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Monetary policy decision, 31 October 2018

Within the meeting of 31 October 2018, the Executive Board of the National Bank of Moldova adopted the following decision:

1. to maintain the base rate applied to main short-term monetary policy operations at the current level of 6.5 percent annually.

2. to maintain interest rates:
- on overnight loans at the current level of 9.5 percent annually;
- on overnight deposits at the current level of 3.5 percent annually.

3. to maintain the amount of required reserves in Moldovan lei and non-convertible currencies at the current level of 42.5 percent of the calculation base.

4. to maintain the amount of required reserves in freely convertible currencies at the current level of 14.0 percent of the calculation base..

The decision was taken based on the recent analysis of the macroeconomic situation and the assumptions related to the new medium-term inflation forecast round. Maintaining the base rate at the current level is conditioned by the short-term inflation trend as well as by the disinflationary pressures that will persist by the end of this year.

The annual inflation rate in September 2018 recorded 2.4 percent, being evaluated in line with expectations

and placed below the target range variation. This evolution was due to modest aggregate demand, adjustment of electric energy tariff and appreciation of the national currency against the Euro.

According to the current forecast, the annual inflation rate will decrease further to the level of 1.9 percent at the end of this year. The evolution of inflation will be upward over the next year, after which the trajectory will reverse and inflation will go down by the end of the forecast horizon. For the first two consecutive quarters, inflation will be below the target range variation and at the end of 2019 it will rise above its upper limit, by reverting to the target range at the beginning of 2020. The new forecast round places the average annual inflation for the years 2018 and 2019 at the level of 3.3 percent and 5.4 percent, respectively.

At the same time, the GDP deviation will continue to be negative, thus, the aggregate demand will remain disinflationary throughout the forecasting period.

Assessing the balance of risks related to the current inflation forecast, it is worth mentioning the probability of materializing the risks arising from both the domestic and external environment. External risks are associated with international oil prices and with moderation of global economic activity. Domestic risks relate to the tax area. The anticipated wage reform in the budgetary sector, the extension of mass meal vouchers, and the recent tax reform, with effects that follow to propagate may be attributed to these risks.

The risks and uncertainties associated with the new forecasting round, the analysis of economic activity and inflation evolution, as well as the aspects of monetary policy promotion will be detailed in the Inflation Report no. 4, which will be published on 8 November 2018.

The next meeting of the NBM's Executive Board on monetary policy will be held on 4 December 2018, according to the published schedule [1].

Evolution of the NBM interest rates [2]

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