

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

Within the meeting of the Council of Administration of the NBM of December 29, 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 decrease the base rate applied on main short-term monetary policy operations by 1.0 percentage points, from 9.5 to 8.5 percent annually;**
- 2. to decrease the interest rates:**
 - **on overnight loans by 1.0 percentage points, from 12.5 to 11.5 percent annually;**
 - **on overnight deposits by 1.0 percentage points, from 6.5 to 5.5 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 January 26, 2012, in accordance with the approved schedule.**

The high degree of uncertainty in the global economy, the exchange rate dynamics of the national currency and the slowdown in economic growth for third quarter of 2011 have resulted in a halt in the trend of increasing annual rate of inflation started in February this year.

The world economy continues at the end of 2011 to be threatened by sovereign debt crisis in the euro area, affecting the economic performance of global markets. However, the most recent U.S. economic indicators show a slight improvement in the situation due to the considerable decrease in the unemployment rate and industrial production growth trends and trade.

The annual inflation rate for November 2011 reached the level of 8.9 percent, mainly due to the moderation of inflationary pressures from food prices. Annual rate of core inflation for the past 12 months recorded a level of 4.5 percent, similar to the previous month.

The evolution of CPI in October and November 2011 outlines the probability to record a negative deviation of the forecast referred to in Inflation Report no.4, November 2011. Prices increase below the expectations is mostly due to atypical weather conditions, which delayed the seasonal increase in prices of vegetables. Core inflation, similarly, will contribute to a negative deviation of the forecast.

According to the preliminary data presented by the National Bureau of Statistics, GDP in increased by 6.7 percent in January-September 2011 compared with the same period last year. However, the quarterly evolution was characterized by a slowing of economic growth, so in the third quarter of 2011 the GDP grew by 5.3 percent. This occurred as a result of increased external demand to domestic products and due to the growth of disposable income of population in the reporting period, determining the exports and household consumption increase. Thus, similar to the previous period, the exports of goods and services rose by 31.2 percent compared to the third quarter of 2010, which have contributed greatly to the GDP growth, and household consumption increased by 9.0 percent.

By categories of resources, the increase of gross value added in industry (by 11.9 percent compared with the third quarter of 2010) had the largest contribution to GDP growth as compared to the previous periods.

Data on industrial production, transportation of goods, domestic and foreign trade for October and November 2011 shows further mitigation of the economic activity in the fourth quarter of 2011.

Lending process followed by the decreasing annual trend recorded in the recent months, deepening into a minus 2.4 percent in November 2011 compared to the previous month, as a result of the negative growth in lending in foreign currency. However, lending in national currency recorded a substantial growth of 24.3 percent.

The population degree of saving has been strengthened, as confirmed by the increase in domestic deposits by 17.5 percent and those in foreign currency by 10.2 percent compared to the same period last year.

In 2012, the disinflationary pressures arising from the consequences of euro area sovereign debt crisis and global economic downturn will increase. These will affect regional and global demand and contribute to lower commodity prices. Reduced economic activity in the region might affect the economy of the Republic of Moldova through external channels. The exports to the European Union will probably decrease, given that the external demand has lowered. The continued depreciation of the euro against main foreign currencies would reduce the export performance in the euro area for domestic producers, the production being affected. All these factors indicate an increased risk of recording a lower economic growth in 2012 than previously

forecasted while the disinflation will increase next year. These circumstances reflect the need for easing the Bank's monetary policy to avoid deflation in the following 24 months.

Thus, on December 29, 2011, the Council of Administration of the National Bank of Moldova adopted the decision to reduce the monetary policy rate by 1.0 percentage points, from 9.5 to 8.5 percent. At the same time, the Council of Administration of the National Bank of Moldova decided to maintain the minimum required reserves ratio from funds attracted in MDL and foreign currency at the current level of 14.0 percent of the base.

This decision aims to ensure the overall monetary conditions for gradual adjustment to the volatility of domestic and external macroeconomic conditions, supporting the lending and stimulating the economic activity. The need for further easing of monetary policy of the NBM will be confirmed by the data that will come up in the coming months.

However, in order to manage the inflationary process and ensure appropriate monetary conditions for maintaining price stability, the NBM will continue to manage the liquidity excess held through money market sterilization operations.

The National Bank of Moldova reiterates that it will further promote the prudent nature of monetary policy, monitoring and anticipating the developments in domestic macroeconomic and international environment, by using monetary policy instruments to ensure price stability over the medium term.