



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

Within the meeting of the Council of Administration of the NBM of October 27, 2011, the current macroeconomic situation of the Republic of Moldova and the external economic environment have been assessed, estimating the trends of the medium term macroeconomic indicators. In addition, the medium and short term inflation outlook has been quantified, as well as 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 10.0 percent annually;**
- 2. to maintain the interest rates:**
 - on overnight loans at the level of 13.0 percent annually;
 - on overnight deposits at the level of 7.0 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 November 24, 2011, in accordance with the approved schedule.**

The recent developments on international markets, the exchange rate dynamics of the national currency and the persistence of conditions necessary for the robust economic growth in the third quarter of 2011 determined the annual inflation rate to be largely correspondent with the value forecasted in the Inflation Report no. 3, August 2011.

The annual inflation rate for September 2011 reached the level of 8.8 percent, continuing the upward trend started in February 2011. This dynamic was mainly driven by the propagation of the second round effects, following the increases in foodstuff and fuel prices, utilities tariffs, and the increased demand from population for some goods and services, as well as the increased external demand for domestic products, being partially attenuated by the development of the national currency against the currencies of the major trading partners. The annual rate of core inflation constituted 4.4 percent, by 0.3 percentage points higher as compared to the previous month.

The economic growth continued its upward trend in the second quarter of 2011 as well, but at a slower rate compared with the first quarter of this year. Gross domestic product in the second quarter of 2011 increased by 6.8 percent compared to the same period last year. External demand was the determining factor in GDP growth and the quality of growth is higher than in the previous periods. Data on foreign trade, industrial and agricultural output, transportation of goods outline the necessary prerequisites for recording a robust growth in the third quarter of 2011.

In the third quarter of 2011, the lending activity has slowed its pace, recording an annual increase of 23.2 percent. However, the attracted new deposits continue the positive development initiated in early 2011, establishing an annual growth rate of 26.1 percent in the third quarter of 2011.

Interest rates on deposits attracted by the banking sector fell slightly, while those on new granted loans have stabilized.

Thus, in order to anchor the inflationary expectations, on October 27, 2011 the Council of Administration of the NBM decided to maintain the monetary policy interest rate at the current level of 10.0 percent annually, as well as the minimum required reserves ratio in MDL and foreign currency at the current level of 14.0 percent of base.

However, this decision seeks to ensure the overall monetary conditions for gradual adjustment to the volatility of domestic and international macroeconomic conditions.

At the same time, to counteract the slowdown in the transmission process of monetary policy decisions on interest rates and to ensure the proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity surplus through sterilization operations.

Thus, the updated projection shows an annual inflation rate of 9.6 percent in the fourth quarter of this year and at the end of the next year - 6.5 percent.

The National Bank of Moldova anticipates that in 2012, the food and fuel price developments, regulated tariffs will have a lower trajectory as that recorded in the current year as a result of lower inflationary pressures generated by the international macroeconomic environment.

The prospects of the future inflation trajectory are affected by high uncertainty associated with the propagation of factors related both to supply such as the dynamics of food and fuel prices, possible adjustments of the regulated prices and related to demand, such as the output gap over the entire horizon the forecast.

If the sovereign debt crisis and recession in the European Union and worldwide will worsen than the disinflation process will increase.

Monetary policy stance will remain, throughout the projection horizon, consistent with its primary objective of ensuring and maintaining price stability on medium term, monitoring and



anticipating the domestic macroeconomic developments and international economic environment development.

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 periods, will be presented in the Inflation Report no. 4, intended for publication by the National Bank of Moldova on November 3, 2011, in accordance with the approved schedule.