



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

Within the meeting of the Council of Administration of the NBM of February 23, 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 6.5 to 4.5 percent annually;**
- 2. to decrease the interest rates:**
 - on overnight loans by 2.0 percentage points, from 9.5 to 7.5 percent annually;
 - on overnight deposits by 2.0 percentage points, from 3.5 to 1.5 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 March 29, 2012, in accordance with the approved schedule.**

Recent developments in the world, increased volatility in oil prices, the dynamics of the national currency exchange rate, along with the slower growth rate of the economic activity and of the demand in the fourth quarter of 2011 have resulted in the strengthening of the slowdown trend of the inflationary process in the Republic of Moldova.

The annual inflation rate for January 2012 reached the level of 7.0 percent, decreasing by 0.8 percentage points as compared to the previous month. This dynamic was driven by the impact of the reduction of economic activity growth in the context of lower external demand and lower growth of remittances and the evolution of the national currency against the currencies of the main trading partners. The annual rate of core inflation recorded a level of 6.0 percent¹, by 0.1 percentage points lower than the previous month, as a result of domestic demand development.

¹ Core inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data established and published from January 2012 are calculated by the NBS according to the modification of Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of January 19, 2012 (the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices).

Data on the evolution of exports, industrial production, trade in services, the volume of goods transported in the fourth quarter of 2011 show the persistence of premises of slowing down the annual growth rate of GDP during the aforementioned period. The domestic demand will continue to support the disinflationary trend against the background of macroeconomic distortions generated by the amplification of the euro zone sovereign debt crisis, and by the reduction of the annual rate of real wages in the economy. Thus, in the second half of 2011, the annual rate of real wage in the economy was close to zero, after a significant upturn in the first semester of 2011.

In January 2012, the new granted loans recorded an annual increase of 16.9 percent, amounting to 1515.7 million lei. This development was determined by the increase in loans in national currency by 51.4 percent, partly tempered by the downward dynamic of loans in foreign currency, that decreased by 12.8 percent.

The new deposits attracted during January 2012 recorded an annual growth rate of 18.2 percent, constituting 4026.3 million lei. Thus, the deposits in national currency have increased by 17.5 percent and those in foreign currency increased by 19.3 percent as compared to January 2011.

The average interest rates both on granted loans and on attracted deposits of the banking system have stabilized, the resumption of a downward trend being expected to return.

The risks associated with the sovereign debt crisis resolution in the member states of the European Union mark a turning point in the dynamics of global economic activity that will affect the foreign demand and, hence, the domestic economy through the export channel and capital flows. At the same time, the reduction of the aggregate demand can cause some budgetary pressures.

The current situation calls for caution on the part of all decision-makers in the way of macroeconomic stabilization policies and implementation of measures to stimulate domestic demand and exports, and to counter potential negative effects on budgetary revenues and economic activity.

Assessing the balance of risks associated with medium-term inflation outlook, the Council of Administration of the National Bank of Moldova has decided within the meeting of February 23, 2012 to reduce by 2.0 percentage points the monetary policy rate from 6.5 to 4.5 percent annually. At the same time, the Council of Administration of the National Bank of Moldova has decided to maintain the minimum required reserves in MDL and foreign currency at the current level of 14.0 percent of the base.

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

This decision aims to further ensure a mix of monetary conditions designed to strengthen the convergence of inflation to the medium term objective in the context of boosting the domestic demand



through lending to the real economy. This fact will create prerequisites for the moderation of disinflationary pressures within their tolerance interval.

The National Bank of Moldova will adjust gradually the conduct of monetary policy to the internal and external macroeconomic developments to achieve its primary objective of ensuring and maintaining price stability over the medium term.