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Monetary Policy

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April 30, 2015. Press release of the National Bank of Moldova

Within the meeting of April 30, 2015, the Council of Administration of the NBM adopted the following decisions by unanimous vote:

1. **to maintain the base rate applied on main short-term monetary policy operations at the current level of 13.5 percent annually;**
2. **to maintain the interest rates:**

- **on overnight loans at the current level of 16.5 percent annually;**
- **on overnight deposits at the current level of 10.5 percent annually;**

3. **to increase the required reserves ratio from financial means in MDL and non-convertible currency by 2.0 percentage points and is set at the level of 20.0 percent of the base starting with the maintenance period of June 8, 2015 - July 7, 2015 of the required reserves in MDL;**
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 Council of Administration of the NBM approved the Inflation Report no.2, 2015, which will be presented at the press conference of May 7, 2015.

The annual inflation rate in March 2015 reached the level of 7.1 percent, increasing by 0.6 percentage points compared to the previous month, mainly due to the contribution of core inflation and food prices, of 3.6 and 2.4 percentage points, respectively.

The annual rate of core inflation amounted to 10.6 percent in March 2015, increasing by 0.4 percentage points compared to February 2015.

According to the information published by the NBS, in the first two months of the first quarter of 2015, the exports and imports decreased by 12.7 and 22.0 percent, respectively, compared to the same period of the previous year, while the industrial production increased by 6.5 percent. In the first quarter of 2015, the transport of goods increased by 4.5 percent compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in January-February 2015 was 7.4 percent (including budgetary sector – 10.8 percent), by 1.5 percentage points lower than in the fourth quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova decreased by 24.1 percent in January - March 2015 and by 26.0 percent in March compared to the same periods of 2014.

At the end of the first quarter of 2015, the balance of loans granted to the economy decreased by 3.7 percent compared to the end of the first quarter of 2014, while the balance of deposits increased by 8.0 percent.

The average interest rates charged by banks on loans and deposits in national currency recorded an upward development. Thus, the average interest rate on loans portfolio in national currency was 11.04, increasing by 0.46 percentage points compared to the previous quarter. The average interest rate for deposits in MDL increased by 0.55 percentage points up to the level of 8.16 percent compared to the fourth quarter of 2014, the most essential increase being registered in the last month of the reporting quarter. However, the recent increase of the average interest rate on deposits in national currency is insufficient to stimulate savings in MDL.

The monetary policy continues to be affected by the complexity of risk balance, with a gradual accentuation of the pro-inflationary risks. The weak economic activity in the euro area countries and the recession in the Russian Federation – the major trading partners of the Republic of Moldova, lead to risks of lower household and domestic exporters income on short-term through the external trade channel and remittances. This may further influence the dynamics of the national currency exchange rate and, subsequently, the inflation dynamics. The intensification of geopolitical tension in the region may generate additional inflationary pressures.

The depreciation tendency of the national currency from the beginning of this year accentuates the inflationary pressures in the next periods, which determine CPI to leave temporarily the upper limit of the range of variation of ± 1.5 percentage points from the 5.0 percent target, through the prices of imported goods and utilities tariffs, and subsequently through the second round effects.

Given the previous monetary policy decisions and the propagation speed of the effects of these decisions into the economy, the Council of Administration of the NBM decided by unanimous vote within its meeting of April 30, 2015 to maintain the monetary policy interest rate at the level of 13.5 percent annually.

However, in order to sterilize the liquidity excess recorded during the last months and to improve the transmission mechanism of the monetary policy decisions, the Council of Administration of the NBM decided to increase the required reserves ratio attracted in MDL and non-convertible currency for the maintenance period of June 8, 2015 – July 7, 2015 of the required reserves in MDL – by 2.0 percentage points up to the value of 20.0 percent of the base. At the same time, the ratio of required reserves attracted in freely convertible currency is maintained at the current level of 14.0 percent of the base.

These decisions aim at anchoring inflation expectations in the context of reducing and maintaining the inflation close to the target of 5.0 percent in the medium-term, with a possible deviation of ± 1.5 percentage points.

In the next eight quarters, the output gap will be negative. The development of the domestic economy below its potential shows a weak domestic demand that will reduce the future inflationary pressures.

The new round of forecasting places the average annual inflation rate for 2015 and 2016 at the level of 8.1 percent and 6.4 percent, respectively. The NBM increased the average annual inflation forecast for 2015 and 2016 by 2.3 percentage points and 0.3 percentage points respectively, compared to previous forecast published in February 2015. Based on the available data, there exists the risk of temporary exceeding of the annual inflation over the upper range of variation of ± 1.5 percentage points from the target of 5.0 percent in the second quarter of 2015 - the first quarter of 2016, as a result of the depreciation of the national currency and the possible increase in the regulated services tariffs.

A more detailed assessment of the macroeconomic situation, medium-term forecast of inflation and the potential risks and challenges that might be faced by the monetary policy in the next period will be presented in the Inflation Report no.2, 2015. According to the schedule, it will be published on May 7, 2015.

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 term REPO operations of 14 days, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 percentage points.

NBM will further monitor and anticipate the domestic and international economic environment developments, including household consumption dynamics, remittances, foreign exchange market indicators 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 28, 2015, according to the announced schedule.

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