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Monetary policy decision, 29 March 2017

Within the meeting of the 29 March 2017, the Executive Board of the National Bank of Moldova adopted the following decision:

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 increase the required reserves ratio from financial means attracted in MDL and non-convertible currency by 2.0 percentage points, reaching the level of 37.0 percent of the base as from beginning of the maintenance period of required reserves in MDL: 08 April 2017 - 07 May 2017.

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

The analysis of the most recent statistic data shows the return of the annual inflation rate [1] within limit of the range of ± 1.5 percentage points from the 5.0 percent target.

The annual inflation rate was 4.7 percent in February 2017, by 1.7 percentage points higher compared to the previous month.

The upward development of the annual inflation rate is in line with the last forecast of the NBM (published in February 2017).

The annual rate of core inflation[2] was 4.3 percent in February 2017, decreasing by 0.4 percentage points compared to the previous month.

The economic activity recorded in 2016 an increase of 4.1 percent, by 4.6 percentage points more than in 2015. This development was determined mainly by the revival of the agricultural sector after the drought of 2015, with favourable implications on the exports increase and stocks formation.

At the same time, in the fourth quarter of 2016, GDP recorded an increase of 6.5 percent compared to the same period of 2015. In terms of uses, this dynamic is determined by the increase in household final consumption by 4.6 percent, the purchase of goods and services recorded an upward dynamic, increasing by 3.3 and 6.2 percent, respectively, while gross fixed capital formation increased by 1.0 percent. Exports increased by 19.9 percent during the reporting period due to the favourable developments in the agricultural sector, while imports - by 9.4 percent. By categories of resources, the positive evolution of GDP in the fourth quarter of 2016 was determined mainly by the the increase of gross value added in agriculture by 17.6 percent compared to the same period of 2015. The related sectors recorded positive developments, so that the wholesale and retail trade increased by 10.2 percent, manufacturing - by 5.3 percent, transport and

storage - by 14.5 percent.

The dynamic of macroeconomic indicators in January 2017 shows signals of further economic recovery in the first quarter of 2017. In January 2017, the exports increased by 19.6 percent compared to the same period of 2016, imports by 28.7 percent and industrial output - by 5.7 percent. At the same time, the volume of transported goods increased by 34.1 percent.

In February 2017, lending and saving processes recorded different developments. The volume of new loans granted during the reporting period increased by 15.4 percent, while the volume of new attracted deposits decreased by 26.4 percent compared to the same period of last year. The total balance of credits decreased by 7.7 percent at the end of February 2017 compared to the same period of last year. At the same time, the total balance of deposits increased by 5.9 percent compared to the end of February 2016.

In February 2017, the average rate of new loans granted in national currency decreased by 0.20 percentage points compared to the level recorded in January 2017, accounting for 11.74 percent. The average rate of new deposits attracted in MDL decreased by 0.12 percentage points, reaching the level of 6.68 percent in February 2017.

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 evolution 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. However, the postponement of adjustments in tariffs for regulated services and the reinclusion of liquefied gas price into the Methodology of formation and application of prices for oil products, adopted in the first quarter of 2016, generate disinflationary pressures.

Against this background, within the meeting held on 29 March 2017, the members of the Executive Board of the NBM decided to maintain the policy rate at the current level of 9.0 percent annually.

In order to sterilize the excess liquidity and improve the transmission mechanism of monetary policy decisions, the Executive Committee took the decision to increase the required reserves ratio attracted in MDL and non-convertible currency by 2.0 percentage points up to 37.0 percent of the value of the base for the maintenance period of required reserves in MDL: 08 April 2017 - 07 May 2017. At the same time, the required reserves ratio from financial means attracted in freely convertible currency was maintained at the current level 14.0 percent of the base.

It should be mentioned that the monetary policy measures adopted by the NBM during 2016 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.

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 27 April 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) [1]. 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).

Evolution of the NBM interest rates [5]

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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-

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