



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

Within the meeting of the Council of Administration of the NBM of July 28, 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 increase the base rate applied on main short-term monetary policy operations by 1.0 percentage points, from 8.0 to 9.0 percent annually;**
- 2. to increase the interest rates:**
 - on overnight loans by 1.0 percentage points, from 11.0 to 12.0 percent annually;**
 - on overnight deposits by 1.0 percentage points, by 5.0 to 6.0 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 ratio from financial means attracted in MDL and foreign currency at the current level of 14.0 percent of the base;**
- 5. the next meeting of the Council of Administration on monetary policy will take place on August 25, 2011, in accordance with the approved schedule.**

Recent developments in food and fuel prices on international markets, the exchange rate dynamics of the national currency on the domestic market, the overlap with the recovery of the Moldovan economy, have ensured that the annual rate of inflation is largely consistent with the short term forecast indicated in the Inflation Report no. 2, May 2011.

The annual inflation rate for June 2011 reached the level of 7.7 percent, increasing by 0.7 percentage points compared to the previous month. This dynamic was driven mainly by increases in food prices, regulated prices and by the moderate increase of goods and services prices relating to core inflation. The annual rate of core inflation constituted 3.4 percent, by 0.1 percentage points higher as compared to the previous month.

Preliminary data presented by the National Bureau of Statistics on the evolution of GDP for the first quarter of 2011 show an encouraging increase in the national economy in real terms by 8.4 percent compared with the same period last year. Although the dynamic was generated by the positive contribution from all sectors of the economy, the domestic demand continues to be the determining factor of GDP growth. However, data on external trade, industrial and agricultural production,



transportation of goods for the first half of this year outlines the prerequisites for registering a growth in the second quarter of 2011, but with a more moderate pace, due to high base of comparison of the same period of 2010.

In June 2011, the balance of loans granted for the last 12 months increased by 15.8 percent or 11.4 percentage points, more than the value recorded in June last year. Within the structure, the loans granted in foreign currency showed acceleration, which increased by 20.7 percent, and the loans granted in national currency by 12.1 percent. However, the balance of deposits increased by 20.3 percent or by 12.8 percentage points, more than the value recorded in June last year. Thus, within the structure, the deposits in national currency increased by 22.6 percent and the deposits in foreign currency - by 17.5 percent.

Anticipating further inflationary pressures, on July 28, 2011 the Council of Administration of the NBM decided to increase the monetary policy interest rate by 1.0 percentage points, up to the level of 9.0 percent annually.

This decision has been taken in order to mitigate the inflation expectations as a result of higher household consumption arising from population growth of disposable income from wages and social funds transfers from abroad and the continuous boost of the economy in conjunction with the population increasing savings. In the following periods, the inflation will be influenced both by internal risk factors, such as regulated prices (including side effects) and external ones, such as volatility in global financial markets, caused by the public finances crisis in Europe and by the world price dynamics of food and oil.

At the same time, the Council of Administration of the NBM adopted the decision to maintain the current level of 14.0 percent of the calculation base of minimum required reserves ratios in both MDL and foreign currency.

NBM will continue to manage firmly the liquidity excess in the money market through sterilization operations to ensure and maintain a deflationary macroeconomic climate.

NBM will continue to promote a prudent monetary policy, monitoring and anticipating the internal and external macroeconomic developments, so that using an appropriate mix of monetary instruments to ensure price stability over the medium term. Current projection places the annual inflation rate in the fourth quarter of 2011 at the level of 8.4 percent, and at the end of the next year - at 7.4 percent.

A more detailed analysis of the recent macroeconomic situation, medium-term inflation forecast and possible risks and challenges that monetary policy will face in the coming period, will be presented in the Inflation Report no. 3, intended for publication by the National Bank of Moldova on August 4, 2011, in accordance with the approved schedule.