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Monetary Policy

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May 29, 2014. Press release of the National Bank of Moldova

Within the meeting of May 29, 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 April 2014 reached the level of 5.8 percent, by 0.1 percentage points more compared to the previous month, mainly due to higher contribution from food prices and core inflation up to 3.2 and 1.8 percentage points, respectively. During the last 2 years, 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 5.5 percent in April 2014, increasing by 0.3 percentage points compared to the previous month.

The information published by the NBS in the first months of 2014 reflects contraction of exports and imports of goods and slowdown of growth rate of industrial production and transport of goods, which shows the first signs of cooling of the economic activity. Thus, in the first quarter of 2014, exports and imports decreased by 2.8 and 2.0 percent, while the industrial production increased by 6.3 percent compared with the same period of 2013. After a period of 14 months when the annual growth rate of the transport of goods recorded only positive values, in April 2014, it decreased by 0.1 percent.

In terms of consumer demand, the annual average real wage growth in March 2014 was 1.5 percent, by 2.7 percentage points lower than in February. After two months of a negative trend, money transfers to individuals through the banks of the Republic of Moldova, returned to positive territory in March 2014, increasing by 4.6 percent compared with the same period of 2013.

Lending and saving processes recorded an upward development trend in April 2014 compared to the same period of the previous year. Thus, the balance of loans granted in the economy during the analyzed period increased by 20.0 percent compared to the end of April 2013, and the balance of attracted deposits increased by 19.24 percent.

The average interest rates on loans portfolio in national currency increased by 0.01 percentage points, compared to the level recorded in March 2014, recording a level of 11.51 percent. The average interest rates on deposits attracted in MDL decreased by 0.10 percentage points compared to the level recorded in March, reaching the level of 7.67 percent in April 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 and the increase in food prices on international markets might induce inflationary pressures.

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of May 29, 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 June 26, 2014, according to the announced schedule.

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