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Monetary Policy

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27.02.2014

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

Within the meeting of February 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 January 2014 reached the level of 5.1 percent or by 0.1 percentage points less compared to the previous month, mainly due to lower contribution from regulated prices. 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 inflation amounted to 4.8 percent in January 2014, remaining at the previous month level and signaling a lack of aggregate demand inflationary pressures despite the depreciation of the national currency against the currencies of major trading partners.

The information published by the NBS on foreign trade, domestic trade, industrial production and freight transport indicates prerequisites for registering a significant growth in the fourth quarter of 2013. Thus, exports and imports increased by 11.0 and 5.4 percent respectively in 2013, industrial production by 6.8 percent and freight transport marked an increase of 26.2 percent compared with 2012.

In terms of consumer demand, the annual growth rate of average real wage in the economy was 3.6 percent in the fourth quarter of 2013, by 1.7 percentage points less than in the third quarter of 2013. Cash remittances to individuals through official channels have increased by 6.2 percent in the fourth quarter of 2013 compared to the same period of 2012.

Lending and savings processes recorded divergent developments in January 2014. The volume of new loans granted during the reporting period increased by 56.2 percent, while the new attracted deposits decreased by 5.6 percent as compared to the same period of the previous year. Total balances of loans and deposits at the end of January 2014 have increased by 19.6 and 21.6 percent compared to the same period of the

previous year.

The average interest rates on loans in national currency decreased by 0.22 percentage points, compared to the level recorded in December 2013, recording a level of 12.29 percent. The average interest rates on deposits attracted in national currency increased by 0.09 percentage points, up to the level of 5.91 percent in January 2014.

The monetary policy continues to be affected by the complexity of the inflationary and disinflationary associated risk balance. Disinflationary risks arise mainly from the reduction of aggregate demand and by the depreciation of main trade partners' national currencies. 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 February 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 March 27, 2014, according to the announced schedule.

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