

Monetary Synthesis 2*2002

February

Inflation

In February 2002 a deflation of 0.4% was registered as against in the previous month.

Table 1. The increase of prices in the structure (February)

	1997	1998	1999	2000	2001	2002
Total	1.4	0.4	1.5	1.3	0.3	-0.4
Food products	1.5	0.3	1.5	1.4	0.4	-1.1
Non-food products	0.6	0.4	1.7	1.6	0.6	0.6
Services rendered	2.4	0.5	1.0	0.3	-0.5	0.6

Prices for food products decreased by 1.1%; prices for non-food products and for services rendered to the public increased by 0.6% (table 1).

During February prices for food products decreased: for flour - by 2.2%, for eggs – by 20.2%, for sugar – by 1.7%, for beef – by 3.7%, for dairy – by 1.7%. Simultaneously, prices for vegetables decreased by 3.0%, including for potatoes – by 2.4%.

Prices for non-food products increased by 0.6% as against in the previous month, except prices for fuel, which reduced by 0.8%.

In February 2002 tariffs for public urban transportation increased by 1.2%, including for public buses by 3.4%.

Inflation in February 2002 constituted 6.0% as against in the relevant period of the previous year. From the beginning of the year consumer prices increased with a monthly average rate of 0.45% and constituted 0.9%.

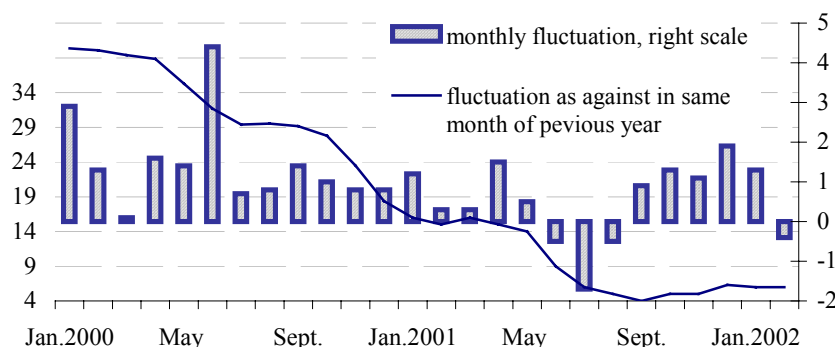
Interest rate – main monetary regulation instruments

As on 28.02.2002, the Council of Administration of NBM approved the interest rates on monetary instruments of NBM, based on the dynamics of the consumer prices index and monetary and macroeconomic indicators as follows:

- **Basic rate**, applied for 2-month SS purchasing REPO operations, performed within open market operations of NBM – 13.0% per year;
- Interest rate on Lombard facility – 18.0% per year;
- Interest rate on “overnight” credits - 22.0% per year;
- Interest rate on deposits accepted by NBM from commercial banks – 3.0% per year;
- Basic rate on long - term credits (over 5 years) granted by NBM – 13.5% per year.

It has to be mentioned that the rates of main monetary regulation instruments in January and February 2002 kept the level set on 27.12.2001.

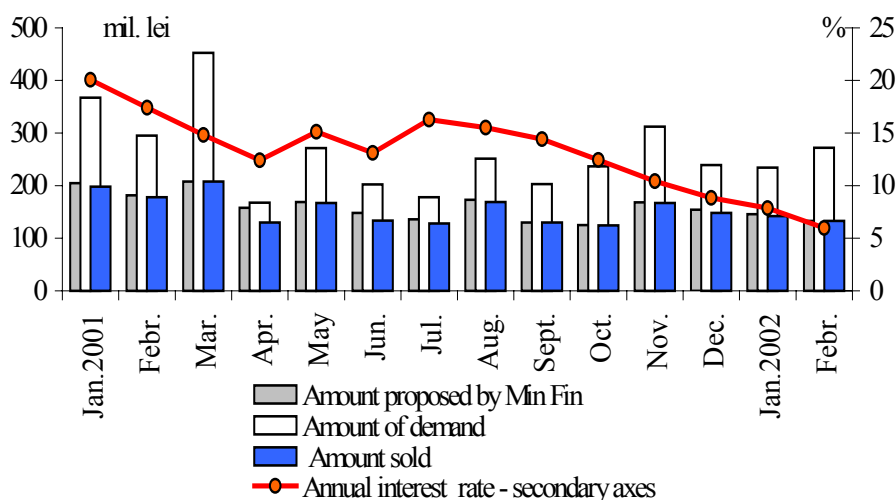
Chart 1. Evolution of inflation, %



Operations on the SS market

In February, the National Bank of Moldova performed final SS selling operations with a maturity of 27 days from its own portfolio in a nominal value of MDL 74.9 million within *open market operations* with the view to withdrawing the excess of liquidity in circulation. The demand of commercial banks for SS offered by NBM exceeded the offer by MDL 68.8 million, and constituted MDL 143.8 million. The average weighted nominal yield on SS commercialized through these operations constituted 1.85%.

Chart 2. Totals of SS selling auctions on the primary market



constituted MDL 133.0 million (chart 2). Simultaneously, the total value demanded by commercial banks at auctions increased by MDL 37.6 million and amounted to MDL 271.7 million, which is twice the offer. As a result the proposed value was fully commercialized (MDL 133.0 million). The value of adjudged SS decreased as against in the previous month by MDL 9.1 million, or by 6.4%.

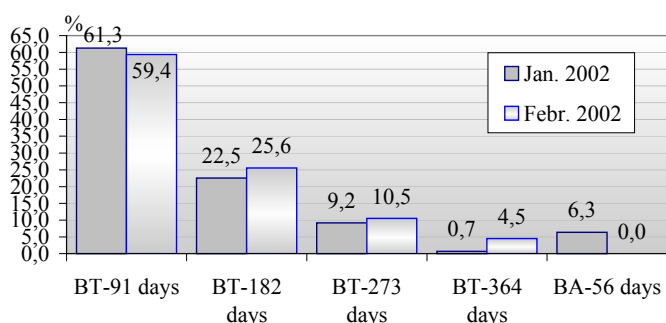
Commercial banks held 97.1% (MDL 129.2 million) of the total value of SS adjudged on the primary market, or by 1.5 percentage point less than in the previous month. The purchase of SS by local investors doubled as against the previous month and constituted MDL 3.6 million despite the continuous decreasing trend of yield of these SS.

In the structure of SS commercialized in February, the weight of SS with the maturity of 182, 273 and 364 days considerably increased (the weight of 364-day SS increased the mostly from 0.7% in January to 4.5% in February). Simultaneously, the weight of SS with the maturity of 91 days decreased and constituted 59.4% (chart 3).

As a result of structural modifications, the average weighted term till maturity of issued SS increased from 126 days in January 2002 to 144 days in February 2002.

Under the effect of larger demand for T-bills on the primary market, the nominal yield of SS continued its decreasing trend and diminished, as against in the previous month, by 1.88 percentage point on an average, and constituted 5.98%. Thus, the nominal average yield on SS

Chart 3. Structure of SS commercialized on the primary market during December 2001 – January 2002



decreased by almost 2.9 times compared to February 2001 and reached the lowest level registered till now.

Repurchases of SS placed at auction and due in February constituted MDL 113.3 million. The value of SS in circulation (of those placed at auctions performed on the primary market) amounted at the end of the month to MDL 560.4 million in nominal value.

The nominal value of SS in circulation and recorded in the *Book Entry System* as on 28.02.2002 amounted to MDL 2491.5 million.

Table 2. SS in circulation as according to holders at period-end (%)

	Jan. 2001	Febr.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan. 2002	Febr.
In NBM's portfolio and as collateral	78.7	77.2	78.5	79.2	78.2	77.7	79.9	79.4	75.9	76.4	75.6	82.3	76.6	74.5
In the portfolio of commercial banks	20.1	21.6	20.6	19.7	20.8	21.3	19.5	20.0	22.7	21.4	22.0	15.2	22.1	24.4
In portfolio of banks' clients	1.2	1.2	0.9	1.1	1.0	1.0	0.6	0.6	1.4	2.2	2.4	2.5	1.3	1.1

During the reported period participants on *the SS secondary market* were more active: the total value of selling-purchasing transactions performed with SS increased by MDL 5.2 million as compared to the previous month and decreased by MDL 22.7 million as compared to February 2001 and constituted MDL 26.7 million.

The value of interbank REPO operations considerably increased and amounted to MDL 23.4 million, which is by MDL 17.4 million more as against in the previous month and by MDL 33.8 million less than in February 2001.

In the structure of SS commercialized on the secondary market, as in the previous month, the most liquid SS were the ones with the maturity of 28 to 91 days. Though their weight decreased by 2.5 percentage points, it continues to be important in the total value - 56.7%.

Credits and deposits market

The balance of credits to economy increased by MDL 39.5 million (1.3%) and amounted as on 28.02.2002 to MDL 3114.0 million. This evolution was due, especially, to the growth by MDL

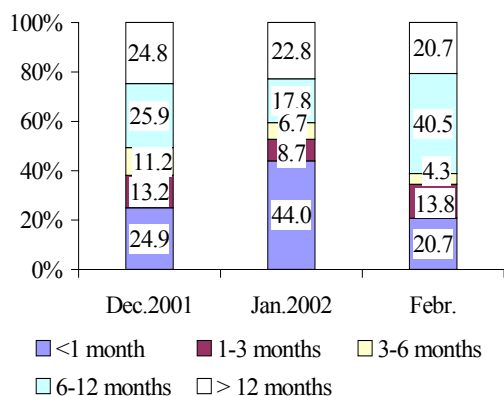
Table 3. Dynamics of credits granted by commercial banks (MDL million)

Period	Balance at the end of period			Granted credits				
	Total	in MDL	in foreign currency	total	in MDL		in foreign currency	
		value	value		value	interest, %	value	interest, %
December 001	3101.3	1838.2	1263.1	524.6	312.7	26.22	211.9	11.91
January 2002	3074.5	1809.3	1265.2	266.7	179.4	26.07	87.3	13.08
February	3114.0	1844.4	1269.6	359.3	236.1	24.51	123.2	12.47

35.1 million (1.9%) of credits in national currency.

The balance of credits in foreign currency increased by MDL 4.4 million (0.3%) as against in the previous month; recalculated in USD, it registered a reduction of USD 0.4 million (0.4%).

Chart 4. Structure of credits in MDL granted by commercial banks to legal persons



The value of credits in MDL in February 2002 increased as against in the previous month by MDL 56.7 million and totaled MDL 236.1 million. This increase was caused by both the increase of the value of credits granted to legal persons by MDL 53.6 million (30.7%) and of credits granted to natural persons by MDL 3.1 million (61.8%).

The share of loans provided to legal persons decreased as against in the previous month by 0.6 percentage point and constituted 96.6% of the total value of credits. Credits for a term of 6 to 12 months were the most preferable; they were granted in a value of MDL 92.4 million at an average interest rate of 23.49%. Their

weight increased as against in the previous month by 22.7 percentage points. At the same time, the weight of credits of up to one month considerably reduced (by 23.3 percentage points) to the level of 20.7% in the total value of credits granted in national currency (chart 4).

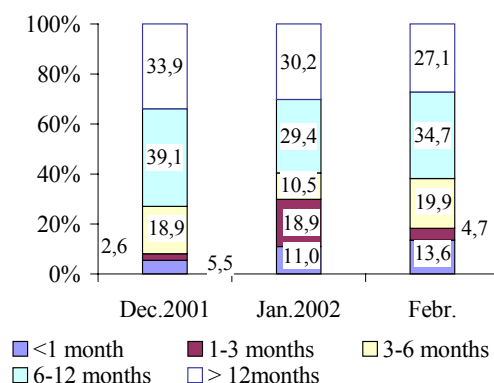
In February, **the average interest rate on credits** granted to legal persons decreased by 1.5 percentage point and constituted 24.36%; the one on loans to natural persons increased by 4.1 percentage points and constituted 28.80%.

The value of credits granted in foreign currency to legal persons amounted to MDL 123.1 million (USD 9.4 million), which is by USD 2.7 million more than in January 2002. The average interest rate on these credits increased by 0.6 percentage point.

The major share in the structure (34.7%) is held by credits provided for a term of 6 to 12 months (at an average rate of 11.91%), their weight grew by 5.3 percentage points. Simultaneously, the weight of credits granted for a term of 1 to 3 months considerably decreased – by 14.2 percentage points (chart 5).

During the reported period, the **balance of deposits** in the banking system increased as against in January 2002 by MDL 95.7 million (by 3.2%) and totaled MDL 3066.0 million. This increase was largely due to the increase of the balance of deposits in foreign currency by MDL 78.3 million (6.0%); yet the balance of deposits attracted in MDL increased with a lower tempo (1.0%) as against in the previous period. The weight of sight deposits in the total value of the balance of deposits constituted 37.8%; this amount increased by MDL 35.5 million as against in the previous month. The balance of time deposits increased by MDL 60.2 million and reached the level of 62.2%.

Chart 5. Structure of credits in foreign currency granted by commercial banks to legal persons



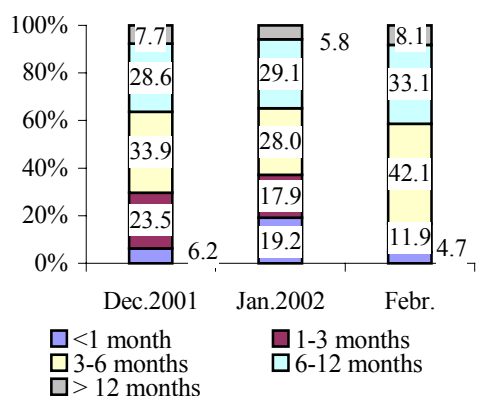
The balance of time deposits in MDL increased by MDL 8.5 million (0.8%) and amounted to MDL 1058.8 million following the increase by MDL 11.2 million (1.3%) of natural persons' deposits, while the balance of legal persons' deposits reduced by MDL 2.7 million (1.5%).

In February 2002 *the value of time deposits attracted in MDL* amounted to MDL 138.2 million (by 19.6% less as against in January 2002). During the reported period time deposits of 3 to 6

Table 4. Dynamics of time deposits with commercial banks (MDL, million)

Period	Balance at the end of the period			Time deposits				
	total	in MDL	in foreign currency	total	in MDL		in foreign currency	
		value	value		value	interest, %	value	interest, %
December 2001	1838.0	1028.4	809.6	332.5	153.5	17.83	179.0	3.12
January 2002	1847.3	1050.3	797.0	315.1	171.9	17.30	143.2	3.84
February	1907.4	1058.8	848.6	263.9	138.2	17.21	125.7	3.16

Chart 6. Structure of time deposits in MDL with commercial banks



months were mostly attracted (42.1% from the total value of deposits in national currency). It has to be mentioned the considerable reduction (by 14.5 p.p.) of the weight of time deposits attracted for a shorter period (up to 1 month) (chart 6).

In February *the average rate of time deposits in MDL* actually kept the level of the previous month and totaled 17.21% (17.42% for legal persons and 17.13% for natural persons as compared to 16.23% and 17.77 % adequately to January 2002).

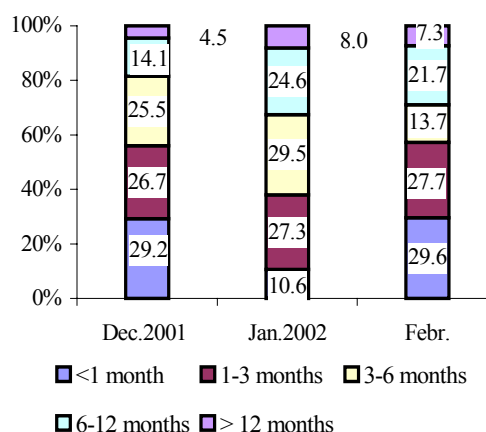
The balance of time deposits in foreign currency

increased by MDL 51.6 million and amounted to MDL 848.6 million. This was due to the increase of the balance of legal persons' deposits by MDL 20.2 million (15.8%). Simultaneously, the balance of natural persons' deposits increased by MDL 31.4 million (4.7%).

During the reported period, *the value of time deposits attracted in foreign currency reduced* by MDL 17.5 million (12.2%). Deposits for a term of up to 1 month held the largest weight; it constituted 29.6% and increased by 19.0 percentage points (chart 7). These deposits were attracted at an average interest rate of 2.06%.

During the reported period, *the average interest rate on deposits in foreign currency* decreased by 0.7 percentage point and constituted 3.16% (including the interest for legal persons decreased

Chart 7. Structure of time deposits in foreign currency with commercial banks



by 1.8 percentage point, for natural persons decreased by 0.1 percentage point and constituted 2.16% and 3.71%, adequately).

Money supply

During February 2002, *money supply* (M3) increased by MDL 89.1 million, and M2 (money supply in lei) - by MDL 10.8 million.

M3 growth was determined by the increase of total deposits by MDL 95.7 million (3.2%). The increase of total deposits value was generated by both the increase of deposits in national currency (by 1.0%) and by the ones in forex (by 6.0%). Expressed in USD, the latter increased by USD 5.1 million. The weight of deposits in forex in the total value of money supply grew from 27.9% in January to 29.0% in February.

The value of cash in circulation reduced by MDL 6.5 million (0.4%).

Changes in M3 structure are shown in the bellow table:

Table 5. Evolution of money supply structure at the end of period

Components of money supply	Dec.2001	Weight %	Jan. 2002	Increase %	Weigt %	Febr. 2002	Increase %	Weight %
Money Supply	4787.3	100	4692.5	-2.0	100	4781.6	1.9	100
Money In Circulation	1834.2	38.3	1721.9	-6.1	36.7	1715.3	-0.4	35.9
Sight Deposits	601.9	12.6	609.7	1.3	13.0	618.5	1.4	12.9
- of legal persons	548.8	11.5	558.6	1.8	11.9	565.4	1.2	11.8
- of natural persons	53.1	1.1	51.2	-3.6	1.1	53.1	3.7	1.1
Time and Long Time Deposits	1028.4	21.5	1050.3	2.1	22.4	1058.8	0.8	22.2
- of legal persons	197.4	4.1	179.0	-9.3	3.8	176.3	-1.5	3.7
- of natural persons	831.0	17.4	871.3	4.8	18.6	882.5	1.3	18.5
Deposits In Foreign Currency	1322.5	27.6	1310.4	-0.9	27.9	1388.6	6.0	29.0
- of legal persons	591.1	12.3	562.8	-4.8	12.0	599.7	6.6	12.5
- of natural persons	731.4	15.3	747.6	2.2	15.9	788.9	5.5	16.5
Money Market Instruments	0.3		0.3			0.3		

Net foreign assets (convertible) held by the banking system decreased by USD 3.2 million and totaled USD 100.2 million. Within them net foreign assets held by NBM decreased by USD 5.5 million and those held by commercial banks increased by USD 2.3 million.

Net domestic assets on the banking system grew by MDL 120.9 million (3.6%).

In February, the Government debt towards the banking system increased by MDL 138.6 million, including the Government debt to the NBM – by MDL 53.6 million. The increase of the Government debt towards NBM was determined by the reduction by MDL 90.5 million of the Government deposit in foreign currency with the view to paying off the state foreign debt and the net use of means from budgetary and extra-budgetary accounts of the Ministry of Finance (MDL 1.2 million). Simultaneously, the net SS selling to commercial banks from NBM portfolio contributed to the reduction of claims to Government - MDL 38.0 million (selling – MDL 95.0 million, repurchasing – MDL 57.0 million).

During the reported period credits previously granted by NBM to the Ministry of Finance were re-concluded in an amount of MDL 467.1 million.

In February, the credit indebtedness of commercial banks towards NBM increased by MDL 0.5 million and constituted MDL 92.2 million. This increase was determined by calculation of interest on credits in an amount of MDL 0.8 million and reimbursement of credits by CLC in an amount of MDL 0.3 million.

The weight of NBM credits granted to commercial banks in the value of NBM internal credit decreased insignificantly (from 5.1% in January to 5.0% in February).

Foreign exchange market

In February 2002, *the official exchange rate* of MDL as against USD increased from 13.0906 MDL for 1 USD, at the beginning of the month, to 13.1965 MDL for 1 USD, at the end of it (chart 8).

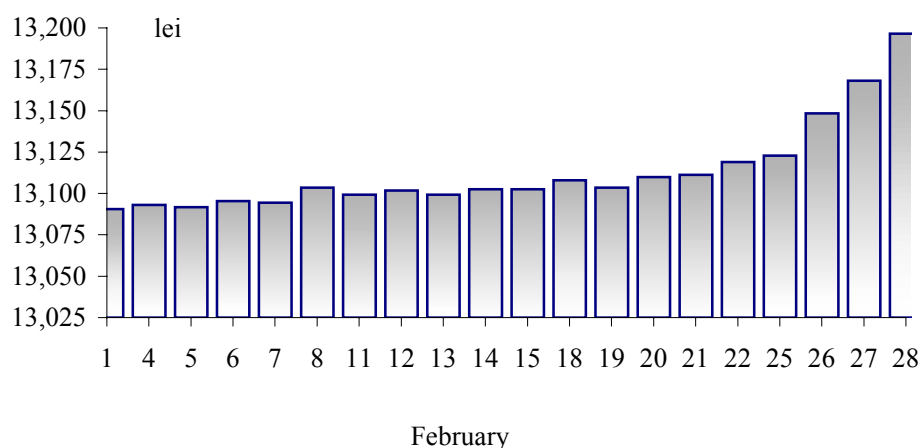
From the beginning of the current year MDL depreciated by 0.8% in nominal terms and appreciated by 0.1% in real terms. As compared to the previous month, in February MDL depreciated by 0.8% in nominal terms, and by 1.2% in real terms.

The average monthly official exchange rate of MDL as against USD appreciated from 13.0927 MDL to 13.1104 for 1 USD (chart 9).

The total value of USD transacted in the reference month by banks on the interbank market totaled USD 32.4 million and decreased as against in January by USD 16.1 million. The net value of operations performed by NBM on the interbank market amounted to USD 1.8 million

(selling – 0, purchasing – USD 1.8 million).

Chart 8. Evolution of exchange rate MDL/USD in February 2002



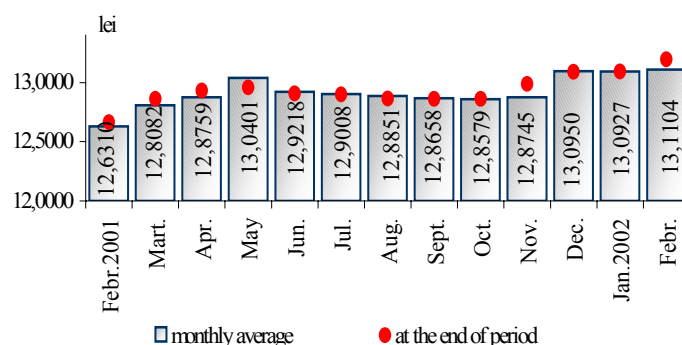
The monthly average official rate of MDL as against RUB reduced from MDL 0.4283 for 1 RUB in January to MDL 0.4250 for 1 RUB in February 2002. At the beginning of the month the official rate of MDL as against RUB was MDL 0.4258 for 1 RUB and at the end of it – MDL 0.4262.

bureaus of commercial banks purchased in February USD 27.6 million, Euro 1.7 million, RUB 12.3 million, ROL 2482.5 million, UAH 1.2 million and sold USD 15.7 million, Euro 2.8 million, RUB 7.2 million, ROL 2484.8 million, UAH 1.4 million.

The stock of direct public and state guaranteed debt as on 28.02.2002 amounted to USD 962.99 million (including IMF credits, table 6).

The stock of foreign debt decreased in nominal value by USD 1.25 million. Following the depreciation of the rate of US dollar as compared to other foreign currencies the stock increased by USD 0.23 million.

Chart 9. Exchange rate MDL/USD



The stock of arrears accumulated during the reported year amounted as on 28.02.2002 to USD 7.59 million.

Table 6. Foreign debt (USD million)

	Balance	February			Balance
	31.01.2002	Entries	Repayment	Rate Difference	28.02.2002
Public Debt	878.85	0.38	1.86	-	877.47
Guaranteed Public Debt	85.29	-	-	0.23	85.52
Total Foreign Debt	964.24	0.38	1.86	0.23	962.99

The stock of non-guaranteed debt (including arrears of interest payment) as on 28.02.2002 constituted USD 294.0 million (the source: DMFAS 5.2).