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PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of September 26, 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 inflation rate for August 2013 reached the level of 3.7 percent or by 0.6 percentage points less compared to the previous month. The inflation downward trend strengthening occurred as a result of reduced contribution from food prices. During the last 19 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 4.3 percent in August 2013, decreasing by 0.1 percentage points from the previous month.

In the second quarter of 2013, GDP increased by 6.1 percent compared to the same period of the last year, after recording in the first quarter of this year an increase of 3.5 percent. Domestic demand contributed to the positive dynamics and the foreign demand has influenced insignificantly the GDP development. Moderate depreciation of the national currency against major trading partners had a stimulating effect on the national economy sectors in the second quarter. The latest data related to foreign trade, domestic trade, industrial production and transport of goods shows a further economic growth in the third quarter of 2013.

In terms of consumer demand, the annual average real wage growth in the economy in July 2013 was 4.8 percent, by 4.1 percentage points more than in the previous quarter. The annual growth rate of

[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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money cash transfers to individuals via the licensed banks of the Republic of Moldova reached the level of 9.1 percent in July 2013 compared with the same month last year.

Lending and savings processes recorded divergent developments in August 2013. The volume of new loans granted during the reporting period increased by 2.0 percent, while the volume of new attracted deposits decreased by 1.4 percent compared to the same period of the last year. The total balances of loans and deposits have increased in annual terms by 14.2 and 20.8 percent respectively at the end of August 2013.

The average interest rates on loans and deposits in national currency applied by banks showed a slight upward trend. Thus, the average rate on new granted loans increased by 0.04 percentage points from the level recorded in July 2013, representing 12.09 percent and remaining close to the minimum level of 11.98 percent recorded in December 2012. The average rate on attracted deposits has increased by 0.02 percentage points, reaching the level of 7.18 percent in August 2013.

The monetary policy continues to be affected by the impact of disinflationary risks, arising mainly from the reduction in international food prices and the depreciation of the currencies of major trading partners. Gradual economic recovery in the European Union, international oil prices increase on the backdrop of increased tensions in the Middle East and maintaining domestic demand can help mitigate the negative effects of disinflation. The balance of risks is tilted toward further disinflation in future periods, with a possible temporary lowering of the annual inflation rate in the range of ± 1.5 percentage points from 5.0 percent target.

Moderate depreciation of the national currency this year is consistent with the monetary policy promoted by the NBM of direct inflation targeting 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 distorting or jeopardizing the inflation targeting in the medium term.

In these circumstances, the Council of Administration of the NBM decided within its meeting of September 26, 2013 to maintain the incentive nature of the monetary policy and 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 favorable monetary conditions to stimulate lending and the economic activity and 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.

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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 2013-2015, 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.

We reiterate that the NBM will further monitor and anticipate the domestic and international economic environment developments, including foreign trade conditions, so that by the flexibility of operational framework specific for 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 October 31, 2013, according to the announced schedule.

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