



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

Within the meeting of the Council of Administration of the NBM of November 29, 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 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 December 27, 2012, in accordance with the approved schedule.**

Over the past nine months, the annual inflation rate was placed around the target of 5.0 percent and within the range of variation of ± 1.5 percentage points established by the National Bank. In 2012, the inflationary process was influenced by the adaptive character of the NBM monetary policy and by the dynamics of the exchange rate of the national currency, as well as by the evolution of oil and food prices on international markets. The inflationary pressures were mitigated by the growth rate of the domestic economic activity and by the reduced external demand.

The annual inflation rate for October 2012 reached the level of 3.9 percent or by 1.0 percentage points less as compared to the previous month, thus reversing the upward trend started in July 2012. The mitigation of inflation rates was due to the effect of the base period, marked by the decrease of pressures from regulated prices and the mitigation of the impact from food prices associated with favorable weather conditions for the harvest and sale of vegetables. The annual rate of core inflation¹

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).

remained at the previous month's level, recording a level of 3.6 percent, as a result of mitigating internal and external demand.

The data published by the National Bureau of Statistics in September 2012 on industrial production, domestic and foreign trade show a decrease in the economic activity in the third quarter of 2012. It should be mentioned that the annual growth rate of imports decreased by 3.3 percent in the third quarter of 2012 and that of exports – by 7.8 percent. Thus, the weak aggregate demand will continue to generate disinflationary pressures. From the perspective of population's disposable income, the average real wage increased by 3.2 percent in September 2012, while the money transfers in favor of individuals decreased by 6.5 percent as compared to the same month of the previous year.

In October 2012, the volume of new granted loans was of MDL 1934.9 million, decreasing by 10.5 percent as compared to the same period last year. The downward annual dynamics was determined by the unfavorable evolution of credits in foreign currency, which decreased by 32.8 percent. The credits in national currency increased by 11.3 percent after recorded decreases in the last two months.

The new attracted deposits constituted MDL 3222.2 million in October 2012, decreasing by 8.4 percent compared to October 2011. This evolution is mainly determined by the reduction in the deposits in national currency by 20.5 percent, partially offset by the increase of the deposits in foreign currency by 11.0 percent.

As on October 31, 2012, the balance of credits and deposits in national currency showed a robust annual growth of 15.5 percent and 22.2 percent, respectively.

The average interest rates applied by banks to national currency operations in October 2012 recorded a stabilization tendency, so the average rate on new loans recorded the level of 13.0 percent, increasing by 0.42 percentage points as compared to September 2012. At the same time, the average rates on new attracted deposits constituted 7.72 percent, by 0.22 percentage points less as compared to the previous month.

The monetary policy character continues to be influenced by the external macroeconomic vulnerability, in particular by the EU economic situation and by its repercussions on domestic macroeconomic framework through the capital flows and trade channels. The risks asymmetry related to the medium-term inflation perspective was conditioned by the tensions recorded on oil markets and by the increased volatility of food prices. At the same time, the risks of reducing the inflationary pressures might arise from the deepening recession in the eurozone, which might affect the domestic economic growth and might decrease the domestic consumption.

Assessing the short and medium term prospects of inflation, the Council of Administration of the National Bank of Moldova decided within the meeting of November 29, 2012, by an unanimous

vote, to keep the monetary policy rate at the current level of 4.5 percent annually and to keep the required reserves ratio in MDL and foreign currency at the current level of 14.0 percent of the base.

This decision aims to ensure appropriate monetary conditions to stimulate the lending process and boost up the domestic demand and anchoring inflation expectations in terms of strengthening the prospects of keeping inflation within the range of variation of ± 1.5 percentage points against a target of 5.0 percent.

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 announced schedule for the years 2012 – 2013, through REPO operations within 28 days, at fixed rate, equal to the base rate of the NBM, plus a margin of 0.25 points percentage.

The NBM reiterates that it will maintain the adaptive character of the monetary policy in the context of a low inflation, further monitoring and anticipating the developments of the domestic and international economic environment, so that by the flexibility of the operational framework specific for the inflation targeting strategy to achieve and maintain price stability over the medium term.