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Required reserves

Definition:	Required reserves are holdings kept by banks in their accounts opened with the central bank.
Function:	Reserve requirements are a complementary instrument of monetary policy, used to mitigate the impact of excess liquidity on interbank interest rates. By changing the required reserve ratio, the central bank also seeks to influence the net interest margin (the difference between interest rates on provided loans and clients' deposits) and, respectively, the dynamics of credit and inflation. Emerging economies often increase the required reserves ratio against liabilities in foreign currencies to counter the dollarization (euroization) phenomenon and to improve the transmission mechanism of monetary policy. Reserve requirements can also be employed as a macroprudential tool to prevent an excessive growth of credit in the economy.
Main features of reserve requirements regime in Moldova:	
Legal framework:	The legal framework for reserve requirements is the Law no. 548/1995 on National Bank of Moldova, article 17 and the Regulation on required reserves regime, approved via the Executive Board decision no. 302/2019 (regulation).
Reserve base:	Required reserves are formed based on balance sheet elements recorded in class 2 Liabilities. The liabilities against the central bank, other licensed banks and elements of banks' equity capital and provisions are exempted from the reserve base.
Reserve ratio:	The required reserves ratio is a share percentage against the reserve base and is set by the Executive Board during monetary policy meeting and, thus, via monetary policy decisions. A required reserves ratio of 0% is applied to liabilities with a contractual maturity of more than 2 years that fall under certain criteria (paragraph 15 of the regulation) to encourage banks to attract medium and long term funds to finance their lending activity.
Periods of reserve requirements holdings:	There are two successive periods, each lasting one month, which are specific to the required reserves regime: — observance period - from the 16th of the previous month until the 15th of the current month during which the average reserve base is determined and, respectively, the level of required reserves; — maintenance period - from the 16th of the current month until the 15th of the next

	month during which the established level of required reserves needs to be held by banks with the National Bank of Moldova.
Reserve requirements framework and maintenance regime:	— The required reserves are held on accounts opened with the NBM in 3 currencies: Moldovan leu (MDL), euro (EUR) and US dollar (USD); — the required reserves in MDL comprise the funds attracted in MDL and non-convertible currencies, other than those listed in point 19 of the Regulation on the setting of the official exchange rate of Moldovan leu against foreign currencies, approved by DCA no. 3/2009; — required reserves in EUR and USD comprise the funds attracted in respective currencies, the banks will independently choose in which currency, EUR or USD, they will keep required reserves from the funds attracted in other freely convertible currencies (FCC); — compliance with the reserve requirements in MDL, EUR and USD is assessed based on the average monthly balances over the whole maintenance period of the banks' holdings in the accounts opened with the NBM in the corresponding currencies; — for required reserves in MDL, an "averaging" regime applies. This means that the balance of holdings in the "Loro" accounts opened with NBM, in which the required reserves are held in MDL, may fluctuate during the maintenance period (it may even reach zero), as long as the average balance over the entire maintenance period is at least equal to the established level of the required reserves in MDL; — for required reserves in foreign currencies, a "partial averaging" regime applies. That is, only a part of the required reserves in EUR and USD, 5% of the calculation basis, is maintained on average over the entire maintenance period. The remaining part of the required reserves remains unchanged and can be treated as a minimum balance of required reserves that the bank must hold on the accounts opened with the NBM; — no netting is allowed between the surplus and the deficit of required reserves in different currencies.
Remuneration:	The NBM may remunerate, including at negative rates, the required reserves held by the domestic banks. The principles and the method of remuneration of required reserves are established by the regulatory acts of the National Bank. Currently, the NBM pays interest to banks on the share of required reserves that exceeds 5% of the reserve base. Required reserves are remunerated at distinct rates, depending on the currency in which they are established. MDL reserves are remunerated at the NBM overnight deposit facility rate. The Secured Overnight Financing Rate (SOFR) is applied for the remuneration of required reserves in USD, and the Euro short-term rate (€STR) for those in EUR. Both rates are reduced by 2 percentage points. The respective rates are set at this level via the Decision of the Executive Board of the NBM No. 139/2019.
Interest charged for non-compliance with reserve requirements:	The National Bank of Moldova shall charge interest for non-compliance with reserve requirements, calculated by applying to the average reserve deficit the rate that is equal to the weighted average interest rate on the overnight credit facility multiplied by two, valid during the period when the deficit was recorded, multiplied by the number of days in the corresponding maintenance period.

Regulation on reserve requirements regime, approved by the decision of the Executive Board No. 302/2019 [2]

Decision of the Executive Board No.139/2019 on the interest rates on required reserves and commisions related to the servicing and management of required reserves in US dollar and euro [3]

Statistics on required reserves maintained by banks in MDL [4]

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