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Monetary policy decision, 29 December 2016

Within the meeting of the 29 December 2016, the Executive Board of the National Bank of Moldova adopted the following decision by unanimous vote:

1. to maintain the base rate applied on main short-term monetary policy operations at the current level of 9.0 percent annually;

2. to maintain the interest rates:
- on overnight loans at the current level of 12.0 percent annually;
- on overnight deposits at the current level of 6.0 percent annually;

3. to maintain the required reserves ratio from financial means attracted in freely convertible currency at the level of 14.0 percent of the base.

4. to maintain the required reserves ratio from financial means attracted in MDL and non-convertible currency at the current level 35.0 percent of the base;

The analysis of the most recent statistic data shows a slight increase of the annual inflation rate, being for the third consecutive month below the lower limit of the range of ± 1.5 percentage points from the 5.0 percent target.

The annual inflation rate was 2.6 percent in November 2016, by 0.1 percentage points more compared to the previous month.

The annual inflation rate is in line with the latest forecast of the NBM (published in October 2016) and validates the correctness of monetary policy decisions taken in 2015 and at the beginning of the year.

The annual rate of core inflation[1] was 5.6 percent in November 2016, decreasing by 0.3 percentage points compared to the previous month.

In the third quarter of 2016, GDP increased by 6.3 percent and continued the positive evolution recorded in the first quarter of this year. In terms of uses, the economic growth was due to the increase in internal and external demand. Thus, the increase in exports, final household consumption and gross fixed capital formation generated contributions of 5.9, 4.2 and 0.9 percentage points, respectively. By categories of resources, the positive evolution of GDP was determined by the increase of gross value added in all sectors, except for that of the subcomponent "construction", "public administration" and "other activities". Thus, the gross value added recorded increases in "agriculture" (24.2 percent), "trade" (6.8 percent), "transport and storage" (3.3 percent), "information and communications" (2.9 percent) and "industry" (1.2 percent).

The dynamic of macroeconomic indicators in October and November 2016 shows mixed evolutions of the economic activity in the fourth quarter of 2016. In October 2016, the exports increased by 6.6 percent compared to the same period of 2015, imports by 12.8 percent and industrial output recorded a level of minus 2.2 percent. At the same time, the transport of goods increased by 0.3 percent, trade in services by 0.8

percent, while retail trade decreased by 2.5 percent.

In terms of consumer demand, the annual average real wage growth in the economy was 9.2 percent in October 2016, by 2.3 percentage points higher than in September 2016. Money transfers to individuals through the banks of the Republic of Moldova fell by 4.4 percent in January-November 2016, while in November 2016, these transfers increased by 0.9 percent, in nominal terms, compared with the same periods of 2015.

In November 2016, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period increased by 8.5 percent, while new attracted deposits increased by 0.7 percent compared to the same period of last year. However, the total balance of credits decreased by 7.3 percent at the end of November 2016, while total balance of deposits recorded an increase of 4.0 percent than at the end of November 2015.

The average rate of new loans granted in national currency decreased by 0.49 percentage points compared to the level recorded in October 2016, accounting for 12.56 percent. The rate of new deposits attracted in MDL increased in November 2016 by 0.24 percentage points, reaching the level of 7.48 percent.

The monetary policy conduct continues to be affected by the risks and uncertainties associated with the development of internal and external environment. The external inflationary risks are associated with the increase in international food, oil and natural gas prices, along with the fluctuations in the financial markets. Potential internal risks and uncertainties to inflation arise from the existence of liquidity excess, the impact of changes in excise duties related to fiscal policy for 2017 and harvest in 2017, respectively. At the same time, the Republic of Moldova - Turkey Free Trade Agreement, together with the abolishment of custom duty on import of some products from Ukraine, the reinclusion of liquefied gas price into the Methodology of formation and application of prices for oil products generate a disinflationary impact over the further inflation development. **Thus, analysing the balance of risks, it is noted that the inflationary risks from the supply accelerate in the mid-forecasting period under the the persistence of disinflationary risks from the aggregate demand throughout the entire forecasting period.**

In this context, the monetary policy measures adopted by the NBM at the beginning of the year are to be transposed into the national economy through various transmission channels, including by influencing interest rates on loans and deposits in national currency, thus exerting further effects on inflation development.

Against this background, within the meeting held on 29 December 2016, the members of the Executive Board of the NBM decided by unanimous vote to maintain the policy rate at the current level of 9.0 percent annually.

The decision is aimed at maintaining the inflation rate close to the target of 5.0 percent over the medium-term, with a possible deviation of ± 1.5 percentage points. The gradual calibration of monetary policy conduct aims to ensure adequate real monetary conditions for supporting the lending and savings and for boosting the domestic demand, along with further adaptation of domestic economic environment to the volatility and uncertainty related to external environment.

NBM will continue to manage firmly the liquidity excess through sterilization operations, according to the announced schedule.

At the same time, National Bank will continue to offer banks liquidity, according to the schedule announced for 2017, through REPO operations with the term of 14 days, at a fixed rate equal to the base rate of the

National Bank plus a margin of 0.25 points percentage.

NBM will further monitor and anticipate the domestic and international economic environment developments, so that by the flexibility of operational framework specific for the inflation targeting strategy to ensure price stability in the medium term.

The next meeting of the Executive Board of the NBM on monetary policy will take place on 26 January 2017, according to the announced schedule.

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[1]Core inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data prepared and published from January 2012 are calculated by the NBS according to the modification of Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of 19 January 2012 (the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices).

Evolution of the NBM interest rates [1]

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