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Monetary Policy

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

Within the meeting of October 30, 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 Council of Administration of the NBM approved the Inflation Report no.4, 2014, which will be presented at the press conference of November 6, 2014.

The annual inflation rate in September reached the level of 4.8 percent, by 0.3 percentage points lower compared to the previous month, mainly due to the contribution from food prices of 1.8 percentage points. During the last 2 years and a half, 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 5.8 percent in September 2014, increasing by 0.5 percentage points compared to August 2014.

According to the information published by the NBS, in the first two months of the third quarter 2014, the exports and imports decreased by 6.7 and 6.6 percent, respectively, and the industrial production increased by 3.8 percent.

In the third quarter of 2014, the volume of transported goods increased by 1.0 percent compared to the same period of the previous year.

In terms of consumer demand, the annual average real wage growth in July-August 2014 was 5.7 percent, by 3.2 percentage ponts higher than in the second quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova in September and January-September 2014 increased by 11.4 and 8.1 percent respectively, compared to the same periods of 2013.

The lending and saving processes during the third quarter of 2014 recorded an upward trend compared to

the same period of the previous year. At the end of the third quarter of 2014 the balance of loans granted to the economy increased by 21.1 percent compared to the end of the third quarter of 2013 and the balance of deposits increased by 12.4 percent.

The annual average interest rate on loans portfolio in national currency decreased by 0.48 percentage points compared to the previous quarter, amounting to 10.85 percent. The average interest rate on deposits in MDL increased by 0.04 percentage points compared to the second quarter of 2014, reaching the level of 7.69 percent.

The monetary policy continues to be affected by the complexity of risk balance, with the prevalence of disinflationary risks, mainly generated by the depreciation of the national currencies of the main trading partners, the decrease in oil and food prices on the international markets and by the diminution of domestic aggregate demand. Side effects of the decrease in energy prices will further influence the decrease in prices of other goods and services from the basket of consumer price index (CPI). At the same time, the more pronounced risk of a recession in the economies of the euro area and the Russian Federation – the main trading partners of the Republic of Moldova, causes additional disinflationary risks to the medium-term inflation development. The escalating geopolitical tension in the region may induce the inflationary pressures.

The embargos already imposed by the Russian Federation for some food products and other restrictions that may occur will increase the disinflationary pressures in short term, under an excess supply on domestic market.

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of October 30, 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.

According to the current projection, the output gap shows a high volatility throughout the forecasting period. The National Bank of Moldova will maintain the stimulating monetary policy by the real effective exchange rate channel and the real interest rate channel, thus maintaining the annual inflation rate close to the target of 5.0 percent in the medium term.

The NBM new round of forecasting places the average annual inflation rate for 2014 and 2015 at the level of 4.9 percent and 4.6 percent, respectively. The NBM increased the average annual inflation forecast for 2014 and 2015 by 0.2 percentage points and 1.1 percentage points respectively, compared to previous forecast published in August 2014. Based on the available data, there exists the risk of temporary fall of the annual inflation below the lower range of variation of ± 1.5 percentage points from the target of 5.0 percent in the first quarter of 2015.

A more detailed assessment of the macroeconomic situation, medium-term forecast of inflation and the potential risks and challenges that might be faced by the monetary policy in the next period will be presented in the Inflation Report no.4, 2014. According to the schedule, it will be published on November 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.

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.

The schedule on the NBM monetary policy operations for 2016 will be published on the official website of the NBM.

NBM will further monitor and anticipate the domestic and international economic environment developments, including household consumption dynamics, remittances, foreighn 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 November 27, 2014, according to the announced schedule.

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