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PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of August 29, 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 required reserves ratio from financial means attracted in MDL and foreign currency at the current level of 14.0 percent of the base.**

The annual rate of inflation in July was 4.3 percent, by 1.2 percentage points less compared to the previous month. The pronounced deceleration in inflation was mainly caused by the decrease of the contribution of food prices. During the past 18 months, the annual inflation rate is maintained within the range of variation of ± 1.5 percentage points from 5.0 percent target.

The annual rate of core inflation[1] amounted to 4.4 percent in July, remaining at the previous month level.

The information published by the NBS on foreign trade, domestic trade, industrial and agricultural production in the first semester of 2013, as well as data on the transport of goods for the month of July 2013 indicate continued growth in the period.

Thus, in the first semester of 2013, the exports and imports increased by 7.7 and 5.4 percent respectively, while industrial production increased by 6.4 percent compared to the same period last year. A positive trend is observed from agricultural production, which increased by 2.8 percent in the first half of 2013 after a marked decrease in 2012. In July 2013, the annual growth rate of the volume of goods transported has accelerated, recording a significant increase of 19.0 percent.

Based on the information available at this time, 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 as well.

[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).

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• Tel. (373 22) 409 006 • Fax (373 22) 220 591 •

Lending and saving processes have increased in July 2013 compared to the same period last year. The volume of new loans during the reporting period increased by 7.7 percent and deposits attracted increased by 7.4 percent.

Average interest rates on loans and deposits in national currency applied by the banks showed a slight upward trend. The average rate on new loans increased by 0.02 percentage points from the level recorded in June 2013, accounting for 12.05 percent and remaining close to historic low level of 11.98 percent recorded in December 2012. The interest rate on attracted deposits has increased by 0.37 percentage points, up to the level of 7.16 percent in July 2013.

Monetary policy conduct continues to be heavily influenced by disinflationary risks, arising in particular from the reduction in international food prices and a significant decrease in the economic activity of major trading partners of the Republic of Moldova, in particular Ukraine, Romania and the Russian Federation. Gradual economic recovery in the European Union, international oil prices increase on the backdrop of the intensification of tensions in the Middle East and a further increase in domestic demand can reduce the negative effects of disinflation.

Moderate depreciation of the national currency this year is consistent with the inflation targeting monetary policy promoted by the NBM and helps mitigate the disinflationary pressures by boosting 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, within the meeting of August 29, 2013 the members of the Council of Administration of the NBM noted the need to maintain the incentive nature of the monetary policy promoted and decided 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.

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.

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.

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The National Bank of Moldova reiterates that it will continue to further monitor and anticipate domestic and international economic environment developments, so that through the flexibility of the operational framework, specific to the inflation targeting strategy, to ensure price stability in the medium term.

The next meeting of the Council of Administration of the NBM on monetary policy will take place on September 26, 2013, according to the announced schedule.

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