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Monetary Policy

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Press release of the National Bank of Moldova, 29 September 2016

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

1. to decrease the base rate applied on main short-term monetary policy operations by 0.5 percentage points from 10.0 to 9.5 percent annually;

2. to decrease the interest rates:
- on overnight loans by 0.5 percentage points from 13.0 to 12.5 percent annually;
- on overnight deposits by 0.5 percentage points from 7.0 to 6.5 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 the downward trend of the annual inflation rate for the eighth consecutive month and its return within the range of ± 1.5 percentage points from the 5.0 percent target.

The annual inflation rate was 3.6 percent in August 2016 or by 3.4 percentage points less compared to the previous month.

The deceleration of the annual inflation rate in August is in line with the latest forecast of the NBM (published in August 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 7.5 percent in August 2016, decreasing by 1.3 percentage points compared to the previous month.

In the second quarter of 2016, the economic activity recorded an increase of 1.8 percent compared to the same period of 2015. In terms of uses, this dynamic is determined by the increase in household final consumption and changes in inventories, generating a contribution of 1.9 percentage points and 4.0 percentage points, respectively. By categories of resources, the positive dynamics of GDP was determined by the increase of gross value added in all sectors, except for that of the subcomponent "construction" and "public administration". Thus, the gross value added recorded increases in "agriculture' (4.1 percent), "trade" (4.1 percent), "transport and storage" (7.0 percent) and "industry" (0.6 percent).

The dynamics of macroeconomic indicators in July and August 2016 shows moderate signs of a further economic activity recovery in the third quarter. In July 2016, exports increased by 0.5 percent compared to

the same period of 2015, while imports decreased by 7.9 percent. At the same time, the industrial output recorded a decrease of 5.2 percent, the turnover of trade in services by 5.6 percent, while the turnover of retail trade increased by 1.2 percent. In August 2016, the annual growth rate of transported goods recorded a pronounced increase up to the level of 19.0 percent.

In terms of consumer demand, the annual average real wage growth in the economy was 0.9 percent in July 2016, by 0.8 percentage points lower that in June 2016. Money transfers to individuals through the banks of the Republic of Moldova fell by 6.0 percent in January-August 2016, while in August 2016, these transfers increased, in nominal terms, by 18.4 percent compared with the same periods of 2015.

In August 2016, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period increased by 17.3 percent, while new attracted deposits increased by 19.9 percent compared to the same period of last year. The total balance of credits at the end of August decreased by 13.7 percent compared to the same period of last year, while total balance of deposits recorded an increase of 4.0 percent compared to August 2015.

The average rate of new loans granted in national currency decreased by 0.30 percentage compared to the level recorded in July 2016, accounting for 13.70 percent. The rate of new deposits attracted in MDL decreased in August 2016 by 1.62 percentage points, reaching the level of 8.24 percent.

The monetary policy continues to be affected by the complexity of risks and uncertainties associated with the development of internal and external environment. The external disinflationary risks associated with the weak economic activity in the Euro area countries and the recession of the Russian Federation - the main trading partners of the Republic of Moldova, with repercussions on short-term decrease in foreign currency income of the households and domestic exporters through the remittances and foreign trade channel. Potential risks to inflation arise from the increased volatility of the international financial foreign exchange markets, along with the uncertainties relating to oil prices, international prices for raw materials and food products. The main internal risks and uncertainties arise from postponing the adjustment of regulated tariffs, the modification of excise duties, in terms of fiscal policy conduct for 2017 and of harvest in 2016, respectively. Thus, the disinflationary risks are prevailing significantly and a fast decrease process of the annual growth rate of prices is anticipated, also due to the high base of comparison in 2015.

In assessing the inflation outlook in the short and medium term, within the meeting held on 29 September 2016, the members of the Executive Board of the NBM decided by unanimous vote to decrease the policy rate by 0.5 percentage points from 10.0 to 9.5 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 2016, 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 27 October 2016, 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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