



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

Within the meeting of June 27, 2013, 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 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 May 2013 reached the level of 5.7 percent or by 1.2 percentage points more as compared to the previous month. Temporary acceleration of inflation occurred mainly as a result of rising food prices in the context of changing the procedure for reflecting the prices of products with strong seasonality. The food prices growth in May is not an intensification of inflationary pressures, but a statistical effect. The annual rate of core inflation¹ remains low and amounted to 4.2 percent, increasing by 0.3 percentage points from the previous month.

Despite a slight increase in the annual inflation rate last month, domestic and external macroeconomic conditions have not changed significantly compared with those presented in the Inflation Report no.2 of May 2013. The assumptions used in developing the latest inflation forecasts remain valid. The inflation will resume its downward trend in the second half of 2013 and will fluctuate over the next eight quarters in the lower band of the variation of ± 1.5 percentage points from 5.0 percent target.

Gross domestic product in the first quarter of 2013 recorded an encouraging growth of 3.5 percent after contracting in 2012. Evolution of GDP in the first quarter of 2013, along with the data for internal and external trade, industrial production and transport of goods for the first months of the second quarter of 2013, reveal the gradual revival of the economic activity. Signs of improvement in economic activity are due to higher foreign demand for local goods and services, as well as slight recovery in domestic demand due to higher disposable income of the population. However, the deficiency of demand from government helped to decrease by 1.5 percent the government consumption.

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).

In terms of consumer demand, the annual average real wage growth in the economy in April 2013 has been 6.8 percent, by 2.5 percentage points higher than in the first quarter of 2013 and the money transfers to individuals by the banks of the Republic of Moldova increased by 23.1 percent in April 2013 compared with the same month last year.

The annual growth rate of new loans granted in May 2013 remained on a positive territory for the second consecutive month. The volume of new loans granted during the reporting period increased by 19.2 percent and the new attracted deposits decreased by 27.7 percent compared to the same period last year.

The average interest rates applied by banks for the operations in national currency in May 2013 recorded diverged developments. The average rate on new granted loans decreased by 0.19 percentage points, accounting for 12.21 percent, while that on attracted deposits increased by 0.42 percentage points, reaching the level of 7.75 percent in May 2013.

The monetary policy continues to be affected by the complexity of internal and external factors. The main medium-term disinflationary risks arising from uncertain prospect of growth in the eurozone, along with diminishing global food prices. Inflationary risks may come from oil price developments on international markets against the background of possible intensification of tensions in the Middle East. The deflationary risks will prevail in the coming quarters.

In these circumstances, the Council of Administration of the NBM decided within its meeting of June 27, 2013, 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 ensure the continuation of real monetary conditions conducive to the stimulation of lending and economic activity, as well as those related to anchoring inflation expectations in the context of 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 announced schedule for the years 2013-2014, through REPO operations of 28 days maturity, at a fixed rate equal to the base rate of the National Bank plus a margin of 0.25 percentage points.

The NBM reiterates that it will continue to monitor and anticipate further developments in domestic and international economic environment, so that through the flexibility of the 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 July 25, 2013, according to the announced schedule.