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Monetary Policy

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September 25, 2014. Press release of the National Bank of Moldova

Within the meeting of September 25, 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 August reached the level of 5.1 percent, by 0.2 percentage points lower compared to the previous month, mainly due to the contribution from food prices up to 2.5 percentage points. 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 5.3 percent in August 2014, decreasing by 0.1 percentage points compared to July 2014.

In the second quarter of 2014, GDP recorded an increase of 4.2 percent compared to the same period of the previous year, after an increase of 3.6 percent in the first quarter of this year. In the second quarter of 2014, the increase of exports by 10.0 percent had a notable contribution to the economic growth, a process sustained by the depreciation in real terms of the domestic currency against the U.S. dollar and the European single currency. By categories of resources, the GDP growth in the second quarter of 2014 was driven by an increase of 7.4 percent of the gross added value related to the agriculture.

According to the information published by the NBS, in July 2014, the exports and imports decreased by 0.2 and 6.0 percent, respectively, and the industrial production increased by 3.2 percent. In August 2014, the volume of transported goods decreased by 6.5 percent compared to August 2013.

In terms of consumer demand, the annual average real wage growth in July 2014 was 5.2 percent, by 2.7 percentage points higher than in the second quarter of 2014. The money transfers to individuals through the banks of the Republic of Moldova in August and January-August of 2014 increased by 0.8 and 7.7 percent respectively, compared to the same periods of 2013.

The lending and saving processes in August 2014 recorded an upward trend compared to the same month of the previous year. Thus, the balance of loans granted to the economy increased by 19.4 percent compared to the end of August 2013, and the balance of deposits increased by 12.3 percent.

The annual average interest rate on loans portfolio in national currency decreased by 0.09 percentage points compared to the level recorded in July 2014, amounting to 10.82 percent. The average interest rate on deposits in MDL decreased by 0.04 percentage points compared to the level recorded in July, reaching the level of 7.68 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 and by the diminution of domestic aggregate demand. The escalating geopolitical tension in the region may induce 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 September 25, 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 the next eight quarters, the output gap will be negative. The development of the domestic economy below its potential will continue to generate disinflationary pressures over the forecasting horizon. The National Bank of Moldova will maintain the stimulating monetary policy by the real effective exchange rate channel and the real interest rate channel, thus maintaining the annual inflation rate close to the target of 5.0 percent in the medium term.

Based on the available data, there exists the risk of temporary fall of the annual inflation below the lower range of variation of ± 1.5 percentage points from the target of 5.0 percent in the first and second quarters of 2015.

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 October 30, 2014, according to the announced schedule.

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