



**PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA**

Council of Administration of the NBM within the meeting of April 25, 2013, adopted, by a unanimous vote, the following decision:

- 1. to decrease the base rate applied on main short-term monetary policy operations by 1.0 percentage points, from 4.5 percent to 3.5 percent annually;**
- 2. to decrease the interest rates:**
 - on overnight loans by 1.0 percentage points, from 7.5 percent to 6.5 percent annually;**
 - on overnight deposits by 1.0 percentage points, from 1.5 percent to 0.5 percent annually;**
- 3. to decrease the base rate on long-term loans (over 5 years) by 1.0 percentage points, from 5.0 percent to 4.0 percent annually;**
- 4. the rates referred to in items 1, 2, and 3 shall enter into force as on April 29, 2013;**
- 5. 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.**

The Council of Administration of the NBM has approved the Inflation Report no.2/2013, which will be presented at the press conference of May 2, 2013.

The annual inflation rate for March 2013 reached the level of 4.2 percent or by 0.2 percentage points less as compared to the previous month. The analysis of recent developments in internal and external macroeconomic environment shows a reduction in the annual rate of inflation and its maintenance close to the lower limit of the inflation target range of 5.0 percent.

Slowdown in inflation occurred mainly as a result of slight moderation of pressures from fuel prices and as a result of food prices stabilization. The annual rate of core inflation¹ was 4.0 percent, increasing by 0.1 percentage points compared with the previous month.

The national economy's contraction of 0.8 percent in 2012 was due mainly to the negative development of the agricultural sector caused by the drought and a persistent demand shortfall. In the

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).

fourth quarter of 2012, the GDP contraction has increased to a value of minus 2.5 percent while the exports and imports registered negative annual growth rates. Although in the first months of 2013, the exports of goods and the volume of transported goods have recorded pronounced growth rates, the industrial production in January-February 2013 recording lower developments compared with the same period of 2012. In terms of consumer demand, the annual growth rate of average real wage in the economy was 3.1 percent during the period of January-February 2013, by 0.9 percentage points lower than the fourth quarter of 2012.

The annual growth rate of loans and new deposits traded in the first quarter of 2013 remained negative. The volume of new loans granted during the reporting period decreased by 18.8 percent, while the volume of new attracted deposits decreased by 18.2 percent compared with the same period of the previous year.

In March 2013, the average rate on new granted loans was 12.77 percent as compared with the level of 11.98 percent recorded in December 2012. The rate on new attracted deposits decreased by 0.35 percentage points, reaching the level of 8.44 percent.

The monetary policy continues to be affected by the complexity of risks balance, with the prevalence of disinflationary ones. The disinflationary environment strengthening is based on reducing the economic growth forecast in the major trading partners, reducing the international food prices due to favorable meteorological conditions for harvest in 2013 and based on a significant decrease in oil prices.

In these circumstances, the Council of Administration of the NBM decided within its meeting of April 25, 2013, by unanimous vote, to reduce the monetary policy interest rate by 1.0 percentage points from 4.5 to 3.5 percent annually. It was also decided to maintain the required reserves ratio in MDL and in foreign currency at the current level of 14.0 percent of the base.

The Council of Administration of the NBM decided to lower the rate on long-term loans (over 5 years) by 1.0 percentage points, from 5.0 to 4.0 percent annually.

This decision aims to ensure further calibration of real monetary conditions to stimulate bank lending and economic activity and to anchor the inflation expectations, which will help to reach the inflation target of 5.0 percent in the medium term.

As a result, the economy tendency to recover to its potential starting with the third quarter of 2013 will be due to the creation of real monetary conditions, with an incentive impact on consumption, investment and foreign trade. Thus, the monetary policy will increase its expansionary influence to help foster the economic activity, in the context of an annual inflation rate situated close to the lower limit of the inflation target range of 5.0 percent.



According to the new round of forecast, the average annual inflation will reach the level of 4.1 percent for 2013, by 0.5 percentage points lower than forecasted in January 2013. As for the 2014, the inflation will remain at the previous forecast level of 3.7 percent. We estimate that, starting with 2015, the inflation will be close to the NBM target of 5.0 percent.

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

The National Bank will continue to offer banks liquidity, according to the announced schedule for the years 2013-2014, through REPO operations of 28 days maturity, at a fixed rate equal to the base rate of the National Bank, plus a margin of 0.25 points percentage.

In case of a significant deviation risk of the inflation forecast from the target in the medium term, the NBM will use the range of available measures as to bring the inflation close to target.

The next meeting of the Council of Administration of the NBM on monetary policy will take place on May 30, 2013, according to the announced schedule.