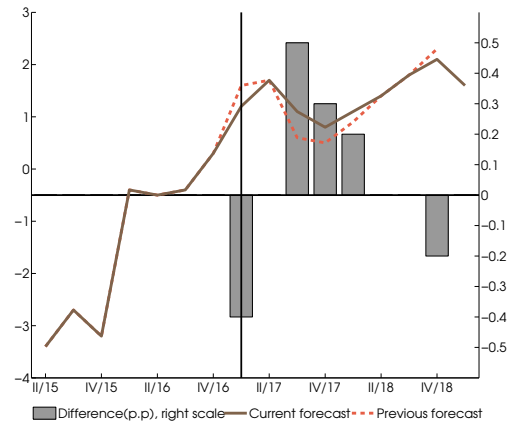
Source: NBM assumptions based on Consensus Economics and futures quotations

Chart 5.1: The evolutionary scenario of GDP annual growth rate in the euro area (%)



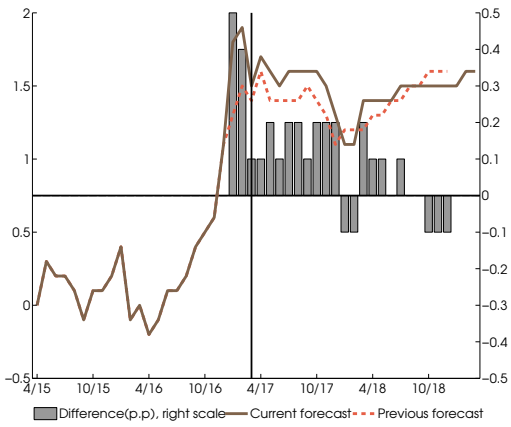
Source: Eurostat, NBM assumptions based on Consensus Economics

Chart 5.2: The evolutionary scenario of GDP annual growth rate in the Russian Federation (%)



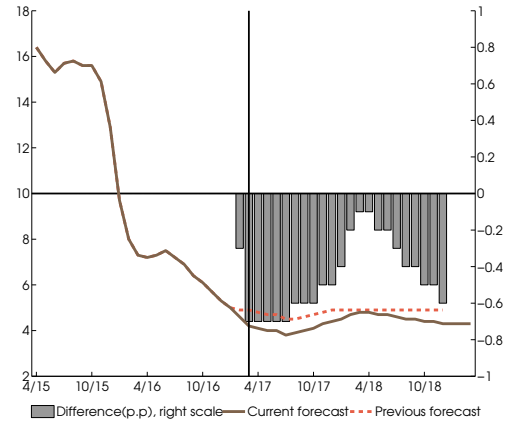
Source: Russian Federal State Statistics Service, NBM assumptions based on Consensus Economics

Chart 5.3: The evolutionary scenario of annual inflation in the euro area (%)



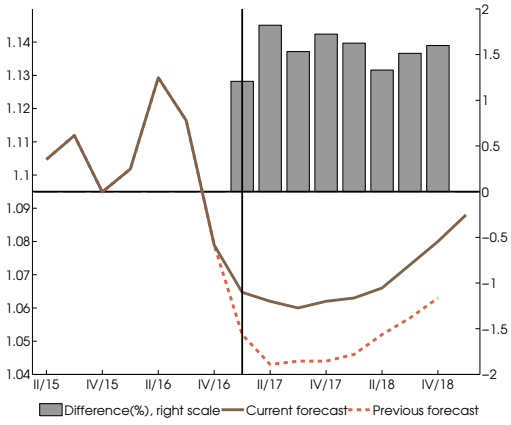
Source: Eurostat, NBM assumptions based on Consensus Economics

Chart 5.4: The evolutionary scenario of annual inflation in the Russian Federation (%)



Source: Russian Federal State Statistics Service, NBM assumptions based on Consensus Economics

Chart 5.5: The evolutionary scenario of the USD/EUR exchange rate



Source: ECB, NBM assumptions based on Consensus Economics

The increase of prices for energy resources and consumer stimulation through monetary policy actions fuel the consumer price growth in the euro area. Thus, annual inflation in the euro area tends on getting closer to 2.0 percent – the level targeted by the European Central Bank. During the current forecasting round, it is anticipated that the annual average inflation rate in the euro area will be of 1.6 percent in 2017 and of 1.4 percent in 2018. The risks related to the consumer price development in the euro area are linked with the international quotations for raw material and the parity of the European single currency (Chart 5.3).

The cut-down of the inflation rate in 2016 and the steady trend of the Russian ruble are the main factors of diminishing the predictions on the annual average inflation rate in the Russian Federation. Another major factor is the Central Bank of the Russian Federation's perseverance in reaching the inflation target of 4.0 in late 2017. Thus, in the current forecasting round, it is predicted that the consumer prices in the Russian Federation will grow on average by 4.2 percent in 2017 compared with 4.8 percent as it has been predicted in the previous forecasting round, and by 4.6 percent in 2018, against 4.9 percent as it has been predicted in the previous forecasting round (Chart 5.4).

USD/EUR parity evolution early this year proved that the European single currency depreciation against U.S. dollar will be to a smaller extent than it was previously forecasted. This is due to the steady and sturdy recovery of the euro area economy. Thus, in the current forecasting round, it is anticipated that the average parity of USD/EUR will be of 1.06 in 2017 and 1.07 in 2018. The enforcement of the monetary policy of the officials concerned and the general evolution of such economies will make for the main factors of the aforementioned currencies' development (Chart 5.5).

In the first quarter of 2017, Russian ruble appreciated on average by 6.7 percent against the U.S. dollar amid increase and stability of international quotations for oil. Moreover, the monetary policy of the Central Bank of the Russian Federation was still being restrictive, which under inflation deceleration contributed to a greater extent to the appreciation of the Russian ruble. Thus, in the current forecasting round, the parity of the Russian ruble against the U.S. dollar is obviously more appreciated and the annual average value of the cross-exchange rate it is predicted to be of 58.7 RUB/USD in 2017 and 60.3 RUB/USD in 2018 (Chart 5.6).

During the last quarters, the international oil quotations steadily settled in a reduced interval, confirming previous assumptions on the evolution of oil prices and thus the forecasts did not suffer significant changes during the two consecutive forecasting rounds. Thus, in the current forecasting round, it is anticipated that the average price for Urals oil will make up 53.7 USD per barrel in 2017 and 54.3 USD per barrel in 2018. Moreover, the risks related to the oil price growth are relatively significant amid OPEC's potential failure at cutting oil production if the number of operating oil wells and the volume of oil in USA and Canada will grow (Chart 5.7).

In the second half of 2016, the international food prices started to grow significantly under an increased export demand, diminished stocks and poor perspectives related to the harvest of some crops. Strongly volatile nature of food products under these circumstances contributed to the exaggerated estimate of related

risks. Thus, in the current forecasting round, it is anticipated that international food prices will grow by only 4.2 percent in 2017 (compared with 14.7 percent as was predicted in the previous forecasting round), and on average by 3.8 percent in 2018, as a result of a slowdown in growth (compared with 2.9 percent as predicted in the previous forecasting round) (Chart 5.8).

5.2 Assumptions on regulated prices

The anticipations on the evolution of tariffs within the inflation horizon foresees the increase of waste transportation and water and sewerage services tariffs by 2.7 percent and 6.4 percent respectively in the second quarter of 2017. In this regard, the Council of Administration of the National Energy Regulation Authority (ANRE) approved, in the public session of 17 March 2017 several decisions according to which it updated the electricity and heat production, delivery and distribution tariffs. Thus, according to estimates, the price per 1 KWh will increase on average, by country, by about 3.7 percent[12], and the tariff for one gigacalorie (GCal) (central heating and hot water supply) will be adjusted from 1 May 2017 by 6.4 percent. Also, in the second quarter of 2017, it is anticipated that the water and sewerage network tariff will grow due to the tariff adjustment in some of the country's regions.

Prices for medication, according to the projection, will continue to generate positive contributions, although modest, to the regulated price dynamic, especially in the second quarter of 2017, as a result of the policies recently enforced in this area of activity.

Assumptions on the tariff increase have been included in the medium-term inflation forecast. Nevertheless, given that the decisions are based not only on economic, but also on social impact viewpoint, the moment of adopting new tariffs and their value is characterized by a significant degree of uncertainty which makes for a great risk that could record a deviation for the medium-term inflation forecast.

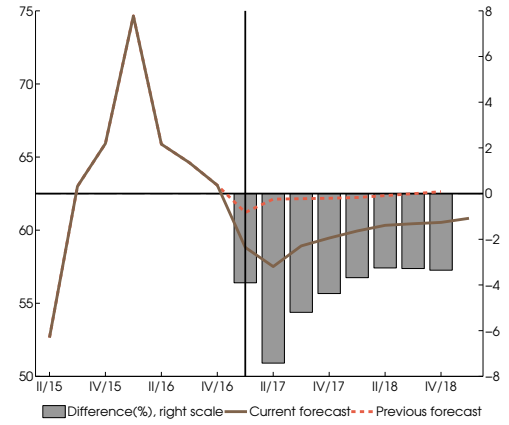
5.3 Medium-term forecasting

Aggregate demand

According to the current forecasting round, *GDP deviation* will record positive values in the first four quarters of the forecast horizon and negative values during the other quarters. Thus, an economic activity above its potential level will cause inflationary pressures on the medium term, while the negative values of GDP deviation in the last four quarters of the forecasting horizon will generate disinflationary pressures (Chart 5.9).

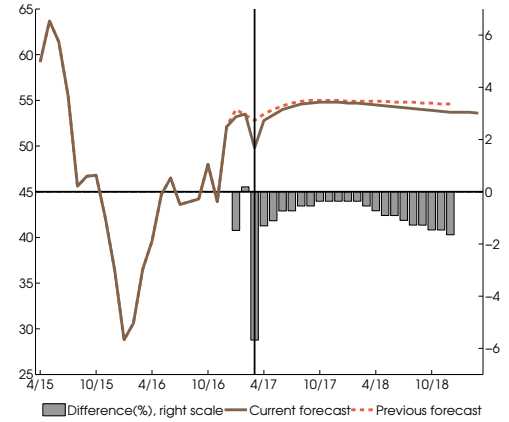
[12] New tariffs for electricity and heat production, delivery and distribution came into effect on 24 March 2017, on the date of their being published in the Official Monitor, so that 1.0 percentage points of this growth was disclosed by the NBS in March 2017, while the difference will be disclosed in April 2017.

Chart 5.6: The evolutionary scenario of the RUB/USD exchange rate



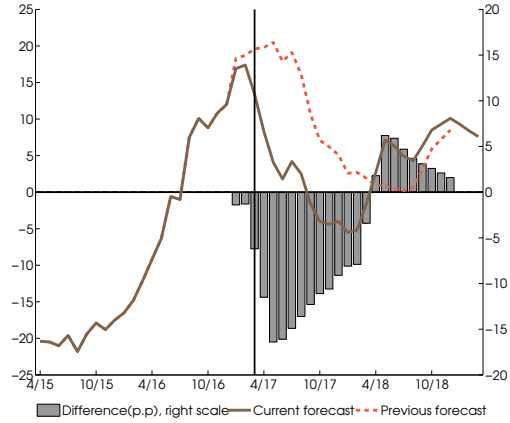
Source: Central Bank of the Russian Federation, NBM assumptions based on Consensus Economics

Chart 5.7: The evolutionary scenario of the Urals brand oil prices (USD/barrel)



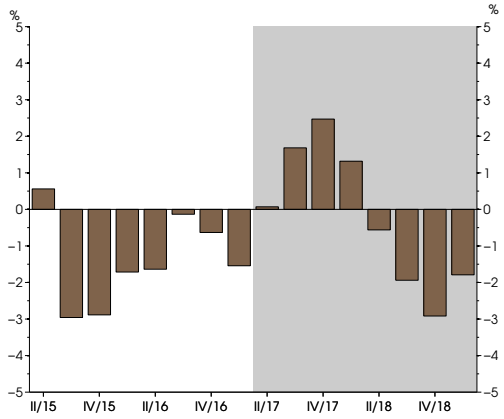
Source: Ministry of Economic Development of the Russian Federation, NBM assumptions based on futures quotations

Chart 5.8: The evolutionary scenario of the annual growth rate of world food prices (%)



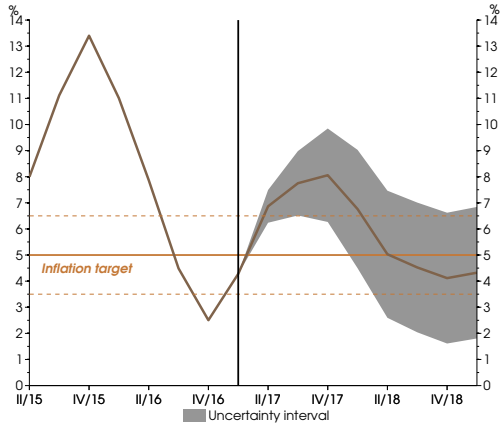
Source: FAO, NBM assumptions based on futures quotations

Chart 5.9: The output gap forecast (%)



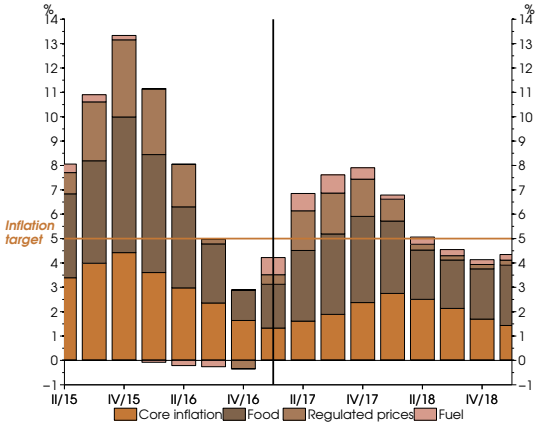
Source: NBS, NBM calculus

Chart 5.10: The annual rate of total CPI forecast (%)



Source: NBS, NBM calculus

Chart 5.11: The CPI decomposition (p.p.)



Source: NBS, NBM calculus

External demand's weight on the internal demand is restrictive in the first part of the forecasting horizon and incentive in the second half of the forecasting horizon.

Real monetary conditions will have a restrictive nature during the forecasting horizon, except for quarter 2, 2017. This fact will be predominantly driven by the restrictive nature of the monetary policy on the *real effective exchange rate*, except for the first forecasting quarter. Monetary policy will show an incentive nature throught the *real interest rate* untill the third quarter of 2018, after which, it will be insignificantly restrictive until the end of the forecasting horizon.

Inflation

Annual inflation rate will draw an upward trajectory until quarter 4, 2017, but it will diminish until the end of the forecasting horizon. As of quarter 2, 2017, the annual inflation rate will settle above the variation range for four consecutive quarters. Further, it will settle within the variation range until the end of the forecasting horizon.

Annual inflation rate will have a minimum value of 4.1 percent in the fourth quarter of 2018 and a maximum value of 8.1 percent in the fourth quarter of 2017 (Chart 5.10).

Annual average inflation rate will record 6.8 percent and 5.1 percent this and the next year, respectively.

Annual *core inflation* rate will record an upward trajectory in the first part of the forecasting horizon, until the first quarter of 2018 and a downward line – in the second part of the forecasting horizon. The growth of core inflation in the first half of the forecasting horizon will be driven by the increase of the aggregate demand during four consecutive quarters and inflationary pressures created by the supply. Core inflation's contribution to the annual inflation rate will increase in the first quarter of 2018 and decrease until the end of the forecasting horizon (Chart 5.11).

Annual *food prices* rate will grow during the first three quarters, until the fourth quarter of 2017. Later, it will drop until the end of the forecasting horizon. Annual rate accelerated mostly due to the increase of food prices in the second quarter of 2017 and production costs. Food prices' contribution to the annual inflation rate will record an upward trend until quarter 4, 2017, and it will drop to the end of the forecasting horizon (Chart 5.11).

Annual *regulated prices* rate will grow until quarter 3, 2017, but it will record a downward trend until quarter 3, 2018 and will stabilize. Regulated prices' contribution to the annual inflation rate will record an upward trend during the first two quarters and a downward trend until quarter 3, 2018 (Chart 5.11). Paragraph 5.2 details on the factors determining the increase of the annual regulated prices rate.

Annual *fuel prices* rate will record a downward trend during the first four quarters, until quarter 1, 2018, after which the prices will stabilize until the end of the forecasting horizon. Decrease of

the annual fuel prices rate is predominantly conditioned by the strong drop of prices in the second quarter of 2017, according to the short-term forecast. Fuel prices' contribution to the annual inflation rate will record a downward trend until the third quarter of 2017, steadying to the end of the forecasting horizon (Chart 5.11).

Comparison of the current and previous forecasts

According to the current forecasting round, the average annual inflation rate will make up 6.8 and 5.1 percent this and the next year, respectively. Compared with the values in the Inflation Report no. 1, 2017, the average annual inflation rate will be higher by 1.6 percentage points in 2017 and by 0.2 percentage points in 2018 (Chart 5.12).

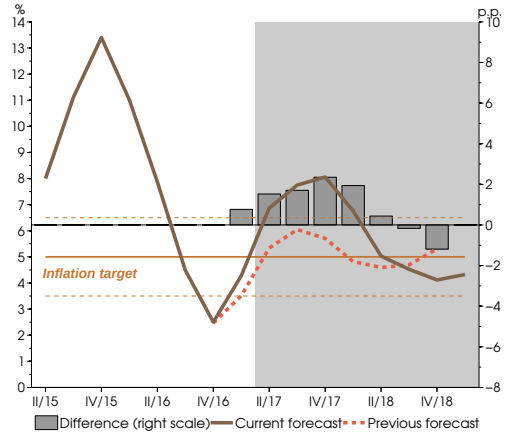
The annual core inflation increased considerably during the entire forecasting horizon, except for quarter 4, 2018. This is due to the reconfiguration of the aggregate demand forecast. The significant growth of GDP deviation during this year will create additional inflationary pressures compared with the previous forecast. At the same time, additional positive pressures from demand have been taken into account.

Annual food prices rate will record a predominantly higher trend, compared with the previous forecast, except for the last two quarters of the next year. This fact is driven by a considerable growth of these prices in quarter 2, 2017, according to the short-term forecast. At the same time, the increase of the aggregate demand and the prediction of high inflationary pressures generated by supply created additional positive contributions to the difference between the forecasts.

Annual regulated prices rate was increased this year due to unforeseen increases of tariffs that occurred in the first quarter of 2017. At the same time, effective increases of this year and the forthcoming elections conditioned a smaller predicted growth of these prices for next year.

Annual fuel prices rate was strongly cut for the entire forecasting horizon. The difference is determined by a lower imported inflation, including as a result of lower oil prices.

Chart 5.12: The annual rate of total CPI



Source: NBS, NBM calculus

Risks and uncertainties

External sector

Risks and uncertainties related to the development of the external environment are relatively high. First, U.S. dollar shows an exacerbated volatility, causing major divergences on the foreign currency markets. International oil quotations are relatively stable, but the growing number of operating oil wells in United States of America can cause failure of OPEC plan to cut oil production. Moreover, U.S. dollar volatility and oil prices are risk factors for international raw material quotations. Thus, within the current forecasting round, the following risks and uncertainties related to the development of the external environment are identified:

- **Strong volatility of U.S. dollar.** On 15 March 2017, the Federal Reserve System increased the reference range of interest rate, but, contrary to the economic theory, the monthly average for March 2017 points at a depreciation of U.S. dollar compared with most currencies of international circulation. Although the economic background signals that the U.S. dollar should record an upward trend, this currency actually significantly alternated in the first months of 2017, increasing the risk related to the current forecasts.
- **Ambiguous risks about international oil quotations.** OPEC's joint efforts with other oil exporting countries engaged in the agreement to cut oil production could have been seen in early 2017. They contributed to the increase and, later on, to the stabilization of international oil quotations. Nevertheless, statistics related to the ongoing growth of operating oil well number in the United States of America fuel the risk of further upholding the excess of oil at the global level and cutting oil quotations. At the same time, there are very positive predictions on the development of large oil consumer economies, which might significantly contribute to the oil quotation growth.
- **External demand uncertainties.** There are relatively optimistic forecasts about the development of neighboring countries, main trading partners and countries favored by emigrants for employment, setting up a favorable framework for external demand growth. However, the practice of recent years shows that the approach of forecast at the beginning of the calendar year requires a degree of precaution. Most likely, gradual appearance of statistics will contribute to shaping and creating of a clearer view on external demand growth rates.
- **Strong volatility of international food price quotations.** After several consecutive months of growth of international food price quotations, in March they dropped considerably, driving amendments to the predictions of their future development. This is due to the alternation between agricultural seasons in the northern and southern hemisphere, which contributes to the permutation of the factors of influence. According to the forecasts, international food prices quotations will grow in the next years, following an annual average rate, but the uncertainties still persist.

Real sector

- **Uncertainties on 2017 harvest.** Atypical weather conditions from April 2017 significantly affected multiannual crops. Thus, during 2017, inflationary pressures from fresh fruits prices will be signaled. At the same time, this year's harvest (especially corn and fresh fruits) and food product prices on the domestic market will strongly depend on the agri-meteorological conditions in the next months. This information, however, cannot be predicted and this leads to a certain degree of uncertainty as to the food price forecast for 2017. Thus, high vulnerability of the agricultural production against weather conditions, uncertainty related to 2017 harvest and food prices dynamic on the domestic market will still persist.
- **Postponed regulated service tariff adjustment.** Social turmoil related to the increase of tariffs and people's expenses could push regulatory institutions to postpone regulated service tariff adjustment, predicted in the forecast. This will generate a lower trajectory than the one anticipated. Moreover, considering that election will be held in 2018, some tariff increases could be postponed until 2019.
- **Renewed inclusion of liquefied gas price in the methodology on formation and application of oil product prices, adopted in the first half of 2016.** The methodology establishes a direct correlation between petrol and diesel gas prices on the domestic market and the evolution of regional stock exchange quotations on oil products. It also sets the specific trade margin that balances the value of expenditures and the profit of oil companies. Even though liquefied gas prices were initially stipulated in the methodology, they have later been removed, resulting in their significant boost. But, there is a certain likelihood to renew the inclusion of the liquefied gas price in the aforementioned document, that might trigger its drop.
- **2017 base period effect.** In the first months of this year, monthly inflation recorded strong values, mostly due to increases in some regulated prices. The upward trend of prices continued in the following months, too, due to the increase of people's available revenue and some tariff adjustments. All this generates a high level of the base period for the annual inflation rate in 2018.

Monetary and public sectors

- **Excess liquidity in the banking sector.** As a result of 2016-2017 monetary issuance and NBM net interventions on the foreign exchange market (foreign currency purchase) in amount of USD 435.3 million (about MDL 8.6 billion), there is excessive liquidity amounting to MDL 7.3 billion in the banking sector. This excess can cause a positive short-term impact on the aggregate demand, currency exchange rate and can influence the increase of inflationary pressures.
- **2017 fiscal policy's excise duty amendment impact.** Fiscal policy draft for 2017 stipulates a significant increase of excise duties for certain categories of goods included in the

CPI structure and their establishment for a 3-year period to increase tax inflows and to secure a predictability of the tax policy and law. This fact can generate price growth for some CPI subcomponents that are subject to excise duties. Thus, fiscal policy draft for 2017 foresees a significant increase of excise duty quota on oil products and cigarettes, in line with the European Union Directives under RM-EU Association Agreement.

- **Fiscal deficit.** The draft of the fiscal policy of 2017 and the 2017-2019 Medium-term State Debt Management Project foresee the growth of financial funds under the form of grants and loans from international financial institutions up to MDL 8.7 billion in 2017. The fiscal deficit will account for -9.1 percent of GDP. This will considerably influence the evolution of the fiscal sector indicators and will create additional inflationary pressures.

- **Pension reform.** Distribution of the Social Fund funds to people with small income will stimulate their power of consumption, resulting in supporting the domestic aggregate demand and imports and, thus, the depreciation pressure on the MDL exchange rate.

- **Low lending of economy.** Loan market evolution records a pessimistic dynamic during 2017. At the same time, it should be mentioned that the minimum loan decrease level was recorded in September 2016 (-16.4 percent per year), after which it started to grow (-9.2 percent per year in February 2017). The passive approach of legal entities' lending is caused by an economic and political turmoil in the Republic of Moldova and in the region, due to the unacceptable lending conditions or high risks. The rise of these trends might create additional disinflationary pressures, however it pushes the banks to search for profitable alternatives that would generate revenues on the market (securities purchasing, currency operations etc.).

- **MDL/USD currency exchange trajectory.** Some consumer prices, such as those for imported goods or displayed in foreign currency, are sensitive to the currency exchange rate dynamic. Early this year, the national currency exchange rate recorded a relatively steady dynamic, in March it slightly appreciated. This trend, however, can continue for a limited time and it strongly depends on the 2017 potential harvest and money transfers from abroad. An eventual overturn of this trend in the second half of the year will result in price growth for some goods within CPI. Given the non-homogeneous price pattern against the exchange rate modification, there is a pro-inflationary risk related to the exchange rate evolution.

- **Unstable situation in the banking sector.** Events related to the banking fraud, MDL depreciation, international financial institutions' warnings on the situation in the domestic banking sector and the negative information background shatter the trust in the national financial system. Any negative information flow shock or build-up with reference to the domestic financial and banking sector increases the business owners and people's doubt and contributes to seeking less risky funding and savings ways.

Chapter 6

Monetary policy decisions

Summary of the monetary policy meeting of the Executive Board of the National Bank of Moldova of 29.09.2016

Chairperson: Mr. Sergiu Cioclea, Governor - Chairman of the Executive Board.
Attendees: Members of the Executive Board - Mr. Ion Sturzu – Deputy Governor, Mr. Aureliu Cincilei – Deputy Governor, Mrs. Cristina Harea – Deputy Governor.
Speaker: Mr. Radu Cuhal, Director of Monetary Policy and Research Department.
Invitees: Mr. Marin Moloșag, Advisor to the Governor, Mr. Andrei Rotaru, Advisor to the Governor, Mrs. Lucia Hadârcă, Director of Banking Operations Department, Mr. Matei Dohotaru, Director of Banking Supervision Department, Mrs. Corina Țurcan, Head of Legislation and International Law Division.
Mr. Radu Cuhal presented the current macroeconomic situation on the monetary, credit, deposit markets, the evolution of external macroeconomic environment, analysis of current inflation and the influential factors on inflationary process. Members of the Executive Board assessed the impact of monetary policy measures, validating the correct monetary policy decisions made from 2015 and early this year.
The Executive Board advised on the determining factors of medium-term inflation rate. Disinflationary external risks are related to the reduced economic activity from euro area countries and recession in the Russian Federation – main external trading partners of the Republic of Moldova, with repercussions on the population' and domestic exporters' short-term foreign currency revenue cut in the light of remittances and external trade. Potential risks to the inflation arise also from the high volatility of international financial and foreign currency markets and the uncertainties related to oil prices, international raw material and food prices. Main domestic risks and uncertainties are related to slow regulated tariff adjustment, excise duty modification from 2017 fiscal policy conduct viewpoint and 2016 harvest, respectively. Thus, it is noticed a strong prevalence of disinflationary risks and it is anticipated a fast drop in annual price growth, including due to high comparison base of 2015.
To keep the inflation rate near 5.0 percent target on the medium term, with a potential shift of ±1.5 percentage points, the Executive Board decided, by unanimous vote, to diminish the monetary policy interest rate by 0.5 percentage points, from 10.0 to 9.5 percent per year. The gradual calibration of the monetary policy conduct targets appropriate real monetary conditions to support lending and savings and to push domestic demand up, together with adjusting the internal economic environment to the volatility and uncertainties of the external environment.
The Executive Board outlined the fact that NBM would monitor and would predict domestic and international economic environment developments so that to ensure stability of prices on the medium term through a flexible operational framework that was characteristic for inflation targeting strategy.

As a result, the Executive Board of NBM decided:
1. to diminish the base rate applied on the main short-term monetary policy operations by 0.5 percentage points, from 10.0 to 9.5 percent per year;
2. to reduce interest rates:
• on overnight loans by 0.5 percentage points, from 13.0 to 12.5 percent per year;
• on overnight deposits by 0.5 percentage points, from 7.0 to 6.5 percent per year.

Voting results

FOR – 4 AGAINST – 0 ABSTAIN – 0

Chairman of the Executive Board

Sergiu CIOCLEA

Secretary of the Executive Board

Sergiu SURDU

Summary of the monetary policy meeting of the Executive Board of the National Bank of Moldova of 27.10.2016

Chairperson Mr. Sergiu Cioclea, Governor – Chairman of the Executive Board.
Chairperson: Members of the Executive Board – Mr. Vladimir Munteanu – Prime Deputy Governor, Mr. Ion Sturzu – Deputy Governor, Mrs. Cristina Harea – Deputy Governor.
Speaker: Mr. Radu Cuhal, Director of Monetary Policy and Research Department.
Invitees: Mr. Marin Moloșag, Advisor to the Governor, Mr. Andrei Rotaru, Advisor to the Governor, Mr. Natan Garștea, Advisor to the Governor, Mr. Serghei Bucur, Deputy Director, Head of Foreign Currency Operations Division, Banking Operations Department, Mr. Matei Dohotaru, Director of Banking Supervision Department, Mr. Andrei Velicev, Head of Legal Opinion and Litigation Division.
Mr. Radu Cuhal presented the current macroeconomic situation on the monetary, credit, deposit markets, the evolution of external macroeconomic environment, analysis of current inflation and the influential factors on inflationary process. Members of the Executive Board assessed the impact of monetary policy measures, validating the correct monetary policy decisions made from 2015 and early this year. They discussed the assumptions and scenarios of the new medium-term forecasting round, including the monetary policy measures that are to be adopted to restore inflation in target.
The Executive Board advised on the determining factors of medium-term inflation rate. Inflationary external risks are related to the growth of international food and raw material prices and the uncertainty to a stronger volatility of international oil price. Potential domestic risks and uncertainties to the inflation arise from excise duty modifications under 2017 fiscal policy conduct and 2017 harvest, respectively.
The Executive Board of NBM approved the Inflation Report No 4, 2016, that will be presented during the press conference on 27 October 2016. According to a new forecasting round, the average annual inflation rate for 2016 and 2017 is settled at 6.3 percent and 4.6 percent, respectively. Based on the complexity of risks and uncertainties related to medium-term inflation development, NBM reconfigured the average annual inflation and reduced it by 0.4 percentage points for 2016 and increased it by 0.2 percentage points for 2017, compared with the previous forecast published in August 2016.
To keep the inflation rate near 5.0 percent target on the medium term, with a potential shift of ±1.5 percentage points, the Executive Board decided to diminish the monetary policy interest rate by 0.5 percentage points, from 9.5 to 9.0 percent per year. The gradual calibration of the monetary policy conduct targets appropriate real monetary conditions to support lending and savings and to push domestic demand up, together with adjusting the internal economic environment to the volatility and uncertainties of the external environment.
The Executive Board outlined the fact that NBM would monitor and would predict domestic and international economic environment developments so that to ensure stability of prices on the medium term through a flexible operational framework that was characteristic for inflation targeting strategy.

As a result, the Executive Board of NBM decided:
1. to diminish the base rate applied on main short-term monetary policy operations by 0.5 percentage points, from 9.5 to 9.0 percent per year;
2. to reduce interest rate:
• on overnight loans by 0.5 percentage points, from 12.5 to 12.0 percent per year,
• on overnight deposits by 0.5 percentage points, from 6.5 to 6.0 percent per year.

Voting results

FOR – 4 AGAINST – 0 ABSTAIN – 0

Chairman of the Executive Board **Secretary of the Executive Board**

Sergiu CIOCLEA **Sergiu SURDU**

Summary of the monetary policy meeting of the Executive Board of the National Bank of Moldova of 24.11.2016

Chairperson Mr. Sergiu Cioclea, Governor – Chairman of the Executive Board.
Attendees: Members of the Executive Board – Mr. Vladimir Munteanu – Prime Deputy Governor, Mr. Ion Sturzu – Deputy Governor, Mrs. Cristina Harea – Deputy Governor.
Speaker: Mr. Radu Cuhal, Director of Monetary Policy and Research Department.
Invitees: Mr. Andrei Rotaru, Advisor to the Governor, Mr. Natan Garștea, Advisor to the Governor, Mr. Daniel Savin, Director of Banking Operations Department, Mrs. Cristina Zaharia – Head of On-site Supervision and Combat of Money Laundry Division, Mrs. Corina Turcan, Head of Legislation and International Law Division.
Mr. Radu Cuhal presented the current macroeconomic situation on the monetary, credit, deposit markets, the evolution of external macroeconomic environment, analysis of current inflation and the influential factors on inflationary process. Members of the Executive Board assessed the impact of monetary policy measures, validating the correct monetary policy decisions made from 2015 and early this year.
The Executive Board advised on the determining factors of medium-term inflation rate. Inflationary external risks are related to the increase of international food and raw material prices and the uncertainty related to a stronger volatility of international oil price and fluctuations of the financial markets. Potential domestic risks and uncertainties to the inflation arise from excise duty modifications under 2017 fiscal policy conduct and 2017 harvest, respectively. At the same time, free trade agreement between the Republic of Moldova and Turkey and the expiry of customs duty on the import of some products from Ukraine reflect a disinflationary nature of the future inflation development. Thus, analyzing the risk balance, it is noticed a strong prevalence of disinflationary risks and it is anticipated a fast drop in annual price growth in the following months, including due to high comparison base of 2015.
It has also been said that monetary policy measures adopted by NBM early this year and until now are still to be extended in the domestic economy via various transmission channels, including through working with the interest rates on loans and deposits in national currency, thus exercising further effects on inflation development.
To keep the inflation rate near 5.0 percent target on the medium term, with a potential shift of ±1.5 percentage points, the Executive Board decided, by unanimous vote, to uphold the monetary policy interest rate at its current level of 9.0 percent per year. The gradual calibration of the monetary policy conduct targets appropriate real monetary conditions to support lending and savings and to push domestic demand up, together with adjusting the internal economic environment to the volatility and uncertainties of the external environment.
The Executive Board outlined the fact that NBM would monitor and would predict domestic and international economic environment developments so that to ensure stability of prices on the medium term through a flexible operational framework that was characteristic for inflation targeting strategy.

As a result, the Executive Board of NBM decided:
1. to uphold the base rate applied on main short-term monetary policy operation at the current level of 9.0 percent per year;
2. to uphold interest rates:
• on overnight loans at the current level of 12.0 percent per year;
•on overnight deposits at the current level of 6.0 percent per year.

Voting results

FOR – 4 AGAINST – 0 ABSTAIN – 0

Chairman of the Executive Board **Secretary of the Executive Board**

Sergiu CIOCLEA **Sergiu SURDU**

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