



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

Within the meeting of the Council of Administration of the National Bank of Moldova from May 26, 2010, the current macroeconomic situation, trends and forecasts of the macroeconomic indicators on medium term were assessed, as well as the inflation outlook on medium term was quantified amid the possible risks and uncertainties that may arise in the next period. As a result, the Council of Administration adopted the following decision:

1. To maintain the base rate applied to the main monetary policy operations on short term at the current level of 7.0 percent annually.
2. To maintain interest rates:
 - of overnight credits at the current level of 10.0 percent annually;
 - of overnight deposits at the current level of 4.0 percent annually.
3. To maintain the base rate of long-term loans (over five years) at the current level of 7.0 percent 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 new rates.
5. To maintain the norm of the obligatory reserves attracted in MDL and in nonconvertible currencies, and the norm of the obligatory reserves attracted in hard currency amounting to 8.0 percent of the base.
6. The next meeting of the Council of Administration on monetary policy will take place on June 24, 2010, in accordance with the approved schedule.

The National Bank of Moldova has updated the forecast published in the Monetary Policy Report in May 2010, adjusting the information about the external environment, exchange rate of the U.S. dollar against the EUR and regulated prices. The CPI future trends during the forecasting period (until the end of 2011) found high probability of exceeding the stated range of medium-term objective of 5.0 percent \pm 1.0 percentage points. The exceeding of the inflation target during 2010 is a temporary one, but in the next year the inflation level will be already within a single digit.

The evolution of the inflation from the beginning of this year was due mainly to the non-monetary factors, such as increasing tariffs on services with regulated prices, international fuel and food prices, increases in indirect taxes and currency market developments. The impact of the listed non-monetary factors has a temporary character and will be gradually absorbed during the projection horizon.



The core inflation (inflation index part) for the last 12 months, which is calculated by the National Bureau of Statistics, by excluding the prices that can not be influenced by the monetary policy measures, promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices, constituted 5.4 percent in April 2010, standing up to the stated objective, and exceeded the level recorded in previous months with only 0.1 percentage points. The monthly pace of core inflation continues the reduction trend from the beginning of the year. Thus, in April 2010 it constituted 0.4 percent, by 0.2 percentage points lower than in the previous month.

The most significant contributions to the growth of core inflation were generated by the increase in prices of drugs, tobacco items and hygiene and sanitary services. The second round effects of tariff increases and other regulated prices determined the increases in tariffs of some services included in the calculation of core inflation which includes catering services, education and training.

Currently, despite of the moderate recovery of the activity in some sectors of the economy reported by the NBS operative information, the economic activity is still relatively low and the demand pressures are still disinflationary. The labour market continues to be seriously affected by the crisis, and the unemployment increased. Thus, in the near future the GDP levels will remain below its potential and will not make any inflationary pressures during the forecast horizon.

The decision of the Council of Administration from May 26, 2010 regarding the maintenance of the base rate at its current level will help mitigating the inflationary impulses propagation from the bid on inflationary expectations and will reduce the risk of spreading the side effects increases of prices and tariffs and the GDP real growth rate will not be affected. Therefore, the maintenance of the base rate and the total sterilization of liquidity excess will provide the formation of some appropriate monetary conditions for maintaining the balance between the price stability and the national economic recovery.

The insignificant deviation of the National Bank of Moldova forecast from the inflation index calculated by the NBS confirms the correctness of the NBM on the inflationary process and reports that exceeding the inflation target is only temporary and does not involve a major response of the monetary policy and the effects of the inflationary shocks in the current year will be dissipated.

The necessary period for the transfer of the monetary policy momentum determines the National Bank of Moldova to monitor and anticipate the further developments of the macroeconomic indicators, the situation of the money market and foreign exchange as well as the international economic environment, maintaining a prudent position of the promoted monetary policy.

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