PRESS RELEASE OF THE NATIONAL BANK OF MOLDOVA

At the meeting of January 28, 2010, The Council of administration of the National Bank of Moldova has decided:

1. **To increase the base rate on the main short-term monetary policy operations by 1.0 percentage point from 5.0 % to 6.0 % per year.**
2. **To increase the interest rates:**
   - **on overnight credits by 1.5 percentage point from 7.5 % to 9 % per year;**
   - **on overnight deposits by 1.0 percentage point from 2.0 % to 3.0 % per year;**
3. **To increase the base rate on long-term credits (over 5 years) by 1.0 percentage point from 5.0 % to 6.0 % per year.**
4. **The interest rates mentioned at the points 1, 2 and 3 shall be applied from the date this decision comes into effect (the date of publication in "Monitorul Oficial") until the date new rates come into force.**
5. **To maintain the required reserves ratio from funds attracted in MDL and unconvertible currency, as well as the required reserves ratio from funds attracted in free convertible currency at the level of 8 %.**
6. **The next meeting of the Council of administration regarding the monetary policy will take place on the 25th of February 2010 according to the pre-approved schedule.**

The analysis of the actual economic situation and the medium-term macroeconomic forecast
(2 years) denotes the reversal of the inflation trend on the positive band with a possible but temporary overshooting of the declared objective of 5.0% ± 1.0 percentage point in 2010. According to the NBM forecast, the rate of inflation will be mainly influenced by the evolution in the foreign exchange market, the increase of taxes and excises, the increase in tariffs for natural gas, electricity and heating, as well as, eventual prices increases for some related goods and services.

The possible overshooting of the declared band of inflation rate for 2010 will be short-term and temporary. According to the NBM forecast, in 2010 the inflation rate will be out of the pre-announced band in the 2nd and 3rd quarter and will be within the limit of 5.0-7.0% by the end of the year. As the anticipated reduction of the inflationary pressures happens, the NBM estimates a complete comeback of the inflation rate in the declared objective band starting with the 1st quarter of 2011. This inflation evolution scenario will create the necessary conditions for a-1.2 % – 3.3 % GDP growth in 2010.

It is worth mentioning that the neutrality of the NBM monetary policy (i.e. the invariable base rate) concerning the recent evolution of prices, along with the potential evolutions, may lead to a larger and longer deviation of the inflation rate from the announced objective. At the same time, a more restrictive monetary policy, which will increase the base rate would decrease the inflationary pressures, but would endanger the GDP growth in 2010.

The decisions of the NBM Council of administration have a preventive character and aim at reversing the inflation trend, i.e. leading it back to the medium-term declared limits. At the same time the NBM Council of administration recognizes the necessity of finding the equilibrium between the achievement and maintenance of price stability and the maintenance of necessary conditions for the economic growth.

The increase of the base rate from 5.0 % to 6.0 % represents an adequate decision of a prudent monetary policy, which has the goal of anchoring inflation, tempering the inflation expectations and bringing back the inflation within the announced medium-term interval. At the same time, this increase has the goal to lead the monetary market towards a relative increase of prices of the financial resources with the maturity of up to 7 days offered by NBM to the banking sector. The NBM will restart the full sterilization of excess liquidity from the banking sector according to the pre-announced schedule.

The increase of the base rate and the full sterilization of excess liquidity will not endanger the level of liquidities within the banking system. The amount of existing liquidities within the banking system is sufficient for the current normal activity, as well as, for the active restarting of lending to the national economy. The permanent and unrestricted access of authorized banks to NBM sterilization and injecting liquidity operations ensures the optimal level of liquidity within the banking system and creates the necessary conditions for reducing the risk mark-up, which is included in the interest rates on credits extended by banks. Thus, necessary conditions will be created to decrease the interest rates on credits extended to the real sector.

Simultaneously, the interest rates on overnight deposits and credits have been increased from 2.0 % and 7.5 % to 3.0 % and 9.0 %. The symmetric interest rate corridor has the goal to reduce the volatility in the money market and to create equal conditions for all market participants.

After analyzing the medium-term macroeconomic forecast, the NBM Council of administration decided to maintain the required reserves ratio from funds attracted in MDL and foreign currency at the present level of 8.0 %, in this way confirming the temporary and non- persistent current evolution of inflation.

The NBM emphasizes on the existing lag of several quarters from the moment of taking the monetary policy decision and the desired effect, due to the monetary transmission mechanisms and the natural inertia of the national economy. This lag explains clearly the preventive character of the monetary policy decisions and proves their necessity.

Moreover, the NBM will permanently monitor the macroeconomic indicators and the situation in money, foreign exchange and credit markets and will promptly react to all internal and external challenges in order to achieve and maintain the inflation rate on a medium-term within the declared limits.

A more detailed analysis of the medium term inflation forecast will be presented in the Monetary Policy Report, which will be published by NBM on the 5th of February, 2010.

The next meeting of the Council administration of the National Bank of Moldova concerning the monetary policy will take place on the 25th of February 2010.