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PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of July 25, 2013, the Council of Administration of the NBM adopted the following decision by unanimous vote:

1. **to maintain the base rate applied on main short-term monetary policy operations at the current level of 3.5 percent annually;**
2. **to maintain the interest rates:**
   - **on overnight loans at the current level of 6.5 percent annually;**
   - **on overnight deposits at the current level of 0.5 percent annually;**
3. **to maintain the interest rate on long-term loans (over 5 years) at the level of 4.0 percent annually;**
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.**

The Council of Administration of the NBM approved the Inflation Report no.3, 2013 which will be presented at the press conference of August 1, 2013.

To implement the provisions stipulated in the Medium-term Strategy on Monetary Policy, starting with the Inflation Report no.3, 2013 it will be included a new chapter that will contain summaries of the minutes of the meetings of the Council of Administration[1] on monetary policy and the votes of the members of the Council of Administration.

The annual inflation rate for June 2013 reached the level of 5.5 percent or by 0.2 percentage points less compared to the previous month. During the last 17 months, the annual inflation rate is maintained within the range of variation of ± 1.5 percentage points from 5.0 percent target.

The annual inflation rate in the second quarter of 2013 was slightly over the forecast included in the Inflation Report no.2, May 2013 mainly due to the changes in the procedure for reflecting the prices of products with strong seasonality by the National Bureau of Statistics.

The annual rate of core inflation[2] amounted to 4.4 percent, increasing by 0.2 percentage points from the previous month.

[1] The summaries will be published six months after the adoption of the decision. The Inflation report no.3 from August 2013 will contain the summary of the meeting of the Council of Administration of January 31, 2013.

[2] 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).

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In the first quarter of 2013, GDP returned to positive territory after contracting in 2012, recording an encouraging increase of 3.5 percent. The revival signals of economic activity are due to higher foreign demand for local goods and services, and a slight recovery in domestic demand due to higher disposable income of the population. However, government final consumption contracted by 1.5 percent. By resources, GDP growth in the first quarter 2013 was driven by favorable developments in all sectors of the economy.

In terms of consumer demand, the annual average real wage growth in the economy in April-May 2013 was 4.4 percent, almost the same level as the first quarter of 2013.

Based on the information available, it is premature to determine whether the economic recovery is sustainable and whether the economic growth rate this year will be sustained in the medium term.

Lending and savings processes recorded divergent developments in the second quarter of 2013. The volume of new granted loans increased by 21.3 percent during the reporting period, while the volume of new attracted deposits decreased by 23.0 percent compared to the second quarter of 2012.

The average rate on new granted loans in national currency recorded a level of 12.03 percent in June 2013 as compared to the level of 12.77 recorded in March 2013. The interest rate on deposits attracted in national currency decreased by 1.27 percentage points compared to March, recording the level of 6.79 percent in June 2013.

The monetary policy continues to be affected by the complexity of the balance of risks, with the prevalence of disinflationary risks. The main risks associated with the deflationary climate are related to the downward revision of the forecast growth in external markets, particularly in the European Union and the Russian Federation and the international food price reduction. However, inflationary pressures could arise from slight recovery in domestic demand and the rise in international oil prices amid ongoing tensions in the Middle East.

Moderate depreciation of the national currency this year is consistent with the monetary policy promoted by the NBM and helps to mitigate the disinflationary pressures by boosting the domestic demand. In case of a persistent excess of supply of foreign currency, the National Bank will intervene in the foreign exchange market carefully as a purchaser of foreign currency to supply the foreign exchange reserves but without jeopardizing the inflation targeting in the medium term.

In these circumstances, the Council of Administration of the NBM decided within its meeting of July 25, 2013 by unanimous vote to maintain the monetary policy interest rate at the level of 3.5 percent annually. It was also decided to maintain the required reserves ratio in MDL and in foreign currency at the current level of 14.0 percent of the base.

In addition the Council of Administration of the NBM decided to maintain the interest rate on long-term loans (over 5 years) at the current level of 4.0 percent annually.

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This decision aims to further ensure the expansionary monetary conditions, conducive to the stimulation of lending and economic activity, as well as those related to anchoring inflation expectations by maintaining inflation close to the target of 5.0 percent in the medium term, with a possible deviation of ± 1.5 percentage points.

The return of the economy above its growth potential in the next eight quarters will be due to the creation of real stimulative monetary conditions for consumption and foreign trade. National Bank will maintain the incentive nature of the monetary policy both by the real interest rate channel and by effective exchange rate channel, thereby keeping the annual inflation rate close to 5.0 percent target in the medium term.

According to the new round of forecasting, the average annual inflation rate in 2013 will reach the level of 4.3 percent and in 2014 the level of 3.8 percent or by 0.2 percentage points and 0.1 percentage points more compared with the previous round of forecasting of April 2013. Over the next eight quarters, the inflation forecast will be within the range of variation of ± 1.5 percentage points from 5.0 percent target.

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

The National Bank will continue to offer banks liquidity, according to the schedule announced for the years 2013-2014, through term REPO operations of 28 days, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 points percentage.

In case of a risk of significant deviation from the target of inflation forecast in the medium term, the NBM will use the range of measures available towards bringing inflation close to target.

The next meeting of the Council of Administration of the NBM on monetary policy will take place on August 29, 2013, according to the announced schedule.

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