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Monetary policy decision, 24 November 2016

Within the meeting of the 24 November 2016, 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;

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

The annual inflation rate was 2.5 percent in October 2016 or by 0.5 percentage points less compared to the previous month.

The deceleration of the annual inflation rate for the tenth consecutive month is in line with the latest forecast of the NBM (published in October 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 5.9 percent in October 2016, decreasing by 0.8 percentage points compared to the previous month.

The dynamic of macroeconomic indicators in the first two months of the third quarter of 2016 shows positive signals of economic recovery in the reporting period. In September 2016, the exports increased by 18.5 percent compared to the same period of 2015, imports by 7.1 percent and industrial output recorded a level of minus 2.7 percent. At the same time, the transport of goods increased by 21.9 percent, trade in services by 15.4 percent, while retail trade decreased by 1.8 percent. In the first nine months of 2016, the volume of global agricultural production increased by 18.9 percent compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in the economy was 6.9 percent in September 2016, by 1.4 percentage points higher that in August 2016. Money transfers to individuals through the banks of the Republic of Moldova fell by 3.8 percent in January-October 2016, while in October 2016, these transfers increased by 1.0 percent, in nominal terms, compared with the same periods of 2015.

In October 2016, lending and saving processes recorded similar developments. The volume of new loans granted during the reporting period decreased by 29.7 percent, while new attracted deposits decreased by 4.0 percent than the last year. However, the total balance of credits decreased by 14.4 percent at the end of October 2016, while total balance of deposits recorded an increase of 4.2 percent than at the end of October 2015.

The average rate of new loans granted in national currency decreased by 0.54 percentage compared to the level recorded in September 2016, accounting for 13.05 percent. The rate of new deposits attracted in MDL decreased in October 2016 by 0.36 percentage points, reaching the level of 7.24 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 and raw materials prices, along with the uncertainty in higher volatility of international oil prices and the fluctuations in the financial markets. Potential internal risks and uncertainties to inflation arise from the impact of changes in excise duties in 2017 and harvest in 2017, respectively. At the same time, the Republic of Moldova - Turkey Free Trade Agreement, along with the abolishment of custom duty on import of some products from Ukraine confer a disinflationary character to the further development of inflation. Thus, analysing the balance of risks, the disinflationary risks are prevailing significantly and is anticipated a decrease in prices annual growth rate in the coming months, including due to the high base of comparison in 2015.

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.

Against this background, within the meeting held on 24 November 2016, 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 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 29 December 2016, according to the announced schedule.

[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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