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Monetary Policy Expand Hide

Press releases Press room

29.12.2014

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

Within the meeting of December 29, 2014, the Council of Administration of the NBM adopted the following decisions by unanimous vote:

1. **to increase the base rate applied on main short-term monetary policy operations by 2.0 percentage points, from the level of 4.5 to 6.5 percent annually;**
2. **to increase the interest rates:**

— **on overnight loans by 2.0 percentage points, from the level of 7.5 to 9.5 percent annually;**
— **on overnight deposits by 2.0 percentage points, from the level of 1.5 to 3.5 percent annually;**

3. **the rates mentioned in paragraphs 1 and 2 shall enter into force on December 30, 2014;**
4. **to maintain the required reserves ratio from financial means attracted in MDL and in foreign currency at the current level of 14.0 percent of the base.**

The annual inflation rate in November reached the level of 4.8 percent, maintaining the previous month level, mainly due to the contribution from food prices and core inflation, of 2.1 and 1.9 percentage points, respectively. As of February 2012, 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 5.9 percent in November 2014, increasing by 0.1 percentage points compared to October.

In the third quarter of 2014, GDP recorded an increase of 5.9 percent compared to the same period of the previous year, following an increase of 4.2 percent in the second quarter of this year. The acceleration in economic activity in the third quarter of 2014 was exclusively driven by the increase in domestic aggregate demand. By categories of resources, the GDP growth was determined by the increase of the gross value added related to the agriculture by 8.6 percent.

According to the information published by the NBS, in October 2014, the industrial production and imports enhanced by 14.0 and 0.3 percent, respectively, and the exports decreased by 6.6 percent compared to October 2013. In November 2014, the volume of transported goods decreased by 2.4 percent compared to November 2013.

In terms of consumer demand, the annual average real wage growth in October 2014 was 8.6 percent, by 2.0 percentage points higher than in the third quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova decreased in November 2014 by 21.4 percent and increased in January-

November 2014 by 3.5 percent compared to the same periods of 2013.

In November 2014, the balance of loans granted to the economy increased by 0.3 percent compared to November 2013 and the balance of deposits increased by 9.3 percent.

The average interest rates applied by banks on loans and deposits in national currency recorded a divergent evolution.

The annual average interest rate on loans portfolio in national currency decreased by 0.29 percentage points compared to October 2014, amounting to 10.37 percent. The average interest rate on deposits in MDL increased by 0.05 percentage points compared to October 2014, reaching the level of 7.67 percent.

The monetary policy continues to be affected by the complexity of risks balance, with a gradual accentuation of the pro-inflationary risks. The probability of a recession in the economies of the euro area countries and the Russian Federation – the major trading partners of the Republic of Moldova, leads to risks of lower household and domestic exporters income on short-term through the external trade channel and remittances that may further influence the dynamics of the national currency exchange rate and, subsequently, the inflation dynamics. The intensification of geopolitical tension in the region may generate additional inflationary pressures.

In the context of the national currency depreciation, more significant than the value used in 2012 for setting the tariffs for regulated services, there is a high risk that these will be revised upwardly in 2015, which could result in the increased inflation expectations. There exists the risk of inflation acceleration next year, along with the propagation of the second-round effects of these adjustments.

The accentuation of the pro-inflationary risks requires a preventive response from the monetary policy. A gradual tightening of monetary policy is required to combat the pro-inflationary pressures from regulated prices and the national currency depreciation.

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of December 29, 2014 to increase the monetary policy interest rate by 2.0 percentage points from the level of 4.5 to 6.5 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.

The decision to increase the base rate will gradually generate effects in the economy over the next 2-3 quarters, 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 of Moldova will continue to offer banks liquidity, according to the schedule announced for 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, the currency 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

January 29, 2015, according to the announced schedule.

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