Translation
24.11.2011

PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of the Council of Administration of the NBM of November 24, 2011 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 decrease the base rate applied on main short-term monetary policy operations by 0.5 percentage points, from 10.0 to 9.5 percent annually;

2. to decrease the interest rates:

● on overnight loans by 0.5 percentage points, from 13.0 to 12.5 percent annually;

● on overnight deposits by 0.5 percentage points, from 7.0 to 6.5 percent annually;

3. the rates mentioned in items 1 and 2 shall be applied from the effective date of this decision until the effective date of the new rates;

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;

5. the next meeting of the Council of Administration on monetary policy will take place on December 29, 2011, in accordance with the approved schedule.

The world economy continues to be threatened by sovereign debt crisis from the euro zone and by the instability of main international currencies. The decrease in industrial production in the euro zone, particularly in countries like Germany, France and Italy, contributes to the reduction of the growth rate, which will influence the decrease of inflationary pressures in the region. The prices increase mitigation could lead central banks in some countries to ease the monetary policy in order to revive the economic activity and to stimulate the consumption. The uncertainties related to the evolution of American and European economies affects the production of goods in China, which fell for the third consecutive month due to weaker external demand.

The international prices for foodstuff products continued to decrease. The continuous decline in the monthly global price index for foodstuff products reflects the prospects for robust recovery in agricultural production this year and for the decrease in global demand following the slower growth in developed countries. However, damaged prospects for the global economy could expand on the oil

market as well. Oil prices may register a downward trend under the influence of the danger of a recession in the euro zone and in the context of U.S. dollar appreciation against other strong currencies. The risk of external demand and exports reduction to the affected countries, along with increasing global unemployment, will negatively affect the volume of money transfers from abroad, which will reduce the domestic consumption and will mitigate the prices increase in 2012.

Recent developments in macroeconomic indicators in the national and international economies, the dynamics of the national currency exchange rate and the persistence of the premises for continued robust growth in the third quarter of 2011 have determined the halt in the trend of increasing annual rate of inflation started in February this year.

The annual inflation rate for October 2011 reached the level of 8.9 percent, increasing by 0.1 percentage points compared to the previous month. This dynamic was mainly driven by the regulated prices increase, following the adoption of new tariffs for gas and heating supply, the seasonal increase in prices of food and earth coal, and the increase in household income in prior periods. Annual rate of core inflation recorded a level of 4.5 percent, by 0.1 percentage point higher as compared to the previous month.

Data on industrial production, freight, domestic and foreign trade outlines the prerequisites necessary for sustaining the economic growth in the fourth quarter, 2011. The average annual rate of industrial production during the third quarter of 2011 is higher than the previous quarter, which will be reflected in the quality of economic growth. In September 2011, the average wage in the national economy grew by 9.1 percent against the same period last year. However, the real average wage in economy had a more modest development. Thus, in the third quarter of 2011, its annual rate fell to 0.7 percent.

In October 2011, the lending activity maintained the downward trend recorded in the recent months, decreasing in annual terms by 0.4 percent. New attracted deposits continued the positive evolution on both components, recording an annual increase of 19.0 percent for resources attracted in national currency and of 13.4 percent for resources attracted in foreign currency. At the same time, there is a decrease in demand for cash from the national economy, which may indicate a slight slowdown in economic growth.

Interest rates on deposits attracted by the banking sector have recorded increases in both domestic and foreign currency components, while lending rates recorded a downward trend, marking a new minimum record level in October.

In the context of sovereign debt crisis worsening in the EU Member States, the world economy is likely to enter a spiral of uncertainty and financial instability, while the decrease in foreign aggregate demand and lower global prices for oil and food will slowdown the inflation in 2012. The increased

unemployment in the euro zone may adversely affect the volume of remittances, which will eventually contribute to the reduction of population disposable income and consumption restriction. All these factors will support the disinflation process in Moldova.

Thus, on November 24, 2011, the Council of Administration of the National Bank of Moldova decided to reduce the monetary policy interest rate by 0.5 percentage point, from 10.0 to 9.5 percent. At the same time, the Council of Administration decided to maintain the minimum required reserves ratio in both MDL and foreign currency at the current level of 14.0 percent of base.

This decision aims to ensure adequate monetary conditions to adapt to the volatility and uncertainty of external macroeconomic environment in support of lending and for stimulating the economic activity.

However, to support proper functioning of the interbank money market, the NBM will continue to manage firmly the liquidity surplus through sterilization operations.

National Bank of Moldova reiterates that the monetary policy will be consistent with its fundamental objective of ensuring and maintaining price stability over the medium term, by guiding the inflation within the range of 5 percent ± 1.5 percentage points by the end of 2012.