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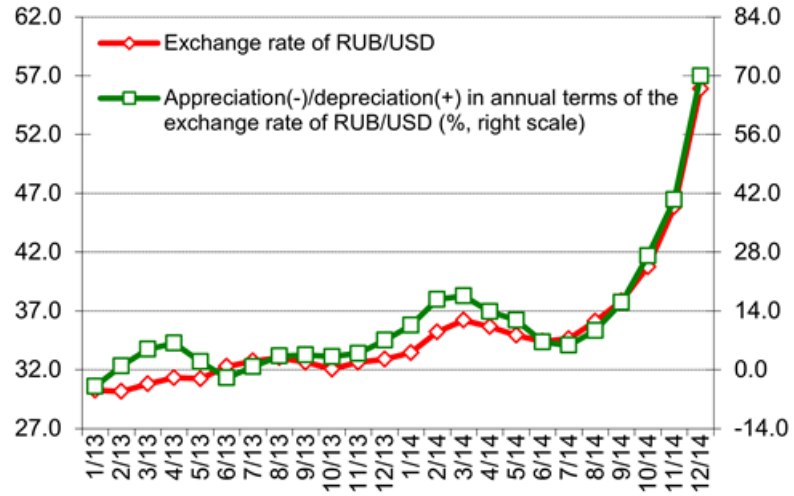
The impact of depreciation of the RUB/USD exchange rate on transfers of Russian ruble to individuals through the banks of the Republic of Moldova

Technical box extracted from:

ation Report no.1, February 2015 [1]

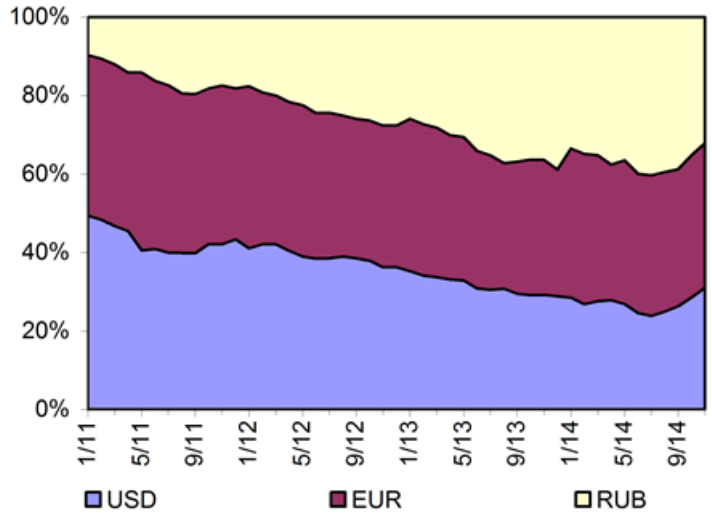
In the fourth quarter of 2014, a rarely heard phenomenon was noticed in the international foreign exchange market. Within three months, the RUB depreciated by about 47.6 percent compared to USD. In September 2014, USD 1 could be exchanged on average against RUB 37.87 and in December 2014, it was exchanged on average against RUB 55.91 (Chart no. 1). At the same time, according to the data on money transfers through the banks of the Republic of Moldova, the transfers in RUB accounted for about 37.3 percent (Chart no. 2). Based on this, it is appropriate to analyse the impact of this depreciation on transfers in RUB expressed in USD and in MDL.

Chart no. 1. Evolution of the RUB/USD exchange rate and the appreciation (-)/depriciation (+) in annual terms (%)



Source: NBM, NBM calculus

Chart no. 2. Structure of transfers from abroad



Source: NBM, NBM calculus

It should be mentioned that, it is difficult for the population to understand that, the depreciation of the RUB against the USD influences the exchange rate of MDL against the RUB. The information panel of the licensed banks on currencies exchange rates displays only that USD 1 costs, for example, MDL 15.10, a RUB – MDL 0.29, EUR – MDL 18.80. Analysing this information, without possessing some knowledge on determining the exchange rate, it is obvious that one may not understand what would have in common the depreciation of the RUB against the USD and the appreciation of the MDL against RUB.

The setting of MDL/RUB exchange rate is determined by multiplying the official exchange rate of MDL against the USD with the exchange rate of the USD against the RUB set in the international market at 2:00 PM, Chisinau time (or dividing the MDL/USD exchange rate by the RUB/USD exchange rate, according to the Regulation on the setting of the official exchange rate of MDL against foreign currencies, Article 10). Therefore, the evolution of MDL/RUB exchange rate is influenced by two factors:

- MDL/USD exchange rate – is an internal factor, which may be managed by the National Bank of Moldova.
- RUB/USD exchange rate – is an external factor, which may not be managed by the National Bank of Moldova and the setting of RUB/USD exchange rate is a task of the Central Bank of the Russian Federation.

A simple example that would explain the impact of depreciation of the RUB/USD and MDL/USD exchange rate against the MDL/RUB exchange rate is showed below:

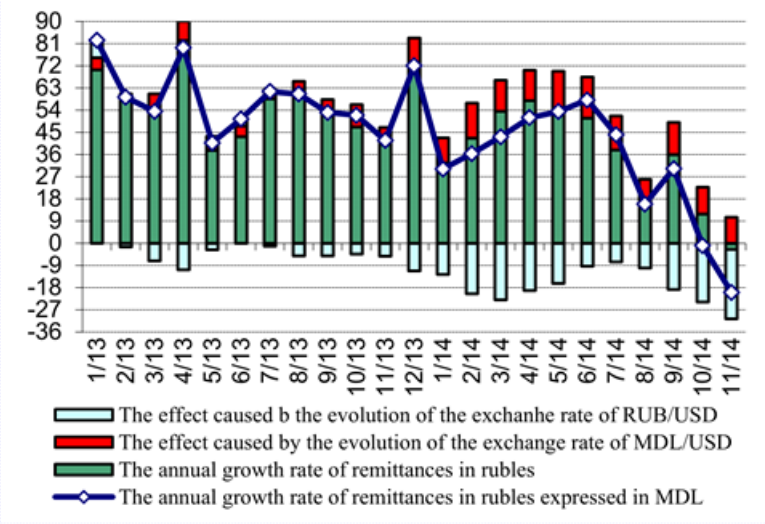
Table no. 1

The impact of depreciation of the RUB/USD and MDL/USD exchange rate against MDL/RUB exchange rate

	Actual data			Setting the MDL/USD exchange rate			Setting the RUB/USD exchange rate		
	Column I			Column II			Column III		
	09.2014	12.2012	Δ, %	09.2014	12.2012	Δ, %	09.2014	12.2012	Δ, %
MDL/USD	14.3208	15.4354	7.8	14.3208	**14.3208**	**0.0**	14.3208	15.4354	7.8
RUB/USD	37.8700	55.9051	47.6	37.8700	55.9051	47.6	37.8700	**37.8700**	**0.0**
MDL/RUB	0.3782	0.2761	**-27.0**	0.3782	0.2562	-32.3	0.3782	0.4076	7.8

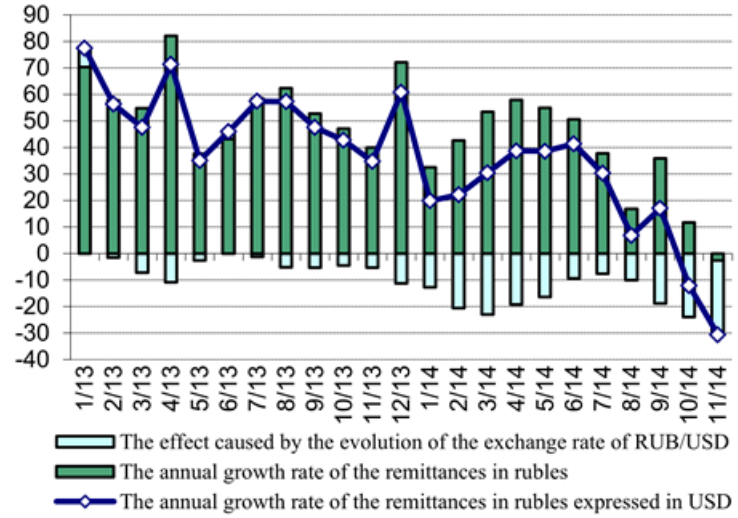
The analysis of data from Column I of Table no.1 shows that, during the fourth quarter of 2014, there was recorded depreciation both of MDL/USD exchange rate (7.8 percent) and RUB/USD exchange rate (47.6 percent). It should be mentioned that, the depreciation of RUB/USD exchange rate was considerably higher than the MDL/USD exchange rate, which contributed to the appreciation of the MDL against the RUB by about 27.0 percent. This appreciation supposes that, if in September, exchanging RUB 100, the population received MDL 37.82 and in December, it was only MDL 27.61. To better understand the impact of these depreciations on the MDL/RUB exchange rate, there were developed two scenarios setting, one by one, the MDL/USD exchange rate and then the RUB/USD exchange rate. Consequently, it may be seen what the MDL/RUB exchange rate could be upon neutralization of one of the factors. Column II of Table no. 1 shows the scenario which supposes that, the MDL/USD exchange rate of December would be the same as in September and in this case, the depreciation of the MDL/USD exchange rate would not be recorded. Thus, the evolution of MDL/RUB exchange rate is exclusively influenced by the evolution of RUB/USD exchange rate. In these circumstances, it may be noted that, the MDL/RUB exchange rate would appreciate by 32.3 percent, a more pronounced appreciation compared to actual data (32.3 percent > 27.0 percent). However, if analysing the scenario in which the RUB/USD exchange rate would not depreciate during the quarter and the MDL/USD exchange rate would record the actual data (Column III of Table no.1), the MDL/RUB exchange rate would have depreciate by 7.8 percent (MDL 37.82 < MDL 40.76). Thus, the pronounced appreciation of MDL/RUB exchange rate during the fourth quarter of 2014 was exclusively influenced by the depreciation of the RUB/USD in the international market.

Chart no. 3. Evolution of annual growth rate of the transfers in RUB expressed in MDL (%) and the effect generated by the evolution of MDL/USD and RUB/USD exchange rate (percentage points)



Source: NBM, NBM calculus

Chart no. 4. Evolution of annual growth rate of the transfers in RUB expressed in USD (%) and the effect generated by the evolution of RUB/USD exchange rate (percentage points)



Source: NBM, NBM calculus

To understand the impact of this major depreciation of the RUB/USD exchange rate on a significant part of household income (transfers in RUB), it is proposed to analyse Chart no. 3, which shows the evolution in annual terms of transfers in RUB recalculated in MDL, based on data of transfers in RUB through the banks of the Republic of Moldova and the MDL/USD and RUB/USD exchange rate. The analysis of Chart no.3 shows that, during 2013 and the first half of 2014, the annual growth rate of transfers in RUB was pronounced, reaching an average level of about 50.0 percent. At the same time, in the second half of 2014, it is noted a rapid slowdown thereof and in November 2014, it recorded a rate of minus 2.5 percent. At the same time, if these transfers are exchanged in USD, it is noted a more pronounced slowdown in the annual rate (minus 30.6 percent in November 2014), as a result of RUB/USD exchange rate depreciation (Chart no. 4). In should be mentioned that, if in the first eight months of the year, the depreciation of MDL/USD exchange rate managed to mitigate a part of the effect generated by the depreciation of the RUB/USD exchange rate, from September 2014, the depreciation of the MDL/USD exchange rate could not reduce the negative effect generated by the depreciation of the RUB/USD exchange rate (Chart no. 3). Thus, the pronounced slowdown of annual growth rate of the transfers in RUB interfering with the significant depreciation of the RUB/USD exchange rate determined the annual growth rate of transfers in RUB expressed in MDL to turn negative

(minus 1.1 percent). At the same time, in November 2014, it decreased significantly, reaching a level of minus 20.0 percent (Chart no.3).

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transfer [4]
depriciation [5]
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