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Monetary Policy

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Within the meeting of January 29, 2015, the Council of Administration of the NBM adopted the following decision by unanimous vote:

1. **to increase the base rate applied on main short-term monetary policy operations by 2.0 percentage points, from 6.5 to 8.5 percent annually;**
2. **to increase the interest rates:**

— **on overnight loans by 2.0 percentage points, from 9.5 to 11.5 percent annually;**
— **on overnight deposits by 2.0 percentage points, from 3.5 to 5.5 percent annually;**

3. **to increase the required reserves attracted in MDL and non-convertible currency as follows:**

— **for the tracking period of required reserves in MDL February 8, 2015 - March 7, 2015 - by 2.0 percentage points and is set at the level of 16.0 percent of the base;**
— **starting with the tracking period of required reserves in MDL March 8, 2015 - April 7, 2015 - by 2.0 percentage points and is set at the level of 18.0 percent of the base;**

4. **to maintain the required reserves ratio from freely convertible currency at the current level of 14.0 percent of the base.**

Council of Administration of the NBM approved the Inflation Report no.1, 2015, which will be presented at the press conference of February 5, 2015.

The annual inflation rate in December 2014 reached the level of 4.7 percent or by 0.1 percentage points below the level recorded previous month, mainly due to the contribution of food prices and core inflation by 1.9 and 2.1 percentage points, respectively. Since February 2012, the annual inflation rate is maintained within the range of variation of ± 1.5 percentage points from the target of 5.0 percent.

In December 2014, the annual core inflation was 6.3 percent, increasing by 0.4 percentage points compared to November 2014.

According to the information published by the NBS, exports and imports decreased in the first two months of the fourth quarter of 2014 by 12.5 and 2.2 percent, respectively, while industrial output increased by 13.4 percent.

Freight transport decreased by 2.9 percent in the fourth quarter of 2014 compared to the same period last year.

In terms of consumer demand, the annual growth rate of average real wage in the economy during October-November 2014 was 9.1 percent (including the public sector - 12.3 per cent), by 2.5 percentage points higher than in the third quarter of 2014. The money transfers to individuals through banks of the Republic of Moldova fell by 30.8 percent in December 2014, while increasing lightly by 0.3 percent in 2014 compared to 2013.

At the end of fourth quarter of 2014, the balance of credits granted to economy decreased by 3.5 percent from the end of the fourth quarter of 2013, while the deposits increased by 7.7 percent.

Average interest rates charged by banks in national currency on loans and deposits showed a downward trend. Thus, the average annual interest rate on the loan portfolio in national currency has decreased by 0.27 percentage points from the previous quarter, representing 10.58 percent. The average interest rate for deposits in national currency fell by 0.08 percentage points compared to the third quarter of 2014, recording a level of 7.61 percent.

The monetary policy continues to be affected by the complexity of risk balance, with a gradual predominance of pro-inflationary risks. The increasing probability of a recession in the economies of the euro area countries and the Russian Federation - the main trading partners of the Republic of Moldova, leads to risks of lower household and domestic exporters income on short-term through the external trade channel and remittances that 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.

In the context of national currency depreciation, more significant than the value used in 2012 for setting the tariffs for regulated services, there is a high risk that these will be revised upwardly in 2015. At the same time, the dynamics of energy prices on the international market may contribute to the decrease of fuel domestic prices and to the partial mitigation of pressures on the increase in gas and electricity tariffs.

In this context, the Council of Administration of the NBM decided within its meeting of January 29, 2015, by unanimous vote, to increase the monetary policy interest rate by 2.0 percentage points, from 6.5 to 8.5 percent annually.

The decision to increase the base rate will gradually produce effects in the economy over the next 2-3 quarters by raising interest rates on loans and deposits in national currency, aimed at anchoring inflation expectations and maintain inflation close to the target of 5.0 percent in medium-term, with a possible deviation of ± 1.5 percentage points.

In order to sterilize the excess liquidity formed in recent months and improve the transmission mechanism of monetary policy decisions, the Council of Administration took the decision to raise the required reserves ratio attracted in MDL and non-convertible currency for the tracking period of required reserves in MDL February 8, 2015 - March 7, 2015 by 2.0 percentage points, up to the level of 16.0 percent of the base; and starting with the tracking period of required reserves in MDL March 8, 2015 - April 7, 2015 by 2.0 percentage points, from 16.0 to 18.0 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.

The new round of forecast establishes an average annual inflation rate for 2015 and 2016 at the level of 5.8 percent and 6.1 percent respectively. Over the next eight quarters, inflation projection will be within the range of variation of ± 1.5 percentage points from the target of 5.0 percent. However, there is also a probability of inflation to exceed temporarily the upper limit of the variation.

A more detailed assessment of the macroeconomic situation, the medium-term inflation forecast and the potential risks and challenges that monetary policy will face in the future will be presented in the Inflation Report no.1, 2015. It will be published as planned on February 5, 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.

The National Bank will continue to offer banks liquidity, according to the schedule announced for 2015, through 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, 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 February 26, 2014, according to the announced schedule.

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