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PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of the Council of Administration of the NBM of December 27, 2012, the current macroeconomic situation of the Republic of Moldova and the external economic environment have been assessed, estimating the trends of the medium term macroeconomic indicators. In addition, the medium and short-term inflation outlook has been quantified, as well as some possible risks and uncertainties that may arise in the next period. As a result, the Council of Administration of the NBM adopted the following decision:

1. **to maintain the base rate applied on main short-term monetary policy operations at the current level of 4.5 percent annually;**
2. **to maintain the interest rates:**
   - **on overnight loans at the current level of 7.5 percent annually;**
   - **on overnight at the current level of 1.5 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;**
4. **the next meeting of the Council of Administration on monetary policy will take place on January 31, 2013, according to the approved schedule.**

Over the past ten months, the annual inflation rate was placed around the target of 5.0 percent and within the range of variation of ± 1.5 percentage points established by the National Bank. In 2012, the inflationary process was influenced by the adaptive character of the NBM monetary policy and the dynamics of the exchange rate of the national currency, as well as by the evolution of oil and food prices on international markets. The inflationary pressures were mitigated by the slowdown in domestic economic activity and by the weak external demand.

The annual inflation rate for November 2012 reached the level of 3.7 percent or by 0.2 percentage points less as compared to the previous month, reinforcing the downward trend for the second consecutive month, after the upward trend started in July 2012. The slowdown in the pace of inflation was due to the favorable effect of the base period, marked by the decrease of pressures from regulated prices, and due to the mitigation of the impact from food prices. The annual rate of core inflation[1] remained at the level of 3.6 percent for the third consecutive month, as a result of reduced internal and external demand.

[1] Core inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data established and published from January 2012 are calculated by the NBS according to the modification of Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of January 19, 2012(the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices).

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According to the preliminary data published by the National Bureau of Statistics on GDP for the third quarter of 2012 and the data related to the domestic and foreign trade, as well as related to industrial production for October 2012, show a decrease in the economic activity in the reporting period. The annual growth rate of GDP turned negative after pronounced negative developments in the agricultural sector, caused by drought, but also because of a less favorable external environment marked by contracting European economy, thus recording disinflationary pressures from aggregate demand. The economic activity fell by 1.7 percent in the third quarter of 2012 as compared to the same period of the previous year. At the same time, due to positive developments in the first half of the year, the decline in GDP in January-September was less pronounced (0.2 percent). From the perspective of household disposable income, the average real wage in the economy in October 2012 increased by 6.0 percent and remittances to individuals increased by 22.9 percent compared to the same month of the previous year.

In November 2012, the volume of new granted loans was MDL 1920.1 million, decreasing by 15.2 percent as compared to the same period last year. The downward annual dynamics was determined by the unfavorable evolution of credits both in national currency and in foreign currency. Thus, the credits in national currency have decreased by 10.9 percent and those in foreign currency by 21.4 percent.

The new attracted deposits constituted MDL 3083.8 million in November 2012, decreasing by 7.2 percent compared to November 2011. This evolution is mainly determined by the reduction in the deposits in national currency by 12.3 percent, partially offset by the increase of the deposits in foreign currency by 1.2 percent.

As on November 30, 2012, the balance of credits and deposits in national currency showed a robust annual growth of 19.8 percent and 24.2 percent, respectively.

The average interest rates applied by banks to national currency operations in November 2012 recorded a stabilization tendency, so the average rate on new loans recorded the level of 12.68 percent, decreasing by 0.32 percentage points as compared to October 2012. At the same time, the average rates on new attracted deposits constituted 7.96 percent, by 0.24 percentage points more as compared to the previous month.

The monetary policy character continues to be affected by the complexity of the inflationary and disinflationary associated risks balance. The main risks to inflation continue to occur from the outside, from the risk of a deepening global economic recession, caused by a delay in finding a sustainable resolution of the sovereign debt crisis in the euro area. This fact could also affect the development of the national economy and could lead to a decrease in domestic consumption through the channel of capital flows and foreign trade. Inflationary pressures could be exacerbated by increasing international

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prices for food and oil, amid market tensions, as a result of unfavorable agricultural and meteorological conditions and the manifestation of the tense situation in the Middle East.

Assessing the short and medium term prospects of inflation, within the meeting of December 27, 2012, the Council of Administration of the National Bank of Moldova decided, by unanimous vote, to keep the monetary policy rate at the current level of 4.5 percent annually and the ratio of required reserves in MDL and foreign currency at the current level of 14.0 percent of the base.

This decision aims to ensure appropriate monetary conditions to stimulate the lending process and boost up domestic demand and to anchor inflationary expectations in terms of strengthening the prospects of keeping inflation within the range of variation of ± 1.5 percentage points against a target of 5.0 percent in the following eight quarters.

In order to support proper functioning of the interbank money market, the NBM will continue to manage firmly the excess liquidity through sterilization operations.

At the same time, the NBM will continue to offer banks liquidity, according to the announced schedule for the years 2012-2013, through REPO operations within 28 days, at fixed rate, equal to the base rate of the NBM plus a margin of 0.25 percentage points.

The NBM reiterates that it will maintain the adaptive monetary policy character in the context of a low inflation, monitoring and anticipating further the developments of domestic and international economic environment, so that by the flexibility of the operational framework specific for the inflation targeting strategy to achieve and maintain price stability over the medium term.

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