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PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of the Council of Administration of the NBM of January 26, 2012, 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 2.0 percentage points, from 8.5 to 6.5 percent annually;

2. to decrease the interest rates:

● on overnight loans by 2.0 percentage points, from 11.5 to 9.5 percent annually;

● on overnight deposits by 2.0 percentage points, from 5.5 to 3.5 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 February 23, 2012, in accordance with the approved schedule.

Current global macroeconomic situation, increased volatility of the international exchange and financial markets, the dynamics of the national currency exchange rate, along with slower economic growth in the third quarter of 2011 have resulted in the strengthening of the slowdown trend in the inflationary process in the Republic of Moldova.

The annual inflation rate for December 2011 reached the level of 7.8 percent, decreasing by 1.1 percentage points as compared to the previous month. This dynamic was determined by a broad set of factors including the reduction of economic activity in the context of lower external demand and lower growth of remittances, atypical weather conditions for that period and the trend of appreciation of the national currency against the USD and EUR. Annual rate of core inflation recorded a level of 4.1 percent, by 0.4 percentage points lower than the previous month, which was due, in particular, to the mitigation of the domestic demand.

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The economic growth continued in the third quarter of 2011, but more moderate than in the first half of the last year, thus the gross domestic product increased by 5.3 percent compared with the third quarter of 2010. In the third quarter, the exports and consumption of households remained the determinants of GDP growth, but their growth rates were lower with the rise of uncertainty in the euro area and slowing consumption funding sources.

Data on foreign and domestic trade, industrial production and transport of goods for the last three months of 2011 outline the prerequisites for a more modest growth compared with the previous quarters of 2011.

In the fourth quarter of 2011, the new granted loans recorded an annual increase of 28.2 percent compared to the same period of the previous year, amounting to 9171.3 million lei. This evolution was determined by the economic activity inertia in conjunction with lower cost of credits up to its minimum historical level. Thus, in December 2011, the interest rates stood at the level of 13.96 percent for new granted loans in national currency and at the level of 7.67 percent for new loans in foreign currency.

At the same time, the new attracted deposits during the forth quarter of 2011 recorded an annual growth rate of 10.6 percent, constituting 10378.6 million lei, due to the increase in the national currency component by 18.8 percent. The annual growth rate of deposits in foreign currency was negative - (minus) 0.9 percent, resulting in a value of 3879.4 million lei.

The sovereign debt crisis in the euro area causes substantial global and regional tensions. According to recent forecasts of several international organizations, the euro area will go into recession in 2012. The risks of deterioration are unbalanced. Given the share of trade with the European Union and the large number of migrants from the Republic of Moldova who work in this region, the recession in the euro area will affect the local economic environment. Thus, the reduction of external demand and of the volume of remittances determines the reduction of domestic demand, affecting the economic activity, which will directly cause significant disinflationary pressures.

The current situation calls for caution on the part of all decision-makers in the way of macroeconomic stabilization policies and early identification of measures to counter the potential negative effects on economic activity and stimulate domestic demand. In such circumstances, the national economy will grow in 2012, although slower than previously projected.

Assessing the balance of risks associated with medium-term inflation outlook, the Council of Administration of the National Bank of Moldova decided within the meeting of January 26, 2012 to reduce by 2.0 percentage points the monetary policy rate from 8.5 to 6.5 percent annually. At the same time, the Council of Administration of the National Bank of Moldova decided to maintain the minimum required reserves in MDL and foreign currency at the current level of 14.0 percent of the base.

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This decision shows the contracyclical nature of the monetary policy, aiming to stabilize the domestic demand, which will create prerequisites for moderating the direct disinflationary pressures within their tolerance limit. At the same time, the National Bank of Moldova aims at ensuring a consistent set of real monetary conditions to strengthen the convergence of inflation to medium term objective, at further supporting the lending process, thereby boosting the domestic demand, and the adaptation of the domestic economic environment to the instability and uncertainty in the external macroeconomic situation.

In order to ensure proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity surplus through sterilization operations.

According to updated forecast, the annual inflation rate will reach the level of 4.9 percent at the end of 2012 and the level of 4.8 percent at the end of 2013.

The National Bank of Moldova will firmly promote a prudent monetary policy consistent with its primary objective to ensure and maintain price stability over the medium term, monitoring and anticipating the domestic and international macroeconomic developments.

A more thorough evaluation of the macroeconomic situation, medium-term inflation forecast and of the potential risks and challenges that monetary policy will face in the coming period will be presented in the Inflation Report no.1, which will be published as planned on February 2, 2012.

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