



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

Within the meeting of the Council of Administration of the NBM of July 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 maintain the base rate applied to the 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 next meeting of the Council of Administration on monetary policy will take place on August 30, 2012, according to the approved schedule.**

The increased vulnerability of the external macroeconomic environment, the evolution of oil and food prices on international markets, the national currency exchange rate dynamics, overlapping with a pronounced slowdown in the growth rate of the domestic economic activity, determined the consolidation of the disinflationary trend in the Republic of Moldova.

The annual inflation rate for June 2012 reached the level of 3.7 percent or by 0.4 percentage points lower as compared to the previous month, continuing the downward trend started in December 2011. The deceleration of inflation occurred as a result of continuous moderation of the economic activity growth rate in the context of mitigating external and domestic demand and reducing the annual growth rate of remittances. The annual core inflation rate recorded a level of 4.3 percent<sup>1</sup>, by 0.1 percentage points lower than the previous month. Besides the impact of weakening domestic demand, the appreciation trend of the national currency against the currencies of main trading partners has also contributed to the reduction of core inflation.

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<sup>1</sup> 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).

In the first quarter of 2012, the gross domestic product registered a modest growth of 1.0 percent, which indicates a continuing slowdown trend of the economic activity started in the second half of the last year. This evolution was supported mainly by private consumption growth, although decreasing, in overlap with the negative contribution of imports and exports, which on the background of sovereign debt crisis increase has diminished significantly its growth rate. In the corresponding months of the second quarter, the annual rates of exports and imports stood close to the zero value, while the positive signals arose from the dynamics of domestic trade in services and from the industrial output and goods transported.

In the second quarter of 2012, the volume of new granted loans amounted to 6704.8 million lei, increasing by 5.7 percent as compared to the previous quarter. This dynamics was due to the favorable effect of credit on both components, thus the loans granted in national currency increased by 6.8 percent and in foreign currency - by 4.0 percent.

The new attracted deposits constituted 9567.0 million lei in the second quarter of 2012, decreasing by 9.9 percent compared to the first quarter of this year. Thus, foreign currency deposits rose by 1.8 percent while those in national currency decreased by 17.4 percent as compared to the first quarter of 2012.

The average interest rates charged by banks during the second quarter of 2012 have consolidated the stabilization tendency, so that the average rate on new loans in national currency recorded at the end of the second quarter of 2012 a new minimum level of 13.69 percent, decreasing by 0.36 percentage points as compared to the end of the previous quarter, while that on new attracted deposits recorded a level of 7.59 percent, by 0.27 percentage points more than the first quarter of 2012.

The main inflation risks on medium term result from the contamination of the external economic environment, with the worsening recession in the euro area and increased uncertainty about global economic trends. Increasing international food and energy recourses prices on the background of continuous tensions in the respective markets, as the effect of adverse weather conditions and respectively, the escalation of tensions in the Middle East, represents major risks of amplification of the inflationary pressures. At the same time, the disinflationary pressures will arise from aggregate demand, so that the quarterly dynamic of the output gap is expected to be negative for the years 2012-2013, with a slight return to positive values in the first quarters of 2014.

In this context, the monetary policy will have a countercyclical character and will be determined by the stabilization of the aggregate demand, which will create prerequisites for mitigating the disinflationary pressures, thus the annual rate of inflation falling within the tolerance range.

Assessing the short and medium term prospects of inflation, within the meeting of July 26, 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, as well as the minimum required reserves ratio in Moldovan Lei and in foreign currency at the current level of 14.0 percent of the base.

This decision relates to anchoring inflationary expectations in terms of strengthening the prospects of maintaining the inflation rate within the target range, further ensuring a proper mix of monetary conditions to stimulate domestic demand and support the lending process, thus boosting the economic growth potential.

In order to support the 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 NBM will continue to offer banks liquidity, according to the schedule announced for the years 2012-2013, through REPO operations within 28 days, with fixed rate equal to the National Bank base rate plus a margin of 0.25 percentage points.

Despite bad weather conditions and risks of increasing prices of some food products in the coming quarters, the disinflationary pressures from the demand side will prevail, that is why the National Bank of Moldova has revised downward the inflation forecast. The updated projection indicates a level of 3.9 percent for the annual inflation rate at the end of 2012 and 2013, by 1.0 percentage points less for 2012 and by 0.5 percentage points less for 2013. Over the next eight quarters, the inflation projection is placed within the range of tolerance of  $\pm 1.5$  percentage points from the target of 5.0 percent.

With the deviation of the inflation outlook from the current forecast in the medium term, the NBM will use the spectrum of consistent monetary policy measures in order to restore it within the objective range.

The National Bank of Moldova reiterates that it will maintain the adaptive nature of the monetary policy, monitoring and anticipating further the developments 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.

A more detailed assessment of the macroeconomic situation, medium-term forecast of inflation and possible risks and challenges the monetary policy will face in the future will be presented in the Inflation Report no. 3, which will be published as planned on August 2, 2012.