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January 30, 2014. Press release of the National Bank of Moldova

Within the meeting of January 30, 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.1, 2014, which will be presented at the press conference of February 6, 2014.

The annual inflation rate in December 2013 reached the level of 5.2 percent or by 0.3 percentage points higher compared to the previous month. During the last 23 months, the annual inflation rate is maintained within the range of variation of ± 1.5 percentage points from 5.0 percent target. The inflation rate recorded in the fourth quarter of 2013 exceeded by 0.5 percentage points the value indicated in the Inflation Report of November 2013, due to higher than expected food prices.

The annual rate of core inflationCore inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data established and published from January 2012 are calculated by the NBS according to the modification of Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of January 19, 2012 (the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices). amounted to 4.8 percent in December 2013, increasing by 0.1 percentage points from the previous month, signaling a relatively weak domestic demand.

In the third quarter of 2013, GDP grew by 12.9 percent compared to the same period of 2012, after an increase of 6.1 percent in the second quarter of 2013. The positive dynamics of the national economy was mostly due to the significant increase in gross value added in agriculture after a drought year, which resulted in the increase of goods exported and a more modest increase of those imported. This process was supported by the depreciation of the national currency during 2013 against the currencies of major trading partners, given their economic activity was less pronounced.

In terms of consumer demand, the annual growth rate of average real wage in the economy was 3.2 percent during the period of October - November 2013, by 2.2 percentage points less than in the third quarter of 2013. Cash remittances to individuals through official channels have increased by 7.1 percent in the first 11 months of 2013, compared to the same period of 2012, representing a slight slowdown.

Lending and savings processes recorded divergent developments in the fourth quarter of 2013. The volume of new loans granted during the reporting period increased by 45.6 percent, recording the highest growth rate in the last three years, however, with an uneven distribution by banks. New attracted deposits decreased by 4.2 percent as compared to the fourth quarter of 2012. Total balances of loans and deposits at the end of December increased by 18.6 percent and 24.3 percent compared to December 2012.

The average interest rates on loans in national currency has increased by 0.72 percentage points, compared to the level recorded in September 2013, recording a level of 12.51 percent. The average interest rates on deposits attracted in national currency has decreased by 0.80 percentage points, compared to the value recorded in September 2013, reaching the level of 5.82 percent in December 2013.

The monetary policy continues to be affected by the complexity of the inflationary and disinflationary associated risk balance. Disinflationary risks arise mainly from the stagnation of aggregate demand and by the depreciation of the national currency of the main trading partners. The recovery of EU economies and the sharp increase in food prices on international markets 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 January 30, 2014 to maintain the incentive nature of the monetary policy and by unanimous vote 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.

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

A more detailed assessment of the macroeconomic situation, medium-term forecast of inflation and potential risks and challenges that monetary policy will face in the coming period will be presented in the Inflation Report no. 1, 2014 which will be published as planned, on February 6, 2014.

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 February 27, 2014, according to the announced schedule.

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