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Monetary policy decision, 28 August 2017

Within the meeting of 28 August 2017, 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 8.0 to 7.5 percent annually.

2. to decrease the interest rates:
- on overnight loans by 0.5 percentage points, from 11.0 to 10.5 percent annually;
- on overnight deposits by 0.5 percentage points, from 5.0 to 4.5 percent annually.

3. to maintain the required reserves ratio from financial means attracted in MDL and non-convertible currency at the current level of 40.0 percent of the base.

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 decision was taken based on the recent macroeconomic analysis and assessments, as well the risk estimations of inflation evolution on short and medium term. Thus, inflationary pressures on medium-term have offset due to the slowdown in economic activity and appreciation of the national currency in real terms.

The decision adopted by the Executive Board of the NBM aims to create real monetary conditions able to maintain the inflation within the range of ± 1.5 percentage points from the 5.0 percent target on medium-term.

In the same context, NBM will continue to manage the liquidity excess through sterilization operations, according to the announced schedule [1].

In July 2017 The annual inflation rate [1] recorded 7.3 percent being similar to the previous month and continued to be above the upper limit of the range of ± 1.5 percentage points from 5.0 percent inflation target.

The annual rate of core inflation[2] was 5.0 percent in July 2017, increasing by 0.3 percentage points compared to June 2017.

The inflation evolution in July 2017 is in line with the last forecasts of the NBM. Thus, inflation accelerated since early year, due to the factors of supply along with the effect of adjusting certain utilities tariffs. The aggregate demand is moderate and will not create additional inflationary pressures.

Data for the first two months of the second quarter of 2017 show signs of slowdown in economic activity. Thus, the annual growth rate of exports in July 2017 reached the level of 8.7 percent, while that of imports of 19.8 percent. At the same time, the annual growth rate of industrial output volume was minus 0.2 percent, the volume of transported goods increased by 20.8 percent. The turnover of retail trade in real terms decreased by 1.2 percent during the same period, while the turnover of enterprises services rendering as main activity increased by 8.0 percent.

In July 2017, lending and saving processes recorded similar developments. The total volume of new granted loans and deposits attracted by licensed banks during the reporting period increased by 0.5 and 0.3 percent, respectively, as compared to July 2016.

The weighted average interest rate on new deposits attracted in MDL recorded in July 2017 an insignificant decrease of 0.03 percentage points compared to the previous month, accounting for 10.00 percent annually. In July 2017, the average rate of new deposits granted in national currency decreased by 0.43 percentage points compared to the level recorded in June 2017, accounting for 5.24 percent annually.

The NBM will further monitor and anticipate the domestic and external economic developments, so that by 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 September 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 [3].

[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).

[3] Except for sight deposits.

Evolution of the NBM interest rates [5]

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