



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

Within the meeting of the Council of Administration of the NBM of June 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. 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;**
- 4. the rates mentioned in items 1 and 2 shall be applied from June 29, 2012 until the effective date of the new rates;**
- 5. the next meeting of the Council of Administration on monetary policy will take place on July 26, 2012, in accordance with the approved schedule**

The macroeconomic tensioned situation in the world, the evolution of oil and food price on international markets, the dynamic of exchange rate of the national currency, overlapping with a pronounced slowdown in the growth rate of domestic economic activity, conditioned the consolidation of disinflationary trend in the Republic of Moldova.

The annual inflation rate for May 2012 reached the level of 4.1 percent, decreasing by 0.6 percentage points as compared to the previous month, continuing the downward trajectory started in December 2011. The disinflation process was supported by the slowdown in the growth rate of economic activity in the context of mitigating external and domestic demand and reducing the annual growth rate of remittances. Annual rate of core inflation recorded a level of 4.4 percent¹, by 0.4

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).

percentage points lower than the previous month as a result of mitigating domestic and external demand along with the slowdown in the growth rate of disposable income of population.

Actual data for the first months of the second quarter of 2012, published by the NBS, on industrial production, foreign and domestic trade, shows a further economic slowdown, outlining prerequisites for registering an insignificant economic growth or even its lack in the mentioned period. The annual rate of money transfers to individuals continued the downward trend so that in May 2012, their volume was USD 112.5² million, by 4.5 percent lower than in May 2011. Thus, the growth rate for the first five months of this year was 0.4 percent, registering a decline of 19.5 percentage points compared with the same period last year. In this context, the openness of the economy to the sovereign debt crisis in terms of exports and domestic consumption financing mainly from remittances requires the domestic demand to support further the disinflationary trend.

In May 2012, the volume of new loans totaled 1996.3 million lei, decreasing by 10.6 percent as compared to May 2011. This dynamic was due to the negative evolution of the loans granted in foreign currency - by 28.8 percent, partially offset by favorable development of loans granted in national currency - by 4.4 percent.

New deposits attracted in May 2012 registered an annual growth rate of 5.2 percent as compared to the same period of the last year and constituted 3567.8 million lei. Thus, the deposits in national currency have increased by 3.4 percent and the deposits in foreign currency - by 7.4 percent, as compared to May 2011.

The average interest rates, charged by banks in May 2012, on new loans granted in domestic currency constituted 13.98 percent (decreasing by 0.27 percentage points compared to the previous month) and the average interest rates on new deposits attracted in national currency constituted 7.5 percent (increasing by 0.27 percentage points compared to the previous month).

The nature of the monetary policy continues to be affected by the complexity of the risks and uncertainties associated with the economic growth perspectives both in Europe and in the world. Thus, the main risks to the short and medium term inflation arise from the economic contractions caused by euro area sovereign debt crisis and the evolution of oil and food prices on international markets. At the same time, the inflationary pressures may arise from the internal environment by potential adjusting of indirect taxes during the years of 2013-2014.

Valuing the perspectives on short and medium term of inflation, within the meeting of June 28, 2012, the Council of Administration of the National Bank of Moldova stated that the balance of risks is deteriorating, so that the disinflationary risks are becoming more persistent throughout the forecast period.

² according to the operative data

At the same time, the effects of monetary policy measures implemented during the first quarter of this year are still propagated in the banking and financial sector and real economy.

The Council of Administration of the NBM decided to maintain the monetary policy interest rate at the current level of 4.5 percent annually, and the minimum required reserves ratio in MDL and foreign currency at the current level of 14.0 percent of the base.

At the conditions that the disinflationary risks will rise, the National Bank of Moldova will use all available instruments of monetary policy to achieve its primary objective.

This decision relates to anchoring inflationary expectations in terms of strengthening the prospects of keeping the inflation within the range of variation of target in the context of further ensuring a proper mix of monetary conditions appropriate for gradual adjustment to the vulnerability of international macroeconomic environment, 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 proper functioning of the interbank money market, the NBM will continue to manage firmly 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 anticipating further 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.