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How and why does the National Bank of Moldova intervene in the foreign exchange market?

The fundamental objective of the National Bank of Moldova (NBM) is to ensure and maintain price stability. To achieve this medium-term goal, the NBM maintains inflation at an annual rate of 5 percent, with a possible deviation of ± 1.5 percentage points and implements a managed floating exchange rate regime. This exchange rate regime means that the NBM does not target a predetermined exchange rate for the Moldovan leu against other currencies; instead, the exchange rate level is determined by supply and demand developments in the local foreign exchange market. The managed floating exchange rate regime is appropriate for a small and open economy such as that of the Republic of Moldova, as it ensures monetary policy autonomy and economic stabilization through the exchange rate mechanism.

Thus, in certain situations, the NBM may intervene in the foreign exchange market without jeopardizing the achievement of the fundamental objective. NBM interventions are carried out with the purpose of:

- reducing excessive exchange rate fluctuations;
- preventing speculative operations;
- strengthening the country's foreign exchange reserves.

This flexible approach helps the Republic of Moldova's economy to adapt more easily to external and internal changes and shocks.

How is the decision to intervene made?

The decision to intervene in the foreign exchange market is the result of a rigorous process, which includes:

- continuous monitoring of the exchange rate and the volume of foreign exchange transactions;
- tracking the evolution of demand and supply in the local foreign exchange market;
- analysing exchange rate effects on prices, external competitiveness and financial stability;
- consultations between experts in the financial markets and monetary policy departments;
- final approval by the Executive Board of the NBM, based on recommendations from the financial markets department.

Types of interventions can be:

- SPOT market direct interventions (organising auctions to buy or sell foreign exchange, requests for quotes, Bloomberg BMATCH [1] instrument, or bilateral transactions;
- the use of derivative financial instruments (currency forwards or SWAPs).

In order to maintain the proper functioning of the market, information on foreign exchange interventions is subsequently published in regular official reports.

The NBM always acts with transparency, responsibility, and care to avoid distortions in the foreign exchange market and to support the country's economic stability.

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