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Monetary policy decision, 22 February 2017

Within the meeting of the 22 February 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.

The analysis of the most recent statistic data shows that the annual inflation rate [1] was maintained below the lower limit of the range of ± 1.5 percentage points from the 5.0 percent.

The annual inflation rate was 3.0 percent in January 2017, by 0.6 percentage points higher compared to the previous month.

The evolution of the annual inflation rate is in line with the latest forecast of the NBM (published in February 2017) and validates the correctness of monetary policy decisions taken in 2016.

The annual rate of core inflation [2] was 3.9 percent in January 2017, decreasing by 0.6 percentage points compared to the previous month.

The dynamic of macroeconomic indicators in December 2016 shows positive signals of economic recovery in the fourth quarter of 2016. In December 2016, the exports increased by 18.6 percent compared to the same period of 2015, imports by 11.0 percent and industrial output - by 8.7 percent. At the same time, the volume of transported goods increased by 12.8 percent and the turnover of retail trade by 12.1 percent, while the trade in services decreased by 0.7 percent. In 2016, the volume of global agricultural production increased by 18.6 percent compared to the previous year, thus contributing to the agricultural sector revival following the pronounced contraction in 2015.

In terms of consumer demand, the annual average real wage growth in the economy was 12.2 percent in December 2016, while preliminary data on money transfers to individuals point to more robust growth.

In January 2017, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period increased by 19.6 percent, while new attracted deposits increased by 0.6 percent compared to the same period of last year. The total balance of credits decreased by 9.2 percent at the end of December 2017 compared to the same period of last year. At the same time, the total balance of deposits increased by 4.5 percent compared to the end of January 2016.

The average rate of new loans granted in national currency decreased by 0.19 percentage points compared to the level recorded in December 2016, accounting for 11.55 percent. The rate of new deposits attracted in MDL maintained practically the level of the previous month, reaching the level of 6.80 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 prices, along with the uncertainty of direction of the oil and natural gas prices. Potential internal risks and uncertainties to inflation arise from the persistence of liquidity excess in banking sector, the impact of changes in excise duties related to fiscal policy and harvest in 2017, respectively. At the same time, the postponement of adjustments in tariffs for regulated services, the expiry of custom duty on import of some products from Ukraine generate a disinflationary impact on the further development of inflation.

Against this background, within the meeting held on 22 February 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.

The decision aims to maintain the inflation rate close to the target range of 5.0 percent over the medium-term, with a possible deviation of ± 1.5 percentage points. At the same time, the monetary policy conduct aims to ensure adequate real monetary conditions for supporting the lending and savings, along with further adaptation of domestic economic environment to the volatilities and uncertainties of the external environment.

NBM will continue to manage firmly the liquidity excess through sterilization operations, according to the announced schedule [3].

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 30 March 2017, according to the announced schedule [4].

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[1] Annual inflation rate represents the increase of consumer prices during a month this year compared with the same month last year. It is calculated as a ratio (expressed in percentage terms) between the price index during a month this year and price index during the same month last year, calculated on the same basis, minus 100. Statistical surveys on consumer prices are carried out by the National Bureau of Statistics (NBS) [2]. NBM sets its inflation target at the level of 5.0 percent annually, calculated based on the consumer price index (inflation rate for the last twelve months – each month of this year compared with the same month of last year), with a possible deviation of ±1.5 percentage points. (Source: Medium-term monetary policy

strategy of the NBM [2].

[2] 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).

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[1] http://www.statistica.md/public/files/Metadate/IPC.pdf [2] https://www.bnm.md/en/content/medium-term-monetary-policy-strategy-0 [3] https://www.bnm.md/en/content/schedule-monetary-policy-operations [4] https://www.bnm.md/en/content/schedule-monetary-policy-meetings-2016 [5] https://www.bnm.md/en/content/nbm-interest-rates?base_rates_full [6] https://www.bnm.md/ro/search?hashtags[0]=inflation rate [7] https://www.bnm.md/ro/search?hashtags[0]=base rate [8] https://www.bnm.md/ro/search?hashtags[0]=overnight credit [9] https://www.bnm.md/ro/search?hashtags[0]=overnight deposit [10] https://www.bnm.md/ro/search?hashtags[0]=CPI [11] https://www.bnm.md/ro/search?hashtags[0]=core inflation [12] https://www.bnm.md/ro/search?hashtags[0]=Monetary policy decisions [13] https://www.bnm.md/ro/search?hashtags[0]=Monetary policy decision