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Press release of the National Bank of Moldova, 24 September 2015

Within the meeting of 24 September 2015, 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 19.5 percent annually;

2. To maintain the interest rates:
- **on overnight loans at the current level of 22.5 percent annually;**
- **on overnight deposits at the current level of 16.5 percent annually .**

The annual inflation rate reached in August 2015 the level of 12.2 percent or by 3.6 percentage points more compared to the previous month, mainly due to higher contribution from regulated prices (from 1.0 percentage points in July to 3.3 percentage points in August). At the same time, the contribution from core inflation and food prices accounted for 4.6 and 3.8 percentage points, respectively.

In August 2015, the annual rate of core inflation accounted for 13.4 percent, by 1.6 percentage points more compared to July 2015.

In the first seven months of 2015, exports and imports decreased by 15.9 and 22.3 percent respectively, compared to the same period of the previous year, while the industrial output increased by 6.7 percent.

Transport of goods decreased by 7.7 percent during January - July 2015 compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in the economy in July 2015 was 3.9 percent, by 0.1 percentage points lower that in June 2015. Money transfers to individuals through the banks of the Republic of Moldova fell by 32.4 percent in January-August 2015 and by 47.5 percent in August 2015 compared with the same period of 2014.

At the end of August 2015, the balance of loans granted to economy decreased by 7.0 percent compared to the end of August 2014, while that of deposits recorded an negligible annual increase.

In August 2015, the average interest rates applied by banks to loans and deposits in national currency recorded an upward trend. Thus, the average annual interest rate on the loan portfolio in national currency increased by 0.28 percentage points compared to the previous month, constituting 12.42 percent. The average interest rate for deposits in MDL increased by 0.78 percentage points compared to July, registering a level of 11.81 percent.

The monetary policy continues to be affected by the complexity of risk balance, with a prevalence of inflationary risks. Weak economic activity in the euro area countries and the recession of the Russian Federation - the main trading partners of the Republic of Moldova maintain the risk of lowering of foreign currency income of households and domestic exporters in short-term, through remittances and foreign trade channel. This may subsequently influence inflation and the escalation of geopolitical tensions in the region may cause additional inflationary pressures.

The situation in the domestic banking system, stimulative fiscal policy, with the prevalence of social element in the structure of public expenditures contribute to the relatively high level of consumption, which influences the dynamics of consumer prices as from the end of the previous year. The depreciation of the national currency since the beginning of this year has increased the inflationary pressures, which will subsequently determine in the future periods, through the prices of imported goods and tariffs of regulated services, the increase in exercise duties on some categories of goods and later by second-round effects, the IPC to leave temporarily the upper limit of the variation range of ± 1.5 percentage point from the inflation target of 5.0 percent. It is anticipated that inflation will accelerate in the coming quarters, including due to the unfavourable agro-meteorological conditions of this year and the low calculation base of the previous year.

Against this background, within the meeting held on 24 September 2015, the members of the Executive Board of the NBM decided by unanimous vote to maintain the policy rate at the level of 19.5 percent annually and the required reserves ratio at the level of 32.0 percent of the base.

The decision of the Executive Board of the NBM of 24 September 2015 is based on the fact 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 decisions of the Executive Board of 24 September 2015 are aimed at anchoring inflation expectations in the context of restoring and 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.

In order to support the proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity excess through sterilization operations, according to the announced schedule.

National Bank will continue to offer banks liquidity, according to the schedule announced for 2015, 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, including household consumption dynamics, remittances and changing foreign trade conditions, 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 29 October 2015, according to the announced schedule..

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