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PRESS RELEASE OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of the Council of Administration of the NBM, of January 27, 2011, 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 and short 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 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 8.0 percent annually.

2. To maintain the interest rates:

● on overnight loans at the current level of 11.0 percent annually;

● on overnight deposits at the current level of 5.0 percent annually.

3. The rates mentioned in items 1 and 2 shall be applied from the effective date of this decision until the effective date of the new rates.

4. To increase the required reserves norm from financial means attracted in MDL and foreign currency, from 8.0 percent up to 11.0 percent of the base.

5. The next meeting of the Council of Administration on monetary policy will take place on February 24, 2011, in accordance with the approved schedule.

The annual inflation rate in December 2010 stood at the level of 8.1 percent. Thus, the annual inflation rate is set within the confidence range of the projection published in the Monetary Policy Report No. IV (November 2010). The effective value is by 0.3 percentage points higher than the 7.8 percent forecast. This irregularity was caused by the recent developments in the fuel market, as a result of increased oil prices on foreign markets and national currency depreciation at the end of 2010.

The annual rate of core inflation constituted 4.4 percent in December 2010 and shows a significant difference compared with the CPI, which reveals the significant contribution of non-monetary factors on the growth of prices in Moldova.

To the formation of inflation rate during 2010, the most has contributed: foodstuff prices, as a result of abnormal weather conditions in the reference period, and the foodstuff prices fluctuations on the world market. At the same time, a major contribution has been exerted by the regulated prices, as a result of changes in tariffs for services with regulated prices carried out in January and May. The fluctuations in oil prices on the world market have resulted in an impressive contribution of the fuel price increases. Simultaneously, the second-round effects, determined by the fuel prices and foodstuff prices increase, have caused inflationary pressures on goods and services prices related to core inflation.

The gross domestic product has increased by 6.5 percent in real terms during January – September 2010, as compared to the same period of the last year. Quarterly evolution of this indicator shows a more pronounced recovery of the economic activity in the 3rd quarter of 2010, during which there was an increase of 8.0 percent compared to the increase of 4.7 percent in the 1st quarter of 2010 and 6.4 percent in the 2nd quarter of 2010. The domestic demand remains to be the determining factor in the GDP growth. The economic activity recovery was driven by the external demand.

Data on the evolution of GDP in the 3rd quarter of 2010 indicate a continuous recovery of the economy started in the second half of 2009. The GDP growth has been significant in the 3rd quarter of 2010 as compared to the same period of 2009, and in this context, there is a high probability of GDP deviation to be placed, currently, close to the non-inflationary level of real GDP.

The world economy emerged from recession, but the pace of recovery is slow, uneven, and full of risks. The production and world trade recovered faster than originally anticipated, and the financial conditions have improved. However, the developed countries are faced with the consequences of the massive growth of debt and the developing countries are trying to stabilize their economies. Another phenomenon of 2010 was characterized by gradual depreciation in the first half of the year of the single European currency against the U.S. dollar and appreciation of Chinese Yuan Renminbi and Japanese Yen against the U.S. dollar in the second half of the year. By the end of 2010, the single European currency has slowly appreciated against the U.S. dollar.

The 2010 year was marked by many natural disasters that have been felt in the world economy. Foodstuff prices reached a record level on the world market in December 2010 due to higher quotations for sugar, cereals, and oilseeds. World foodstuff price index, published by the Food and Agriculture Organization, has increased for the sixth consecutive month, registering a cumulative growth of 32.1 percent and being just above the record level reached in June 2008. The evolution of oil prices on world markets in 2010 was determined by the recovery of oil demand up to the level of 2007, the situation on Foreign Exchange and International Financial Markets and by the estimation of world oil demand growth in 2011. Analyzing the dynamics of oil prices in 2010, we see an upward trend, so that in the fourth quarter of 2010 the oil prices on world markets increased by 15.4 percent compared to the same period of the last year.

The recovery of world economy and exchange rate of both the national currency and the Moldova's main trading partners currencies, and the revival of the Moldovan economy, domestic consumption and money demand, by overlapping with the increase in international prices of oil products, foodstuff and natural gas supply has conditioned, on the whole, the persistence of inflationary pressures for the entire period of the year.

In order to anchor the inflation expectations, on January 27, 2011, the Council of Administration of the NBM adopted the decision to increase the required reserve norm from the financial means attracted in MDL and foreign currency, from 8.0 to 11.0 percent of base and to maintain the current base rate of 8.0 percent. The decision on maintaining the current base rate in conjunction with the increase of the minimum level of required reserves is aimed at improving the transmission mechanism of monetary policy, to stimulate the savings, to reduce the GDP deviation and risks related to the speculative capital inflows and to create conditions for increasing the financial stability in the context of inflationary pressures absorption and long-term economic growth stimulation.

NBM will continue to manage firmly the liquidity excess in the banking system through sterilization operations to optimize the transmission channels of monetary policy.

NBM will maintain the adaptive character of the monetary policy correspondent to the its primary objective and will create appropriate conditions for the disinflation process during 2011 and for setting the inflation at the end of 2012 within the limits indicated in the Medium-term Monetary Policy Strategy.

If the next forecast will indicate an increased risk of exceeding the inflation limits established on the medium term, the NBM will further tighten the monetary policy, using mix of available instruments, including by increasing the minimum required reserves, to guide the inflation back to the established range.

A comprehensive and detailed analysis of recent macroeconomic context, of the medium-term inflation forecast, and the main challenges and constraints that monetary policy will face in the upcoming period will be reflected in the Inflation Report No. 1, which is a continuity of the Monetary Policy Report that will be published by the NBM on February 3, 2011.