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March 27, 2014. Press release of the National Bank of Moldova

Within the meeting of March 27, 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.**

The annual inflation rate in February 2014 reached the level of 5.4 percent or by 0.3 percentage points more compared to the previous month, mainly due to higher contribution from food prices and core inflation up to 2.9 and 1.7 percentage points. During the last 2 years, the annual inflation rate is maintained within the range of variation of ± 1.5 percentage points from 5.0 percent target.

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 5.1 percent in February 2014, increasing by 0.3 percentage points compared to the previous month.

In 2013, GDP grew by 8.9 percent compared with 2012. Pronounced growth of the national economy was due mostly to domestic demand revival, as a result of higher disposable income of the population, and the positive development of the agricultural sector. This process was supported by the depreciation of the national currency during 2013 against the currencies of major trading partners, particularly by stimulating consumption and exports.

According to the information published by the NBS in the period of January-February 2014, transport of goods increased by 22.2 percent compared with the same period of 2013. It should be mentioned that in February 2014 there was a pronounced slowdown in the annual growth rate of volume of goods transported, recording a level of 2.3 percent, by 63.6 percentage points lower than in December 2013.

In January 2014, the money transfers from abroad made in favor of individuals via banks of the Republic of Moldova fell by 7.3 percent compared to January 2013.

Based on the information available, it is premature to determine whether the recovery is sustainable and whether the economic growth rate in 2013 will be sustained in the medium term.

Lending and savings processes recorded an upward development in February 2014 compared to the same period of the previous year. The volume of new loans granted during the reporting period increased by 28.6 percent, and the volume of new attracted deposits increased by 11.3 percent. Total balances of loans and deposits at the end of February increased by 20.3 percent and by 24.2 percent, respectively, compared to the same period of the previous year.

The average interest rates on loans in national currency decreased by 0.33 percentage points, compared to the level recorded in January 2014, recording a level of 11.96 percent. The average interest rates on deposits attracted in national currency decreased by 0.07 percentage points, up to the level of 5.84 percent in February 2014.

The monetary policy continues to be affected by the complexity of risk balance, with a prevalence of disinflationary risks. Disinflationary risks arise mainly from the reduction of aggregate demand and by the depreciation of the national currency of the main trading partners. The recovery of EU economies, an eventual increase in food prices on international markets, as well the propagation of the impact of fiscal policy adjustment for 2014 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 March 27, 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.

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 April 23, 2014, according to the announced schedule.

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