



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

**Within the meeting of the Council of Administration of the NBM of September 27, 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 to the 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 deposits 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 October 25, 2012, according to the approved schedule.**

The actions to implement the monetary policy of the NBM, international macroeconomic situation, changes in oil and food prices on the world markets, the national currency exchange rate dynamics, overlapping with a moderation in domestic economic activity determined the annual rate of inflation to fall since February 2012 within the tolerance range of  $\pm 1.5$  percentage points from the 5.0 percent target.

The annual inflation rate for August 2012 reached the level of 4.4 percent or by 0.4 percentage points more as compared to the previous month, continuing the upward trend the second consecutive month. This development of inflation occurred mainly as a result of the amplification of inflationary pressures from food prices associated with adverse weather conditions in the period of 2011-2012, and the worldwide drought. The annual core inflation rate recorded a level of 3.9 percent<sup>1</sup>, by 0.1 percentage points below the level recorded in July 2012 as a result of mitigating internal and external demand.

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<sup>1</sup> 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).

Preliminary data on GDP evolution presented by the NBS shows a clear trend of slowing economic activity in the second quarter 2012. At the same time, recent information published by the NBS on trade, manufacturing and transport shows a weak economic activity evolution at the beginning of the third quarter. In terms of financing domestic consumption, the household disposable income recorded a slight improvement, so the annual growth rate of average real wage in the economy was 5.4 percent in July 2012, and that of remittances recorded an increase of 3.9 percent as compared to the same month of the previous year.

In August 2012, the volume of new granted loans amounted to 2152.0 million lei, decreasing by 5.7 percent as compared to the same period of the previous year. This dynamics was due to the unfavorable effect of credit on both components, thus the loans granted in national currency decreased by 2.0 percent and in foreign currency - by 11.1 percent.

The new attracted deposits constituted 3655.1 million lei in August 2012, increasing by 5.6 percent compared to August 2011. Thus, the deposits attracted in foreign currency rose by 4.4 percent while those in national currency by 6.7 percent as compared to the same month of the previous year.

The average interest rates charged by banks in national currency operations in August 2012 have continued the downward trend. Thus, the average rate on new granted loans recorded a new minimum level of 12.82 percent, decreasing by 0.56 percentage points, and that of new attracted deposits recorded a level of 7.15 percent, decreasing by 0.25 percentage points.

The monetary policy will be further subject to risks and uncertainties associated the sovereign debt crisis developments in the euro area and hence the trends of the global economy. The asymmetry of risks balance to the medium-term inflation outlook is determined by the tensions the international oil markets and the increased volatility in food prices. However, any adjustments of fiscal policy in the direction of higher indirect taxes, during the years 2012-2013, would increase the inflationary pressures in the short term. At the same time, risks to inflationary pressures reduction might occur as a side effect of the recession in the euro area on domestic economic growth and hence on reducing consumption.

Assessing the short and medium term prospects of inflation, within the meeting of September 27, 2012, the Council of Administration of the NBM decided, by a unanimous vote, to keep the monetary policy interest rate at the current level of 4.5 percent annually, as well as the minimum required reserves ratio in Moldovan Lei and foreign currency at the current level of 14.0 percent of the base.

This decision relates to anchoring inflationary expectations in terms of strengthening the prospects of maintaining the inflation rate within the target range, thereby contributing to the creation of a coherent set of appropriate monetary conditions to stimulate lending and boost the process of



sustainable development of the domestic aggregate demand.

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 schedule announced for the years 2012-2013, through REPO operations within 28 days, with fixed rate equal to the National Bank base rate plus a margin of 0.25 percentage points.

The National Bank of Moldova reiterates that it will maintain the adaptive nature of the monetary policy, monitoring and anticipating further the developments of domestic and international economic environment, so that by the flexibility of the operational framework specific to the inflation targeting strategy to ensure the achievement and maintenance of price stability over the medium term.