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Direct inflation targeting

Direct inflation targeting is the monetary policy strategy through which the NBM sets a target for the inflation rate over a given period to be achieved using monetary policy instruments and measures.

The direct inflation targeting strategy includes four main elements:

- an explicit mandate for the NBM to pursue price stability as a fundamental monetary policy objective, on the one hand, and a high degree of operational autonomy, on the other;
- explicit quantitative target for inflation;
- accountability of the NBM for performance in achieving the inflation target, mainly through increased transparency requirements for monetary policy strategy and implementation;
- monetary policy decisions based on forward-looking analysis of inflationary pressures, taking into account a broad range of information.

The purpose of direct inflation targeting

Ensuring price stability and keeping the inflation rate at a low level is the most important objective of the National Bank of Moldova, as it contributes to the creation of a relatively stable economic framework that allows economic development and ensures a sustained level of economic growth.

In this context, the National Bank of Moldova considers that a low, relatively stable and credible inflation target:

- will maintain nominal interest rates at low levels, which will stimulate long-term investment and allow economic agents to remain competitive at home and abroad;
- will discourage speculative activities and strengthen financial stability;
- will support lasting economic growth, job creation and increase productivity, which will improve people's quality of life;
- will protect people on fixed incomes and the socially vulnerable groups, who are particularly affected by high inflation rate by the erosion of investment income and social payments (pensions, allowances, etc.).

Achieving the inflation targeting

In order to ensure and maintain price stability in the medium term, the National Bank of Moldova strives to maintain inflation (measured by the consumer price index) at the level of 5.0 percent annually with a possible deviation of ± 1.5 percentage points, which is considered the optimal level for economic growth and development of the Republic of Moldova in the medium term. The inflation target takes into account the long-term convergence of the economy of the Republic of Moldova in relation to its main trading partners, continuous productivity growth in all sectors of the economy and structural transformations in the national economy.

Reaching the target of 5.0 percent annually is achieved by using the main monetary policy instrument - open market operations. At the same time, the NBM also uses auxiliary instruments of monetary policy such as standing facilities, the required reserves rule and the interventions on foreign exchange market. These instruments have a direct impact on the level of nominal short-term interest rates in the money market. In order to achieve the inflation target, the money market conditions are steered by the NBM through the setting by the Board of Directors of the key indicator for the short-term interbank money market - the base rate.

Monetary policy meetings of the Executive Board take place every month. These are based on the material developed within the internal analysis and forecasting cycles. Thus, if the medium-term inflation forecast is above the target, the Executive Board usually adopts restrictive monetary policy measures, and if it is below the target, the measures are stimulative. Talking about the main instrument - the base rate, its increase is considered a restrictive measure, and its decrease - an incentive measure.

The transmission of impulses generated by monetary policy instruments to inflation is propagated through complex cause-and-effect chains representing the decisions of economic agents and households to monetary policy measures. This process is referred to as the monetary transmission mechanism and occurs as a change in monetary conditions, thereby influencing the demand for goods and services, and hence inflation.

Tag-uri
direct inflation targeting [1]
inflation forecast [2]
inflation target [3]
