



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

**The Council of Administration of the NBM, within the meeting of May 26, 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 increase the required reserves norm from financial means attracted in MDL and foreign currency by 3.0 percentage points, being established in the amount of 14.0 percent of the base;**
- 5. the next meeting of the Council of Administration on monetary policy will take place on June 30, 2011, in accordance with the approved schedule.**

In April 2011, the average annual increase in consumer prices constituted 6.5 percent, increasing by 0.7 percentage points compared to the previous month. This was caused largely by the increase in food prices and significant contributions, but smaller in magnitude, generated by the increase in core inflation and regulated prices. Thus, the prerequisites to achieve the short-term inflation forecast contained in the Inflation Report no. 2, published on 5 May 2011 have been found.

The important factors that contributed to this development were mainly conditioned by the propagation of effects recorded from increases in regulated tariffs since the beginning of the year and by the increases in food and oil prices on international markets. The annual core inflation<sup>1</sup> for

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<sup>1</sup> 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 last 12 months registered a value of 3.1 percent, increasing by 0.3 percentage points compared to the previous month.

During the next periods, the risks on inflation growth will be determined by the fluctuations on international foreign exchange market, by the increased volatility in world oil prices and global food price trends.

Data provided by the NBS on industrial production, goods transport and foreign trade for the first months of this year outlines the prerequisites for recording a positive growth of GDP in the first quarter, 2011.

In April 2011, all components of money supply had a positive dynamics, including deposits in MDL that increased by 19.9 percent compared to April 2010 and the M2 aggregate growth was characterized by an annual rate of 20.5 percent. Net domestic credit in the banking system has increased by 14.0 percent during the period under review. A more accelerated growth of the volume of loans may impose, in turn, a higher growth in aggregate demand that would influence the inflation level.

Thus, on 26 May 2011, the Council of Administration of the National Bank of Moldova has decided to increase the required reserves of funds attracted in MDL and foreign currency from 11.0 to 14.0 percent of the base, starting with the tracking period of attracted funds July 8, 2011-August 7, 2011. As a result, the transmission mechanism of monetary policy decisions will be improved, which is now affected largely by significant liquidity in the banking system.

Also, the base rate remains at the current level of 8.0 percent annually. This decision aims to anchor the inflation expectations and to create optimal conditions to viability and stability of the banking sector and thus seeking the achievement of the objective stated in the Medium-term Monetary Policy Strategy of the National Bank of Moldova.

The current regime of required reserve set by the National Bank of Moldova stipulates the same reserves norm for liabilities included in the calculation, regardless of their maturity. Thus, in order to increase the efficiency of banks' liquidity management and to create facilities to support the growth of funds attracted by banks in the long term, the Council of Administration of the National Bank of Moldova adopted the decision on amending the *Regulation on required reserve regime*. This provides the application of 0 (zero) percent rate for attracted funds included in the calculation of required reserves, whose maturity is less than 2 years. This change will contribute beneficially on the business environment, encouraging the long-term investment attraction, which will help to extend the term of the loans, as well as reducing their rates. The draft of the original and the submitted version were placed on the NBM's official website for public consultation in



accordance with the regulations on ensuring transparency in decision-making process of the National Bank of Moldova.

NBM will continue to manage firmly the liquidity excess in the banking system through sterilization operations to streamline the transmission mechanism of monetary policy decisions on the real economy and ensure a disinflationary macroeconomic framework. Moreover, the NBM continue to follow and anticipate the developments in the external economic environment, the macroeconomic indicators and the situation in the monetary and foreign exchange market.