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Monetary Policy

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26.03.2015

March 26, 2015. Press release of the National Bank of Moldova

Within the meeting of March 26, 2015, 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 13.5 percent annually;**
2. **to maintain the interest rates:**

- **on overnight loans at the current level of 16.5 percent annually;**
- **on overnight deposits at the current level of 10.5 percent annually;**

The annual inflation rate in February 2015 reached the level of 6.5 percent, increasing by 1.8 percentage points compared to the previous month, mainly due to the contribution of food prices and core inflation, of 2.1 and 3.5 percentage points, respectively. Since February 2012, the annual inflation rate is maintained within the range of variation of ± 1.5 percentage points from the target of 5.0 percent.

The annual rate of core inflation amounted to 10.2 percent in February 2015, increasing by 3.2 percentage points compared to January 2015.

According to the information published by the NBS, GDP recorded in 2014 an increase of 4.6 percent compared to 2013, being by 4.8 percentage points lower than in 2013. This development was mainly influenced by the modest contribution from the agricultural production growth and an unfavorable external climate, manifested by the deterioration in the economic activity of major trading partners and the imposition of some embargoes from the Russian Federation. During 2014, the national economy growth was supported by the depreciation of the national currency, the positive development of the agricultural sector and the EU first facilities for the exports of domestic products, which offset to some extent the embargoes imposed by the Russian Federation.

At the same time, in the fourth quarter of 2014, GDP recorded an increase of 4.2 percent compared to the same period of 2013, being by 1.7 percentage points lower to the value recorded in the third quarter of 2014. During the reporting period, domestic consumption was the determinant factor of the economic growth, while exports registered a contraction.

In terms of consumer demand, the annual average real wage growth in January 2015 was 7.7 percent (including budgetary sector – 12.5 percent), by 1.2 percentage points higher than in the fourth quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova decreased by 23.4 percent in January - February 2015 and by 21.8 percent in February compared to the same periods of 2014.

At the end of February 2015, the balance of loans granted to the economy decreased by 0.4 percent compared to the same period of last year and the balance of deposits increased by 10.0 percent.

The average interest rates charged by banks on loans and deposits in national currency recorded an upward development. Thus, in February 2015, the average interest rate on loans portfolio in national currency was 11.03 percent, increasing by 0.36 percentage points compared to January 2015. The average interest rate for deposits in MDL increased by 0.31 percentage points compared to the previous month, recording a level of 7.93 percent. However, the recent increase of the average interest rate on deposits in national currency is insufficient to stimulate savings in MDL.

The monetary policy continues to be affected by the complexity of risk balance, with pro-inflationary risks emphasizing. The weak economic activity of the euro area countries and the recession of the Russian Federation – the major trading partners of the Republic of Moldova, lead 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.

The depreciation of the national currency from the beginning of this year will accentuate the inflationary pressures for next periods, which will determine CPI to leave temporarily the upper limit of the range of variation of ± 1.5 percentage points from the 5.0 percent target, through the prices of imported goods and tariffs for regulated services, and subsequently through the second-round effects.

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of March 26, 2015 to maintain the monetary policy interest rate at the level of 13.5 percent annually.

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.

National Bank will continue to offer banks liquidity, according to the schedule announced for 2015, through term REPO operations of 14 days, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 percentage points.

NBM will further monitor and anticipate the domestic and international economic environment developments, including household consumption dynamics, remittances, foreign 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 April 30, 2015, according to the announced schedule.

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