



**Press release
of the National Bank of Moldova**

Within the meeting of the Council of Administration of the NBM, of March 25, 2010, the current macroeconomic situation, the trends and the medium term forecasts of the macroeconomic indicators were assessed, as well as the inflation outlook on medium term was quantified in case of some possible risks and uncertainties that may arise in the next period. As a result, the Council of Administration of NBM adopted the following decision:

1. To increase the base rate applied to the main monetary policy operations on short term by 1.0 percentage points from 6.0 to 7.0 % annually.
2. To raise interest rates:
 - For overnight credits with 1.0 percentage points from 9.0 to 10.0 % annually;
 - For overnight deposits with 1.0 percentage points from 3.0 to 4.0 % annually.
3. To increase the base rate to long-term loans (more than 5 years) by 1.0 percentage points from 6.0 to 7.0 % annually.
4. The rates mentioned in paragraphs 1, 2 and 3 shall be applied from the effective date of this decision until the effective date of the new rates.
5. To maintain the rate of the required reserves attracted in MDL and in freely convertible currency, as well as the rate of the required reserves in soft currency attracted in freely convertible currency of 8.0 % of the base.
6. The next meeting of the Council of Administration on monetary policy will take place on April 29, 2010, in accordance with the approved schedule.

The upgrade of the medium-term macroeconomic forecast with the recent evolutions in the external environment and the information provided by the National Bureau of Statistics on consumer price index for the first months of the year (6.1 %), indicates a high probability that the inflation rate will be above the stated upper limit of the target for 2010 by 5.0 % \pm 1.0 percentage points . The analysis of factors contributing most to inflation indicates that the non-monetary factors, which are beyond the control of the NBM, have the major impact, such as prices increase for products and services with regulated prices, international fuel and foodstuff products, as well as the increases in indirect taxes. At the same time, the core inflation constituted 4.3 % and it is



within the stated goal limits, which confirms that the non-monetary factors have mostly influenced the inflation.

The regulated prices are going up, largely due to the increase of the electricity tariffs, natural gas and heating, as a result of the delivery price increase of natural gas imported by Moldova and as a result of higher prices of petroleum products on the international market. Also referring to products and services with regulated prices, there were significant increases in rail and urban passenger transport, postal services, water supply and sanitation, housing and medical services payment.

At the same time, the domestic fuel prices increase due to their international adjustment, which rose steadily throughout 2009 - early 2010, as well as in consequence of increases in excise duties from early this year.

The prices increase in foodstuff products are thought to be the result of increases in prices for foodstuff products in the region, raising inflationary expectations and due to the severe weather conditions from the beginning of this year that affected the storage costs.

In addition, to the acceleration of the rate-of-rise of the increased consumer price and fiscal adjustments of the current year contributed, in particular, the increase in indirect taxes and their tax base broadening.

The impact of non-monetary factors, mentioned above, is temporary and has to be gradually absorbed in the subsequent periods, without manifesting significantly on medium term.

The decision of the Council of Administration of March 25, 2010, regarding the base rate increase with 1.0 percentage points will temper the inflationary impulse propagation from the supply (regulated prices and production costs) on inflation expectations and will reduce the rate and extent of side effects increases in prices and tariffs, while the real growth rate of GDP will not record significant deviations.



The base rate increase, the required reserves rate maintenance and the total sterilization of liquidity excess will maintain in the future the current money market conditions that will lead to lowering the decreasing rhythm of interest rates on deposits and possibly will contribute to a slight increase. However, the trend reversal on the foreign exchange market in combination with the mentioned measures will help to mitigate the inflationary pressures in the medium term.

Thus, the base rate adjustment and careful management of money market liquidity will ensure the formation of appropriate monetary conditions to maintain the balance between the price stability and national economic recovery.

The prudent maintenance of the monetary policy promoted by the NBM, and taking into account the period of time necessary to transfer the monetary policy impulses determines the National Bank to monitor and anticipate the evolution of the macroeconomic indicators, the situation in the money and foreign exchange market as well as the trends in international economic environment.

In the case of medium-term forecast deviation from the stated objective, the National Bank of Moldova will promptly use the monetary policy instruments to carry out the objectives stipulated in the medium term monetary policy strategy for the years 2010-2012 in order to maintain price stability, contributing to macroeconomic and financial stability.