Translation
30.08.2012

PRESS RELEASE
OF THE NATIONAL BANK OF MOLDOVA

Within the meeting of the Council of Administration of the NBM of August 30, 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 on main short-term monetary policy operations to the current level of 4.5 percent annually;**
2. **to maintain the interest rates:**
   - **on overnight loans to the current level of 7.5 percent annually;**
   - **on overnight to 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 September 27, 2012, in accordance with the approved schedule.**

The current global macroeconomic context, the evolution of oil land food prices on international markets, the dynamic of exchange rate of the national currency, overlapping with the mitigating rate of domestic economic activity determined the annual rate of inflation to fall in July 2012 within the forecast range of medium-term inflation published in the Inflation Report of August 2012.

The annual inflation rate for July 2012 has reversed its downward trend started in December 2011, recording the level of 4.0 percent or by 0.3 percentage points more as compared to the previous month. The annual rate of core inflation recorded a level of 4.0 percent[1], by 0.3 percentage points below the level recorded in June 2012, following the moderation of domestic and foreign demand with the mitigation of disposable income growth of the population.

[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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The actual data for the first half of the year published by the NBS on industrial production, foreign and domestic trade, and transport reveals the continuing slowdown in economic activity observed at the end of 2011 and at the beginning of this year. Although the positive evolution of the average real wage reflects the preconditions to support the domestic consumption, this is mitigated by the dynamics of remittances. Thus, the real average wage in June 2012 increased by 6.1 percent over the corresponding period last year. The volume of money transfers for individuals declined by 8.2 percent in the reporting period.

In July 2012, the volume of new loans amounted to 2366.1 million lei, increasing by 7.8 percent as compared to July 2011. This dynamic was due to the favorable effect of credit on both components, thus the credits in national currency increased by 8.2 percent and the credits in foreign currency by 7.3 percent.

The new attracted deposits constituted 2817.8 million lei in July 2012, decreasing by 11.5 percent compared with the same period of 2011. Thus, the new deposits in national currency fell by 18.5 percent, while those in foreign currency - by 1.3 percent as compared to July 2011.

The average interest rates charged by banks in July 2012 showed insignificant decreases, so that the average interest rate on new loans in national currency recorded a level of 13.38 percent (down by 0.31 percentage points as compared to the previous month), and that of deposits in national currency was 7.40 percent, decreasing by 0.19 percentage points compared to June 2012.

The monetary policy character continues to be affected by the complexity of risks and uncertainties. The main risks to medium-term inflation arise from adverse external economic situation, amid the deepening recession in the euro area and crisper slowdown in the pace of global economic growth. The increase in international prices of oil and food, as a result of increasing tensions in the Middle East and respectively, the unfavorable meteorological conditions in the main agricultural regions, represent major risks in the amplification of the inflationary pressures. At the same time, the downside risks of inflation rate continue to be fueled at the expense of aggregate demand.

Assessing the risks related to short and medium term outlook of inflation, the Council of Administration of the NBM decided within the meeting of August 30, 2012 to maintain the monetary policy rate at the current level of 4.5 percent annually as well as the minimum required reserves ratio in Moldovan Lei and in foreign currency at the current level of 14.0 percent of the base.

This decision aims to further ensure consistent monetary conditions aimed at achieving convergence of inflation to target in the medium term in the context of boosting domestic demand through the support of lending to the real economy.

In order to support proper functioning of the interbank money market, the NBM will continue to

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firmly manage the excess liquidity through sterilization operations.

At the same time, the NBM will continue to offer liquidity to banks, according to the announced schedule for the years 2012-2013, through REPO operations within 28 days, at fixed rate, equal to the base rate of the NBM, plus a margin of 0.25 points percentage.

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

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