



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

The Council of Administration of the NBM, within the meeting of March 31, 2011, evaluated the current macroeconomic situation in Republic of Moldova and estimated the trends of the medium term macroeconomic indicators, 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 maintain the required reserves norm from financial means attracted in MDL and foreign currency at the current level of 11.0 percent of the base;**
- 5. the next meeting of the Council of administration on monetary policy will take place on April 28, 2011, in accordance with the approved schedule.**

The recent price developments on the international market for food and fuel, exchange rate dynamics of the national currency on the domestic market, overlapping with the recovery of the Moldovan economy up to the level before the economic crisis, have determined the annual inflation rate to fall within the forecast range of the NBM published in the Inflation Report no. 1, 2011.

The annual inflation rate measured by the consumer price index (CPI) constituted 5.5 percent in February 2011, decreasing by 1.2 percentage points compared to the previous month. This development has been driven mainly by the seasonal factor, the increase in regulated prices as a result of approval of new tariff for gas and centralized heating and as a result of price changes of goods and services related to core inflation. The core inflation¹ constituted 3.3 percent, decreasing by 0.2 percentage points compared to the previous month.

¹ The core inflation is calculated by the NBS, excluding the prices that are outside the area of influence of the monetary policy measures promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices.



The level of core inflation of 2.2 percentage points below the CPI rate shows that the inflationary pressures are not determined by the aggregate demand, but mostly by the volatile and controlled prices, which are less influenced by the monetary policy.

Moldova's economy reached in 2010 the level up to the economic crisis, so that GDP grew in real terms by 6.9 percent compared to the previous year. Also, the monthly data offered by the NBS on the industrial production and transport of goods for the first months of this year outlines the prerequisites for registering a GDP growth for the first quarter of 2011 as well.

In February 2011, the volume of new loans recorded an annual growth of 56.3 percent compared to the decrease of 9.8 percent recorded in February 2010. This was due mainly to the development in lending to legal entities both in foreign and national currency against the background of reducing the interest rates on credits in national currency by 3.11 percentage points compared to February 2010, up to 13.78 percent.

Maintaining the prudent position of the promoted monetary policy, and taking into account the necessary time to transfer monetary policy impulses, led to mitigate the pace of the decline of interest rates on loans and even recorded during two consecutive months a slight increase in rates of deposits compared to the end of the previous year.

On March 31, 2011, the Council of administration of the NBM decided to maintain the monetary policy interest rate at the current level of 8.0 percent and the current levels of minimum required reserves in MDL and in foreign currency. This decision aims to anchor firmly the inflation expectations in the context of assuring some optimum monetary conditions for the economic recovery and to support further the trend towards stabilization of the level of interest rates charged by licensed banks and to streamline the saving process.

NBM will continue to manage firmly the liquidity excess in the banking system through sterilization operations to strengthen the monetary policy transmission signals.

The increase of energy and food prices on the international markets is the main risk factors on the inflation process in Moldova. Also, the expiration on April 1, 2011 of the contract to deliver electricity from power plant Cuciurgan and the high probability of concluding a new contract on a revised tariff as a result of the increase of the purchase price of the natural gas is another factor that may create additional inflationary pressures this year. At the same time, the current changes in fiscal legislation, in particular, increasing the indirect taxes and broadening the tax base of direct taxes, the increase of pensions and salaries in the public sector will lead to changes in private consumption and will affect the inflation development.

National Bank of Moldova will maintain the prudent monetary policy, and if the future forecasts will show a high probability of materialization of inflation risks of exceeding the limits



established in the medium term, the NBM will tighten the monetary policy character by using the available mix of monetary policy instruments to target inflation rate to the established range.