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Monetary Policy

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August 28, 2014. Press release of the National Bank of Moldova

Within the meeting of August 28, 2014, 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 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.**

The annual inflation rate in July reached the level of 5.3 percent, by 0.3 percentage points more compared to the previous month, mainly due to the contribution from food prices up to 2.7 percentage points. During the last 2 years and a half, 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 5.4 percent in July 2014, decreasing by 0.1 percentage points compared to June 2014.

According to the information published by the NBS, in the first semester of 2014, the exports and industrial production increased by 3.2 and 4.4 percent, respectively, while the imports decreased by 1.8 percent.

The transport of goods increased by 7.2 percent in the period January-July of 2014 compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in the second quarter of 2014 was 2.5 percent, by 1.0 percentage points lower than in the first quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova in July and January-July of 2014 increased by 13.9 and 8.9 percent respectively, compared to the same periods of 2013.

The lending and saving processes in July 2014 recorded an upward trend compared to the same month of the previous year. Thus, the balance of loans granted to the economy increased by 17.9 percent compared to the end of July 2013, and the balance of deposits increased by 14.8 percent.

The annual average interest rate on loans portfolio in national currency decreased by 0.22 percentage points

compared to the level recorded in June 2014, amounting to 10.91 percent. The average interest rate on deposits in MDL increased by 0.08 percentage points compared to the level recorded in June, reaching the level of 7.72 percent in July 2014.

The monetary policy continues to be affected by the complexity of risk balance, with the prevalence of disinflationary risks, mainly generated by the depreciation of the national currency of the main trading partners and by the diminution of domestic aggregate demand. The escalating geopolitical tension in the region may offset the disinflationary pressures.

The trade interdictions already imposed by the Russian Federation for some food products and other restrictions that may occur will increase the disinflationary pressures in short term, under an excess supply on domestic market.

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of August 28, 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.

In the next eight quarters, the output gap will be negative. The development of the domestic economy below its potential will continue to generate disinflationary pressures over the forecasting horizon. The National Bank of Moldova will maintain the stimulating monetary policy by the real effective exchange rate channel and the real interest rate channel, thus maintaining the annual inflation rate close to the target of 5.0 percent in the medium term.

Based on the available data, there exists the risk of temporary fall of the annual inflation below the lower range of variation of ± 1.5 percentage points from the target of 5.0 percent in the first and second quarters of 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 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 September 25, 2014, according to the announced schedule.

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