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Monetary Policy

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

Within the meeting of November 27, 2014, 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 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 October reached the level of 4.8 percent, maintaining the previous month level, mainly due to the contribution from food prices and core inflation, of 1.8 and 1.9 percentage points, respectively. During the last 2 years and a half, 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 5.8 percent in September 2014, being similar to that of September.

According to the information published by the NBS, in September 2014, the industrial production and imports increased by 7.4 and 0.7 percent, respectively, and the exports decreased by 6.2 percent. In October 2014, the volume of transported goods increased by 0.9 percent compared to October 2013.

In terms of consumer demand, the annual average real wage growth in the third quarter of 2014 was 6.6 percent, by 4.1 percent higher than in the second quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova in October increased by 9.0 percent and in January-October 2014 increased by 6.08 percent compared to the same periods of 2013.

The lending and saving processes in October 2014 recorded an upward trend compared to the same period of the previous year. Thus, at the end of October 2014 the balance of loans granted to the economy increased by 21.6 percent compared to the end of October 2013 and the balance of deposits increased by 11.4 percent.

The annual average interest rate on loans portfolio in national currency decreased by 0.16 percentage points compared to September 2014, amounting to 10.66 percent. The average interest rate on deposits in MDL

decreased by 0.03 percentage points compared to September, reaching the level of 7.62 percent.

The monetary policy continues to be affected by the complexity of risk balance, with the prevalence of disinflationary risks, mainly generated by the depreciation of the national currency of the main trading partners, the decrease in oil and food prices on the international markets and by the diminution of domestic aggregate demand. Side effects of the decrease in energy prices may reduce the growth rate in prices of other goods and services from the CPI basket. At the same time, the more pronounced risk of a recession in the economies of the euro area and the Russian Federation – the main trading partners of the Republic of Moldova, causes additional disinflationary risks to the medium-term inflation development. The escalating geopolitical tension in the region may determine the inflationary pressures.

The embargos already imposed by the Russian Federation for some food products and other restrictions that may occur will increase the disinflationary pressures in short term, under an excess supply on domestic market.

In these circumstances, the Council of Administration of the NBM decided by unanimous vote within its meeting of November 27, 2014 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.

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, 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 December 29, 2014, according to the announced schedule.

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