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Monetary Policy

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April 23, 2014. Press release of the National Bank of Moldova

Within the meeting of April 23, 2014, the Council of Administration of the NBM 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 3.5 percent annually;**
2. **to maintain the interest rates:**

- **on overnight loans at the current level of 6.5 percent annually;**
- **on overnight deposits at the current level of 0.5 percent annually;**

3. **to maintain the required reserves ratio from financial means attracted in MDL and foreign currency at the current level of 14.0 percent of the base.**

Council of Administration of the NBM approved the Inflation Report no.2, 2014, which will be presented at a press conference on May 5, 2014.

The annual inflation rate in March 2014 reached the level of 5.7 percent or by 0.3 percentage points more compared to the previous month, mainly due to higher contribution from food prices up to 3.1 percentage points. During the last 2 years, the annual inflation rate is maintained within the range of ± 1.5 percentage points from 5.0 percent target.

The annual rate of core inflation amounted to 5.2 percent in March 2014, increasing by 0.1 percentage points compared to the previous month.

According to the information published by the NBS in the period of January-February 2014, exports and imports decreased by 2.0 and 3.0 percent, respectively, while the transport of goods increased by 22.2 percent compared with the same period of 2013. In January 2014, the annual rate of industrial production continued the upward trend of the previous year, increasing by 12.5 percent.

In terms of consumer demand, the annual average real wage growth in the economy in January 2014 was 4.9 percent, by 1.3 percentage points lower than the fourth quarter of 2013. Money transfers to individuals through the banks of the Republic of Moldova fell by 5.8 percent in January-February 2014 compared with the same period of 2013.

Lending and saving processes recorded an upward development trend in the first quarter of 2014 compared to the same period of the previous year. During January – March 2014, the volume of new loans granted in

the economy increased by 24.0 percent compared to the end of March 2013, and the volume of new attracted deposits increased by 19.2 percent.

The average interest rates on loans in national currency decreased by 0.01 percentage points, compared to the level recorded in December 2013, recording a level of 11.51 percent. The average interest rates on deposits attracted in national currency decreased by 0.54 percentage points compared to the level recorded in December 2013, recording the level of 7.77 percent in March 2014.

The monetary policy continues to be affected by the complexity of risk balance, with a prevalence of disinflationary risks. Disinflationary risks arise mainly from the depreciation of the national currency of the main trading partners and from the reduction of aggregate demand. The recovery of EU economies and the sharp increase in food prices on international markets, as well the propagation of the impact of fiscal policy adjustment for 2014 are the main factors that could offset the disinflationary process.

In these circumstances, the Council of Administration of the NBM decided within its meeting of April 23, 2014 to maintain the monetary policy interest rate at the level of 3.5 percent annually. It was also decided to maintain the required reserves ratio in MDL and in foreign currency at the current level of 14.0 percent of the base.

This decision aims at anchoring inflation expectations in the context of maintaining the inflation close to the target of 5.0 percent in the medium term, with a possible deviation of ± 1.5 percentage points.

Placing the economy below its growth potential in the long term will cause disinflationary pressures. National Bank will maintain the incentive nature of monetary policy by the real effective exchange rate channel and the real interest rate channel, thereby keeping the annual inflation rate close to the target of 5.0 percent in the medium term.

A new round of forecasting indicates an average annual inflation rate for 2014 and 2015 within the range of ± 1.5 percentage points from the target of 5.0 percent.

Inflation Report no.2, 2014 includes a more detailed assessment of the macroeconomic situation, inflation forecast in the medium term and potential risks and challenges that will be faced by the monetary policy in the next period. The report will be published on May 5, 2014 as scheduled.

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.

The National Bank will continue to offer banks liquidity, according to the schedule announced for the years 2014-2015, through term REPO operations of 28 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 Council of Administration of the NBM on monetary policy will take place on May 29, 2014, according to the announced schedule.

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