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Monetary policy decision, 27 January 2017

Within the meeting of the 27 January 2017, 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;

5. In the context of coordination of monetary and fiscal-budgetary policies, the discussions with the Ministry of Finance will continue, in order to diversify the liquidity management mechanisms.

Executive Board of the NBM approved the Inflation Report no.1, 2017, which will be presented at a press conference on 01 February 2017.

The analysis of the most recent statistic data shows the maintain of the annual inflation rate below the lower limit of the range of ± 1.5 percentage points from the 5.0 percent target for the fourth consecutive month.

The annual inflation rate was 2.4 percent in December 2016 or by 0.2 percentage points less compared to the previous month.

The annual rate of core inflation[1] was was 4.5 percent in December 2016, decreasing by 1.1 percentage points compared to the previous month.

The dynamic of macroeconomic indicators in the first two months of 2016 shows mixed signals. In October-November 2016, the exports increased by 18.4 percent compared to the same period of 2015, imports by 9.3 percent and industrial output recorded a medium level of 0.9 percent. At the same time, the volume of transported goods decreased on average by 0.8 percent, the turnover of retail trade by 1.6 percent, while the trade in services by 1.3 percent.

In terms of consumer demand, the annual average real wage growth in the economy in October - November 2016 was 9.6 percent, by 4.1 percentage points higher that in the third quarter of 2016. Money transfers to individuals through the banks of the Republic of Moldova fell by 4.4 percent in January - December 2016, while in December 2016, these transfers decreased by 3.2 percent, in nominal terms, compared with the

same periods of 2015.

In the fourth quarter of 2016, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period decreased by 13.4 percent, while new attracted deposits decreased by 2.6 percent compared to the same period of last year. The total balance of credits decreased by 8.1 percent at the end of December 2016 than at the end of last year. At the same time, the total balance of deposits increased by 4.3 percent during the last twelve months of 2016.

The average rate of new loans granted in national currency decreased by 1.85 percentage compared to the level recorded in September 2016, accounting for 11.74 percent in December 2016. The rate of new deposits attracted in MDL decreased by 0.81 percentage points, reaching the level of 6.79 percent in December 2016.

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, uncertainty of direction of the oil and natural gas prices, along with the acceleration in economic growth in the region. Potential internal risks and uncertainties to inflation arise from the persistence of a high liquidity level on money market, along with the impact of changes in excise duties and harvest in 2017, respectively. At the same time, the postponement of adjustments in tariffs for regulated services along with the expiry of custom duty on import of some products from Ukraine generate a disinflationary impact over the further development of inflation.

According to the current round of forecasting, the annual inflation rate will register an upward trend until the third quarter of 2017 and will be within the target range of ± 1.5 percentage points. The annual average inflation rate will record the level of 5.2 percent in 2018 and 4.9 percent in 2018, respectively.

The output gap will remain negative during the further eight quarters and will register a slow recovery, reaching minimum values in the first quarter of 2017, so that it will be close to zero by the end of forecasting horizon. The economic activity below its potential level in the long-term will cause disinflationary pressures from aggregate demand.

Against this background, within the meeting held on 26 January 2017, 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.

It should be mentioned that 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.

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.

Inflation Report no.1, 2017 includes a more detailed assessment of the macroeconomic situation, inflation forecast in the medium-term and potential risks and challenges that will be faced by the monetary policy in the next periods. The report will be published on 01 February 2017 as scheduled.

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

announced schedule.

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 23 February 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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