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Monetary aggregates of the Republic of Moldova

Technical box extracted from:

Inflation Report no.2, May 2013 [1]

The monetary aggregates are widely used indicators for the monetary analysis, which involves the study of the phenomenon of monetary creation, and the changes observed in the structure and size of the money supply with subsequent effects.

The importance of monetary aggregates can be justified by their role as:
- a monetary statistical indicator that allows the measurement of the money supply and explains its change in time due to the economic, political or social influences, which act both internally and externally;
- an indirect economic policy instrument for achieving the intermediate monetary policy (monetary aggregate targeting regime).

Given that the structure and number of monetary aggregates are different from country to country, depending on the degree of the financial market development and economic situation of the country, common criteria are needed to classify these aggregates. In this respect, international organizations such as the IMF or the European Central Bank have developed international standards based on which the methodology of calculation of monetary aggregates is worked out.

The use of monetary aggregates involves the conceptual defining and quantitative assessment of these indicators, taking into account the following similar features of monetary aggregates regardless of country:
1. the progressive nature of the aggregates according to the rule that the lowest aggregate is contained in all others, and the largest on includes all smaller aggregates;
2. their breakdown according to the liquidity criterion, their order being not accidental (e.g., in the Republic of Moldova the M0 is the aggregate with the highest liquidity and M3 is formed from assets with a lower degree of liquidity);
3. they are stock indicators, which are generally defined at a certain date (e.g., as on December 31, 2012, similarly to Chart no.1.).

Table no.1: Monetary aggregates' definition in the Republic of Moldova				
	M0	M1	M2	M3
Money in circulation	X	X	X	X
Demand deposits		X	X	X
Term deposits			X	X
Money market instruments			X	X
Deposits in foreign currency				X

According to the methodology developed by the NBM, the money supply structure of the Republic of Moldova is represented in Table no.1, consisting of four monetary aggregates (e.g., France and England operates with four monetary aggregates and the U.S. – with six monetary aggregates).

In the Republic of Moldova, during 1994-2008, the monetary aggregates have served for a good period as an intermediate target for monetary policy, during which price stability was achieved by targeting monetary aggregates. Since 2009, these monetary statistical indicators have been used for the economic analysis to determine the effects of inflation.

The monetary statistics data, available at the end of 2012, reflect the composition of M3 as shown in Chart no.1. The term deposits and deposits in foreign currency hold the largest share in M3 - 29.0 percent each, the remaining components having smaller shares, money in circulation - 27.0 percent and sight deposits - 15.0 percent. Chart no.2 reflects the structural changes in the money supply during 2000-2012. The most significant changes have occurred in the share of term deposits, which have been steadily increasing throughout the observation period, from 15.7 percent to 28.9 percent, while the share of money in circulation have been decreasing from 41.9 percent at the end of 2000 to 26.7 percent on December 31, 2012. The reduction of money in circulation is a consequence of the development of market segments related to electronic money trading, while the increase in the share of term deposits shows the confidence of depositors in the banking financial system of the country and the development of this sector in the past 10 years.

Chart no. 1. **The percentage share of the M3components (December 31, 2012)**

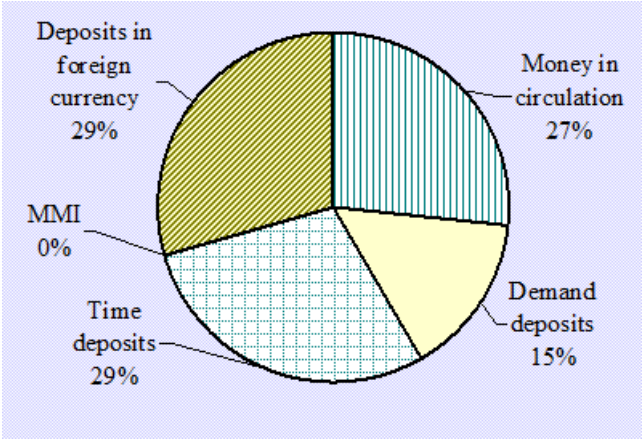
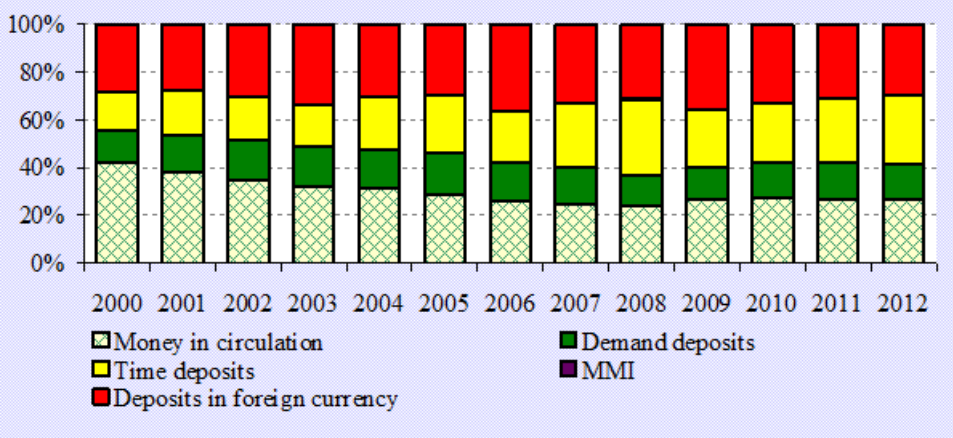


Chart no. 2. **The monetary aggregates development in 2000-2012**



See also

Tags

monetary aggregates [2]

aggregate [3]

monetary aggregate [4]

M1 [5]

M2 [6]

M3 [7]

money in circulation [8]

M0 [9]

deposits [10]

deposit [11]

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