

**Monetary and foreign exchange policy
of the National Bank of Moldova
for the year of 2008**

**Strategy and Objectives of the Monetary and Foreign Exchange Policy
of the National Bank of Moldova**

Pursuant to the Law on the National Bank of Moldova the fundamental objective of the National Bank of Moldova is achieving and maintaining price stability. Without prejudice to its fundamental objective, the National Bank of Moldova promotes and maintains a financial system based on market principles and supports the general economic policy of the state. At the same time, the National Bank of Moldova in collaboration with the Government of the Republic of Moldova establishes and promotes the monetary and foreign exchange policy as the component part of the single economic policy of the state.

In 2008 the monetary and foreign exchange policy of the National Bank of Moldova will be targeted at achieving its fundamental objective – with the purpose of creating a foundation for macroeconomic stability achievement.

**I. Macroeconomic trends, banking system and
monetary and foreign exchange policy evaluation in 2007**

Macroeconomic indicators

Gross Domestic Product (GDP) estimated for January-September 2007 reached the value of 40346.0 million in current prices, increasing in real terms by 3.3% as compared to 9 months of the previous year. Its evolution was generated by the considerable growth of capital gross formation, while the net export displayed a negative contribution. The final consumption advanced, as well, but at a more reduced pace versus the same period of 2006, and, during Quarter III, it even recorded a negative growth rate. **By categories of resources** GDP growth was mainly determined by the increase of the gross added value within services by 10.3% (including constructions – by 27.1%, trade – by 11.9%, transportation services – by 7.8%). It is worth mentioning that the lasting drought, which has affected the Republic of Moldova this year, eroded the economic growth by reducing the gross added value both within the agriculture and the processing industry. Thus, the gross added value reduced within the agricultural sector by 32.3%, while the industrial sector registered a slight increase of 0.2%. Net product and import taxes recorded an increase by 20.9%, which is 2.2 times higher the value recorded during the similar period of 2006. Within the GDP structure by resources categories, services kept the highest weight in GDP formation (61.6%, versus 57.3% in January–September 2006), followed by net product and import taxes with the weight of 15.8% (versus 15.0%), industry – by 14.5% (versus 14.6%), agriculture – by 11.0% (versus 15.4%) and Financial Intermediate Services Indirectly Measured (FISIM) – by minus 2.9%. **From the point of view of GDP use**, the domestic aggregate demand growth was generated by the increase of the gross capital formation by 26.8% (including gross fixed capital formation – by 28.9%) and the increase of the final consumption by 3.3% (including that of households – by 3.3%). At the same time, the net export enlarged by 19.6% and contributed by minus 8.2 percentage points to the real increase of the gross domestic product.

In January-September 2007 **the volume of agricultural production** equalled to 9010.0 million lei, decreasing by 20.9% in real terms as compared to the similar period of 2006.

The **industrial production volume** in January –November 2007 constituted 17616.4 million lei, by 1.9% less in real terms versus the respective period of 2006.

In January – September 2007 **the fixed capital investments** amounted to 7527.4 million lei, increasing by 28.7% in real terms as against the corresponding period of 2006.

The monthly average salary per one employee of the national economy for the period of January-November 2007 constituted 1993.5 lei, recording an increase of 21.8% as compared to the first ten months of 2006. Simultaneously, the labour productivity in January-September of 2007 went up by only 9.0% versus the similar period of the previous year.

Retail trade carried out by commercial units in the period of January-November 2007 totalled 15064.3 million lei, and registered a real increase by 9.9% as compared to the corresponding period of 2007.

The volume of **paid services rendered to the population through the officially registered units** in January – November 2007 constituted 8645.3 million lei, increasing in real terms by 4.6% versus the similar period of the previous year.

During the period of January-November 2007 the **cumulative inflation** constituted 12.1%, including prices for foodstuff products augmented by 13.8%, for non-foodstuff products – by 10.7% and for services rendered to the population by 12.8%. At the same time, the industrial producers prices in January-November 2007 stepped up by 27.6%, including in mining and quarrying industry – by 15.4%, processing industry – by 10.2%, while prices for energy, heating, gas and water supply advanced 2.1 times.

The inflation level in November 2007 versus November 2006 constituted 13.5%, including for foodstuff products – 16.2%, for non-foodstuff products – 11.6% and for services rendered to the population – 12.9%.

The main reasons for inflation growth during the current year were, as follows:

1) monetary factor – broad money M2 and money supply M3 advanced from the beginning of 2007 by 34.4 and by 31.1%, respectively, reserve money – by 41.3%, currency in circulation – by 17.9%, the balance of credits soared by 44.2%.

2) non-monetary factors:

a) prices increase for foodstuff products (especially for bakery products, meat, dairy products, fruit and vegetables) as a result of the unfavourable climate conditions of this year, both from the Republic of Moldova and the region;

b) the inflation registered on products and services with regulated prices, including for energy supply (31.1%), water and sewerage services (34.4%), natural gas (10.6%), healthcare services (10.5%);

c) the increase of prices on petroleum resources in the world market by about 60.0%.

During the period of January-October 2007 in the **state budget** there were accumulated incomes in an amount of 11160.2 million lei, which represents 102.1% versus the corresponding provisions (10929.6 million lei). State expenditures equalled to 10900.0 million lei and accounted for 91.5% versus budget provisions for the ten months of 2007. It is to be mentioned that incomes increased, as compared to the similar period of the previous year, by 28.4%, while expenses – by 37.4%.

At the end of November 2007 **the state domestic debt** equalled to 3780.2 million lei. The state external debt managed by the Government accounted as of October 31, 2007 for USD 763.4 million.

In Semester I, 2007 **the current account of the balance of payments** recorded a deficit in an amount of USD 372.1 million, 2.1 times higher as compared to Semester I, 2006. The deficit of

external trade with goods and services went up versus the similar period of the previous year by 45.3%, and totalled USD 965.1 million. The volume of external trade with goods and services advanced during Semester I, 2007 as compared to the similar period of 2006 by 35.5%: imports increased by 37.9%, up to the level of USD 1858.5 million; exports – by 30.8%, up to USD 893.4 million.

The deficit of the *trade with goods* enlarged by 47.1% versus the corresponding period of 2006, up to USD 986.50 million. *Export of goods* (FOB prices) equalled to USD 601.40 million, increasing as compared to the similar period of the previous year by USD 137.94 million or by 29.8%. *Import of goods* totalled USD 1587.90 million, going up versus Semester I, 2006, by USD 454.02 million or by 40.0%. Import of energy products constituted USD 286.78 million (FOB prices), by 17.5% higher as compared to the same period of the previous year, and this growth was mainly determined by prices increases.

Balance of services was closed with an excess of USD 21.40 million.

Balance of incomes registered a positive value in an amount of USD 153.07 million (increasing by 3.2%). Investment incomes were closed with a deficit in an amount of USD 103.51 million. Incomes of residents working abroad were estimated at USD 284 million.

Balance of current transfers registered a positive value in an amount of USD 439.22 million (increasing by 30.7%). The technical assistance and grants extended by international organizations and foreign government agencies were estimated at USD 71.81 million, the transfers of employees working abroad amounted to USD 348.65 million.

Capital and financial account was closed with an excess in an amount of USD 247.14 million.

In-flows of *direct foreign investments into the national economy* were evaluated during Semester I, 2007 at USD 200.46 million, of which: share capital – USD 82.21 million and loans from parent-company (other capital) – USD 70.80 million. Investments withdrawals including loans reimbursements (other capital) were estimated at USD 21.93 million.

External debt of the Republic of Moldova equalled as of June 30, 2007 to USD 2773.72 million: USD 881.81 million – for public and publicly guaranteed debt, USD 1891.91 – for private non-guaranteed debt.

Dynamics of monetary aggregates

During the period of January-November 2007 reserve money enlarged by 41.3% or by 2687.2 million lei, and accounted for 9199.5 million lei. The growth of reserve money resulted in the increase of currency in circulation by 919.5 million lei and of banks' reserves by 1767.8 million lei. The main source for the reserve money increase was the issuance carried out following foreign currency acquisitions by the National Bank of Moldova. The increase of currency in circulation was determined by the increase in wages, pensions and other payments, while the growth of banks' reserves was based on the required reserves increase as a result of the enlargement of deposits in national currency (1010.0 million lei) and on the increase of currency within banks' vaults as a result of the enlargement of cash operations and of ATMs network.

During the period of January-November 2007 broad money M2 (currency in circulation + deposits in MDL) went up by 34.4% as compared to the end of 2006 and constituted 16781.1 million lei. Within the structure of broad money M2 the balance of deposits in national currency equalled to 10696.0 million lei (increasing by 46.0%), while the balance of currency in circulation advanced by 919.5 million lei (by 17.9%).

Money supply M3 (M2 + deposits in foreign currency) registered an increase by 31.1% during the reporting period and totalled 25639.1 million lei, including deposits in foreign currency by 1785.2 million lei.

The balance of deposits at the end of November constituted 19554.0 million lei, increasing by 41.9% versus the same period of 2006, including deposits in national currency advanced by 51.9%, while deposits in foreign currency (expressed in MDL) augmented by 31.5%. During this period, the average weighted interest rate on term deposits in national currency constituted 15.05%, while that on term deposits in foreign currency constituted 5.95%, increasing by 3.32 and 0.83 percentage points, respectively.

The dynamics of deposits certifies an increasing credibility in the national currency as compared to those in foreign currency.

During the period of January-November 2007 the balance of credits to economy recorded an increase of 6083.1 million lei as compared to December 31, 2006, and accounted for 19851.0 million lei (or by 44.2% – a higher increase versus that of 31.6% recorded during the corresponding period of 2006), including credits in national currency soared by 2911.2 million lei (by 34.2%) and credits in foreign currency climbed by 3172.0 million lei (by 60.3%).

Banking system

As of 30.09.2007, on the territory of the Republic of Moldova there were 15 joint stock commercial banks, including 3 subsidiaries of foreign banks. The total number of banks constituted 1017, of which 249 branches and 768 representative offices.

The total number of staff employed within the banking system accounted as of 30.09.2007 for 9509 or by 489 persons more versus the beginning of the year. The average value of assets per each employee of the banking sector reached the level of 3.2 million lei increasing by 0.7 million lei versus 31.12.2006.

During the period 31.12.2006 – 30.09.2007 the banking system of the Republic of Moldova recorded a positive dynamics. Tier I Capital went up by 665.6 million lei (17.5%) and reached the value of 4464.7 million lei. The capital increase had a positive impact on banks' stability and their ability to absorb the risks related to financial operations.

The share of foreign investments in banks' capital accounted as of 30.09.2007 for 65.2%, by 2.5 percentage points more as compared to the beginning of the year.

The average value of the risk-weighted capital adequacy within the system kept its higher level and amounted to 26.7% (the minimum necessary level is 12.0%).

During the first 9 months of 2007 total assets of the banking system went up to 30043.1 million lei or by 7294.4 million lei (32.1%).

The weight of unfavourable credits (substandard, doubtful and compromised) in total credits reduced by 0.3 percentage point versus the beginning of the year and accounted for 4.1% as of 30.09.2007. The weight of provisions for credit losses in total credits diminished by 0.5 percentage point and constituted 4.7%.

During the first 9 months of 2007 no essential changes within the credit portfolio structure, according to the destination of investment operations, were recorded. Credits extended to industry and trade held as of 30.09.2007 the highest weight of total credit portfolio – 46.8%, followed by credits extended to agriculture and food industry – 15.4%, consumer credits – 14.0% and credits extended for real estate, construction and development – 12.3%.

The liquidity indicators reflect the banks' capacity to honour both current liabilities and long-term liabilities. Thus, long-term liquidity (assets with the reimbursement term over 2 years /financial resources with the potential withdrawal term exceeding 2 years ≤ 1), liquidity principle I, amounted as of 30.09.2007 to 0.7. Current liquidity (liquid assets expressed in currency, deposits with NBM, state movable assets, net interbank credits with terms of up to 1 month /total assets $\geq 20.0\%$), liquidity principle II, amounted as of 30.09.2007 to 33.8%.

Commercial banks' liabilities increased by 6610.5 million lei (35.1%) versus the beginning of the year and ran as of 30.09.2007 into 25429.7 million lei. The increase of liabilities was mainly caused by the deposits' growth.

The increment of the income deriving base was revealed through the essential weight of interest-bearing assets and valued 85.9% of total assets or 25807.9 million lei. This fact allowed banks to register in the first 9 months of 2007 net incomes in an amount of 818.9 million lei, which is by 335.7 million lei (69.5%) more as compared to the same period of the previous year.

The return on assets (net annualized income /assets average) and the return on equity (net annualized income /equity average) recorded as of 30.09.2007 the values of 4.1% and 25.3%, accordingly. Both indicators rose, versus the end of 2006, by 0.7 percentage point and by 4.8 percentage points, respectively.

The interest net margin (net annualized interest-related income /interest-bearing assets average) displayed as of 30.09.2007 the value of 6.9%, and recorded an insignificant increase versus the end of 2006 by 0.1 percentage point.

Foreign exchange market

The evolution of the main indicators of the domestic foreign exchange market during the first 11 months of 2007 was especially influenced by: (I) the increase of the volume of foreign currency liquidity in the domestic foreign exchange market; (II) depreciation of exchange rate of USD against EUR and other currencies in the international foreign exchange markets.

During the period of January-November 2007 the official nominal exchange rate of the national currency against USD appreciated by 12.7% (from MDL 12.9050 per USD 1 as of December 31, 2006 to MDL 11.2612 per USD 1 as of November 30, 2007), and against EUR it appreciated by 2.3% (from MDL 16.9740 per EUR 1 to MDL 16.5906 per EUR 1).

During the period of January-November 2007, USD depreciated in the international foreign exchange market against: EUR – by 12.0%, GBP – by 5.2% (indirect quotation), JPY – by 7.4%, CHF – by 8.4% and CAD – by 14.6%. Taking into consideration the figures above, it can be concluded that USD depreciation is a world phenomenon, not peculiar to just one region or only to the Republic of Moldova.

During the first 11 months of 2007 the net offered volume of foreign currency from individuals constituted USD 1.53 billion, enlarging by 40.7% versus the same period of 2006. The net flow of direct, portfolio investments and credits contracted from affiliated persons ran into USD 184.3 million, increasing 15.6 times versus the first 9 months of 2006 (USD 11.8 million). Net flow of external private credits, grants and technical assistance constituted – USD 159.0 million, increasing 2.3 times versus the first 9 months of 2006 (USD 69.0 million). This foreign currency excess contributed to the exchange rate appreciation of the national currency against USD and conditioned the interventions of the National Bank of Moldova in the domestic foreign exchange market with the purpose of mitigating the excess fluctuations of the exchange rate.

In January-November 2007 NBM conducted interventions in the domestic foreign exchange market purchasing foreign currency in an equivalent of USD 319.2 million with a view to complementing foreign exchange reserves and to mitigating the excess fluctuations of the nominal exchange rate of the national currency against USD.

The effective real exchange rate of the national currency (calculated versus December 2000, taking into consideration the inflation level in the commercial partner-countries and monthly average exchange rate change) amounted in November 2007 to 102.7%, and recorded an appreciation by 10.5 percentage points as compared to December 2006 (92.2%).

During the period of January-November 2007 the weights of foreign currencies in the turnover of operations in the domestic foreign exchange market constituted: USD – 62.1%, EUR –

34.2%, RUB – 2.8% and other non-convertible currencies – 0.9%. Compared to January- November 2006 the weight of turnover in USD dipped by 4.3 percentage points, while the weight of turnover in EUR advanced by 4.4 percentage points.

In January-November 2007 the foreign exchange reserves enlarged by USD 515.6 million, from USD 775.3 million at the end of 2006 to USD 1290.9 million at the end of November 2007, which covers 3.8 import months.

Rates policy

With a view of achieving its fundamental objective – ensuring and maintaining price stability, the National Bank of Moldova promoted during the year of 2007 a prudent rates policy adequate to the economic situation, reacting effectively to the changes of macroeconomic indicators.

The rates policy promoted by the National Bank is based on the following:

1. influencing, through the basic rate level, the liquidity level of the banking sector and, respectively, the volume of reserve money, directly, and the volume of broad money M2 and money supply M3, indirectly.
2. Basic rate of the National Bank of Moldova is maintained at a real positive level.
3. Rates on the main monetary policy operations of the National Bank of Moldova are related to the basic rate.

Taking into account the inflation dynamics in the first quarter of 2007 (the inflation for 12 months fell from 14.0% in December 2006 to 10.9% in March 2007), in April 2007 the National Bank of Moldova diminished the basic rate and the overnight credits rate by 1.0 percentage point, each.

The further dynamics of macroeconomic indicators, including of the inflation indicators (inflation for 12 months went up to 13.6% in August 2007, pushing up, at the same time, the inflationary pressures), jeopardized the achievement of the fundamental objective and called for the tightening of the monetary policy promoted by the National Bank of Moldova, which was revealed through the basic rate increase in September by 2.5 percentage points up to the level of 16.0% per year. The main purpose of this decision stood in mitigating the inflationary pressures, redirecting financial resources from consumption to savings and slowing down the credit growth rates.

As a result of operating these increases on interest rates on monetary policy instruments at the end of 2007, the rates corridor ranged between 2.0% per year on overnight deposits and 18.0% per year on overnight credits.

Basic rate on long-term credits (over 5 years) for servicing long-term credits extended to banks according to certain decisions of the Parliament and the Government of the Republic of Moldova was maintained, during the period of January – December, at the level of 10.5% per year.

Monetary policy instruments

The promotion of the monetary policy with the purpose of achieving the fundamental objective imposed on the National Bank of Moldova the use of temporary sterilization instruments for liquidity excess. In 2007 the main monetary policy instruments were: the issuance of the Certificates of the National Bank of Moldova (NBC) and deposits attraction from banks. In order to improve the operations of liquidity excess sterilization, the National Bank renounced, starting with April 2007, the deposits attraction from banks. At the same time, the process of the National Bank Certificates issuance as the monetary policy instrument was improved through the issuance of NBC with the maturity of 7, 14 and 28 days and the announcement of the minimum price and not the offered volume.

The daily average balance of sterilization operations for the period of January - November 2007 constituted 1562.1 million lei, as compared to 970.8 million lei in 2006, which speaks of a prudent and temperate monetary policy targeted to maximal sterilization of the liquidity excess from the banking system.

During the year of 2007, NBM established the maximum rate on sterilization operations depending upon the basic rate modification.

The monthly average interest rate on sterilization operations denoted an even evolution during the first eleven months of 2007, fluctuating between the minimum value of 13.23% and the maximum value of 15.84% recorded in June and in November, accordingly, and the average value for eleven months constituted 14.18% per year.

Sales of NBM Certificates

During the first eleven months of 2007 the National Bank of Moldova carried out 127 auctions of placement of Certificates of the National Bank of Moldova. Participants' demand equalled to 27481.6 million lei. The volume of sold NBC totalled 27094.0 million lei at purchase price, while the daily average balance amounted to 1348.3 million lei. The interest rate on issued NBC fluctuated between the minimum value of 12.79% per year, recorded in January, to the maximum value of 15.90% per year, recorded in October and November. The average rate set up for the period of January - November 2007 constituted 14.17% per year.

Acceptance of deposits

During the period of January–March 2007, twelve deposits auctions were carried out. The volume of accepted deposits constituted 986.0 million lei, the daily average balance amounted to 492.2 million lei, the average weighted interest rate ranged between 14.2 – 14.5%, the average weighted term accounted for 69 days.

Standing facilities

The standing facilities (overnight deposits and credits) regime set out by the National Bank of Moldova in the course of 2007 allowed banks to efficiently manage their own liquidities and offered the National Bank more flexibility in monetary policy achievement.

In 2007 banks placed overnight deposits in an amount of 10303.6 million lei, the daily average balance reached the value of 52.8 million lei.

Under the conditions of excess liquidity, overnight credit facility was not frequently used by banks. Several banks resorted to overnight credits only in April and, partially, in May and October, in the total amount of 432.0 million lei.

Required reserves

Due to the inflation rate speeding up and to the increase of inflationary pressures and of significant pressures on the exchange rate, required reserves, which represent a possibility of excess liquidity freezing and of mitigating credit growth rates, were one of the monetary policy instruments used by NBM.

Thus, the NBM Council of administration approved in September the gradual increase of required reserves ratio in free convertible currency by 5.0 percentage points, at the level of 15.0% of the calculation base.

At the same time, the National Bank of Moldova enlarged in October the required reserves ratio in MDL by 5.0 percentage points, up to the level of 15.0% of the calculation base in MDL and non-convertible currencies.

The amount of required reserves in MDL accounted as of November 30, 2007 for 1946.1 million lei, increasing by 1010.0 million lei or 2.1 times, as compared to the end of 2006, while required reserves in USD and EUR totalled USD 69.0 million and EUR 67.3 million, enlarging as compared to the end of the previous year by USD 38.9 million and EUR 43.4 million, accordingly.

The growth of required reserves in MDL and in foreign currency was determined by both the increase of attracted means and the increase of the required reserves ratio up to 15.0%.

Direct credits extended to banks. The crediting activity carried out by the National Bank of Moldova during the first eleven months of 2007 was based on the supervision of credits extended to commercial banks in 1992-2002 pursuant to the decisions of the Parliament and of the Government of the Republic of Moldova for housing construction co-operatives crediting.

The balance of credits extended to banks amounted as of 30.11.2007 to 34.5 million lei, going down, as compared to as of 31.12.2006 by 6.2 million lei (15.2%), as a result of the reimbursement of credits by members of the housing construction co-operatives.

It is to be mentioned that advance reimbursements equalled during the year of 2007 to 5.7 million lei, or approx. 92.0% of the amount of credits paid during the analyzed period.

Relations of the National Bank of Moldova with the Government of the Republic of Moldova

Within the state debt structure, the debt to NBM represents the highest share, which accounted as at the end of November for 2373.4 million lei, including the debt on loans in an amount of 1973.4 million lei and the debt represented by state securities within the portfolio of the National Bank in an amount of 400.0 million lei.

The state debt to NBM decreased as of 30.11.2007 versus as of 31.12.2006 by 118.8 million lei following the reimbursement of the Government of the Republic of Moldova of the amount stipulated for payment in the State Budget Law for 2007.

Government's deposits placed with the National Bank. In 2007 the Ministry of Finance placed with the National Bank of Moldova term deposits based on the bilateral Agreement signed by parties on December 12, 2006. The amount of deposits placed during the first eleven months equalled to 876.0 million lei, the average rate accounted for 11.74% per year. The balances of means of the state social insurance budget, of the healthcare insurance funds and of the budgets of administrative-territorial units will be transferred by the end of 2007 to the bank accounts of the Ministry of Finance (Central Treasury) with the National Bank of Moldova.

State Securities Market

During 2007 the National Bank of Moldova accomplished in full and adequately the provisions of the Law acting as the state banker and fiscal agent.

The quantitative parameters of the primary market of state securities recorded an increase for the first eleven months of 2007 as compared to the same period of the previous year. The state securities demand for the analyzed period constituted 4251.2 million lei, while the offered volume of the Ministry of Finance ran into 2569.0 million lei.

The volume of adjudged state securities enlarged by 264.9 million lei (11.7%) versus the first eleven month of 2006 and amounted to 2526.2 million lei at nominal value.

The average interest rate on state securities with the maturity of up to 1 year, adjudged during the reporting period, recorded an almost double value as compared to the similar period of 2006, and totalled 12.77% per year.

Implementation conditions for the Inflation Targeting Strategy

The modification of the fundamental objective of the National Bank of Moldova from “achievement and maintenance of the national currency stability” into “achievement and maintenance of price stability” conditioned the modification of the promoted monetary policy. In order to realize a strategic and adequate transition to the inflation targeting regime, the National Bank of Moldova approved the Action Plan on the implementation of inflation targeting strategy, which mainly provides for the optimization of monetary policy operations of the National Bank of Moldova, for the creation of an adequate database, as well as of the analysis, modelling and forecasting framework, for the elaboration of the policy of public information activity and for the undertaking of the necessary measures for increasing the credibility level of the civil society towards the monetary policy promoted by the National Bank of Moldova.

II. Monetary and foreign exchange policy for 2008

The monetary and foreign exchange policy, which includes the main activity directions for 2008 is worked out pursuant to the Law on the National Bank of Moldova and has the purpose of achieving the fundamental objective – ensuring and maintaining the price stability.

In 2008 the monetary and foreign exchange policy of the National Bank of Moldova will be focused on ensuring and maintaining the inflation rate within the limit of up to 10.0%. Without prejudice to its fundamental objective, the National Bank of Moldova will promote and sustain a financial system based on market principles and will support the general economy policy of the state.

The main instruments for the monetary and foreign exchange policy promotion in 2008 will be the NBM basic rate and required reserves ratio. The monetary aggregates will serve as intermediary objectives.

In 2008 the National Bank of Moldova will promote the monetary and foreign currency policy based on the following principles:

- basic rate of the National Bank of Moldova will be maintained at a real positive level;
- setting up of the required reserves ratio depending on the inflation level, inflationary pressures, the economic situation and the domestic monetary market conditions;
- optimization of the monetary policy instruments with the purpose of rendering the open market operations more efficacious;
- maintenance of a floating exchange rate;
- mitigation of inflationary pressures, including by making public the adopted decisions and the obtained results.

The National Bank of Moldova will promote the monetary and foreign exchange policy in 2008 based on the following assumptions and expectations:

1. Gross Domestic Product will increase by 6.0% in real terms;
2. The growth rates of the monetary aggregates will register a lower level as compared to 2007.
3. The in-flows of foreign currency to the country will maintain their growth rate.
4. The balance of trade with goods and services will improve on the account of the accelerated growth rates of exports.
5. The gradual reduction of inflationary pressures.

In 2008 the National Bank of Moldova will continue the achievement of the Action Plan regarding the implementation of the inflation targeting strategy. The Action Plan regarding the implementation of the inflation targeting strategy provides, mainly, for the optimization of monetary policy operations of the National Bank, the creation of an adequate database, as well as of the analysis, modelling and forecasting framework, for the elaboration of the policy of public information activity and for the undertaking of the necessary measures for increasing the credibility level of the civil society towards the monetary policy promoted by the National Bank of Moldova.

Monetary aggregates

The National Bank of Moldova will continue in 2008 the periodical calculation, tracing and analysis of the monetary aggregates. This analysis will serve as basis for monetary policy decisions. At the same time, the volume and the dynamics of monetary aggregates, as well as of their components will be treated deriving from the evolution of the inflation rate and of the inflationary pressures.

Monetary Policy Instruments

Rates on the NBM monetary instruments

The National Bank of Moldova will continue to promote the rates policy by using the corridor method, applying the highest rate to overnight credits, and the lowest rate to overnight deposits.

The basic rate will be assigned an important role by the National Bank of Moldova and will be used within the main monetary policy operations and will be set out at a real positive level.

The basic rate will be approved by the NBM Council of administration as the reference rate and will serve as the maximum rate on liquidity sterilization operations and, as the minimum rate on banks' refinancing operations, accordingly.

In 2008 the National Bank of Moldova will strive for rates corridor shrinking.

The National Bank of Moldova will continue in 2008 to determine interest rates on long-term credits, which will be used for servicing previously extended credits for housing construction co-operatives, according to certain decisions of the Parliament and the Government.

Open market operations. The National Bank of Moldova has a large range of instruments that can be used in the open market operations both for excess liquidity sterilization (issuance of the Certificates of the National Bank of Moldova, acceptance of deposits, REPO-selling operations, outright sales of state securities from the portfolio of the National Bank of Moldova), and for banks re-financing operations (REPO-buying operations).

The open market operations will be carried out upon the initiative of the National Bank of Moldova as the main instrument of adjusting liquidities within the banking system.

The National Bank of Moldova will select the monetary policy instruments depending on the evolution of the inflation rate, inflationary expectations and money market conditions.

The National Bank intends to develop the environment where the long-term interests are market dependant. In this context, the open market operations performed upon the initiative of the National Bank will be mainly focussed on short term, gradually adopting a single maturity.

The National Bank of Moldova will carry out the main operations on a weekly basis within auctions according to the established schedule.

Standing facilities. The banks will permanently have at their disposal the facilities of overnight credits and overnight deposits. These facilities will enable them to obtain overnight credits and to place overnight deposits with NBM at a pre-established interest rate. The interest rates on these two facilities will set the limits of the NBM rates corridor.

Required reserves. In 2008 NBM will continue to use the instrument of required reserves while promoting its monetary policy, assigning to it the function of control over the liquidity within the banking system.

The required reserves ratio will be determined depending on the evolution of the macroeconomic indicators and the conditions of the domestic money market.

In 2008 NBM will increase the time span between the tracing period of attracted means and the maintenance period of required reserves, avoiding their overlap.

NBM Relations with the Government

During Quarter I 2008, the National Bank of Moldova and the Ministry of Finance will convert the loans contracted previously from NBM in an amount of 1813.4 million lei into state securities. In 2008 NBM will continue to accept, within the scheduled limits, state securities re-issuances at market rate, transferred to NBM by the Ministry of Finance, as a result of the conversion of loans contracted during previous years.

According to the provisions of the Strategy of the Government and of the National Bank of Moldova regarding the development of the financial sector of the Republic of Moldova in 2005-2010, NBM will cooperate with the Ministry of Finance with a view of the gradual decrease of the value of the domestic state debt to the National Bank.

Taking into account that, by the end of 2007, the values of means of the state social insurance budget, of the healthcare insurance funds and of the budgets of administrative-territorial units will be transferred to the Single Treasury Account of the Ministry of Finance (Central Treasury) opened with the National Bank of Moldova, the volume of term deposits attracted from means of the state agencies with the National Bank will enlarge in 2008. The conditions of deposits placement (interest rate and term) will be established taking into consideration the provisions of the bilateral Agreement signed by the Ministry of Finance and the National Bank.

Foreign exchange policy

The National Bank of Moldova will continue in 2008 to maintain a floating exchange rate regime and will establish the official exchange rate of MDL against USD based on the exchange rates prevailing in the domestic foreign exchange market.

In this context, the National Bank of Moldova reserves the right to carry out foreign exchange interventions with the purpose of mitigating the excess fluctuations of the official exchange rate and of making up the international foreign exchange reserves. NBM will use foreign exchange market instruments, such as the direct interventions in the domestic foreign exchange market, including forward transactions, as well as swap operations.

Within the framework of the Foreign Exchange Policy implementation for 2008, the National Bank will seek to maintain the international foreign exchange reserves at an acceptable level for covering three months of import or so and will continue to promote a prudent foreign exchange policy, consistent with the fundamental objective of ensuring and maintaining price stability, as well as will carry out the placement of international reserves of the state in investment instruments, which comply with the safety and liquidity criteria.

Banking supervision

With a view of sustaining the stable financial situation of the banking system, based on the market forces action and the efficient application of the banks' internal procedures of risks evaluation and management, the National Bank of Moldova will continue to contribute to the

improvement of the banks' internal control systems, based on the increase of the transparency level of banking transactions. A special attention shall be drawn to:

- a) the promotion of efficient procedures of assets evaluation, including assets other than credits, and evaluation of banks' conditional commitments;
- b) the promotion of a high degree of transparency of owners and bank exposures;
- c) banks' activities of acceptance and identification of clients and beneficiaries thereof, as well as of continuous monitoring of accounts and transactions.