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Monetary Policy

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June 26, 2014. Press release of the National Bank of Moldova

Within the meeting of June 26, 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 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 May 2014 reached the level of 4.7 percent, by 1.1 percentage points lower compared to the previous month's level. This evolution was driven by the base effect and by the lower contribution from food prices by 1.1 percentage points. During the last 2 years, the annual inflation rate remained within the range of ± 1.5 percentage points from the 5.0 percent target.

The annual rate of core inflation amounted to 5.3 percent, decreasing by 0.2 percentage points compared to the previous month.

After the economic activity registered an 8.9 percent increase in the previous year, in the first quarter of 2014 the annual growth rate of GDP recorded a slowdown to the value of 3.6 percent. The exports increase by 3.4 percent had a notable contribution to the economic growth, a process supported by the depreciation in annual terms of the national currency against the currencies of major trading partners in the first quarter of 2014.

The contraction of domestic demand, reflected by the 0.5 percent decrease in the annual rate of imports, also generated a positive contribution to the GDP's annual rate formation, but it cannot be considered a qualitative factor which stimulated the economic growth. At the same time, the slight increase in household consumption (0.4 percent) overlapping with imports contraction represents a sign of cooling of the economic activity in 2014.

In terms of consumer demand, the annual average real wage growth in the first quarter of 2014 was 3.5 percent, by 0.1 percentage points lower than that of the fourth quarter of 2013. The money transfers to individuals through the banks of the Republic of Moldova increased in April and in the first four months of

this year by 11.0 percent and, respectively, by 1.9 percent compared to the same periods of the previous year.

The lending and saving processes recorded an upward development trend in May 2014 compared to the same period of the previous year. Thus, the balance of loans granted in the economy increased by 19.1 percent compared to the end of May 2013, and the balance of attracted deposits increased by 18.8 percent.

The average interest rate on loans portfolio granted in national currency decreased by 0.18 percentage points compared to the level recorded in April 2014, reaching the level of 11.34 percent. The average interest rate on deposits attracted in MDL decreased by 0.03 percentage points compared to the level recorded in April, reaching the level of 7.72 percent in May 2014.

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

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of June 26, 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 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 July 31, 2014, according to the announced schedule.

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