



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

Within the meeting of the Council of Administration of the NBM of May 28, 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 maintain the base rate applied on main short-term monetary policy operations at the current level of 4.5 percent annually;**
- 2. to maintain the interest rates:**
 - **on overnight loans at the current level of 7.5 percent annually;**
 - **on overnight deposits at the current level of 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 June 28, 2012, in accordance with the approved schedule.**

The vulnerability of the current international macroeconomic context, developments in oil prices, exchange rate dynamics of the domestic currency, overlapped with the moderation of the growth rate of the economic activity in the first quarter 2012, have resulted in the consolidation of the disinflation process in the Republic of Moldova.

The annual inflation rate for April 2012 reached the level of 4.7 percent, decreasing by 0.7 percentage points as compared to the previous month, continuing the downward trajectory started in December 2011. The deceleration of inflation occurred under the decisive influence of a moderated economic activity, caused by a reduced domestic demand and lower growth of remittances. The annual core inflation rate recorded a level of 4.8 percent¹, by 0.3 percentage points lower than the previous month as a result of mitigating domestic and external demand along with the appreciation of the national currency against the main trading partners.

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).

Actual data for the first quarter of 2012 published by the NBS on industrial production, foreign and domestic trade, and transport of goods outline a high probability to register an insignificant economic growth or even its lack in the mentioned period. The annual money transfers to individuals continued the downward trend started at the end of 2011, so that, in March 2012, their volume was by 2.6 percent lower than in March 2011. In this respect, increased exposure of the Moldovan economy to the effects of the euro area sovereign debt crisis, through the channel of capital flows and exports, will condition further support from domestic demand of the disinflation trend.

In April 2012, the volume of new loans totaled 2219.8 million lei, decreasing by 1.1 percent as compared to April 2011. This dynamic was due to the decrease of the volume of loans in foreign currency - by 14.4 percent, partially offset by favorable development of loans in national currency - by 8.9 percent.

New deposits attracted in April 2012 registered an annual growth rate of 0.9 percent and constituted 2977.2 million lei as compared to the same period of the previous year. Deposits in national currency increased by 6.4 percent while the deposits in foreign currency decreased by 5.5 percent as compared to April 2011.

The average interest rates charged by banks in April 2012 continued to stabilize, so that in April 2012, the average interest rate on new loans in domestic currency was 14.25 percent and that of new attracted deposits - 7.23 percent.

The nature of the monetary policy continues to be affected by the complexity of the risks and major uncertainties. Thus, the main risks to medium-term inflation arise from the contagion of the negative effects of sovereign debt crisis in the euro area and the entry into recession of some EU countries and from the evolution of oil and food prices on the international markets. At the same time, the internal factor will also contribute to the imbalance of inflationary risks, highlighted by the potential adjustment of indirect taxes during 2012-2013.

Revaluing the risks related to the medium term inflation outlook, within the meeting of May 28, 2012, the Council of Administration of the National Bank of Moldova decided to maintain the monetary policy interest rate at the current level of 4.5 percent annually, and the minimum required reserves ratios in MDL and foreign currency at the current level of 14.0 percent of the base.

This decision relates to anchoring inflationary expectations in the context of further ensuring a proper mix of monetary conditions appropriate for gradual adjustment to the volatile international macroeconomic framework, stimulating domestic demand and supporting the lending process. This will boost the potential economic growth, which will create prerequisites for moderation of disinflationary pressures.

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

At the same time, the National Bank will continue to offer banks liquidity, according to the schedule announced for the years 2012-2013, through REPO operations on term of 28 days, with fixed rate equal to the National Bank base rate plus a margin of 0.25 percentage points.

The National Bank of Moldova reiterates that it will maintain the adaptive nature of the monetary policy, monitoring and further anticipating the evolutions of domestic and international economic environment, so that by the flexibility of the operational framework specific to the inflation targeting strategy to ensure the achievement and maintenance of price stability over the medium term.