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CONTENTS

| | |
|--|------------|
| Main social, political and economic events in R. Moldova | 7 |
| Summary of trends in the national economy..... | 9 |
| Chapter I. OUTPUT..... | 15 |
| Chapter II. PRICES AND EXCHANGE RATES..... | 27 |
| Chapter III. FINANCE..... | 33 |
| CHAPTER IV. EXTERNAL SECTOR..... | 57 |
| CHAPTER V. BUSINESS ENVIRONMENT..... | 74 |
| CHAPTER VI. SOCIAL SECTOR..... | 81 |
| CHAPTER VII. ESTIMATIONS AND FORECASTS..... | 91 |
| POLICY NOTES..... | 96 |
| <i>Richard Moody</i> | |
| AGRI-FOOD TRADE WITH THE EU – THE CURRENT SITUATION AND FUTURE DEVELOPMENTS | 96 |
| <i>Isabelle Mihoubi-Astor</i> | 103 |
| WHEN EMIGRANTS RETURN TO MOLDOVA..... | |
| <i>Georgeta Mincu</i> | |
| DCFTA EU-MOLDOVA: challenges and economic implications..... | 107 |
| METHODOLOGY NOTES..... | 112 |
| STATISTICAL ANNEX..... | 119 |

KEY FACTS

| | |
|--|--|
| Official name | REPUBLIC OF MOLDOVA |
| Capital | Chisinau |
| Head of State | Marian Lupu, Acting President of the Republic of Moldova |
| President of the Parliament | Marian Lupu |
| Prime Minister | Vlad Filat |
| Parliament of the Republic of Moldova | 101 MPs (the Communist Party of the Republic of Moldova – 42, Liberal Democratic Party of Moldova – 31, Democratic Party of Moldova – 15, Liberal Party – 12, Independent MPs- 1) |
| Independent since | August 27, 1991 |
| Area | 33.8 thousand sq. Km |
| Administrative units | 32 regions, 5 municipalities (Chisinau, Balti, Bender, Comrat, Tiraspol), Autonomous Territorial Unit Gagauz Yeri, Administrative Territorial Units on the left side of the Nistru River |
| Population (thousands) | 3,560.4 inhabitants, exclusive of the population of the Administrative Territorial Units on the left side of the Nistru River) |
| Main religions | Eastern Orthodox (majority) |
| Official language | Romanian |
| National currency | Moldovan Leu (Average official rate, 1st quarter 2011: 1 USD = 12.06 MDL, 1 EUR = 16.48 MDL) |

ABBREVIATIONS

| | |
|--------------|--|
| ATP | Autonomous Trade Preferences |
| ATU | Autonomous Territorial Unit |
| AVE | Ad-Valorem Equivalent |
| BMA | Bureau for Migration and Asylum |
| CEFTA | Central European Free Trade Agreement |
| CIS | Commonwealth of Independent States |
| CPI | Consumer Price Index |
| CR | Concentration Ratio |
| DCFTA | Deep and Comprehensive Free Trade Agreement |
| EBRD | European Bank for Reconstruction of Development |
| EC | European Commission |
| EPC | Effective Protection Coefficient |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GAP | Good Agricultural Practice |
| GATS | General Agreement on Trade in Services |
| GDP | Gross Domestic Product |
| GSP | Generalised System of Preferences |
| GVA | Gross Value Added |
| HACCP | Hazard Analysis and Critical Control Points |
| HHI | Herfindahl-Hirschman Index |
| IDA | International Development Association |
| IEFS | Institute of Economy, Finance and Statistics |
| IIPP | Index of Industrial Products Prices |
| IMF | International Monetary Fund |
| IOM | International Organization for Migration |
| IPA | Intellectual Property Rights |
| MAFI | Ministry of Agriculture and Food Industry |
| MDL | Moldovan Leu |
| MET | Moldovan Economic Trends |
| MF | The Ministry of Finance |
| MFN | Most Favoured Nation |
| MFO | Microfinance Organization |
| NBC | National Bank Certificates |
| NBM | National Bank of Moldova |
| NBS | National Bureau of Statistics |
| NCFM | National Commission of Financial Market |
| NEER | Nominal Effective Exchange Rate |
| NPB | National Public Budget |
| NPC | Nominal Protection Coefficient |

| | |
|--------------|---|
| ODSME | Organization for Development of Small and Medium Enterprises |
| PCA | Partnership and Cooperation Agreement |
| PPI | Production Price Index |
| RCA | Revealed Comparative Advantage |
| REER | Real Effective Exchange Rate |
| SDR | Special Drawing Rights |
| SITC | Standard International Trade Classification |
| SME | Small and Medium Enterprises |
| SPS | Sanitary and phytosanitary measures |
| TBT | Technical Barriers to Trade |
| TN | Transnistria |
| TRC | Total Regulatory Capital |
| TRQ | Tariff Rate Quota |
| UN | United Nations |
| USD | US Dollar |
| VAT | Value Added Tax |
| WTO | World Trade Organization |
| YoY | year on year |

MAIN SOCIAL, POLITICAL AND ECONOMIC EVENTS IN R. MOLDOVA

In the first quarter of 2011 there were several notable events in the political, economic and social sphere.

At the beginning of the year, the Government of the Republic of Moldova approved the Government Activity Programme “European Integration: Freedom, Democracy, Welfare” which is aimed at securing the framework of governance policies of the Republic of Moldova for the period 2011-2014. An important aspect of this programme is to ensure transparency in decision making and to facilitate access to information for all stake holders on the priority of decentralization, assumed by the Government of the Republic of Moldova by means of this Programme.

Another achievement of the first quarter of 2011 was the approval of the 2011 budget. According to the budget, the revenues of the national public budget (NPB) will amount to 31.1 billion MDL, which is 12.6% more than in 2010. As a share of the GDP the revenues of the national public budget will decrease slightly from 38.3% in 2010 down to 37.8% in 2011. The budget deficit will be 1.9% (1.6 billion MDL) in comparison with 2.5% (1.8 billion MDL) in 2010.

The revenues of the state budget in 2011 will amount to 19.08 billion MDL, or 1.9 billion MDL more than in 2010; 14.8 billion MDL of these revenues will be tax revenues. The expenditures planned are established at the level of 20.4 billion MDL, 1.6 billion MDL more than in the previous year. The deficit of the state budget will constitute 1.2 billion MDL.

In the field of foreign affairs, the first quarter of 2011 was marked by the visit of the Vice-President of the United States of America, Mr Joe Biden who expressed the US position with regard to the Republic of Moldova in his public speech, and announced financial support for the country (the USA will grant 262 million USD to the Republic of Moldova over the next 5 years in support of reforms; this amount will be primarily designated for the roads infrastructure and agriculture). The Vice-President also pledged assistance in providing solution for the territorial integration of Moldova.

The Republic of Moldova continues to maintain and deepen the European integration process, which was expressed through the fifth round of negotiations of the Association Agreement, held in Brussels on February 17, 2011. During the negotiations, members of the EU delegation welcomed the new governance programme of the Alliance for European Integration. The EU praised the ambitions of the Republic of Moldova to quickly advance on the path of the European integration.

On March 17 of this year, a meeting of the joint Intergovernmental Commission between Moldova and Russia was held in Moscow. During this meeting, the stages of implementation of the decisions of the XI Meeting of the Commission held in 2010 in Chisinau and ten subjects concerning important aspects of future commercial and economic cooperation between Moldova and Russia in such areas as agriculture, thermal energy industry and transportation, interregional cooperation, labour force migration, humanities etc., as well as the legal framework of bilateral reports, were examined.

Between March 29-30, Donald Tusk, the Prime Minister of the Republic of Poland, visited the Republic on the invitation of Mr Vlad Filat, the Prime Minister of the Republic of Moldova. Besides bilateral visits based on the constant assistance and support provided to the Republic of Moldova, Mr Tusk together with his Moldovan counterpart presided over the EU – Moldova Forum, organized under the auspices of the two Prime Ministers. The first EU – Moldova Forum provided the framework for an exchange of ideas, experience and discussions regarding possible cooperation in future.

On April 6, 2011 the Managing Council of the International Monetary Fund approved the decision to grant to the Republic of Moldova a next tranche of 50 million SDR, -equivalent to 79 million USD; the funds are allocated for the budget support (15 million SDRs, equivalent to 24 million USD) and the replenishment of the currency reserves (35 million SDRs, equivalent to 55 million USD).

As regards the economy, the first quarter of 2011 was marked by the series of price hikes, among which the increase of the natural gas price by 12.2%, and an increase in the electricity price in April 2011 should be mentioned. The new contracts for electric power supply entered into effect, raising the purchase price of the electricity for providers to the level of 6.1 cents per kWh.

There was another price increase for the oil products. The first price increase for oil products in Moldova occurred in the first half of January 2011. The price for petrol increased by 40 bani and for diesel by 60 bani. Next increase of petrol and diesel prices was registered on March 14, when it increased by about 40 bani per litre, the equivalent of 3%. The third wave of price rises took place in April when the prices for diesel at some petrol stations of Moldova grew by 30 bani per litre(2%)reaching 15.19 MDL per litre in comparison with the previous price of 14.89 MDL per litre.

Another event during the afore-mentioned period was introduction of price regulation in the pharmaceuticals market in the Republic of Moldova. Starting from January 1, 2011 the price for a number of medicines was reduced. The Cabinet of Ministers voted and introduced certain amendments in the Regulation on medicines pricing. Therefore, the Government introduced control over some basic factors such as purchasing price, standard for profitability for domestic producers, exemption from the value added tax for domestic producers and regulations for medicine pricing with reference to the producer prices.

At present, the National Price Catalogue includes 4118 pharmaceutical products from about 6485 products from the state nomenclature of the medicines.

The introduction of an embargo on wheat export was notable event in the area of agriculture and food industry. This subject was extensively covered by the mass media. The authorities justified the decision by the fact that wheat exports increased three times, which was considered as a danger for the food security of the country. This decision was subsequently revised and the ban was lifted.

SUMMARY

Production

The performance of the national economy in 2010 has been strong. After a decline in 2009, related to the consequences of the global economic and financial crisis, the Republic of Moldova's economy grew by 6.9%. Moreover, the national economy has been growing in virtually all sectors.

In the structure of GDP by types of usage, final consumption remains at high level, which last year reached a record level compared to GDP volume. Significant structural changes occurred in the past two years in gross capital formation and the trade deficit (net exports). Changes in inventories remain at a level below the historical average. Thus, between 2009 and 2010, the share of gross capital formation in GDP total volume has declined. During the economic recovery, export growth rates have accelerated in comparison with the growth rate of imports.

As a general trend in the GDP structure by category of resources, the share of gross value added has reduced and the share of net taxes on goods in GDP has increased.

In the last year there was a changing trend; with a reduction in the share of services in total goods and services produced and gross value added while the share of goods has increased.

As regards the structure of the industrial sector, the main categories are the production of household goods and intermediate goods. Energy related activities and goods are the third largest industrial segment, followed by the capital goods industry and production of durable goods.

The industrial sector has a high degree of geographical concentration. During 2008-2010, the level of industrial concentration in Chisinau increased from 51.6% to 57%. In other regions, there was a slight decrease in the concentration of industrial activity.

Prices and exchange rates

Before the crisis, the price level was relatively high with most price indices growing annually at rates exceeding 10%. In 2009, in conditions of economic decline, prices generally fell. In 2010, the prices rose again but at a more moderate level, price indices growing less than by 10%, except for the prices of agricultural products. This trend continued in the first quarter of 2011, most price indices increased by less than 10% compared to the corresponding period of previous year. Only prices of agricultural products rose by 17.3%. Factors that have spurred rising prices in the first quarter of 2011 are the increased prices of energy products: oil and gas, as well as increasing food prices on international markets.

In the first quarter of 2011, national currency strengthened against the USD both in nominal terms (2.2%) as well as in real terms (by 9.37%); thereby extending the trend that began in the first half of 2010. On the other hand, the nominal rate of the MDL against the EURO depreciated by 2.3%, while the actual rate was relatively stable. At the same time, for the period January 2005 - March 2010 a general trend of exchange rate appreciation of the national currency in real terms both against the USD and against the EURO was observed.

Public Finance

There was a general growth in public revenues in the national public budget, with a noted decrease in 2009. The deviation from general trend resulted from the global economic crisis, which gave rise to lower budget revenues in 2009. The year 2010 was marked by recovery as a result of the revival of economic activity in the post-crisis period. Of total budget revenues, tax revenues have the most important share, according to the situation observed in the first quarter of 2011.

Public expenditure during the period 2005-2010 shows a continuing upward trend, having reached a peak in 2010. However, over the years a slight increase in the share of public expenditure in GDP is noticeable, which was particularly dramatic in 2009 (as a result of the global economic crisis and political disturbances in Moldova), so that in 2010 a downward trend of the share of public spending in GDP arose, as a result of the start of public expenditure optimizations procedures. The largest share of public spending relates to social expenditure, followed by economic expenditure.

With regard to the public debt, there is a trend of long-term foreign lending and short-term domestic lending. Foreign loans represent the long-term debt and internal sources represent the short-term debt. In principle, government programmes that require a longer period of implementation are funded from foreign loans, while internal sources are cover current needs. A further factor here is the higher cost of domestic borrowing compared to external financing.

Loans provided by international financial organizations were the main contributors to the external public debt.

Banking sector

Moldova's banking sector grew in the period 2005 to 2010 and the trend of key indicators in the banking system remained positive, being relatively diversified and with satisfactory level of competition in the sector. The banking sector has shown good immunity and high stability during the global financial crisis.

Thus, in 2010 and the first quarter of 2011, the sector continued its development having registered a growth both in lending and in deposits. Positive developments in the banking sector are reflected by improving banking activity indicators (profitability, liquidity and sustainability).

At the beginning of January 2009 there was a continuing decline in interest rates; both on loans and on deposits in national currency - this trend stabilized in the second half of 2010. Accordingly, in March 2011 the average interest rate on credits in national currency amounted to 14.60% and the average rate on deposits reached the level of 7.88%. In the same period, the banking margin for operations in local currency reached a level of 6.72%.

In general, in 2010 and the first quarter of 2011, the banking system supported the national economy through the new economic conditions and rules, keeping its stability and credibility in spite of a generally unfavourable economic environment.

In this context, the analysis of the development of the microfinance sector shows that, although it has a smaller share in the country's economy, including compared to the banking sector, its coverage is very extensive, offering accessible and affordable credit services to small and

medium-sized enterprises, as well as to socially vulnerable groups of the population throughout the country, primarily in rural areas.

Monetary policy

In the last five years monetary policy in the Republic of Moldova has been marked by an attempt to implement an inflation targeting regime. Progress in this direction has been recorded, especially in 2010, with the NBM meeting several conditions characteristic to this monetary policy regime, such as: improving communication process with the public and reducing interventions on foreign exchange.

The presence of liquidity excess in the banking system makes it unnecessary for the commercial banks to call upon the loan resources of the NBM. For this reason NBM cannot effectively use the base rate to influence interest rates operated by commercial banks. In these circumstances the national monetary authority acts in a twofold manner:

- on the one hand to reduce the liquidity excess, mainly, the issue by the NBM certificates and permanent facilities, in particular overnight deposits are used; and
- in order to influence the level of resources held by banks and interest rate by default, the change in the rate of the compulsory reserves is used.

Foreign trade

Following the crisis, the foreign trade recovered. A faster growth of exports compared to imports was characteristic for 2010, a trend which was maintained also in Q1 of 2011. During this period, exports amounted to USD 478.6 million, representing a growth of 58% compared to the same period of the previous year, while imports amounted to USD 1,052.9 million, representing an increase of 44%.

Export growth during this period was determined largely by increasing trade relations with EU countries. However, the structure of exports is maintained in old patterns, being dominated by food products at the level of 45%.

Although, given that the main partners have restored economic growth, - slow yet steady -, external trade is likely to continue to grow, but its performance is limited by a number of factors such as: high degree of geographical concentration of exports, rather high deviation from the global structure of exports, still relatively low level of exports of medium and high technology-intensive products, compared to EU countries, reduced price competitiveness of domestic products as a result of growth in recent years of the real exchange rate.

Foreign Direct Investment (FDI)

Since the beginning of 2010, due to progressive strengthening of the national economy and the economic stabilization of the main countries-investors in the Republic of Moldova, the FDI flows slightly grew, which amounted to USD 198.9 million, having recorded a growth of 55.6% compared to the previous year. Despite this relatively high rate, the FDI absolute value barely exceeds the level recorded in 2005.

The recovery of FDI flows in 2010 occurred especially due to increased investments of investors which are already operating in the national economy, while the entry of new investors played a secondary role. In this period the reinvested income and investments in the form of other capital grew by 34% and 45% respectively, while direct foreign investment in social capital decreased by approximately 5%;

Remittances

After a sharp decrease in 2009, remittances resumed their upward trend in 2010. Being reanimated by the inflows which come especially from Russia, overall in 2010 the remittances amounted to USD 1,316 million or 8.7 % more compared to the previous year. At the same time, the volume of remittances inflows in this period remains far below the level of 2008 and even 2007.

Business Environment

Over the past four years (2007-2010) an annual reduction in the number of enterprises registered in the State Registration Chamber (1.8 times) was observed. In 2011 the trend has changed: the growth of businesses compared to the first quarter of 2010 is observed with the index being equal to 115.1%.

In the period 2005-2009 there was observed a minor but steady growth in the number of companies: from 33,100 to 44,600 businesses. The annual growth rates of the number of companies were in 2006 - 109.1%, in 2007 - 110.6%, in 2008 - 105.3%. Even in 2009 when all macroeconomic indicators decreased significantly, the number of enterprises continued to increase, the annual growth rate being equal to 106.0%.

During the period 2005-2008 the results of the business activity increased significantly – the proceeds from sales and the amount of profit (companies receiving profit) (by 79% and 227.2% respectively). In 2009 a significant reduction of these indicators was noted (sales proceeds by 16.3% compared to 2008, respectively a reduction in profit by 34.4%). The average number of employees in enterprises, according to NBS data, between 2005-2008 remained almost unchanged, in 2009 a decrease (94.2% compared to the previous year) being noted, which corresponds to the general trend of reduction in population employed in the economy.

2009 was a more difficult period for business, the Republic of Moldova feeling the full effect of the financial crisis. The economic crisis spread over all sectors of the economy, with negative repercussions, especially in some sectors. In 2009, sectors like: agriculture, fisheries, electricity, gas and water, hotels and restaurants, other collective service activities recorded losses and the return on assets and equity capital were negative.

Currently, small and medium enterprises hold about 98% of the total number of enterprises in the country and reflect a steady growth of the sector. In the total number of SMEs the micro-enterprises dominate (77.4%). When forming the Gross Domestic Product, SMEs are of major importance. In 2009 the share of SMEs in GDP was 28.9%.

The annual growth rate of SMEs corresponds to the dynamics of the development of all enterprises. Within the SME sector, growth in the number of micro, small and medium enterprises recorded different trends. The growth in the number of businesses in this sector has

been primarily due to micro and small enterprises. These business groups are characterized by high annual growth rates.

Currently, several international organizations are conducting studies of business environment in a number of different countries.

Moldova in international ratings: During recent years, Moldova is included in more and more international ratings and analysed as a business location for foreign investors.

In international rankings the Republic of Moldova has quite modest rankings, which reflects directly the structural weaknesses of the national economy.

According to the 2011 Doing Business report, the situation of the Republic of Moldova has worsened by three positions compared to the previous year, ranking the 90th out of 183 countries.

In the ranking of economic freedom, the Republic of Moldova in 2011 ranks 120 out of 183 countries. According to the classification of this rating, Moldova's economy is still „largely not free”.

According to the Global Competitiveness Report during 2010-2011, out of 139 countries that participated in the study, Moldova was ranked at the 94th place. According to the World Economic Forum, the Republic of Moldova is at stage I, namely competitiveness determined by factors of production (unskilled or poorly qualified workforce; natural resources). The Global Competitiveness Index for the Republic of Moldova is 3.9. During 2008-2009 Moldova ranked 99th in the rankings. The Global Competitiveness Index for 2008-2009 was 3.75. Moldova was not included in the 2009-2010 ranking.

Social situation

Demographic situation: For the Republic of Moldova negative trends are observed: the demographic dependence index has grown. The natural decline of the population has increased. The correlation between the number of registered marriages and divorces has improved.

Labour market: Over a long period of time, a reduction in the level of economic activity and employment was registered, and since 2008 there have been increased levels of unemployment. Labour migration abroad of the Moldovan population has become sizeable. Its dynamics is closely related to the economic situation in the recipient countries of the workforce from the Republic of Moldova.

Subsistence level: The increase of subsistence level was determined both by the growing prices and the changes that have taken place in the structure of household consumption expenditures, in particular the increase of expenditures for industrial goods and services.

Disposable income of the population: Year after year the nominal disposable income per capita had a positive trend, except for 2009.

Population consumption expenditures: Inequality of consumption expenditure has a clear decreasing trend, both across the country as well as in urban and rural areas. The Gini coefficient

for consumer spending is substantially lower than the Gini coefficient for the disposable income (8.9).

Work remuneration: In the year 2010 the lowest growth rate of its volume was recorded (100.7%), i.e. the real wage remained at the level of the previous year.

Population poverty: Poverty level fell from 20.6% in 2006 to 7.0% - in 2009, i.e. 2.9 times. In rural areas, on the contrary, the poverty rate grew from 34.1% in 2006 to 36.3% in 2009, i.e. by 2.2 percentage points, or 1.06 times.

Health care: In the year 2010 a relatively high level of morbidity of the population was noted. However, compared with the previous year, the number of cases of infection with specific diseases has increased.

Education: while there were fewer primary and secondary schools, the number of higher education institutions has increased. The number of students in higher education institutions has increased, as well.

Social protection of the population: A positive trend is characteristic in the relation between the pension size and the subsistence level. Similar trend is observed for childcare allowances for insured people (until the child reaches the age of 3).

Crimes: The number of crimes and traffic accidents has increased. The number of fires was reduced.

Forecasts and estimates

Forecasts and estimates made for the years 2011-2013 are optimistic, with GDP growth rates exceeding 6%. In 2011, economic growth of around 6-7% is forecast together with an average annual rate of inflation of 7-8%. The national currency is expected to appreciate slightly against the U.S. dollar. Average wage levels in real terms are forecast to grow by 3-4% in 2011¹.

¹ You may find details in Chapter 7. Estimates and forecasts

Chapter I
OUTPUT

The performance of the national economy in 2010 has been strong. After a decline in 2009, once the consequences of the global economic and financial crisis faded away, the Republic of Moldova's economy grew by 6.9% in 2010. Moreover, the national economy has been growing in virtually all sectors.

An improvement in the economy was already evident at the end of 2009. In the last quarter of 2009, the national economy indicated initial signs of revival. Throughout 2010, growth rates accelerated, resulting in a GDP of 71.8 billion MDL.

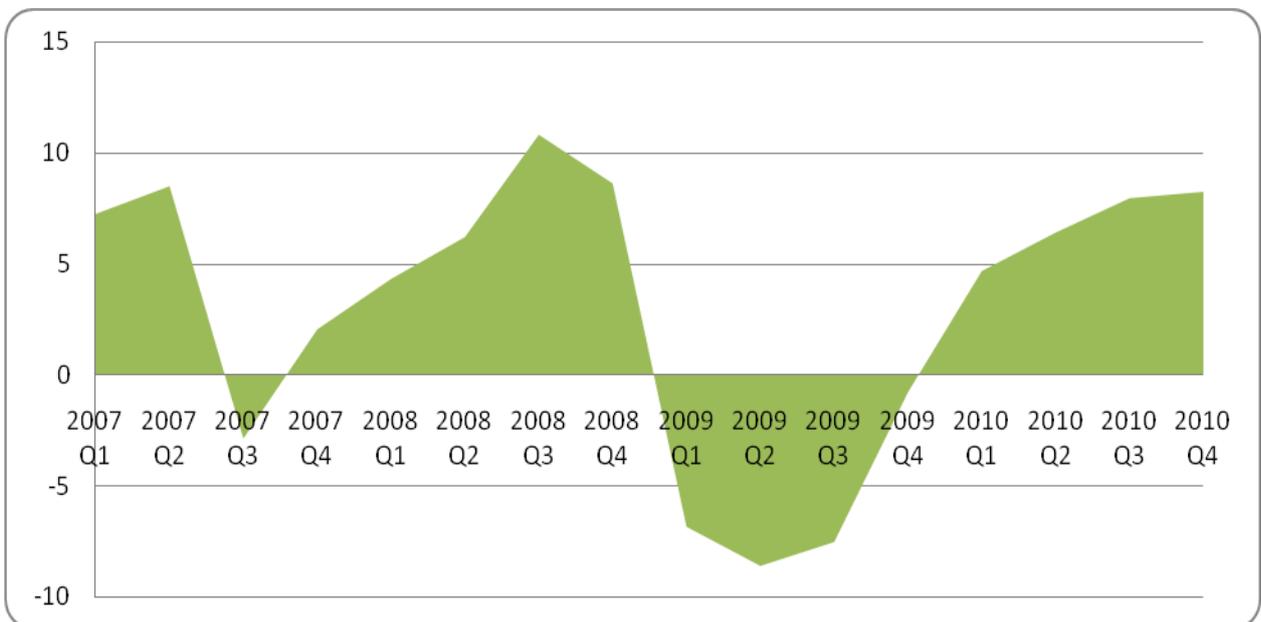


Figure 1.1. GDP growth rate in comparable prices 2007 to 2010 (similar period of the previous year)

Source: Authors' calculations based on NBS' data.

GDP by categories of expenditure

In the structure of GDP by categories of expenditure final consumption still maintains high-levels, which, in 2010, exceeded the volume of GDP by 15%, the highest level of consumption in Moldova over the last five years. Significant structural changes occurred in the past two years in gross capital formation and the trade balance deficit (net exports). Thus, in 2009 and 2010, the share of gross capital formation in total GDP declined from 39.2% in 2008 to 23.1% and 23.7% respectively. The share of net exports fell significantly, from 52.8% in 2008 to 36.6% in 2009 and 39.6% in 2010. The basis of those reductions being the global economic and financial crisis.

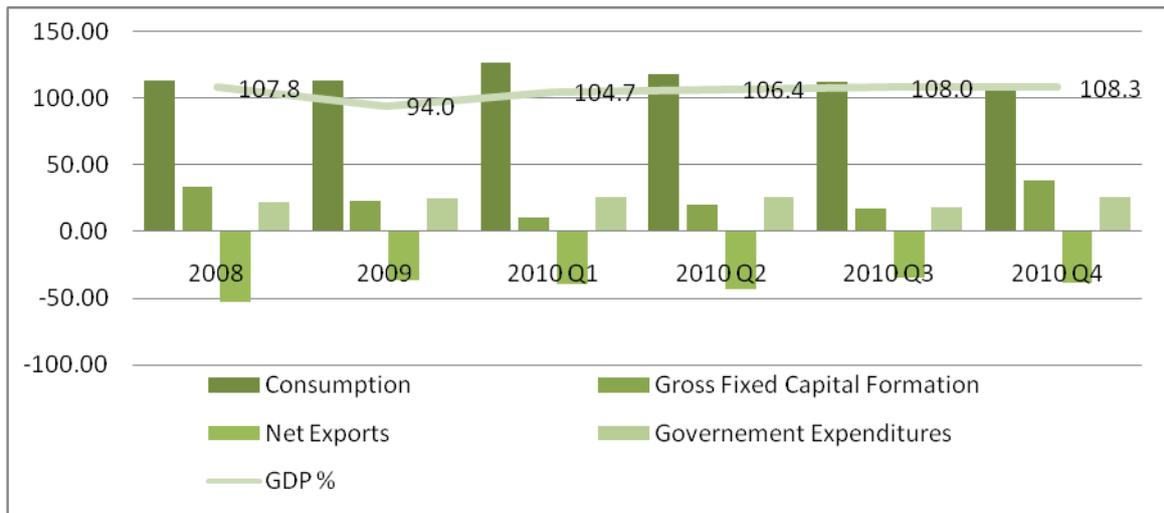


Figure 1. 2. Evolution of GDP categories of expenditure, (% of GDP)

Source: Authors' calculations based on the NBS' data.

Domestic demand is the main and dominant component of GDP formation by categories of expenditure, amounting to 99 billion MDL in 2010, with a ratio of 178% to GDP. Domestic demand declined slightly as a percentage of GDP.

The contribution of final consumption by households made the largest contribution to total national demand, about 51%. The trend over the last three years shows a slight increase in the share of household consumption in the domestic demand - 60% in 2008, 64% in 2009 and 66% in 2010. The growth rate of final consumption of households in comparable prices in 2010 was 9%, while public sector consumption rose by 0.27% in the same year. The government has maintained the same level of expenditure, as a percentage of GDP, compared with 2009.

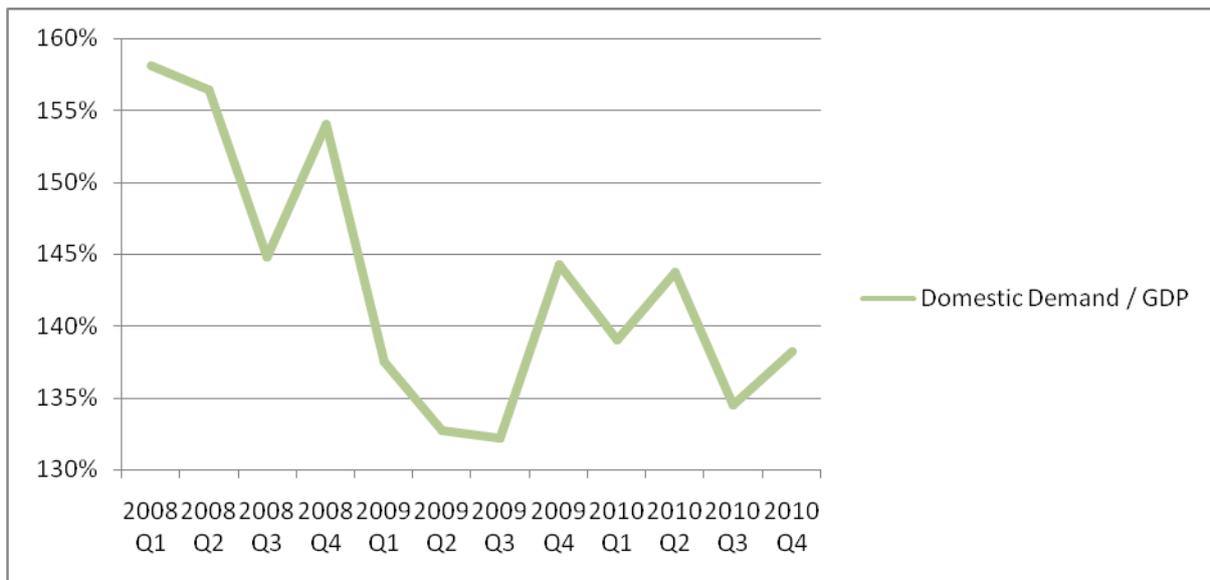


Figure 1.3. Share of Domestic Demand in GDP (%)

Source: Authors' calculations based on the NBS' data.

The structure of gross capital formation has changed after the crisis year of 2009. While Gross Fixed Capital Formation is recovering slowly after the high levels achieved in 2007 and 2008 (around 34% of GDP), changes in inventories as a share of GDP, remain low (less than 1% of GDP), totalling 691 million MDL in 2010. In this context, the share of Investment in GDP is declining as compared to 2008, but increased by 1 percentage point in 2010 in comparison to 2009. The increase of gross fixed capital formation in 2010 in comparable prices was of 17.8%.

Table 1.1. Investment structure share in GDP

| Years | Investment Share in GDP | Share of gross fixed capital formation in GDP | Share of changes in inventories in GDP |
|-------|-------------------------|---|--|
| 2006 | 33% | 28% | 4% |
| 2007 | 38% | 34% | 4% |
| 2008 | 39% | 34% | 5% |
| 2009 | 23% | 22.6% | 0.55% |
| 2010 | 24% | 22.7% | 0.96% |

Source: Authors' calculations based on the NBS' data.

In 2010, imports grew faster than exports. Exports increased by 12.8% and imports by 13.7%. There was a significant recovery in exports in the fourth quarter of 2010. When exports increased by 24% over the same period of 2009, compared with a 17% growth in imports. According to the NBS, this trend continues and the export of goods, during the first quarter of 2011, increased by 58% and imports by 44% over the same period of 2010.

GDP BY CATEGORY OF RESOURCES

The period 2005-2010 shows a reducing trend in the share of goods in the gross value added structure: the share of agriculture in GDP declined from 16.4% to 11.9%, and that of industry from 14.7% to 13.3%. Simultaneously, during the reference period, the share of services increased from 54.2% to 58.2%. The most dynamic sectors of services have proven to be the development of wholesale and retail trade segments.

During 2005 to 2010 the share of gross value added in GDP was relatively constant ranging between 82% and 84%. In the same period, the structure of gross value added indicates a decline in the share of agriculture, from 16.4% to 11.9% and of industry from 15.8% to 13.2%.

However, in 2010, due to a good agricultural year, there was an increase in the share of agriculture in gross value added, 11.9%, compared to 8.5% in 2009. The largest share in gross value is that of the services sector. In particular, the development of the wholesale and retail segment of the services sector has been significant. In the period 2005-2010, this segment increased its share of GDP from 10.4% to 12.9%.

The share of gross value added is declining (from 94% in 1990 to 83.4% in 2010), as a general trend, in the GDP structure by category of resources, and the share of net taxes on products in GDP is increasing.

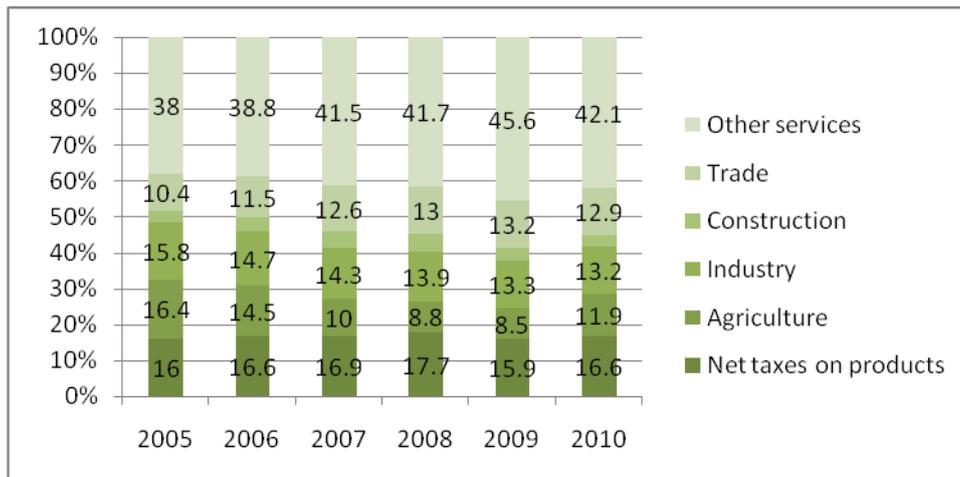


Figure 1.4. GDP structure by resource categories (%)

Source: Authors' calculations based on the NBS' data.

The gross value-added share of the services sector in the total value-added increased from 50.4% in 2005 to 62.3% in 2009. In 2010, this trend reversed. In parallel with the economic recovery, the production of goods recovered faster in relation to Value Added than the supply of services.

In the services sector, there was a steady increase in the share of gross value added in the wholesale and retail segment - from 10.4% in 2005, up to 12.9% in 2010. Other sectors of services remained relatively stable throughout this period. The share of construction in GVA increased steadily but did not recover after the 2009 economic downturn. In 2010, there was a decline in the share of this sector in GVA. A relatively similar trend affected real estate transactions, which recorded a rapid growth in 2006-2008, stagnated in 2009, and, in 2010, slightly reduced to the level of 6% of GVA.

The transportation and communications segment of the services sector have a relatively stable and high share in GVA, although, in 2010, this slightly reduced from 14.2% to 13.7%.

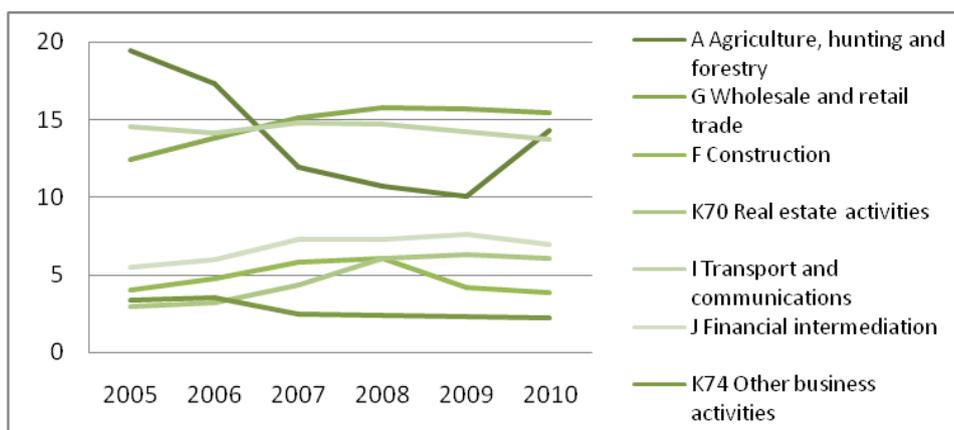


Figure 1.5. The share of services in total Gross Value Added (%)

Source: Authors' calculations based on the NBS' data.

Contribution of the agricultural sector to the 6.9% growth of GDP in 2010 was 0.6% and the increase in comparable prices of the Value Added in Agriculture was of 7.25% compared to

2009. Industry contributed 1.07% of the GDP growth the real growth rate being 8% compared to 2009. Construction made a modest contribution of just 0.25%, registering a significant increase of 7% in 2010, after a decline of 27% in 2009.

Other services, including trade, transportation and financial services had the greatest influence, contributing 3.2% to the GDP growth. The growth rate of other services in 2010 in comparable prices amounted to 5.3% compared to 2009. Taxes on products was the second major influence on GDP growth; contributing 1.8% to the overall GDP growth. In real terms, growth rate of taxes on products increased by 11.6%, one of the largest growth rates among categories of resources used to calculate GDP.

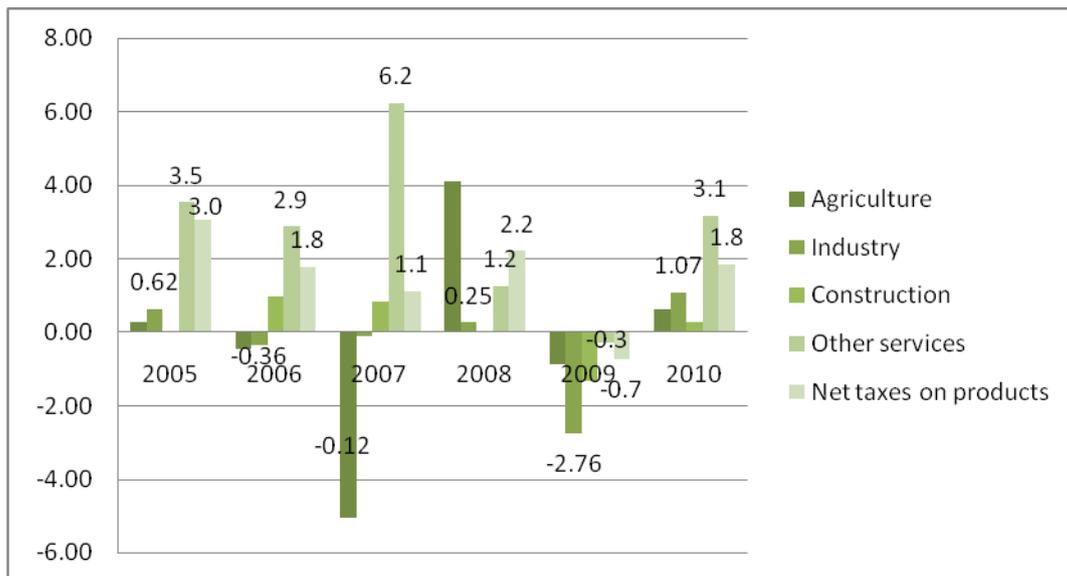


Figure 1.6. Contribution to GDP growth of resource categories (%)

Source: Authors' calculations based on the NBS' data.

Production of Goods and Services

Industry

From 2005 to 2010, Moldovan industry had an uneven development and declined in overall terms. By 2009, the industrial sector was affected by some considerable shocks and the global economic crisis caused a decline of 21.1%. The growth of 7% recorded in 2010 is indicative of only a partial recovery of the sector as the level of industrial output before the crisis has not been regained.



Figure 1.7. Industrial Production Indices

Source: Authors' calculations based on the NBS' data.

From 2005 to 2010, the structure of the industrial sector remained relatively stable. The processing industry is the most important element of Moldovan industry. However, the share of the processing industry in industrial production decreased slightly from 87.5% in 2005 to 85.3% in 2010. This sub-sector was strongly affected by the global economic crisis. The processing sector contracted by 22.8% in 2009. In 2010, the processing industry partially recovered with a growth of 8%.

Half of the processing industry (47% in 2010) is represented by the food and beverages industry. Even before the effects of the global economic crisis, the food industry was affected by other shocks: in 2006, the introduction of prohibitive measures on the export of alcoholic beverages and other products onto the Russian market had a dramatic negative impact on the production of alcoholic beverages for 2006 and 2007; the drought in 2007 resulted in a decline in cereal production of 7.8%.

In 2009, with the full impact of the global economic crisis, the food and beverage industry experienced a dramatic contraction of 17.6%. In 2010, the food and beverage production increased by 8.8% as compared to 2009.

Clothing production is also important in the processing industry and represents 24.6% while the production of other non-metallic mineral products accounts for 18.6%.

The energy sector is the second industry in Moldova, with a share of 13.2% of industrial production in 2010. Even in the conditions of general economic decline, energy production decreased less than other industries. In 2010, the energy sector expanded marginally, by 1%.

The mining and quarrying industry has a small share in industrial production. The crisis caused a 29.3% contraction in this sub-sector in 2009. As mining and quarrying is directly related to construction, the negative impact caused by the economic crisis on the construction was the inevitable result of the devastation of the mining and quarrying industry. The slow recovery of the construction sector in 2010 contributed to a small growth in the mining and quarrying industry, of just 5.6%.

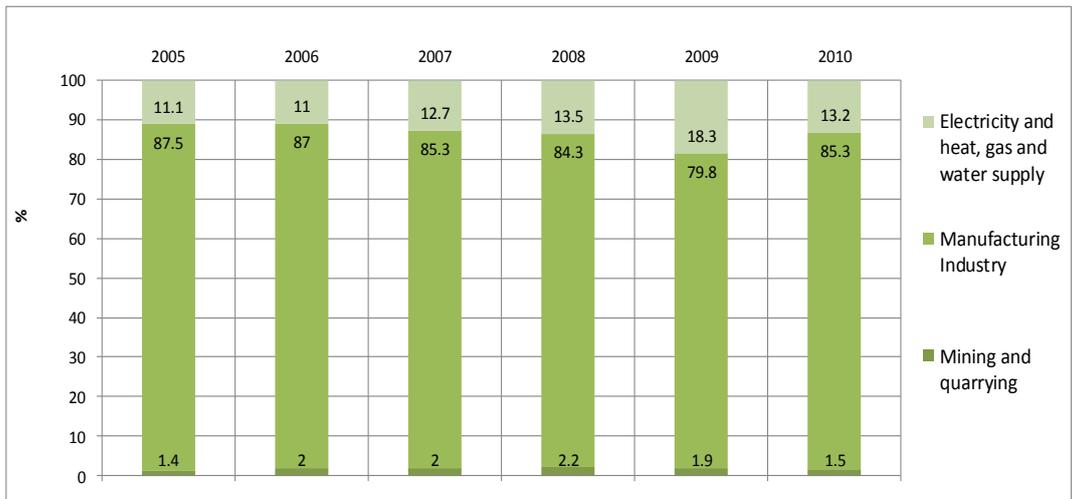


Figure 1.8. The structure of industrial production

Source: Authors' calculations based on the NBS' data.

As regards the structure of the industrial sector, the primary category is the production of household goods accounting for 56.6% of activity, followed by the production of intermediate goods accounting for 21.9%. Energy related activities and goods is the third largest industrial segment (15.8%) followed by the capital goods industry (3.8%) and the production of durable goods (1.9%).

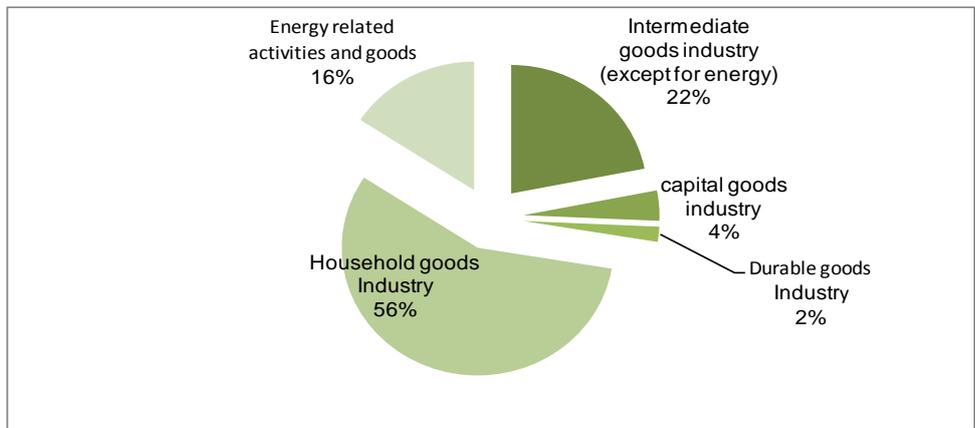


Figure 1.9. Structure of industrial production according to the main industrial groups in 2010 (%)

Source: Authors' calculations based on the NBS' data.

Moldovan industry has a high level of geographic concentration. In the period 2008-2010, the level of industrial concentration in Chisinau increased from 51.6% to 57%. In other development regions, there was a slight decrease in the concentration of industrial activity.

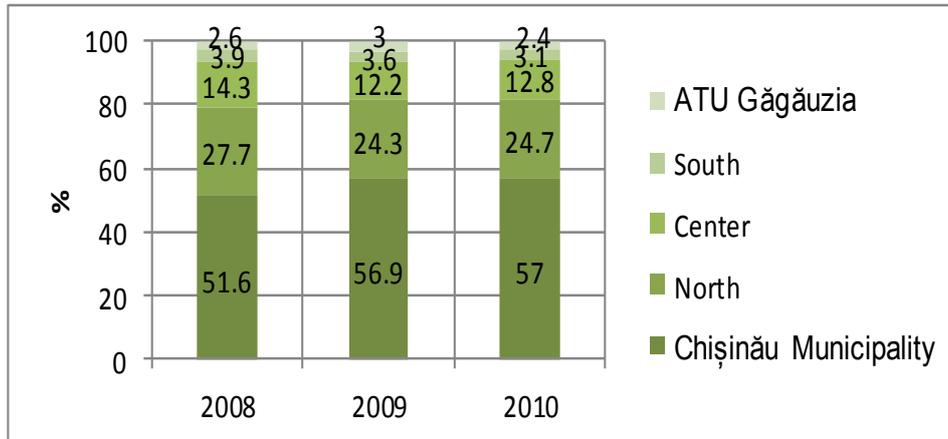


Figure 1.10. Concentration of industrial activity by development regions

Source: Authors' calculations based on the NBS' data.

During January and March 2011, the industrial sector grew by 8.5% compared to the same period of last year. At the sub-sector level, the largest increase was in the mining and quarrying industry growing by 26.5%, followed by the processing industry with a growth of 12.6%, while the production and distribution of electricity and heating decreased by 3.7%. In Manufacturing industry the highest increases were registered in: manufacture of prepared animal feeds increased three times, the production of medical, precision and optical instruments increased 1.66 times and manufacturing of furniture and other industrial activities increased 1.64 times. Decreases were attested to: the production of plant and animal oils and fats by 13.5%, steam and hot water supply by 4.7%, textiles by 4.6%.

Agriculture

Trends in the Moldovan agricultural sector have been highly volatile in the last four years. In general terms, the share of agricultural production in Gross Output fell between 2000 and 2010 (from 25.2% to 13.4%). Growth, in comparable prices, in the agricultural sector shows a modest production of agricultural goods and services. While agricultural production increased by 7.9%, 32% and 8.3% in 2008, 2010 and first quarter of 2011 respectively, declines in production, caused by external factors (droughts, floods, etc.) in 2006, 2007 and 2009, had a decisive impact. Thus, agricultural production decreased by 2.1% by 2010 compared to the year 2005.

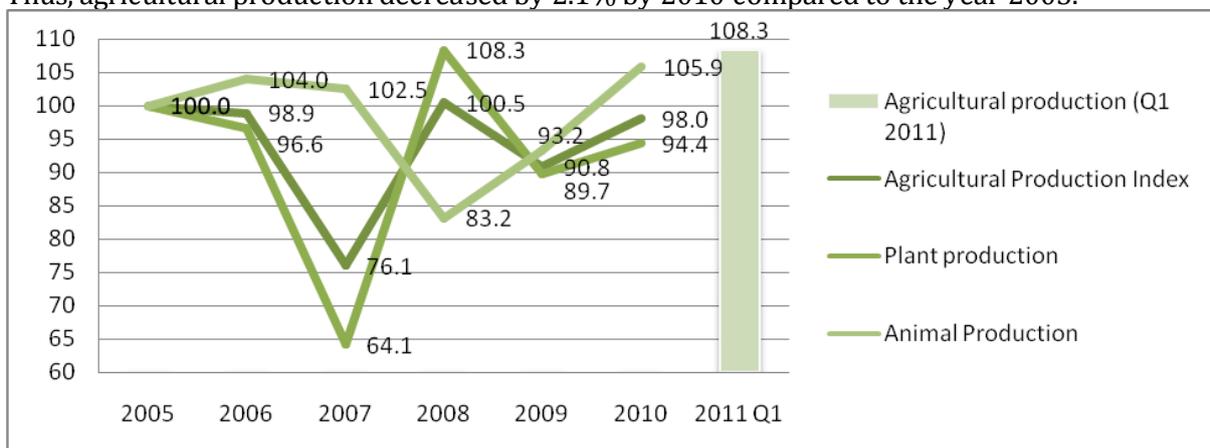


Figure 1.11. Index of gross agricultural production, 2005-2010, 2005 = 100%

Source: Authors' calculations based on the NBS' data.

In the first quarter of 2011, the livestock production was the biggest contributor to overall agricultural production, representing more than 90% of total production and with a growth rate of 8.4% in comparable prices. In the first quarter of 2011, there was an increase in the production of cattle and poultry of 15.3%. The production of eggs and milk decreased by 5.4% and by 2% respectively.

It should be noted that, while the volume of the livestock production is increasing, livestock numbers are decreasing. The livestock continue to decrease. The exception is poultry and a relative stability is observed in the number of sheep and goats, which, in the first quarter of this year, registered a growth of 3%.

Table 1.2. Number of livestock and poultry (thousand heads at the end of the period)

| Year | Cattle | Out of which cows | Pigs | Sheep and goats | Poultry |
|---------|--------|-------------------|------|-----------------|--------------|
| 2001 | 405 | 272 | 449 | 947 | 14119 |
| 2005 | 311 | 217 | 461 | 938 | 22235 |
| 2010 | 218 | 159 | 481 | 887 | 22457 |
| 2011 Q1 | 216,8 | 156 | 478 | 915.4 | Lack of data |

Source: NBS

Traditionally, the vegetal production in the first quarter of the year has an insignificant share in total agricultural production; it is recovering in the third and fourth quarter. Thus, in the first quarter of 2011, the increase of vegetal production in comparable prices was 1.1%.

The main vegetal products in Moldova are grapes (accounting for some 19% of total agricultural output in comparable prices, followed by grains (about 18%) and dairy production (about 11%).

Table 1.3. Production of main plant products (thousand tonnes)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------|------|------|------|------|------|------|
| Cereals: | 2838 | 2290 | 901 | 3169 | 2171 | 2428 |
| Wheat | 1047 | 678 | 402 | 1286 | 735 | 739 |
| Corn | 1492 | 1323 | 363 | 1479 | 1140 | 1422 |
| Sunflower | 331 | 380 | 156 | 372 | 284 | 383 |
| Sugar beet | 991 | 1177 | 596 | 961 | 336 | 824 |
| Tobacco | 6.7 | 5 | 4 | 4 | 4 | 7 |
| Potatoes | 378 | 375 | 200 | 271 | 261 | 279 |
| Vegetables | 389 | 475 | 221 | 376 | 307 | 343 |
| Fruits | 386 | 329 | 264 | 370 | 305 | 308 |
| Grapes | 519 | 466 | 598 | 635 | 682 | 481 |

Source: NBS

Analysis of the main agricultural crop yields over the period since 2005 shows that crop yields were relatively stable (Table 1.3) apart from two years (in 2003 and 2007) when there were significant deviations caused by drought.

Table 1.4. Average yield for the main agricultural crops (quintals/ha)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------|-------|-------|-------|-------|-------|------|
| Wheat | 26.1 | 23.4 | 13.1 | 31.3 | 20.9 | 26.5 |
| Corn | 32.7 | 28.8 | 7.8 | 34.5 | 28.4 | 34.1 |
| Sun-flower | 12.0 | 13.2 | 6.7 | 16.3 | 12.5 | 15.2 |
| Sugar beet | 290.1 | 277.8 | 178.6 | 388.9 | 143.0 | 315 |
| Potatoes | 105.4 | 109.5 | 56.3 | 86.7 | 93.6 | 101 |
| Vegetables | 104.4 | 110.8 | 56.9 | 92.5 | 84.3 | 89.2 |
| Tobacco | 14.2 | 13.9 | 11.9 | 14.5 | 16.7 | 16.6 |
| Fruits | 36.7 | 31.2 | 26.0 | 35.8 | 31.4 | 33.8 |
| Grapes | 36.0 | 32.0 | 41.0 | 44.4 | 48.2 | 35.0 |

Source: NBS

In 2010, for every MDL of primary agricultural production, only MDL 0.5 worth of food processing activity was carried out, which compares with the level of the 1990s. This ratio has shown a steady decline in recent years, resulting in stagnation in the country's major food industry enterprises (Figure 1.12).

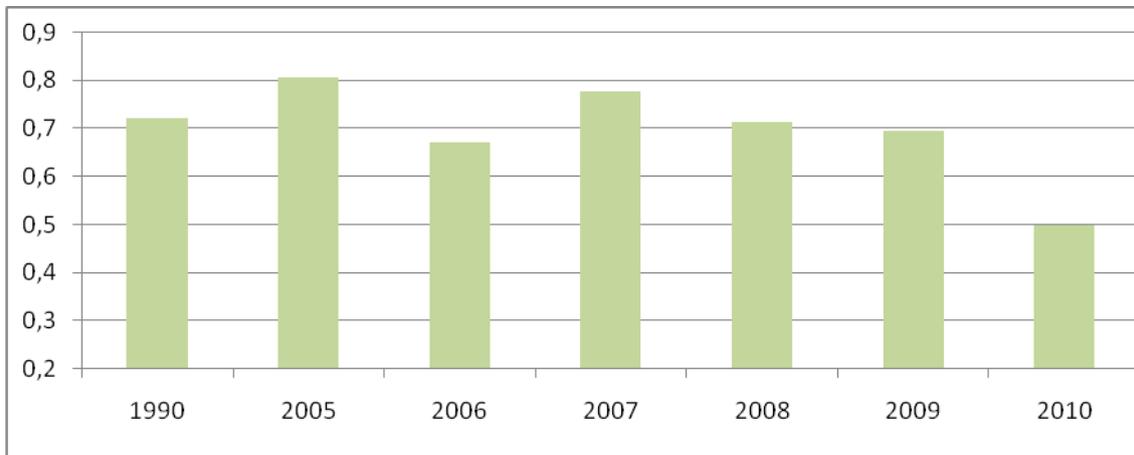


Figure 1.12. The relation between the agricultural and food production and total agricultural production, for 1990-2010, current prices, million MDL

Source: Authors' calculations based on the NBS' data.

Services

The supply of services has grown significantly in the past five years compared to the production of goods. Thus, while the ratio of total produced goods between the year of 2005 and 2010, at current prices, was 1.8, same ratio for services sector was 2.1. In 2010, as the economy overcame the effects of the global economic crisis, this trend was reversed with a decrease in the share of services in Total Output and an increase in the production of goods.

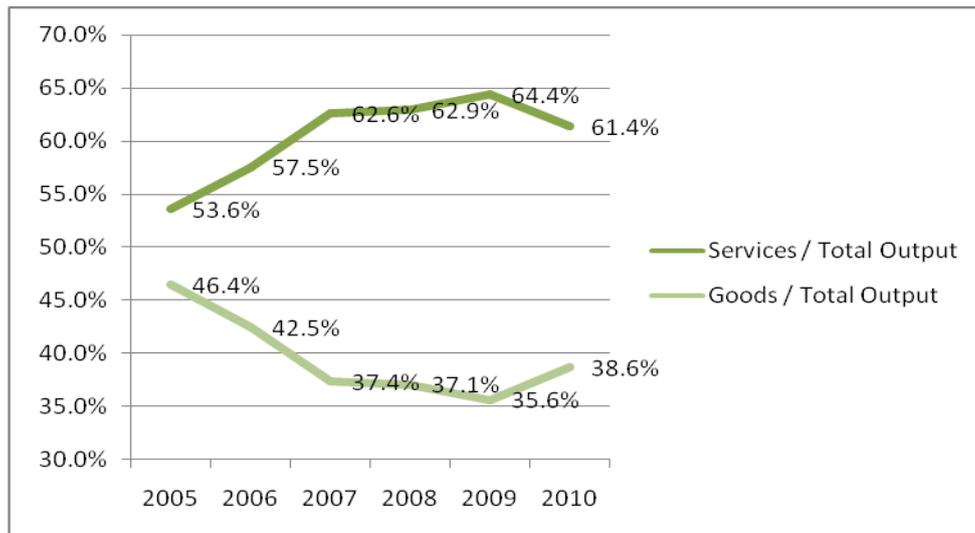


Figure 1.13. Total Output Structure

Source: Authors' calculations based on the NBS' data.

Construction, the wholesale and retail trades and, transport and communications accounted for some 30% of total production/output in 2010 and an average of 34% in the period 2005-2010. This decrease is explained primarily by a decrease of 4.1 percentage points in the significance of construction in 2010 compared to the year 2008 (the highest share for the reported period). This decline was for the second consecutive year, as in 2009 the share of this sector had decreased by 3.6 percentage points compared to 2008.

Since 2007, there has been a steady decline in the share of transport and communications. In 2010 these services represented 13.3% of total output - 0.4 percentage points less than in 2009.

In 2009, due to reduced demand caused by the global financial and economic crisis, both on the domestic and foreign markets, the production of goods recorded an unprecedented decline – by more than 42% compared to the previous year. In 2010, the transportation of goods increased by 12% in comparison with the previous year, out of which the road transport grew by 24%, while the rail transportation contracted by over 9%.

In the first quarter of 2011, 62% more goods were transported compared to the same period of the previous year (out of which 65% - rail, 58% - road). The turnover of goods increased by 43% during this period (out of which rail transportation accounted for 74% and road transportation for 28%).

Table 1.5. Evolution of the goods turnover by transportation means (million tonnes-km)

| | 2008 | 2009 | 2010 | 2010 Q1 | 2011 Q1 |
|--------------------|-------|------|-------|---------|---------|
| Transports – total | 5841 | 3774 | 3244 | 557 | 812 |
| YoY | 99.6 | 64.6 | 112.0 | 107.1 | 142.9 |
| out of which: | | | | | |
| Rail | 2873 | 1058 | 958 | 184 | 318.8 |
| YoY | 92.1 | 36.8 | 90.6 | 77 | 173.5 |
| Road | 2966 | 2714 | 2284 | 373 | 492.4 |
| YoY | 108.1 | 91.5 | 124 | 133 | 128.2 |

Source: NBS

The retail trade is one of the branches of the domestic economy that continues to grow steadily. This services segment employs over 200,000 people. In 2009, in the conditions of the economic crisis, the retail trade experienced a much smaller contraction compared with other industries and areas of the economy: only - 4.4%.

In recent years, the development trend of higher levels of goods turnover via commercial enterprises, in particular large ones, is evident. Accordingly, the share of commercial enterprises in retail trade volume was over 61%.

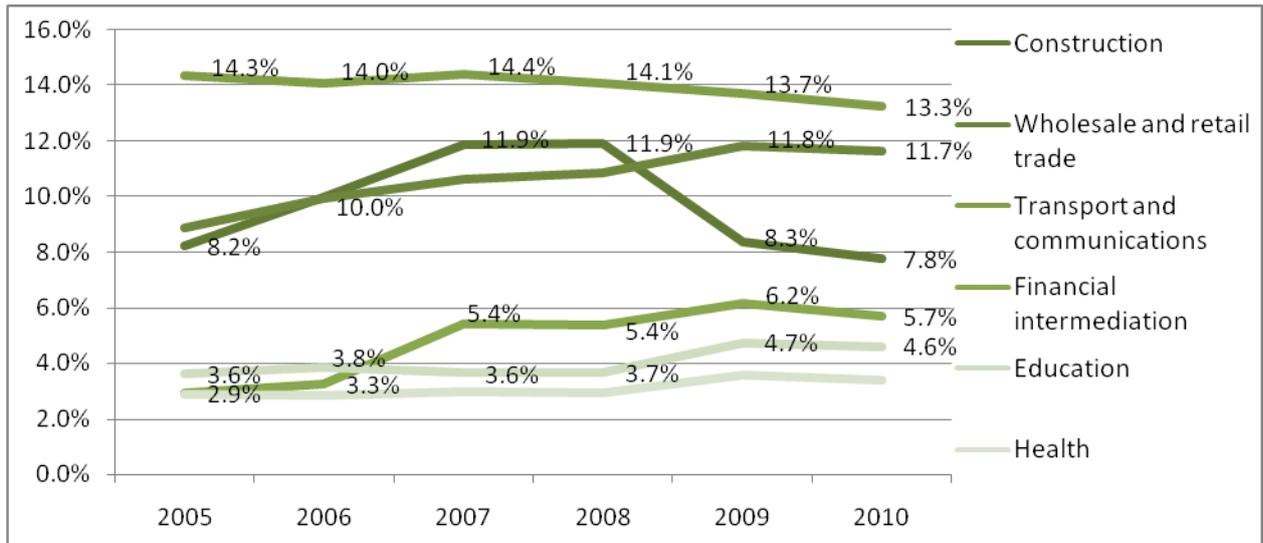


Figure 1.14. Structure of the Services as a share of Global Output

Source: Authors' calculations based on the NBS' data.

Chapter II PRICES AND EXCHANGE RATES

In the period 2005 to 2010 the price movements took place in the following stages:

- before 2009 there was an increasing rate of inflation, generally the annual increases in the different price indices exceeded 10%, with the exception of the price indices for agricultural products;
- in 2009, in the conditions of economic decline, the prices generally fell;
- in 2010, as the economy recovered, the prices rose again but at a more moderate level not exceeding 10%, with the exception of prices for agricultural products that increased by 42.9%;
- Prices for agricultural products have generally been more volatile in comparison with trends in other prices.

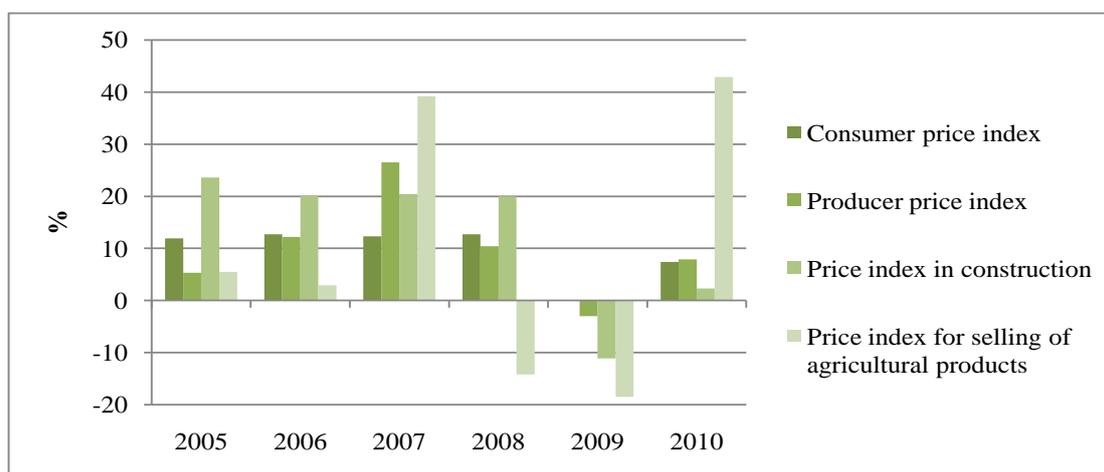


Diagram 2.1. Growth rate of price indexes, 2005-2010

Source: NBS

Prices for energy production had a major influence on price movements in the first quarter of 2011. At the beginning of 2011 for the import price for gas into the Republic of Moldova increased from 262.95 USD/m³ to 293.8 USD/m³. This represents an increase of 11.7% and resulted in an average increase in the price of gas of 12.2%. The increased price of gas affects the whole economy and contributes to the increase of production costs that were then passed on by business operators in the final prices for production. The social effects of rising gas prices were accentuated by price increases affecting housing and public utility services of 13% in January 2011, 10.9 % in February 2011 and 14.3 % in March 2011 (compared to the same periods of the last year). The price of petroleum products also increased significantly. In the first quarter, fuel prices increased by 19.6% in comparison with the same period of the last year. The increased fuel prices were stimulated by the increase cost of imports caused by the increase in world oil prices. Meanwhile, the increased prices of food products on international markets put pressure on the domestic prices of food products.

In the first quarter of 2011, the CPI trend was moderate showing a slight drop in comparison with the same period of the previous year. Accordingly, the annual rate of increase in the CPI was 6.7 % in January, 5.7% in February and 5.8 % in March. In the first quarter of 2011, the CPI increased by 6.1% in comparison with the same period of 2010, representing a lower inflation rate than in the fourth quarter of 2010 when the CPI increase was 8.1%.

The following changes arose in the CPI components:

- in the first quarter of 2011 the price of food products increased by 5.3% in comparison with the same period of the previous year (the annual increase in the different months was: 6.3% in January, 5% in February and 4.8% in March);
- in January-March 2011, the price of non-food products increased by 5.6% in comparison with the same period of 2010 (the annual increase in the different months was: 6.3% in January, 5.4% in February and 4.8% in March);
- the price of services in the first quarter of 2011 increased by 7.4% in comparison with the same quarter of last year (the annual increase in the different months was: 7.1% in January, 6.6% in February and 8.4% in March).

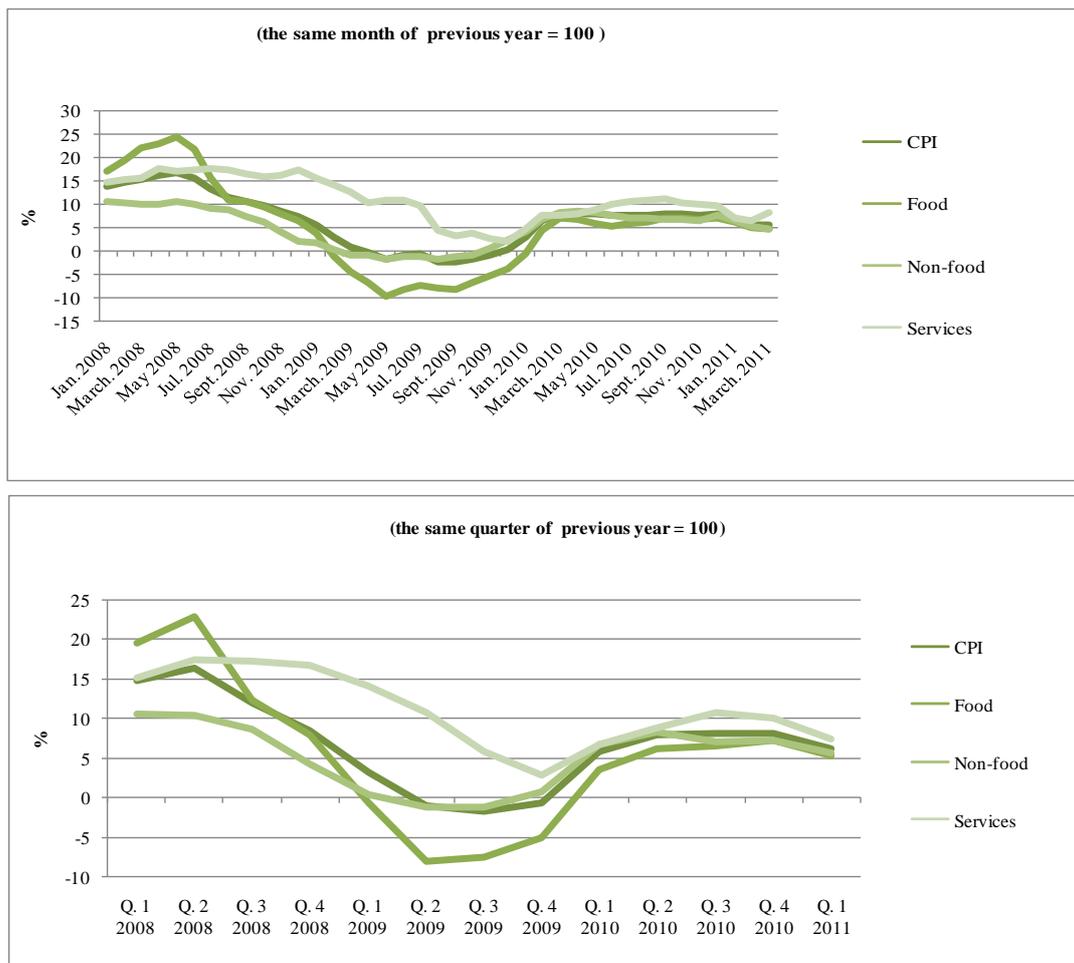


Diagram 2.2. Rate of increase of the CPI and its components

Source: NBS

In the Republic of Moldova the inflation is most likely to have no monetary nature. This conclusion may be made as a result of the examination of the CPI and the base CPI evolution (excluding prices for: food products, products and services subject to regulated prices and fuel. During 2010-2011 the annual rate of the CPI increase surpassed the basic CPI increase rate. Mainly, the level of prices is determined by the variable value that reflects structural deficiencies in the economy: decreased productivity in national economic sectors, inefficient management of state enterprises or a lack of competition, adjustments of import prices (especially for energy products), to allow for exchange rates and unfavourable climatic conditions that may affect the supply of agricultural products.

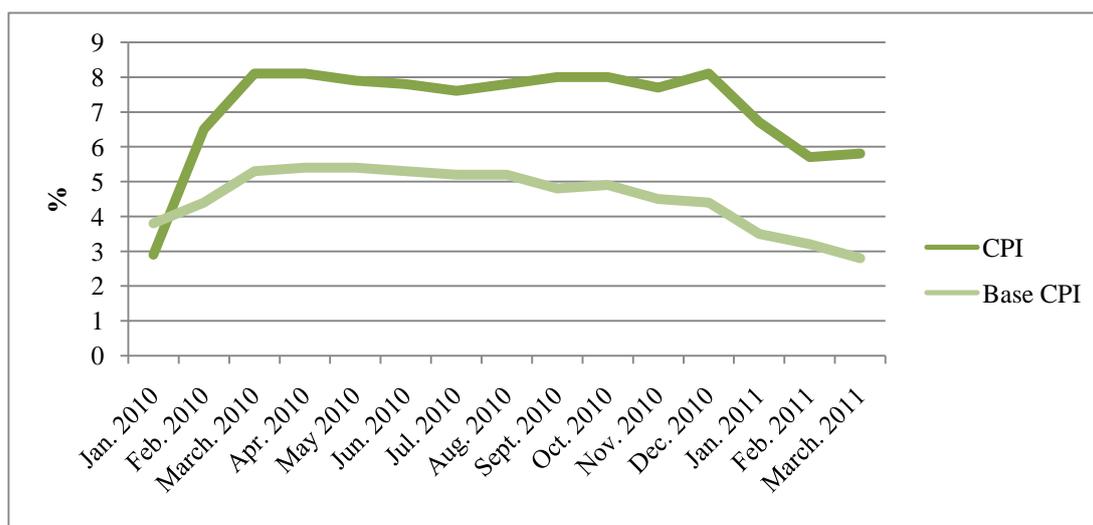


Diagram 2.3. Increase rate of the CPI and the base CPI (in comparison with the same month of the last year)

Source: NBS

The National Bank of Moldova forecasts that in 2011 price inflation will not exceed 10%. Meanwhile there are risks that could provoke further increases in inflation. The intensification of inflationary pressure could arise from the following external factors:

- the increased price of petroleum products that could add to the operating costs of companies that supply transportation services and the supply of agricultural and food products – the cost of diesel fuel represents an important element in the cost structure of the output of economic agents in the agricultural sector;
- the increased price of food products as a result of the developments on international markets;
- the appreciation of the EURO in the relation to the USD (in the Republic of Moldova, the exchange rate between the MDL and the EURO is established on the basis of cross-quotation between the internal exchange rate of MDL/USD and the exchange rate of the EURO to the USD on the international financial markets) that may contribute to higher prices for imported products that are purchased in EURO.

This March, in compliance with the methodological evaluation of the CPI, the weight coefficient was modified on the basis of the structure for financial expenses of the population according to the private household research. Therefore, the weight coefficients for food products (from 0.3487 up to 0.3405) and for non-food products (from 0.3792 up to 0.3709) were reduced. The

coefficient for services was increased from 0.2721 up to 0.2886 that reflects the increase of the influence of the services, especially housing and public utility services, on the general CPI.

The rate of increase of the Index of Industrial Products Prices (IIPP) is trending downwards. In the first quarter of 2011, the IIPP increased by 4.7% in comparison with the same quarter of the previous year. In the first quarter, the power-generation sector experienced a largest price increase (9.1%) in comparison with the same period in 2010 as a result of the rising prices of gas. In other sectors, the price increase was lower: in manufacturing industry prices increased by 3.8% and in the extractive industries by 3.6%. Rising costs for electric power and raw materials (especially for agricultural and food products) are the factors that contributed to the increase of industrial prices.

In the period January-March 2011, the prices of agricultural products increased by 17.3% in comparison with the same period of the previous year. The prices for plant products increased by 31.3%, while prices for animal products decreased by 7%. In the construction sector, prices have been rising for the last two quarters vis-à-vis the same periods of the previous year: by 3.5% in the fourth quarter of 2010 and by 7.3% in the first quarter of 2011.

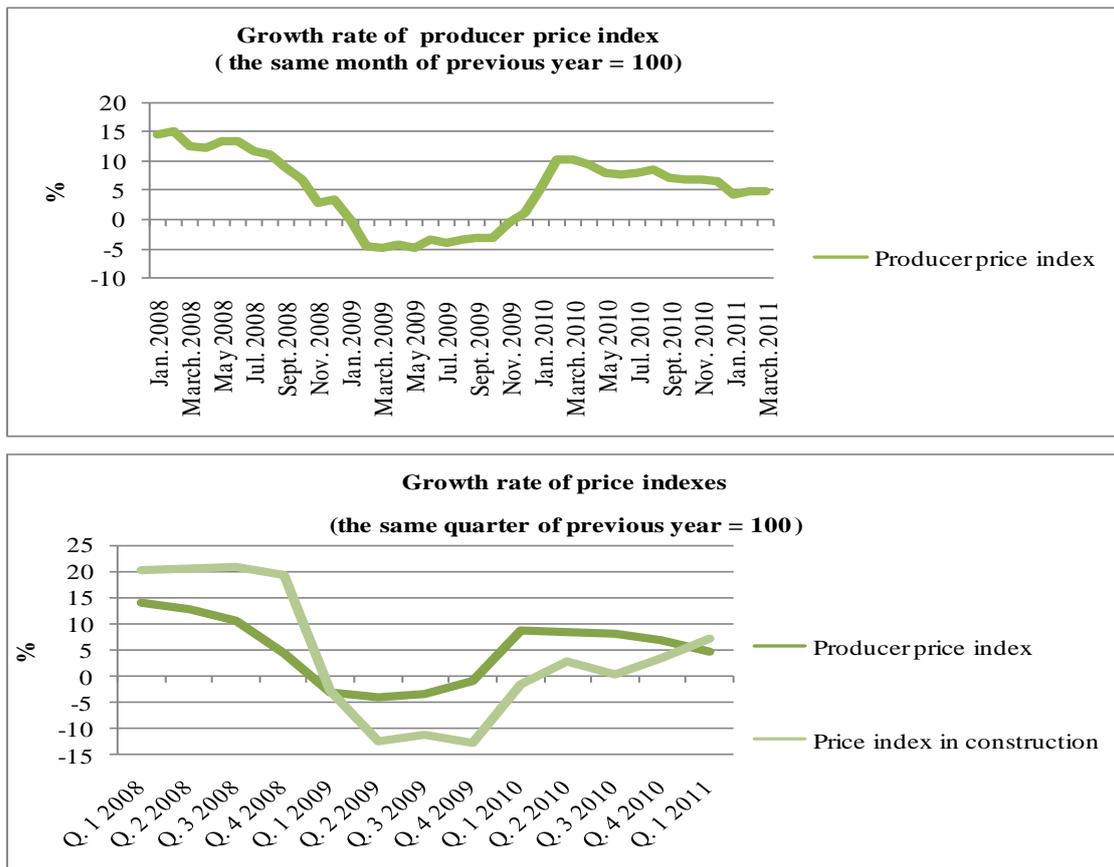


Diagram 2.4. Increase rate for price indexes of industrial producers and in constructions
Source: NBS

Exchange rate

From 2005 until the present, there were several stages in the development of the nominal exchange rate of the national currency in relation to the USD and the EURO:

- a slight devaluation of the national currency in relation to the USD (January 2005 – August 2006) and the corresponding development of the exchange rate of MDL/EURO (May 2006 – March 2008);
- appreciation of the national currency in 2008. In this period the national currency appreciation was based on the increased flow of foreign currency, which, mainly, came from remittances;
- depreciation that lasted during 2009 and during the first months of 2010 in relation to the MDL in comparison with both base currencies. The depreciation was caused by the effects of the global economic crisis that resulted in a reduced currency flow into the country, the response of the population that expected negative economic development and massively purchased foreign currency in the first months of 2009 and the interventions of the National Bank of Moldova in the last months of 2009.
- in the first quarter of 2001, the MDL appreciated by 2.2% against the USD; this trend began in June 2010 (the exchange rate had appreciated by 7.34%) and the exchange rate to the EURO fell by 2.3%, these development were corrected in July 2010 (when the national currency devalued by 4.18%).

The appreciation in relation to the USD was based on the following factors:

- in 2010 and in the first quarter of the current year, the exports have increased faster than imports;
- the flow of remittances (in 2010 there was a steady increase of remittance volume in comparison with 2009);
- external financial support provided to the Republic of Moldova.

Due to the lack of currency exchange link between the MDL and the EURO, the strengthening of the EURO in relation to the USD on international financial markets involved the appreciation of the EURO in relation to the MDL.

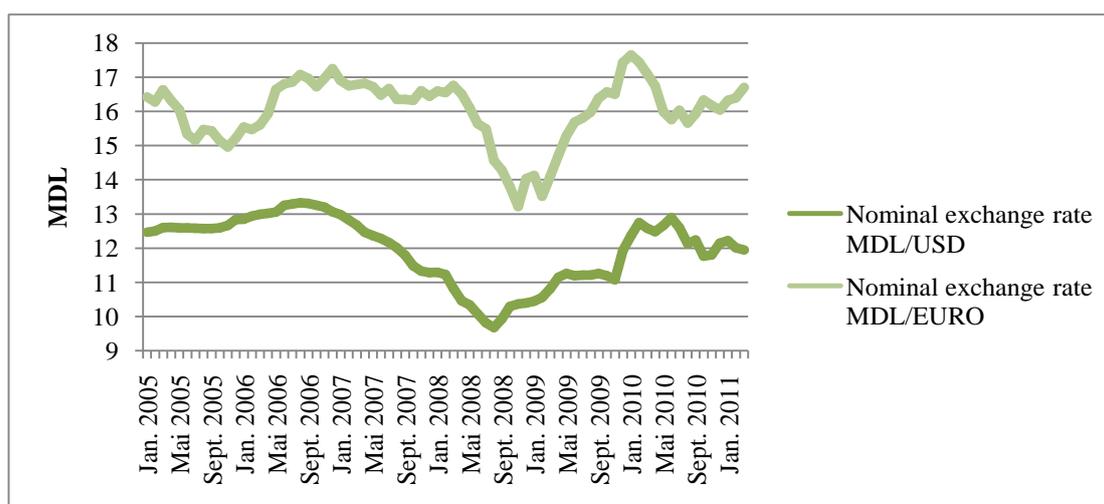


Diagram 2.5. Evolution of monthly nominal exchange rates

Source: NBS

In the period January 2005 to March 2010, there was a general appreciation trend in the real exchange rate of the national currency in relation to the USD by 33.7%, and 31.26% in relation to EURO. This was caused by the big gap between the inflation rate in the Republic of Moldova and rates of inflation registered in the USA and in the EURO Zone. In the period January 2005 to March 2011, the average level of prices in the Republic of Moldova increased by 1.69 times and in the USA the prices for the same period increased by 1.17 times, while in the EURO Zone by 1.14 times. However, from the second half of 2008 until the beginning of 2010, there was a real depreciation of the national currency in relation to both currencies (by 22.36% in relation to the USD and 32.5% in relation to the EURO) caused by the nominal devaluation of the national currency. From 2010 until the present, the real exchange rate of MDL/EURO has no significant changes and the real exchange rate of MDL/USD has decreased by 9.37%.

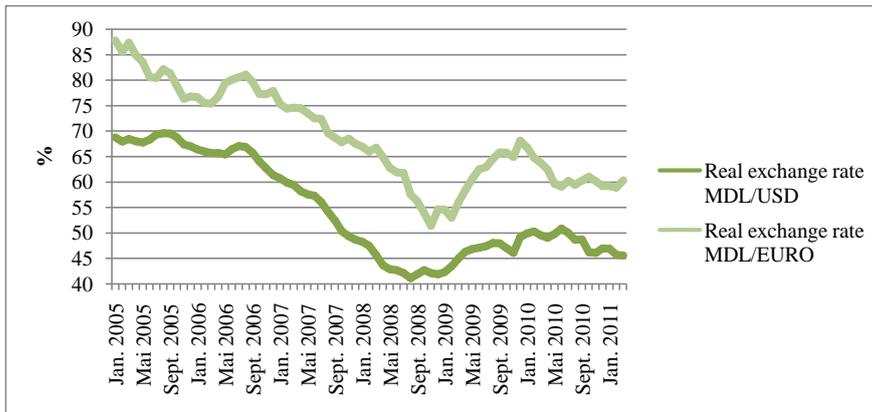


Diagram 2.6. Evolution of monthly real exchange rates (January 2000 = 100)

Source: calculated on the basis of the data from the National Bank of Moldova, National Bureau of Statistics, Eurostat and <http://www.inflation.eu>

For the medium term period, a possible increase of currency inflows to the country might cause the symptoms of the Balassa effect. This effect may be characterised by 2 aspects: appreciation pressure on the MDL and inflation growth caused by the increase of demand and, of course, the increased prices of non-tradable products (goods that are not imported or exported).

Chapter III FINANCE

PUBLIC FINANCES

National Budget Revenue – Fiscal pressure

There is a growth trend in national budget revenue, despite a contraction in 2009. This deviation from the trend was caused by the global economic crisis that influenced greatly the reduction of public revenue in 2009. The year 2010 strongly reversed the decline as a result of the recovery of economic activities in the post-crisis period. Accordingly, the public national budget (PNB) raised revenue of 27,550.9 million MDL - 6,441.1 million MDL more than estimated revenue for the year (+ 2.4%) and 4,033.3 million MDL more than total revenue in 2009 (+ 17.1%). 2010 national public revenue, therefore, represented 38% of GDP.

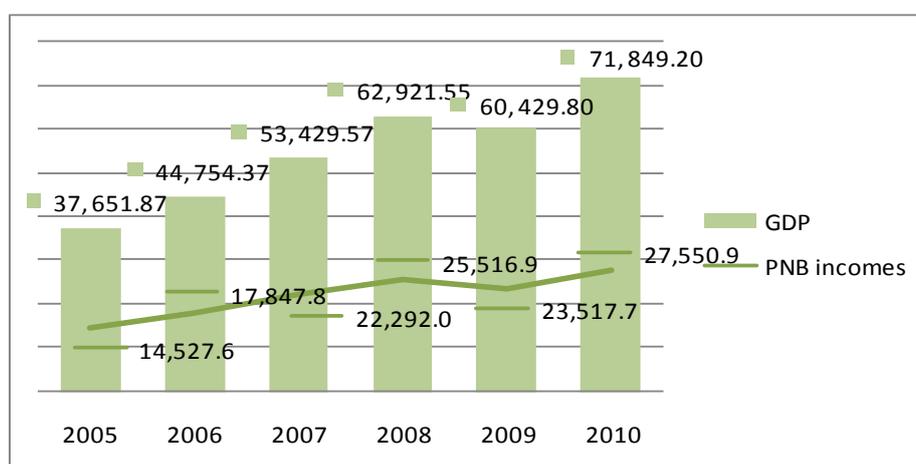


Figure 3.1. Revenue trends in the public national budget in relation to GDP for the years 2005-2010 (million MDL)

Source: Calculations MET, data MF and BNS.

In the first quarter of 2011, further increase in revenue to the PNB was registered. In this period, PNB revenue amounted to 6,122.0 million MDL or 539.6 million MDL more than in the same period of 2010 (+ 9.7%).

In the absence of substantial economic shocks, PNB revenue should exceed the forecast level approved in the budgetary laws for the year 2011. The efforts to reduce the fiscal disparity (the difference between the possible and effective collection of fiscal revenue) and compliance risks could strengthen the fiscal position of the State.

Moreover, this hypothesis is also based on the fact that, on average, in the first quarters of the years 2005-2010, public revenue amounted to approximately 20.9%. The comparative analysis of this trend with revenue for the first quarter 2011 and those planned for this year shows that the forecast level was achieved.

Out of the total sum of the budgetary funds, the largest part derives from fiscal revenue, and this was the case also in the first quarter of 2011 (Table 3.1).

Table 3.1. Sources of revenues by type in the period of 2005-2011 (in %)

| Type of revenue | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | | 2011 |
|---|------|------|------|------|------|-------|------|------|
| | | | | | | Total | Q. I | Q. I |
| Total revenue | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Fiscal revenue | 83 | 84.6 | 82.5 | 84.5 | 83.1 | 81.8 | 87.8 | 82.1 |
| Non-fiscal revenue | 5.3 | 5.3 | 6.3 | 4.1 | 3.6 | 5.1 | 3.9 | 10.1 |
| Grants | 3.2 | 1.8 | 4.3 | 4.2 | 5.5 | 7.2 | 0.8 | 1.5 |
| Revenue from special funds | 1.1 | 1.2 | 0.8 | 1 | 1.3 | 1.2 | 1.3 | 1.1 |
| Revenue from special resources of public institutions | 7.5 | 7.1 | 6 | 6.2 | 6.6 | 4.6 | 6.1 | 5.2 |
| The weight of fiscal revenue in GDP | 32 | 33.7 | 34.4 | 34.3 | 32.3 | 31.4 | | |

Source: Calculations MET, MF.

Fiscal revenue is growing, while the weight of fiscal revenue in GDP remains relatively constant. The rate of growth of GDP was lower in comparison with the rate of growth of fiscal revenue until 2010. The pace of economic growth in 2010 resulted in a decline in the weight of fiscal revenue in GDP.

The fiscal pressure in the Republic of Moldova, during the period under examination, amounted on average to 33%. In 2008, the fiscal pressure was 34.2%, compared with the rate of 34.8%² in the countries of the Organisation for Economic Co-operation and Development. In countries with a more distinct social policy (Sweden, Finland, Norway) the level of the fiscal pressure exceeds 40%. This fact is influenced by the high proportion of social contributions in the overall amount of fiscal revenue.

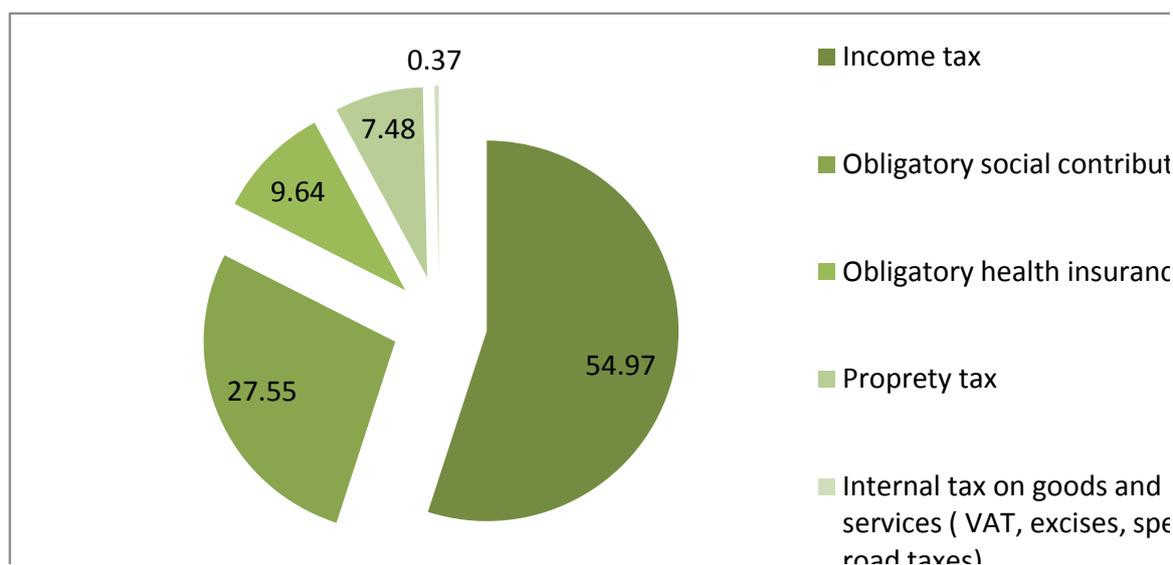


Figure 3.2. Representation of fiscal revenue in the public national budget in the first quarter of 2011 (million MDL)

Source: Calculations MET, MF.

²<http://www.oecd.org/dataoecd/41/27/46771900.xls>

Today, social contributions in the Republic of Moldova also play a major role. However, the most important component in budgetary revenue comes from indirect taxes, especially value added tax (VAT) and excises.

Generally speaking, this relation between the direct and indirect taxation represents an indicator of the level of development of a state. In principle, the bigger the weight of direct taxes, the more sustainable is the economy of the country and countries where the main weight is of indirect taxes are, as a rule, either under-developed countries or developing countries.

In the first quarter of 2011, non-fiscal payments arose largely from business and property activities (762.2 million MDL), taxes and administrative payments (250.9 million MDL), fines and administrative penalties (132.7 million MDL) and other payments.

The most important contribution to revenue in form of grants came from external grants, whose value changed considerably in 2007 and 2010. In the first quarter of 2011, the overall sum of budgetary revenue in form of grants amounted to 47.9 million MDL, out of which 5.7 million MDL was internal grants and 42.2 million MDL came from external grants.

Expenditure of the public national budget

In the period 2005 to 2010, public expenditure witnessed a continuous growth and reached its peak in 2010, when the total expenditure of the public national budget amounted to 29,328.9 million MDL or 94.3% of the annual forecasts and with 1,974.6 million MDL more than public expenditure in 2007 (+ 7,2%).

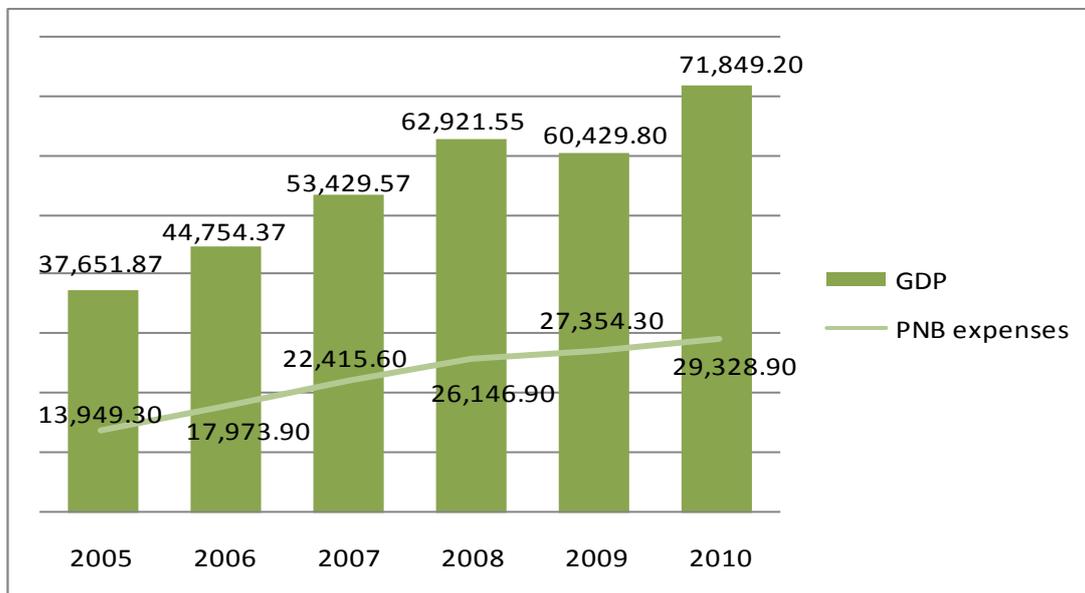


Figure 3.3. Expenditure trends of the public national budget in relation to GDP for the years 2005-2010 (MDL million)

Source: Calculations MET, MF, BNS

The continuous growth of nominal public expenditure shows an average rate of growth of 16.4%. A more pronounced growth took place in 2006 and 2007, when the nominal rate of

increase of budgetary expenditure amounted to 29% in 2006 and 25% in 2007, followed by a slower expansion of 4.6% in 2008 and 7.2% in 2009.

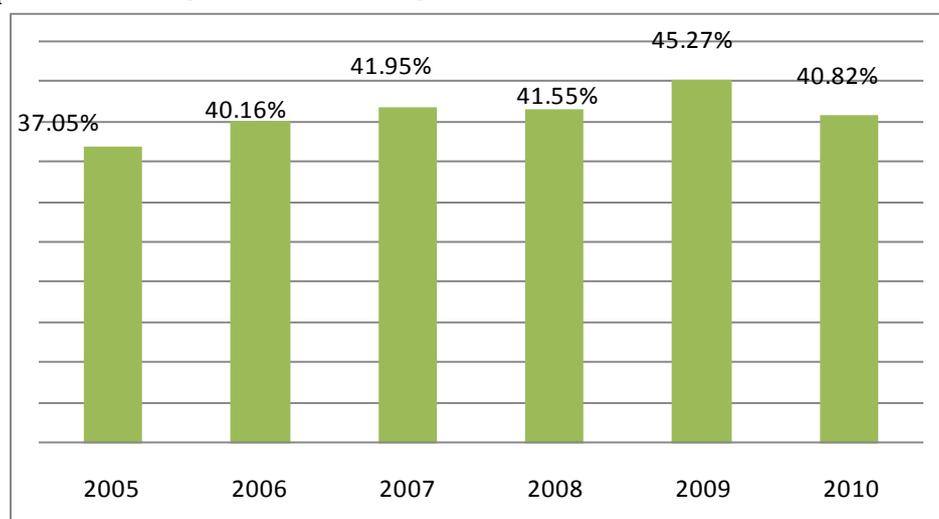


Figure 3.4. Expenditure trends of the public national budget in relation to GDP for the years 2005-2010

Source: Calculations MET, MF, BNS

At the same time, the share of public expenditure in GDP in the period of 2005-2010 amounted, on average, to 41%. The data shows a slow growth in these years that became more pronounced in 2009 (as a result of the global economic crisis and the current political uncertainties), so that by 2010 the share of public expenditure in GDP decreased, as a result of the implementation of public expenditure optimization procedures.

In the last quarter of 2011, the value of total expenditure in the public national budget amounted to 6,640.5 million MDL or 189.3 million MDL more than for the same period of 2010 (+ 2.9%).

Table 3.2. Allocation of public expenditure by purpose for the period 2005-2011 (million MDL)

| Type of expenditure | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | | 2011 |
|---|---------|---------|---------|---------|---------|---------|--------|--------|
| | | | | | | Total | Q.I | Q.I |
| II. Total expenditure | 13949.2 | 17973.9 | 22415.6 | 26146.9 | 27354.3 | 29328.9 | 6451.2 | 6440.5 |
| 1. State services with general destination | 919.6 | 1037.8 | 1265.4 | 1418.1 | 1411.5 | 1361.6 | 277.9 | 275.8 |
| 2. External activity | 256.2 | 235.3 | 283.2 | 271.9 | 200.7 | 206 | 63.3 | 39.4 |
| 3. Justice and constitutional jurisdiction | 126.7 | 188.7 | 228.2 | 278 | 308.9 | 339.1 | 64.9 | 73.2 |
| 4. Maintenance of public order, protection and state security | 921.5 | 1206 | 1545 | 1764 | 1771.2 | 1540.4 | 369.9 | 379.3 |
| National defence | 156.6 | 216 | 275.8 | 382.9 | 249.2 | 235.6 | 56.9 | 61.3 |
| Maintenance of public order and national security | 764.9 | 990 | 1269.2 | 1381.1 | 1522 | 1304.8 | 313 | 318 |
| 5. Social expenditure | 8827.5 | 11360.2 | 14038.7 | 17101.3 | 19189.5 | 21415.1 | 4772.1 | 5093.5 |
| Education | 2697 | 3605.8 | 4248.6 | 5178.3 | 5665.9 | 6574.7 | 1486.1 | 1546.6 |
| Culture, arts, sports and activities for youth | 315.4 | 486.7 | 564.6 | 640.2 | 585.6 | 589.9 | 123.8 | 143.7 |
| Healthcare | 1572.4 | 2111.8 | 2628.6 | 3391.4 | 3846.9 | 3996.6 | 841.9 | 945.2 |
| Social assistance and support | 4242.7 | 5155.9 | 6596.9 | 7891.4 | 9091.1 | 10253.9 | 2320.3 | 2458 |

| Type of expenditure | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | | 2011 |
|---|--------|--------|--------|--------|--------|--------|-------|-------|
| | | | | | | Total | Q.I | Q.I |
| 6. Science and innovation | 139,5 | 199,6 | 307,8 | 394,8 | 353,8 | 357,1 | 56,7 | 56,2 |
| 7. Economic expenditure | 1964,4 | 2721,1 | 3742,2 | 3490,9 | 2620,5 | 3190,7 | 644,3 | 476,2 |
| Agriculture, forest management, fishing management and water management | 577,3 | 681,4 | 1228,3 | 1243,6 | 1034 | 857,8 | 253,3 | 84,6 |
| Industry and construction | 20,4 | 40,8 | 44,8 | 31,5 | 34,3 | 30,8 | 5,1 | 5,5 |
| Transport, road management, communication and information management | 217,7 | 507,5 | 1063,2 | 1145,9 | 684,2 | 1097,6 | 217,2 | 161,3 |
| Household management and operating management of housing | 692,8 | 1011,5 | 754,7 | 627 | 539,5 | 829,2 | 91,1 | 120,6 |
| Fuel and energy management | 346,6 | 383,8 | 460,9 | 259,8 | 189,8 | 184,7 | 56,6 | 7,1 |
| Other services related to economic activities | 109,6 | 96,1 | 190,3 | 183,1 | 138,7 | 190,6 | 21 | 97,1 |
| 8. Environment protection and hydrometeorology | 54,2 | 108,2 | 104,5 | 94,1 | 125,9 | 134 | 19,3 | 17,7 |
| 9. Servicing of state debts | 470,5 | 428,6 | 609,8 | 721,6 | 834,2 | 547,6 | 149 | 153,5 |
| -internal | 193,2 | 197,5 | 410,2 | 558,3 | 629,9 | 367,4 | 88,6 | 100,3 |
| -external | 277,3 | 231,1 | 199,6 | 163,3 | 204,3 | 180,2 | 60,4 | 53,2 |
| 10. Other domains | 314 | 549,1 | 351,6 | 588,7 | 581,2 | 344,5 | 49,3 | 99,4 |
| Filling the state reserve | 59,2 | 83,7 | 55,2 | 189,6 | 176,2 | 40,7 | 5,4 | 6,7 |
| Other expenses that cannot be classified in other main groups | 254,8 | 465,4 | 296,4 | 399,1 | 405 | 303,8 | 43,9 | 92,7 |
| 11.Net lending | -44,9 | -60,7 | -60,8 | 23,5 | -43,1 | -107,2 | -15,4 | -23,7 |

Source: Elaborated by the author based on <http://www.minfin.md/ro/raportinfo/budget/national/an/>

The biggest share of public expenditure relates to social expenditure and, during the period 2005-2010, this increased on average by 66.3% (Figure 3.5). In the first quarter of 2011, social expenditure amounted to 79.1% of total public expenditure; the highest level in the period under review.

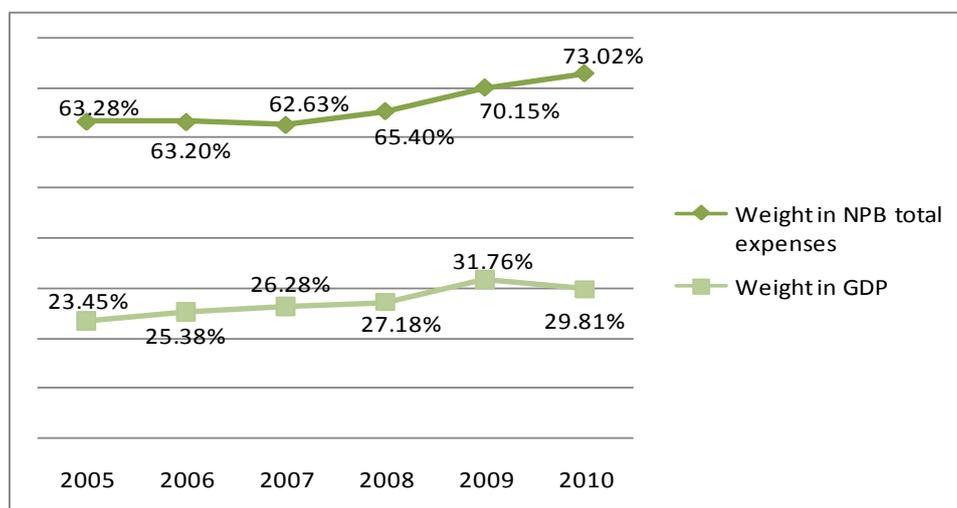


Figure 3.5. Expenditure trends of the public national budget in relation to GDP for 2005-2010

Source: Calculation MET, data MF and NBS.

In general, social expenditure has been rising steadily in regard to total public spending, especially from 2008, and the share of social expenditure became the largest in total public

expenditure in 2011. The ratio of social expenditure to GDP fluctuated between 23.4% in 2005 to 31.8% in 2009, and settled at a rate of 29.8% in 2010.

Within social expenditure, educational spending (where most expenditure relates to educational salaries) and expenditure on social assistance and support influenced considerably the growth of this indicator. In the first quarter of 2010, educational spending amounted to 23% of total social expenditure, while in the same period of 2011, this increased to 24%. Expenditure on social assistance and support amounted to 36% of total social expenditure in the first quarter of the year 2010 and 38.2% in the same period of 2011.

Another important component of the expenditure of the BPN is economic expenditure. It has to be mentioned the synchronous character of the evolution in the weight of economic expenses within the overall expenses and the GDP (Figure 3.6).

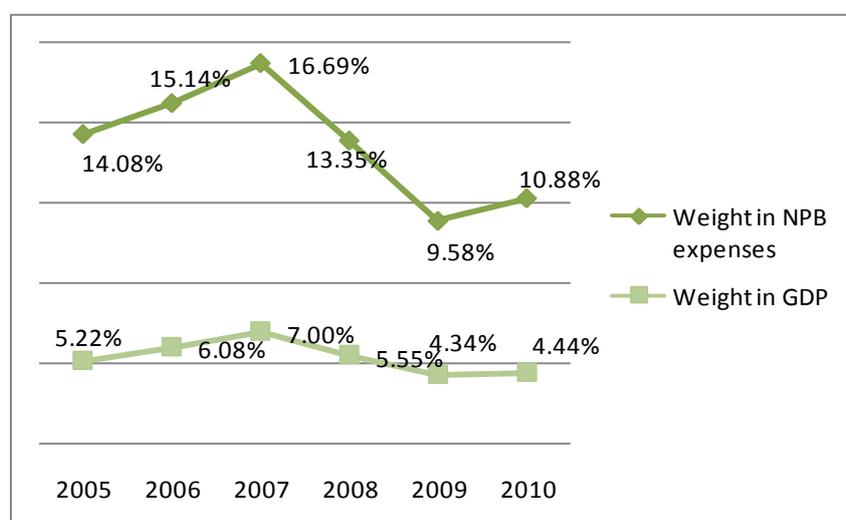


Figure 3.6. Trend in the weight of economic expenditure in total public expenditure and GDP in the period 2005-2010

Source: Calculations MET, data MF and NBS

On average, the share of economic expenditure in total public spending amounted to 13.3%, although, in the first quarter of 2011 it declined to 7.4%.

Within the structure of public expenditure, expenditure related to state services with a general destination (these are the expenses related to the activity of the legislative, executive, administrative, financial and control authorities) the share of this component in total public expenditure decreased from 6.6% in 2005 to 4.6% in 2010. The causes of this situation are the expense optimization strategies that seem likely to continue in the coming periods.

Public debt

In the period 2005 to 2010, the public debt grew steadily, apart from a deviation from this general trend in 2008.

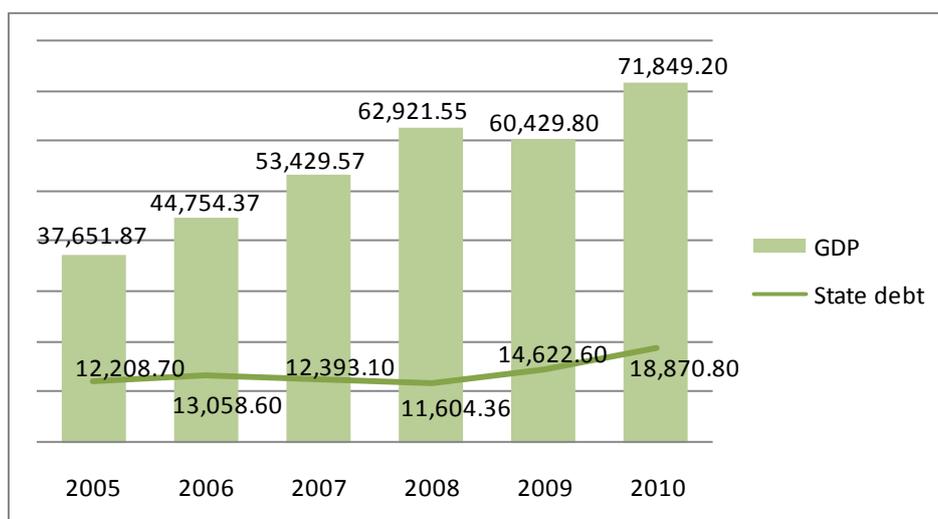


Figure 3.7. The evolution of state debt and GDP for the period of 2005-2010 (million MDL)

Source: Calculations MET, data MF and BNS

On 31 December 2010, the public debt amounted to 18,870.78 million MDL (26.3% of GDP), of which 71.9% was external public debt and 28.1% was internal public debt.

On 31 of March 2011, public debt amounted to 18,768 million MDL, of which 72.1% - was external public debt and 27.9 % was internal public debt. In comparison with the same period of 2010, there was a growth of 1,311.9 million MDL in total public debt, or 7.52% due to growth of the external public debt. On March 31, 2010 external public debt amounted to 70.3% of the total public debt. The weight of the internal public debt decreased by 2%.

As regards debt servicing, on 31 December 2010, 1,113.24 million MDL from the state budget were operated, 745.84 million MDL of which as collections in the external public debt and 367.40 million MDL of the internal public debt. In comparison with the same period in 2009, the amounts intended for the service of the state debt decreased by about 20% at the end of 2010, especially on the basis of the decrease in servicing of internal public debt. On December 31 2010, the share of debt servicing in state budget expenditure amounted to 6.5%, or a decrease of 3.8% compared to the same period of the previous year.

External public debt

On 31 December 2010, the value of the external public debt amounted to 13,565.9³ million MDL; including 13,443.4 million MDL of direct external public debt and 122.5 million MDL of secured external public debt. The external public debt represented 18.9% of GDP and this pushed the trend in the period 2005-2010 upwards. On 31 March 2011, the value of the external public debt amounted to 13,540.8 million MDL, representing an increase of 1,260.4 million MDL (10.2%) compared to the amount in the same period of the previous year.

³<http://www.mf.gov.md/ro/raportinfo/SDDS/>

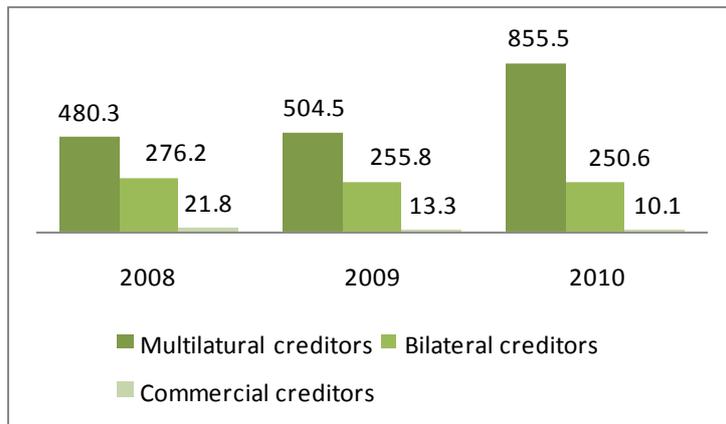


Figure 3.8. The evolution of loans, 2008-2010 (million USD)

Source: Ministry of Finance

On the base of the general analysis provided by creditors, the main external creditors are multilateral ones (AID, the International Monetary Fund, European Bank for Reconstruction and Development), followed by bilateral creditors (the Paris Club, USA, the Government of Poland, etc.) and by one single commercial creditor - the German Bank AKA.

There is a general trend towards increased external public debt involving multilateral creditors, with a small decrease of the public debt involving bilateral and commercial creditors.

As regards the structure of the external public debt by currency for the year 2010, about 48% of the external debt is kept in USD currency, 31.5% in Euro and 9.4% in Japanese Yen and other currencies.

As regards the structure of the external debt by lending periods, the long term external debt amounted to 13,383.6 million MDL in 2010 or 4,029.7 million MDL more than in 2009. At the same time, medium-term external debt amounted to 182.3 million MDL in 2010, indicating some diversification of external financial resources. On 31 March 2011, the long term external debt amounted to 13,359.7 million MDL or 1,079.4 million MDL more than at the same date in 2009.

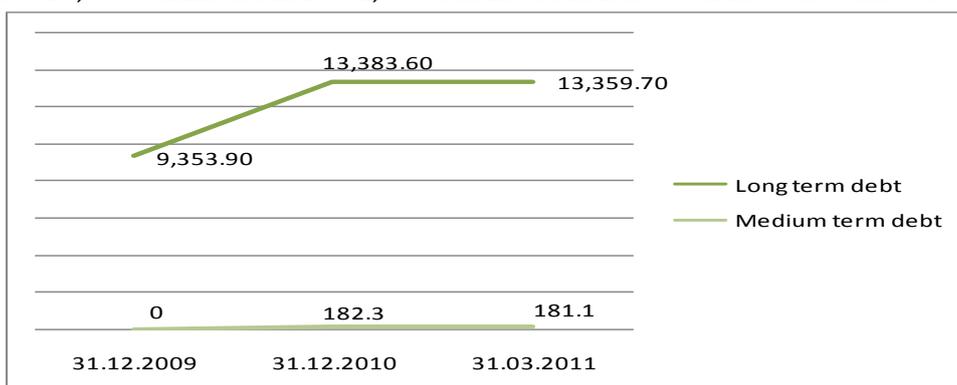


Figure 3.9. The external public debt, by maturity, (million USD)

Source: Calculations MET, data MF

The pressure on the sustainability of the public debt is generated by a general growth in the value of long term external public debt, combined with appearance in the structure of debts of medium-term external (this is a matter that will be examined in detail in the next edition of MET).

The internal public debt

On 31 December 2010, the internal public debt amounted to 5,304.9 million MDL and was fully financed via state securities (SS), out of which: SS issued by auction amounted to 2,891.5 million MDL (54.5%), convertible SS amounted to 2,213,4 million MDL (41.7 %) and SS by subscription amounted to 200.0 million MDL (3.8 %). 7.4% of GDP is represented by the internal public debt, representing a decrease of 1.1% compared with 2009 and an increase of 5.6% compared with 2008.

With respect to the structure of the internal debt by lending periods, the short term internal debt amounted to 4,990.4 million MDL in 2010 or 2,381.6 million MDL more than in 2009, while the medium-term internal debt amounted to 314.5 million MDL or 31.6 million MDL more than in 2009. In addition, in 2010 there was no new long term internal debt issued compared with 2,213.4 million MLD issued in 2009, showing a trend of short term orientation towards domestic investors. On 31 March 2011, the short term internal debt amounted to 5,025.3 million MDL or 4,820.5 million MDL more than in the same period of 2009.

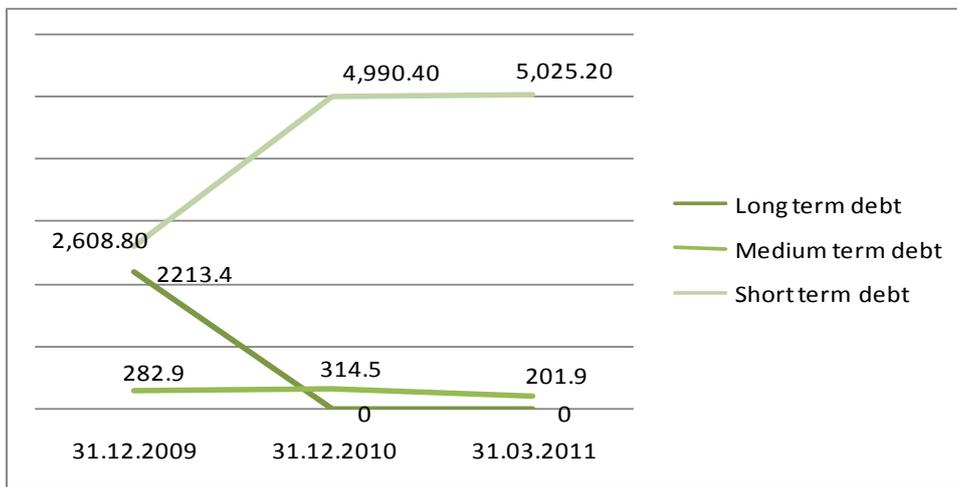


Figure 3.10. The internal public debt, by maturity (million MDL)

Source: Calculations MET, data MF

There is a general trend here towards external long term loans and internal short term loans. The external loans represent the long term debt, while the internal sources primarily relate to the short term debts. It is clear, however, that the external loans are used to finance government programmes that need a longer period for implementation, while the internal borrowing largely relates to current needs. Moreover, this may be caused by the high cost of internal financing sources compared with external financing.

State guarantees

With respect to State guarantees, these decreased in value in 2010 after an increase in 2009. Thus, in 2010, the value of state guarantees amounted to 77.4 million MDL or 86.2 million MDL less than in 2009. These guarantees related to foreign loans. On 31 March 2011, state guarantees amounted to 75.9 million MDL.

The sources of financing the budget deficit

During the period of 2006-2010, because of the economic crisis, a considerable fluctuation in the value of the budget deficit was registered. The main financing sources of the budget deficit are internal sources, foreign sources and sales and privatization of public property.

In 2010, the value of internal financing sources amounted to 135.8 million MDL compared to 1,732.5 million MDL in 2009 and were represented by revenue from the sale of state securities (including the converted ones) that is 12% of the value that was registered in 2009.

In 2010, the major external financing resources in amount of 2,053.6 million MDL compared with 1,967.9 million MDL in 2009 and were represented by the loans granted by international financial organizations. On the other hand, in 2010, the sale and privatization of public property raised 334.5 million MDL compared with 241.3 million MDL in 2009.

In the first quarter of 2011, the balance of internal financing sources recorded a negative value (-49.9 million MDL) compared with the same period of the previous year (36.6 million MDL). This fact demonstrates the refund ability of the borrowed funds on the internal market. The main transactions that influenced this trend were the redemption of state securities and the reimbursement of loans from other internal sources. A similar situation also arose with the external financing sources, since in the first quarter of 2011 it registered a negative rate (-42.7 million MDL) compared with 672.8 million MDL in the same period of 2009, when the reimbursement of foreign loans was the main contributing factor. With respect to the sale and privatization of public property the proceeds of these sales doubled in the first quarter of 2010 compared with the proceeds in the same period of 2009. In the first quarter of 2010, the value of the proceeds of the sale and privatization of public property amounted to 69.4 million MDL, while in the same period of 2009 they amounted to 36.9 million MDL.

BANKING SECTOR

Moldova's banking sector grew in the period 2005 to 2010 and the trend of key indicators in the banking system remained positive. In this period, the share of the banking sector in GDP increased, with slight deviations in 2008 and 2010. The volume of bank assets as a proportion of GDP grew from 47.6% in 2005 to 66.1% in 2009. This share was 58.9% in 2010.

A similar trend was evident as regards deposits and loans as a percentage of GDP. Loans granted as a percentage of GDP increased from 26.8% in 2005 to 37.1% in 2009. In the course of 2010 this indicator reduced to 35.5%. Deposits as a percentage of GDP increased from 36.5% in 2005 and to 43.7% in 2009. This indicator deduced to 40% in 2010.

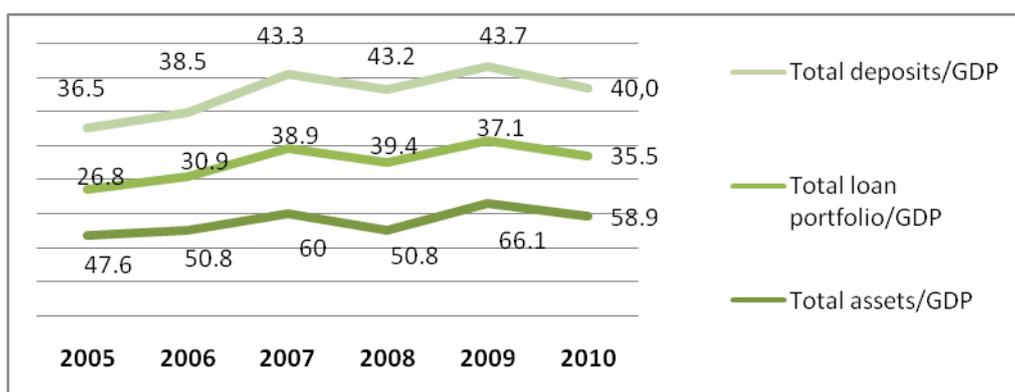


Figure 3.11. Trend of reported bank assets, loans and deposits to GDP (%) in the period 2005-2010

Source: NBM.

At present, there are 15 licensed commercial banks in the Republic of Moldova. The analysis shows that four banks dominate the market, holding 60% of all assets. Of these, Moldova Agroindbank holds 20% of assets, Victoriabank - 15%, Moldindconbank - 13%, and Banca de Economii - 12%.

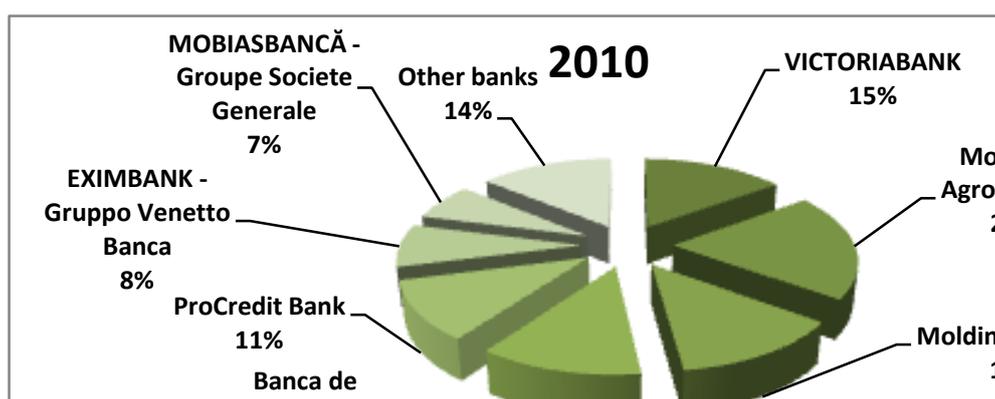


Figure 3.12. Commercial Banks - Share of total assets, 2010 (%)

Source: calculations based on NBM data

On the basis of market concentration indices for this market segment (CR-4 and HHI-Herfindahl-Hirschman Index), it is noted that the level of 1210 points (HHI) registered in 2010 reflects a fair degree of concentration in the banking sector, while allowing for a satisfactory level of competition in the market.

Table 3.3. Banking Sector Concentration Indices, 2009-2010

| Nr. | Indicators | 2009 | 2010 |
|-----|-------------|------|------|
| 1 | CR-4, % | 59 | 60 |
| 2 | HHI, points | 1172 | 1210 |

Source: calculations based on NBM data.

In the first quarter of 2011, the volume of total assets of the banking system grew to 43,494.2 million MDL, an increase of 10.65% compared to the same period in 2010. This

growth was caused by an 11.84% increase in bank liabilities and a 5.23% increase in shareholder capital.

The profile of bank assets during the first quarter of 2011 compared to the first quarter of 2010 shows the following growth: cash money – increased by 13.61% to a total of 2,341.3 million MDL; NBM loans– increased by 76.72% to a total of 3,576.1 million MDL; investment securities – increased by 8.91% to a total of 6,714.7 million MDL; net securities – increased by 7.03% to a total of 6,799.3 million MDL and loans and financial leasing – increased by 19.38% to a total of 2,647.7 million MDL.

At the same time, the volume of bank liabilities decreased by 46.59% to a new level of 1,653.1 million MDL and placed resources and overnight loans decreased by 47.13% to a new level of 871.0 million MDL.

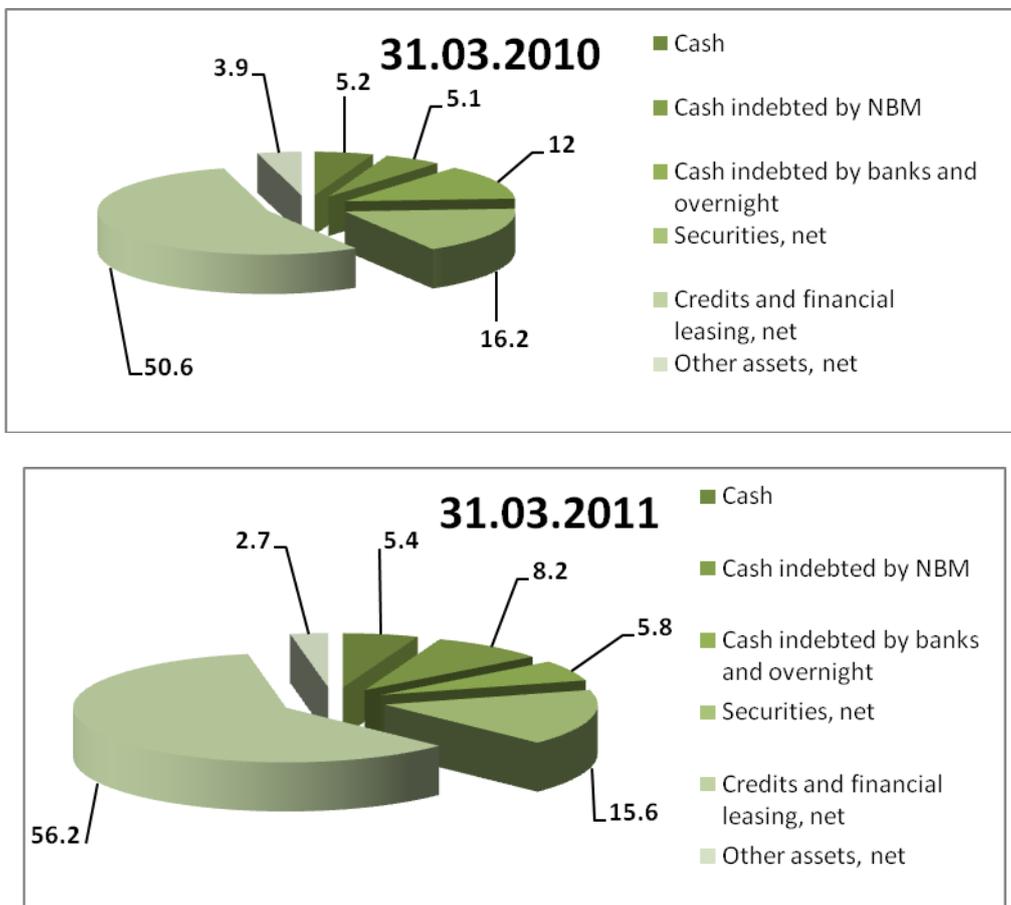


Figure 3.13. Structure of banking sector assets in the Republic of Moldova (%)

Source: NBM

By the end of 2010, the volume of loans in the economy was 23,429.8 million MDL equivalent to an increase of 64.5% (+14,246.6 million MDL) compared to 2009. The volume of loans in foreign currency grew by 79.0% (+11,789.9 million MDL) in 2010 compared to the 2009 volume of 6,418.5 million MDL. At the same time, the volume of loans in national currency grew at a slower pace, with an annual growth of 52.5% in comparison to 2009, reaching the level of 11,939.9 million MDL in 2010. This increase was primarily attributable to loans to legal entities, which held 81.6% of all MDL loans or 9,747.7 million MDL in 2010. The positive

direction of this indicator in 2010 is a sign of revival in the Moldovan economy following the economic impact of the global economic crisis in 2009.

In the first quarter of 2011, the credit balance in the economy increased by 3,741.4 million MDL compared to the first quarter of 2010 and reached the level of 27,481.8 million MDL by the end of March 2011. During the reporting period, the balance of loans issued in national currency increased by 2,007.2 million MDL and the balance of loans in foreign currency grew by 1,734.2 million MDL.

By 31 March 2011, loans to the industry and trade sectors represented the largest share of 53.41% in the total loan portfolio, followed by loans to agriculture and the food industry - 14.75%, loans to the real estate, construction and development sector - 11.24% and consumer loans - 8.05%.

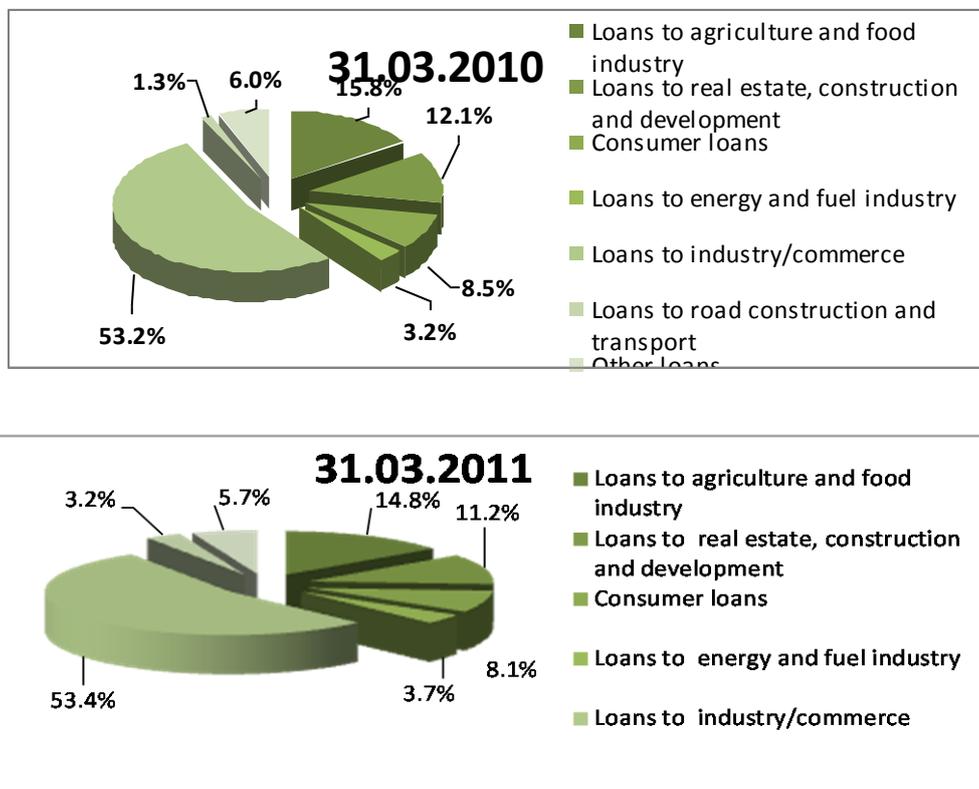


Figure 3.14. Loan portfolio structure of the banking sector in the Republic of Moldova at 31 March 2010 and at 31 March 2011 (%)

Source: NBM

Thus, during the period January-March 2011, the banks' non-performing loan portfolio fell from 13.39% at the beginning of 2011 to 7.7% by March 2011, including 2.60% due to the write-off of some loans. This improvement of loan portfolios allowed banks to reduce provisions for losses and allowed for further expansion of lending in the economy (Figure 3.15).

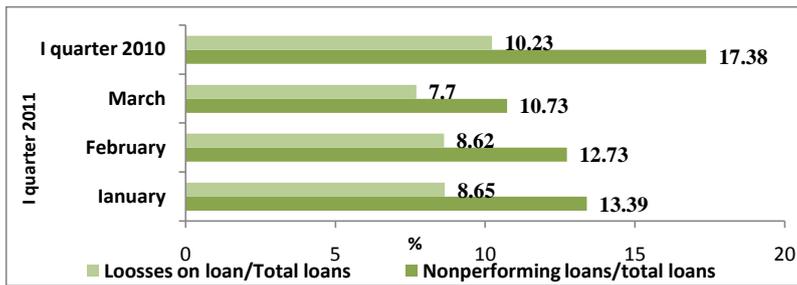


Figure 3.15. Trends of non-performing loans and losses on loans, % of total loans

Source: NBM

The analysis of the common equity (the determinant of bank liquidity) - shows that this increased by 5.2% in 2010 compared to 2009 reaching a total of 6,758.0 million MDL. In the first quarter of 2011, the common equity rose to 6,917.5 million MDL, an increase of 5.18% compared with the same period in 2010. The growth of the common equity is an indication of the strength and safety of the system against internal and external financial shocks.

Total regulatory capital (TRC) in 2010 increased by 318.1 million MDL (4.9 %) in comparison to its 2009 level. This trend continued in the first quarter of 2011, when total regulatory capital reached 7,024.8 million MDL – an increase of 4.24% compared to the first quarter of 2010 (6,738.8 million MDL) (Figure 3.16).

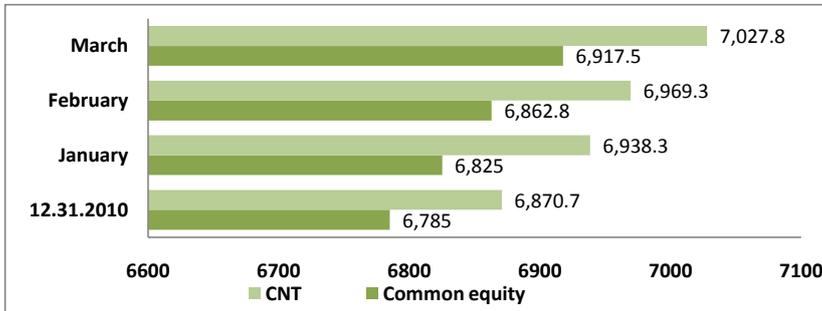


Figure 3.16. Growth of banking system equity in the Republic of Moldova in 2010 and first quarter 2011 (million MDL)

Source: NBM

In 2010, the average risk-weighted capital adequacy remained at a high level of 29.7%. In 2009, this indicator was 32.3%. Moreover, all banks in the Republic of Moldova met the established minimum risk-weighted capital adequacy of 12.0%, indicating a high degree of bank safety. The minimum established by the Basel Committee on Banking Supervision is set at no less than 8.0%.

In 2010 the share of foreign investment in banks was 77%; 0.66 % lower compared to the end of 2009. It should be noted that the attractiveness of the banking sector for foreign investment

increased and the share of foreign investment in banks grew by 0.08 % from 76.96% to 77.04% during the first quarter of 2011.

In the course of 2005-2010, bank liabilities increased from 14,997.8 million MDL in 2005 to 35,013.0 million MDL by the end of 2010. In 2010, bank liabilities grew by 6.1% (or 2,002.3 million MDL) compared to 2009. This increase was due to the growth in the volume of bank deposits of 2,302.1 million MDL, or 8.7%.

In the first quarter of 2011, as compared with same period in 2010, the following changes took place in the banking sector:

- growth of individual deposits to 1,935.4 million MDL (+2.14%); growth of deposits of legal entities to 9,625.0 million MDL (+ 1.31%);
- increase of other loans by 0.16% compared to the first quarter of 2010;
- decrease of financial resources owed to banks to 600.8 million MDL (- 2.42%) compared to the same period of the previous year (Figure 3.17).

The balance of deposits in the banking system at the end of March 2011 amounted to 27,950.7 million MDL – an increase of 3,788.4 million MDL in comparison to March 2010. The balance of deposits in national currency increased by 76.9 million MDL, while the balance of foreign currency deposits decreased by 278.4 million MDL.

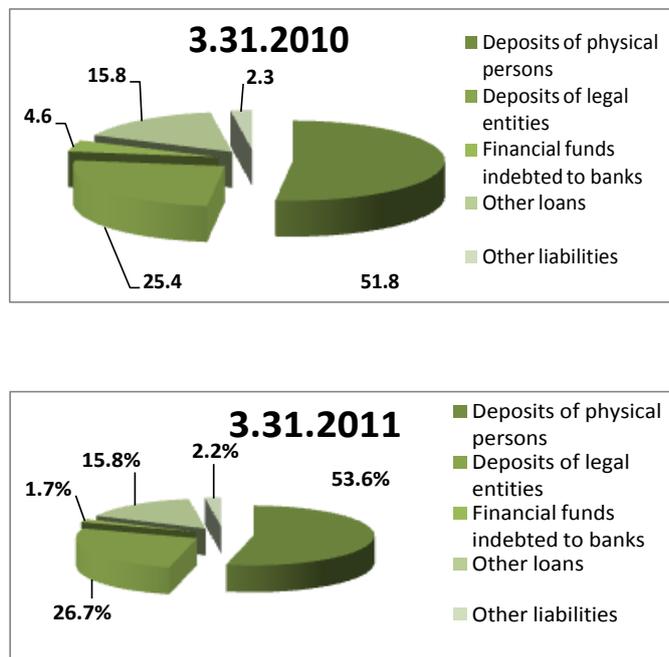


Figure 3.17. The structure of liabilities of the banking sector in the Republic of Moldova at 31 March 2010 and at 31 March 2011 (%)

Source: NBM

There was a reduction in the interest rates on deposits and loans in 2010. The annual average interest rates on deposits in MDL almost halved, from 14.7% in 2009 to 7.6% in 2010. In the same period, the interest rate on individual deposits fell by 7.70 % down to 9.42%, while the interest rate on deposits of legal entities decreased by 4.41%, down to 4.69%.

During the first quarter of 2011, the average interest for term deposits held in the national currency decreased by 1.23% to 7.88% in March 2011. The interest rate in the same period of 2010 was 9.11%. Moreover, the average interest rate for term deposits in foreign currency rose to by 0.01% to 3.38% in the reporting period.

The average interest rate on loans in MDL decreased from 20.3% in 2009 to 16.2% in 2010. The 4.03% reduction of the average interest rate on loans to legal entities to 15.62% (the share of loans in total loans, legal entities) had a major effect on the decrease of the average interest rate. At the same time, the rate on loans granted to individuals increased by 5.04 % to 19.01%.

By March 2011, the average interest rate on loans granted in national currency of 14.60% was 2.65 % lower than in March 2010. As a result, the average rate on loans granted to legal entities was 14.18% and to individuals - 17.02%. In the same period, the average interest rate on loans in foreign currency decreased by 1.12% from 10.21% in March 2010 to 9.09% in March 2011.

During the period 2008-2010, the banking margin on transactions in national currency recovered following negative trends in the period 2005-2008. The margin on banking operations in national currency increased from 2.87% in 2005 to 8.69% in 2010. By March 2011, there was a slight reduction of this indicator to 6.72%.

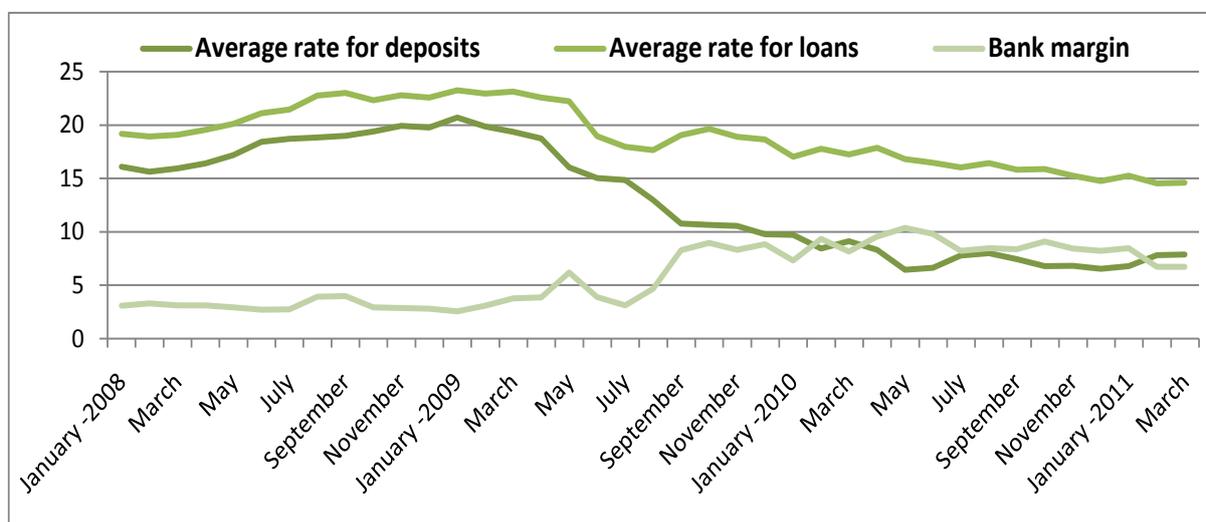


Figure 3.18. Trends in bank margins and average interest rates on deposits and loans in MDL in 2008-2011 (Q I), (%)

Source: calculations based on NBM data.

The indicators that reflect the level of liquidity in the banking system reveal the availability of adequate capacity in the system to support payment related to liabilities. According to the liquidity ratio I, the coefficient was 0.7% (maximum allowed 1) during the first quarter of 2011 representing an increase over the 0.6% level in the same period of 2010. The value of current liquidity (or liquidity ratio II) was 33.20% in the entire system in the first quarter of

2011. This value confirms the existence of adequate liquidity to supporting payments related to liabilities.

In 2010 the values of the financial indicators "Return on assets" and "Shareholder capital" was 0.5% and 3.0% respectively, as compared to the negative values of - 0.5% and - 2.5% in 2009. The return on assets in the first quarter of 2011 was 1.73% - an increase of 0.14 % in comparison with the same period of 2010, registering a value of 1.59%. The capital net yield was 10.7% for the first quarter of 2011 – an increase of 1.17% in comparison to the first quarter of 2010 (Figure 3.19).

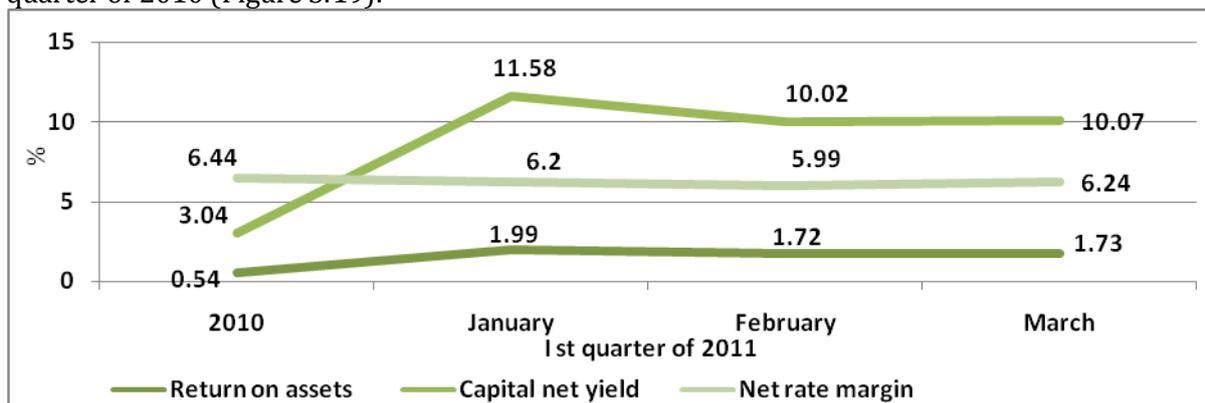


Figure 3.19. Trends in the net interest margin return on assets and capital net yield, during 2010 and the first quarter of 2011 (%)

Source: NBM

The share of assets generated by interest rates in total assets increased by 3.39 % in the first quarter of 2011 to 79.22% in comparison to the same period of 2010. A significant share of such assets in the total assets of the banking system indicates a degree of vulnerability in the banking system with regard to the generation of future revenue. Generally, however, during 2010 and the first quarter of 2011, the banking system supported the national economy by new economic conditions and rules; helping to maintain stability and credibility in spite of an unfavourable economic environment.

Microfinance Sector

The microfinance sector is relatively new in the Republic of Moldova and, although it has growth potential, like other segments of the local financial market it is underdeveloped. In 2010, there were 37 microfinance organisations in Moldova. They provided financial loans to individuals and/or micro-, small and medium-sized enterprises, under contract with and without interest rates, to be repaid upon maturity. The number of microfinance organisations is growing. In 2009, 12 new microfinance organisations were registered, giving a total of 35 – a growth of some 52.2% compared to 2008. In 2010, two further microfinance organisations were registered; their activity had no significant impact on the development of the microfinance system, as they were in their first year of activity.

Despite a minor decrease in 2009, major activity indicators of microfinance organisations were positive at the end of 2010.

Table 3.3. The activity of microfinance organisations during the period of 2006-2010 (Million MDL)

| Nr. | Indicators | | | | | | |
|-----|-------------------------------------|---------|---------|---------|---------|---------|-------|
| 1. | Total Assets | 1,266.5 | 1,917.3 | 2,454.9 | 1,933.8 | 1,783.9 | -7.7 |
| 2. | Loans | 772.1 | 1,024.3 | 1,467.8 | 1,360.9 | 1,191.4 | -12.4 |
| 3. | Equity | 99.1 | 184.0 | 405.3 | 491.1 | 658.3 | 33.8 |
| 4. | Bank loans and borrowings received | 856.4 | 1,176.3 | 1,458.1 | 1,380.1 | 998.6 | -27.6 |
| 5. | Profit (Loss) in the reporting year | 22.3 | 26.2 | 73.8 | 77.1 | 85.1 | 10.3 |

Source: calculations based on data of the NCFM.

The consolidated value of the assets of microfinance organisations, as shown in the Table 3.3, was 1,783.9 million MDL in 2010, a decrease of 7.7% from the end of previous year. While assets reduced by 21.2% in 2009 compared to 2008, the loan portfolio in 2007 was 1,024.2 million MDL, or 32.7% more than in 2006. The share of the loan portfolios of microfinance companies in GDP was 1.92% at the end of 2007, compared to 1.75% at the end of 2006. In addition, the value of the loan portfolios grew by 43.2% to 1,460.2 million MDL in 2008.

Due to the effects of the global financial and economic crisis in 2009, the value of allocated loans decreased by 7.2% as compared to 2008. There was a noticeable decline (- 5.3%) in loans from microfinance organisations in 2009 in comparison to 2008. The own capital of microfinance organisations increased by 33.8% to 658.3 million MDL in 2010 compared to 2009. This increase was due to positive net profits registered in 2010.

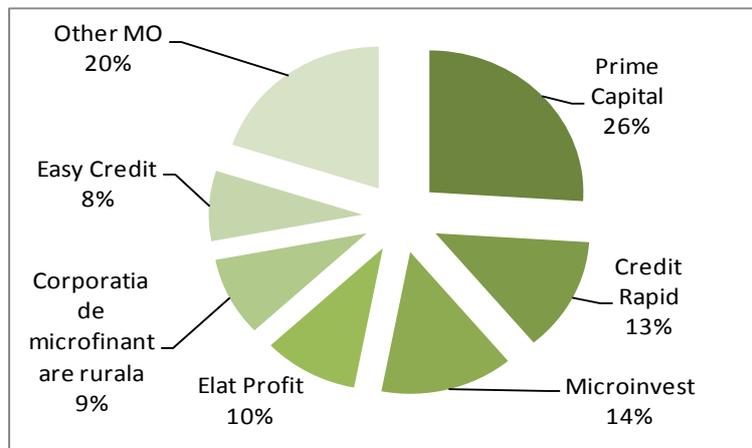


Figure 3.20. The share of major microfinance organisations in total loans granted in 2010 (%)

Source: calculations based on data of the NCFM.

The microfinance market is characterised by a high degree of concentration. However the concentration in this sector is decreasing. Prime Capital is the leading organisation based on the value of loans granted in 2009-2010; holding a market share of 26%. Since 2009, the company's share grew by 4%. In 2009, the top six companies held a combined 84% share of all loans as follows: MicroInvest - 18%, ProCredit - 17%, Rural Finance Corporation -13%, Easy Credit - 8% and Credit Rapid - 6%.

In 2010 this overall share decreased by 12% to 72% of all loans granted, of which: Rural Finance Corporation held 9% of the value, (13% in 2009 and 28% in 2008). There has also been a

decrease as regards Microinvest MFO in 2010 to 14%. While the company maintained its position in 2008-2009, holding an 18% market share (Figure 3.20).

The uses of loans granted by the MFO are spread rather evenly across all sectors of the national economy. However, the largest share of almost 25.0% loans relates to real estate. It is worth mentioning that 23% of loans relate to industrial development and trade, and only 17% to consumption. This further demonstrates the caution of MFOs in the allocation of loans. They provide loans for activities that securely generate income.

The concentration in this market remains somewhat high, although an improvement of this indicator is obvious. This trend is explained by growing competition in this market, moving towards equilibrium of the market shares of the operators. The values of concentration indicators in this market segment (CR-4-HHI Herfindahl-Hirschman Index) show a moderate degree of concentration (Table 3.4).

Table 3.4. Indicators of market concentration of microfinance organisations during 2007-2010

| Nr. | Indicators | 2007 | 2008 | 2009 | 2010 |
|-----|-------------|------|------|------|------|
| 1 | CR-4, % | 93 | 85 | 70 | 63 |
| 2 | HHI, points | 2693 | 1853 | 1418 | 1344 |

Source: calculations based on data of the NCFM.

The indicator for 2010 (1344) raise some concerns and suggest a need for the regulatory bodies to conduct a further analysis of the factors behind the level of market concentration.

In this context, the analysis of the evolution of the microfinance sector, although it has a smaller share in the overall economy, including in comparison to the banking sector, shows that its coverage area is very extensive, offering accessible and affordable credit services to small and medium-sized enterprises as well as to socially vulnerable groups throughout the country, mainly in rural areas.

MONETARY POLICY

During the 2005-2010 period, the monetary mass grew steadily, tendency reflected in the evolution of all monetary aggregates. The growth rate of the monetary mass reduced in 2009, when the monetary aggregate M2 reduced due to decline long term deposits in MDL. Anticipating the risks caused by expansion of the world economic crisis, the population reduced deposits in MDL and started to purchase other currencies in large amounts – a phenomenon which peaked in the first 3 months of 2009.

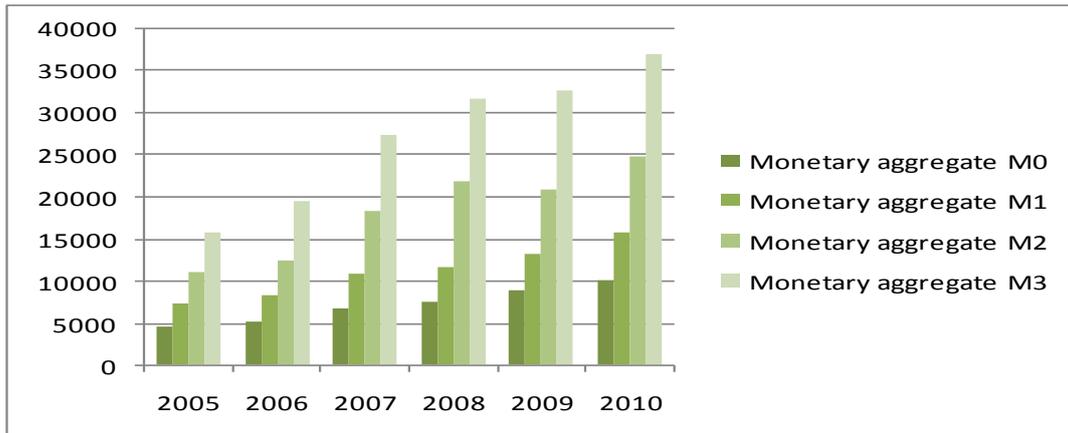


Figure 3.21. Evolution of the monetary aggregates (stock at the end of the year)

Source: National Bank of Moldova

The evolution of monetary mass structure was relatively stable. Variations took place at the beginning of 2009 when the weight of foreign currency deposits grew, and the weight of MDL deposits decreased, later this tendency diminished. A high volume of foreign currency deposits is another peculiarity of the monetary mass structure. In the period from 2005 to 2011, the share of foreign currency deposits was more than 30% (with maximum values up to 39.7% registered in April and May 2009).

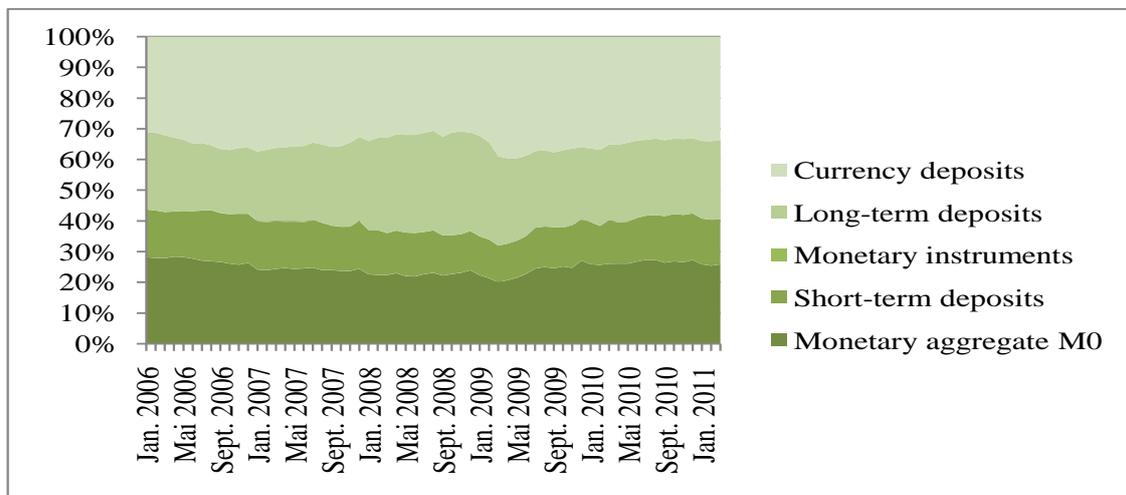


Figure 3.22. The structure of monetary mass

Source: Calculation based on NBM data

According to Law No. 191 of 30 June 2006, ensuring and maintaining price stability is the fundamental objective of the National Bank of Moldova. In order to achieve this objective, the NBM chose monetary regime of inflation targeting. In line with this decision, on 8 November 2007, the National Bank approved the “Action Plan for the implementation of the Inflation Targeting Strategy”.

Implementation of the inflation targeting regime was not carried out consistently. The development of the economic situation put pressure on the monetary authorities to direct their efforts to various objectives, so maintaining price stability was re-prioritised. The experience in

this area is similar to that of other central banks in Eastern Europe, which adopted inflation targeting strategies.

In the period preceding the global economic crisis, the Republic of Moldova benefited from increased currency inflows. Currency inflows caused an appreciation of the national currency. To curb this trend, the NBM resorted to several interventions on the currency exchange market by buying foreign currencies.

In 2009 (and partly in 2010), during economic decline, the NBM relaxed monetary policy in order to stimulate economic activity. The level of the required reserves was reduced and, at the same time, were opened credit lines to commercial banks in order to increase the level of loans to business.

In 2010 monetary policy was gradually tightened. In 2010, the NBM took several important steps towards the implementation of the inflation targeting regime. These steps in accordance with this monetary policy regime are:

- improvement of communication with the public ;
- reduced interventions on the foreign exchange market– in order to increase the flexibility of the national currency.

2011 began with tightening of the monetary policy, as a result of intensified inflation risks associated with rising prices of fuel and food.

The NBM widely use currency instruments in its activity. Until 2010, the NBM had actively intervened in the foreign exchange market as currency buyer, trying to curb the appreciation of the MDL in conditions of increased currency inflows in 2007-2008, and stimulating the depreciation of the national currency to increase foreign currency reserves, at the end of 2009. Interventions in 2009 saw the NBM as a currency seller in order to satisfy the excessive demand of the population for currency.

Interventions by the central bank on the foreign exchange market are permitted in the framework of the inflation targeting regime, but their role is expected to be limited. It is recommended that intervention on exchange rate should be tied to the objective of inflation targeting. In this context, during 2010 the NBM reduced its presence in the foreign exchange market – a tendency that continued during the first quarter of 2011.

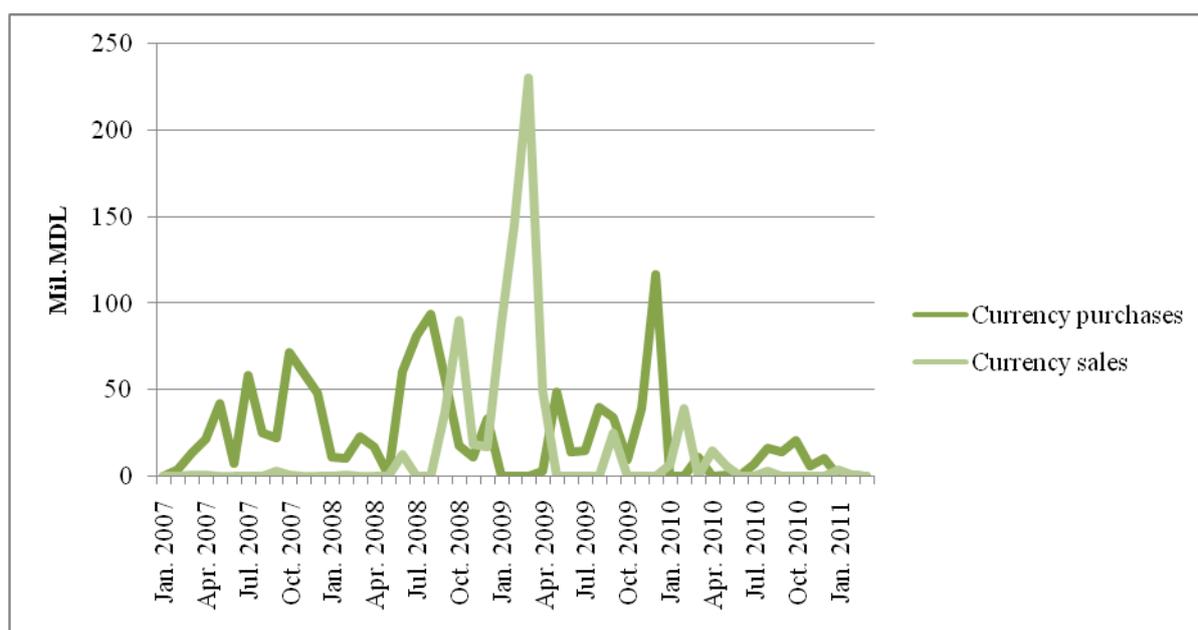


Figure 3.23. NBM activity on foreign currency market

Source: National Bank of Moldova

The excess of liquidity is a typical feature of the local banking system. This situation implies active interventions of NBM on the money market. Trying to prevent monetary pressure on inflation, the NBM act to stabilise excess liquidity by selling National Bank Certificates (NBC). The NBC is a good and reliable investment instrument for banks, as an alternative to loan in the economy. From 2005 to 2010, there was a general growth trend in the use of NBCs. A deviation from this trend occurred in 2009, when excess liquidity was allowed to stay in banks in hope that they would direct these resources to the economy. In 2010 the level of *sterilisation* increased, and this trend continued in the first quarter of 2011. In February 2011 the average daily balance of NBC sales reached a record level of more than 3.9 billion MDL. NBC interest rates are equal to the NBM base rate; during 2010 they increased from 5% to 7%. In January 2011, the NBC interest rate was set at the level of 8%.

At the same time, the NBM applies permanent facilities in order to manage excess liquidity. The banks widely use the overnight deposits facility, but they rarely use overnight loans and in small amounts. An exceptional growth in the use of overnight deposits occurred in 2009, which peaked in December 2009, when the average daily stock was 3.609 billion MDL. This situation may be explained by the fact that, during the economic crisis, the banks had significant liquidity which was moved into overnight deposits at the time when the NBM stopped the issue of NBCs. At the end of 2009, NBM returned to sterilization operations, as a result the banks withdrawing funds from overnight deposits and again directing their liquid resources into NBCs. In 2010 the average daily stock of overnight deposits decreased and constituted 455.6 million MDL. From August, 2010, the daily stock has not exceeded the level of 312 million MDL. In the first quarter of 2011 there was a little growth in the average daily stock of overnight deposits.

By September 2009, the interest rates on overnight loans were reduced to the minimum level of 7.5%. The interest rates on overnight deposits remained constant since 2005, staying at 2%. Later the interest rates of permanent facilities grew:

- the interest rates on overnight credits grew from 7.5% in September 2009, to 11% in January 2011, when the last modification took place;
- as for overnight deposits, the first increase of the interest rate took place in February 2010, when it increased to 5% in January 2011.

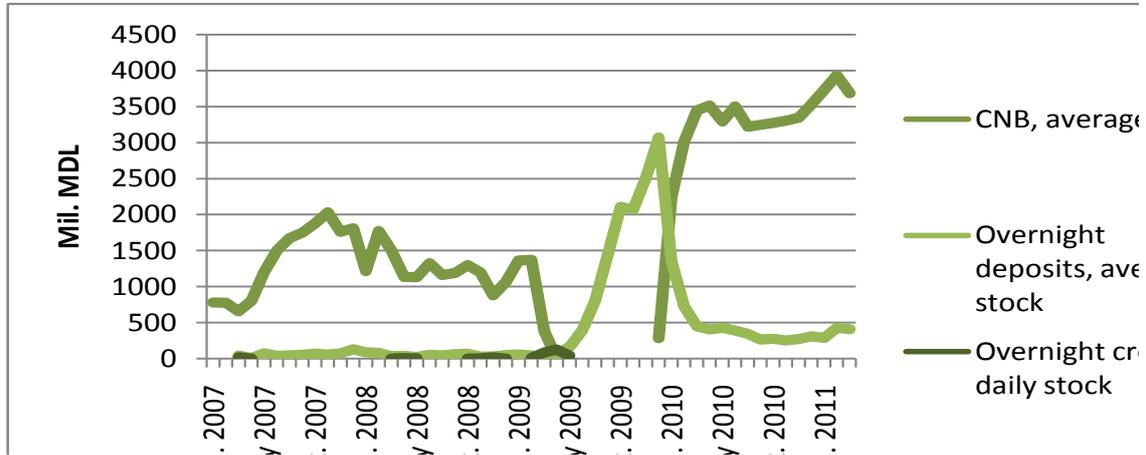


Figure 3.24. Instruments of the monetary policy

Source: National Bank of Moldova

The persistence of excess liquidity in the banking system obviates the need of commercial banks to apply for NBM credit resources. This fact limits the transmission mechanism of monetary policy and the NBM cannot effectively use the base rate to influence the interest rates operated by commercial banks. With an underdeveloped transmission mechanism, the NBM applies the required reserves level to influence the level of resources held by the banks and, implicitly, the interest rates. This tool was very actively used in 2008, when the required reserves level for resources in MDL grew from 15% to 22% in the period from January to August 2008. This was followed by a period of when the required reserves rate gradually decreased to the level of 8% in September 2009. The level of required reserves remained constant from September 2009 until the beginning of 2011. In February 2011, the required reserves rate increased from 8% to 11%. The required reserves rate for funds in foreign currency followed a similar trend.



Figure 3.25. Required reserves rate for MDL deposits

Source: National Bank of Moldova

The communication with public is an important factor in promoting the inflation targeting regime. Active communication of the monetary authority is making the public to understand the objectives and instruments of monetary policy. In 2010 an important step was made in this regard: the NBM commenced its quarterly reports on the monetary policy, leading to four publications of “The Monetary Policy Report” in 2010, and then “The Inflation Report” in 2011. All publications were supported by dedicated press-conferences.

Inflation in the Republic of Moldova is influenced, to some extent, by monetary factors. The price level is determined by structural variables or by external influences. This situation represents no impediment for the implementation of the inflation targeting regime. The lack of a strong connection between monetary factors and inflation does not threaten the regime. The principle of inflation targeting is not based on the assumption of such a relationship, but is based on the use of available information in order to determine the optimal use of monetary policy tools.

An intensification of inflation risks in 2011 may lead to tighten monetary policy. If important shocks do not occur, the annual inflation may reach approximately 8.4%, as forecast by the NBM. An inflation of 6% by 2012 is also possible (the targeted level is 5%, whereas the divergence limit is 1%).

Chapter 4 EXTERNAL SECTOR

EXTERNAL TRADE

The development of the external trade of the Republic of Moldova over the past 5 years, except in 2009, was generally characterized by a growth trend, rising to 5.4 billion USD in 2010, growing by 2 billion compared to 2005. This is largely due to an increase in imports which grew by average rate of 16.9%, which is higher than the annual average growth rate of export of 9%.

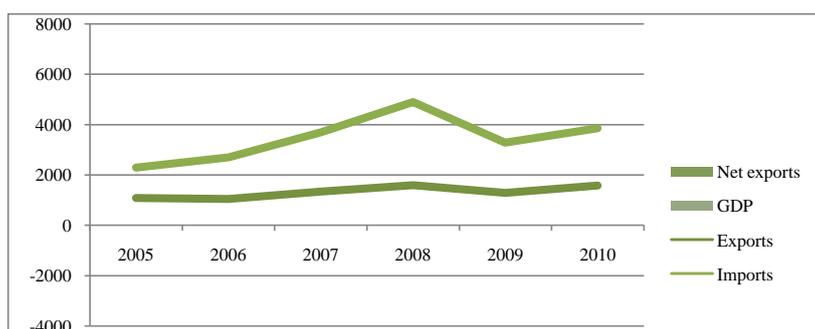


Figure 4.1. Development of external trade of the Republic of Moldova 2005 - 2010, million. USD

Source: National Bureau of Statistics

Over the 5 past years, except for 2006 and 2009, during which the economy of Moldova suffered external shocks, exports continuously increased both from the point of view of quantities and value, amounting to 1.54 billion USD in 2010, which was 450 million USD more than in 2005. However, in the context of growth in imports that amounted to 3.85 billion USD in 2010, registering an increase of 1.6 billion USD during this period, the export development can be considered modest.

At the same time, an important part of the total value of exports represents re-exports⁴, which have registered an enormous leap in 2005 and developed much faster than the export of domestic goods; thus in 2010 the re-exports got to about 41% of the total gross exports. These also proved to be more resilient during the crisis, thus in 2009 the re-exports diminished by 16%, while the export of domestic goods dropped by 21%. This evolution can be explained by diminished capacities of the national agriculture and industry.

⁴ Re-exports refer to goods exported by a country in the same state as previously imported. The term "goods in the same state" includes goods that did not undergo significant processing that changed their origin. (International Merchandise Trade Statistics. Compilers Manual. United Nations, New York, 2004).

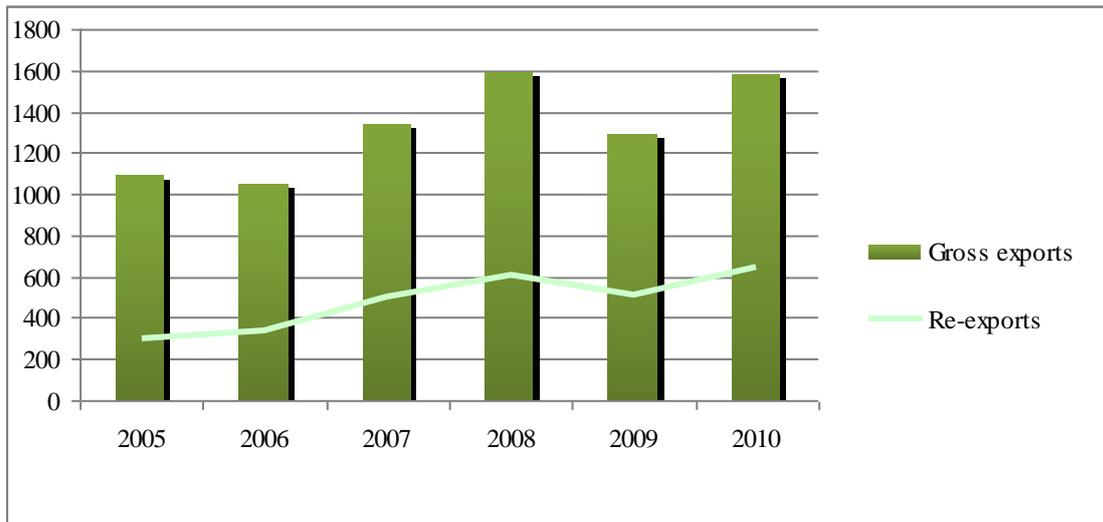


Figure 4.2. Development of re - exports during the period 2005 - 2010, million. USD
Source: United Nations Commodity Trade Statistics Database

Table 4.1. Selected performance indicators of the Moldovan external trade

| | 2005 | 2010 |
|---|-------|-------|
| <i>Share of re-exports in gross exports (%)</i> | 27.0 | 41.0 |
| <i>Imports coverage by exports (%)</i> | 47.6 | 40.0 |
| <i>Opening degree of the economy</i> | 113.2 | 92.9 |
| <i>Per capita exports (USD)</i> | 303.0 | 432.6 |
| <i>Export/GDP (%)</i> | 36.5 | 26.5 |
| <i>Import/GDP (%)</i> | 76.7 | 66.4 |
| <i>Share in world exports (%)</i> | 0.01 | 0.01 |

Source: Based on the available data of the National Bureau of Statistics, United Nations Commodity Trade Statistics Database, World Trade Organization statistics database

A phenomenon that characterized the external trade of the Republic of Moldova throughout this period was the serious deficit of the trade balance, which increased from 1.2 billion USD in 2005 to 2.3 billion USD in 2010. The deficit of the external trade balance continued to increase until 2008, when it –reached 3.3 billion USD. In 2009, as a result of the dramatic fall of the imports, the deficit dropped to 1.9 billion USD, but once the consequences of the crisis were over, the upward trend returned. The massive import inflows as compared to the exports, which in 2010 were about 66% of GDP and, correspondingly 26.5% were transposed in the reduction of the coverage of the imports via exports, which amounted to 40% in 2010.

Although the crisis of 2009 had serious consequences for external trade, the developments of the previous year indicate a quick recovery of the trade flows.



Figure 4.3. Quarterly evolution of the goods imports and exports, Q1'2007-Q1'2011, increase in % compared to the same period of the previous year

Source: National Bureau of Statistics

In 2009, the exports proved to be more resistant to shocks than the imports, which dropped at a higher rate. The exports recovery was also more sizeable, in fact, the latter had developed more quickly than imports increase, especially starting with the last quarter of 2010 (figure 3). Moreover, the real quantity of the exports in 2010 exceeded the estimates. At the same time, attenuating import growth rates, as compared to their pre-crisis trends have contributed to the strengthening of the trade balance position. At least, in the short term, we estimate that this trend will continue.

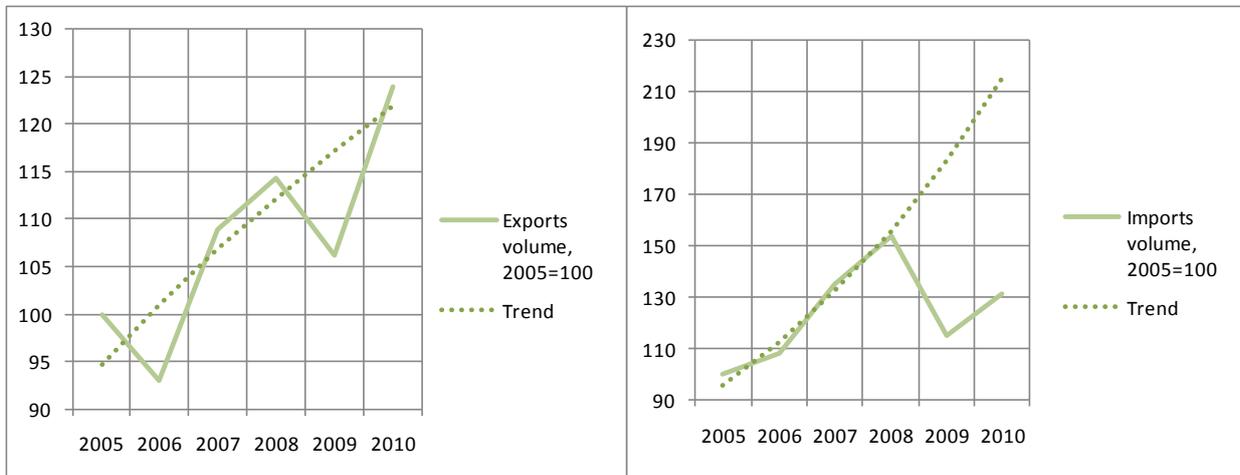


Figure 4.4. Merchandise export and import volume indexes in 2005-2011, 2005=100

Source: National Bureau of Statistics

Note: The trend is estimated according to the observations registered during the period 2000-2008 and extrapolated for 2009 and 2010 thus representing the evolution of the trade flows if the crisis had not happened.

The developments during the first quarter of 2011 show that the trend of the second half of the previous year is continuing. During the first three months of this year, the exports increased by 65% in January, by 50% in February and by 61% in March, while the imports grew correspondingly by 43%, 42% and 46%. At the end of the first quarter, the exports amounted to 478.6 million USD (an increase of 58% compared to the same period of the previous year), while

the imports equalled 1,099 million USD (an increase of 44 % compared to the same period of the previous year). The export quantity in the first quarter of this year increased even if compared with the same period of the pre-crisis years.

The increase in the external trade in the first quarter was due, especially, to the enhancement of the import-export flows with EU countries. In general, the trend of the last 5 years is maintained, the external trade has a more or less constant geographic distribution, about 51% of the exports being directed to EU and 37% to CIS; about 41% of the goods imported by the Republic of Moldova are from EU and 37% from CIS. The role of the other countries is less important – these counts for about 12% of the exports and 22% of the imports.

The increase in exports in the first quarter of 2011 was determined (in the amount of 30%) by the increase of the exports to the EU by 58%, especially to Italy (by 36%), Romania (by 52%), Great Britain (by 40%), Germany (by 80%), and Poland (by 140%). At the same time, the increase of exports to CIS was 52% contributing to total exports growth in proportion of 20%, in particular exports increased to Russia (by 55%), Ukraine (by 71%) and Belarus (by 26%).

Comparing to the same period of the previous year, when exports increased by only 8.2%, the increase occurred due to exports to CIS countries with a contribution degree of 7.4%, while the exports to EU countries had a negative contribution of -0.2% on the general exports growth. These changes show that the western countries are recovering gradually from the crisis and get more responsive to Moldovan exports. If compared to the first quarter of the previous year, the exports to other countries increased as well: Turkey (by 72%) and USA (by 180%).

The breakdown of exports by main trade partners reveals a relatively high level of exports concentration, 50% of the exports are concentrated on three main markets – Russia (24%), Romania (16%), Ukraine (10%). In 2010, first top 10 partners concentrated nearly 81% of Moldova’s exports.

Even though there was a certain diversification in exports in the past years, they are still concentrated, the *Herfindahl-Hirschman* concentration index equalling 0.27.

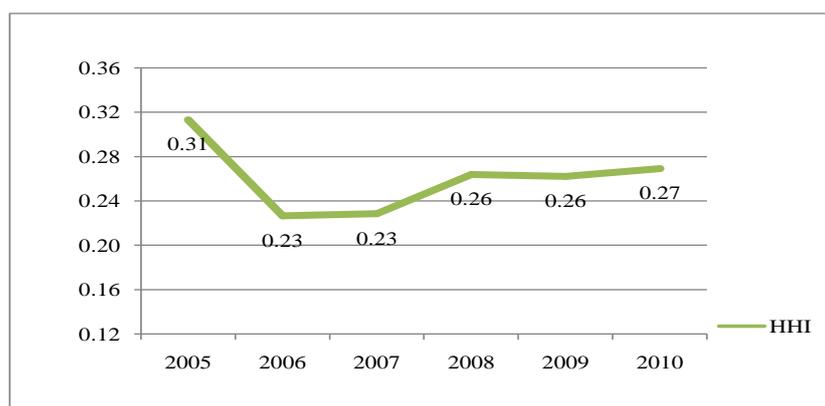


Figure 4.5. Index of geographic concentration of exports (Herfindahl-Hirschman)

Source: Calculated based on the data available from United Nations Commodity Trade Statistics Database

Imports increased by 44% compared to the first quarter of 2010. This is mainly due to the increase of imports from EU countries by 46% (with a contribution of 18% to total imports growth), especially from Romania (growth of 58%), Germany (growth of 48%), Italy (growth of 36%) and Greece (growth of 60%). Imports from CIS countries were also re-launched, which has contributed to the total increase of imports by 16%, thus registering an increase by 43%, while in the same period of 2010 these imports decreased. Two main import partners are Russia and Ukraine, both CIS members, with a share of about 33% during the first three months of this year, growing by 33% and, correspondingly, by 39%. Other important import partners in the same period were China and Turkey.

In the first quarter of 2011, about 50% of imports came from four main partners - Russia, Ukraine, Romania and China, while top 10 import partner countries accounted for about 72% of total imports. In comparison to 2010, the same indicators represented 56% and 79% respectively.

Table 4.2. The external trade of the Republic of Moldova with the main trade partners in the first quarter of 2011, (total %)

| Export | | | Import | | |
|--------------------|---------|---------|--------------------|---------|---------|
| Country | Q1'2010 | Q1'2011 | Country | Q1'2010 | Q1'2011 |
| Russian Federation | 24.8 | 24.4 | Russian Federation | 23.1 | 21.4 |
| Romania | 16.2 | 15.7 | Ukraine | 12.1 | 11.7 |
| Italy | 11.1 | 9.6 | Romania | 8.9 | 9.8 |
| <i>Total</i> | 52.1 | 49.7 | <i>Total</i> | 44.1 | 42.9 |
| Ukraine | 6.3 | 6.8 | China | 8.4 | 7.1 |
| Germany | 5.3 | 6 | Germany | 6.9 | 7.1 |
| Great Britain | 5.5 | 4.9 | Turkey | 5.2 | 6.5 |
| Turkey | 4.2 | 4.6 | Italy | 6.2 | 5.9 |
| Poland | 5.2 | 4.2 | Belarus | 2.1 | 3.3 |
| <i>Total</i> | 78.6 | 76.2 | <i>Total</i> | 72.9 | 72.8 |

Source: National Bureau of Statistics

In the first quarter of 2011 there were no significant changes in the structure of exports and imports, with agricultural and food products representing 45% of exports. The share of the non-food raw materials increased to 5%, mainly due to the increase of exports of oleaginous seeds and fruits, vegetal fats and oils, metal ore and waste. The share of other manufactured goods and machines, and transportation equipment also increased. At the same time, the proportion of exports of chemical goods, textile and clothing goods (Table 3) decreased.

Although there was a diversification of exports in the period between 2005 and 2010, the HHI index per groups of goods dropped from 0.27 to 0.15, thus the structure of Moldovan exports continues to be different from the rest of the world. The quantity of medium and high technology exports is relatively low (18%) as compared to EU (60%), including Romania (51%), but in comparison to CIS countries (12%) this indicator is rather good, having grown in this period from 8% in 2005.

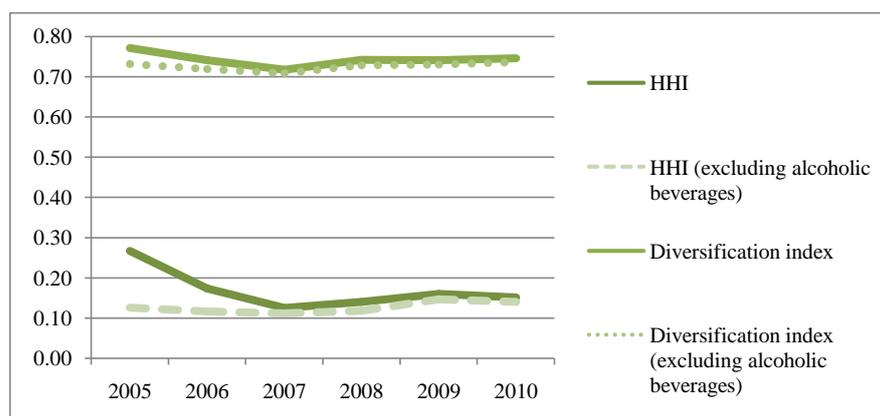


Figure 4.6. Index of diversification and concentration of the Moldovan exports by commodity groups

Source: Calculated according to the data available on United Nations Commodity Trade Statistics Database

The imports also mainly kept the same structure, with a slight drop in the quantity of agricultural and food products, chemical goods, and especially of medicine and pharmaceutical goods, textile and ready made goods. At the same time, the imports of other manufactured goods increased.

Table 4.3. Foreign trade commodity structure in the first quarter, 2011 (%)

| Commodity groups classified according to SITC | Export | | Import | |
|---|--------------|--------------|---------------|---------------|
| | Q1'2010 | Q1'2011 | Q1'2010 | Q1'2011 |
| Total | 100.0 | 100.0 | 100.00 | 100.00 |
| Agricultural and food products (0+1+22+4) | 44.51 | 45.06 | 16.80 | 14.09 |
| Non-food raw materials, exclusive fuels (2-22) | 2.05 | 4.95 | 1.83 | 1.97 |
| Mineral fuels, lubricants and derivates (3) | 0.44 | 0.79 | 25.58 | 26.66 |
| Chemical goods and derivates non-specified elsewhere (5) | 7.41 | 4.32 | 13.49 | 12.87 |
| Machines and transportation equipment (7) | 13.35 | 14.02 | 17.23 | 19.27 |
| Textiles and clothing (65+84) | 20.16 | 15.95 | 7.26 | 6.51 |
| Other manufactured goods (6+8-65-84) | 12.06 | 14.89 | 17.80 | 18.63 |
| Other goods | 0.01 | 0.02 | 0.00 | 0.00 |

Source: National Bureau of Statistics

The increase of exports during the period January-March was influenced, mainly, by the increase in exports of the following groups of goods:

- **oleaginous seeds and fruits**, due to 2.7 times increase to EU and more than 3 times to CIS and in other countries. The main markets for this category of goods are EU with a proportion of 38% and 37% to several other countries, 25% being exported to the CIS;
- **vegetables and fruits**, as a result of the increase in exports to CIS and EU countries by 35% and 31% respectively, while in other countries the export of fruit and vegetables decreased. The exports of vegetables and fruit mainly focuses on two main markets CIS 55% and EU 42%;
- **cereals and cereal based products**, due to the increase of exports by more than twice to EU and to other group of countries, where 68% and 25% respectively of cereal exports are concentrated. The export to CIS also increased by 38%;
- **metalliferous ores and metal scrap**, as a result of the higher exports to the EU countries, and in particular to other countries. Consequently, the main market is the group of other countries, with a share of 51% compared to 16% during the same period of the previous year, while the rest of 49% are exported to EU, as compared to the 81% during the previous year;
- **fixed vegetable fats and oils**, due to the increase in export to the EU and other countries. At the same time, the exports of fats and oils to CIS countries considerably decreased, which conditioned the drop in the share of these countries in total exports of this type of goods from 64% to 7%, correspondingly increasing the proportion of the EU countries to 87% and other countries to 6%, compared to 35% and, 1% respectively in the same period of the previous year;
- **furniture and parts**, due to the increase of the exports to EU countries, 72% of the exports of furniture being directed to this market, while only 28% are being exported to CIS, as compared to 48% and 52% in the first quarter of the previous year;
- **machines and electrical devices**, as a result of the increase of about 4 times in the CIS countries and, in the same time, the main export market for these goods being EU with a proportion of 95%, others 4% and, correspondingly, 1% being exported to CIS and other countries.

Although, these increased at a relatively low level, an important role in increasing the exports to the EU was due to exports of the ready-made clothing, 87% of these goods being directed there. At the same time, there was a dynamic increase in the exports of clothing to the CIS countries' markets.

As a result of the changes made in regulating the internal drugs market at the end of 2010 and the attitude of Eastern business partners with regard to Moldovan exports of alcoholic beverages, the exports of **medical and pharmaceutical goods and drinks** dropped significantly in the first quarter, especially to the CIS market. This is the main market for selling these goods with a share of 93% and 78% respectively.

Table 4.4. The performance of the main export commodity groups in the first quarter of 2011

| Cod SITC rev 3 | Group of goods | Structure (%) | Influence degree on export increase | Growth rate (%) | | | |
|----------------|--|---------------|-------------------------------------|-----------------|-------------|-------------|-----------------|
| | | | | Total | CIS | EU | Other countries |
| | Export | 100.0 | 58.2 | 58.2 | 52.2 | 58.1 | 80.2 |
| 84 | Articles of apparel and clothing accessories | 13.4 | 3.9 | 22.6 | 549.8 | 24.0 | -2.9 |
| 22 | Oil-seeds and oleaginous fruits | 11.4 | 12.5 | 221.8 | 239.8 | 170.0 | 283.3 |
| 05 | Vegetables and fruit | 11.4 | 4.2 | 30.1 | 35.5 | 31.5 | -25.4 |
| 11 | Beverages | 7.3 | -1.4 | -11.0 | -11.2 | 1.6 | -36.5 |
| 77 | Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof | 6.7 | 2.4 | 29.0 | 307.1 | 25.1 | 35.3 |
| 04 | Cereals and cereal based products | 6.4 | 5.4 | 111.7 | 38.4 | 126.8 | 104.2 |
| 42 | Fixed vegetable fats and oils, crude, refined or fractionated | 3.9 | 3.0 | 95.0 | -78.6 | 386.2 | 966.1 |
| 28 | Metalliferous ores and metal scrap | 3.7 | 5.0 | 534.5 | -100.0 | 288.1 | 1919.2 |
| 54 | Medicinal and pharmaceutical products | 3.2 | -1.1 | -17.3 | -21.0 | 362.5 | -3.6 |
| 82 | Furniture, and parts thereof | 3.2 | 3.2 | 168.3 | 42.9 | 306.2 | -100.0 |

Source: calculations made based on the data of the NBS

The growth of imports during the period January-March 2011 was mainly due to the increase in the imports of:

- **fuels**, increasing the gas imports from the CIS, as well the oil imports from CIS and EU. In the same period, 99.8% of the gas was imported from the CIS, and 67% of oil from the EU and 33% from the CIS;
- road vehicles, as result of the increase of the imports from the EU and other countries. This category of goods is imported mainly from the EU, 70% and other countries 25%;

The imports of other manufactured goods also grew, a high growth rate being registered by the import of machines and devices for metal processing (209%), machines and specialized devices for specific industries (168%) etc.

Table 4.5. The performance of the main import commodity groups

| Cod SITC rev 3 | Group of goods | Structure (%) | Influence degree on import increase | Growth rate (%) | | | |
|----------------|---|---------------|-------------------------------------|-----------------|-------|-------|-----------------|
| | | | | Total | CIS | EU | Other countries |
| | Import | 100.0 | 44.0 | 44.0 | 43.1 | 45.6 | 42.6 |
| 34 | Gas, natural and manufactured | 15.2 | 4.3 | 24.7 | 24.8 | -20.8 | 0.0 |
| 33 | Petroleum, petroleum products and related materials | 10.8 | 7.8 | 101.8 | 187.3 | 76.2 | -29.4 |
| 77 | Machines and electric devices and their elements | 5.2 | 1.8 | 31.0 | 36.3 | 27.2 | 36.1 |
| 65 | Textile yarn, fabrics, made-up articles, n.e.s., and related products | 4.9 | 2.0 | 39.2 | 12.1 | 44.0 | 34.1 |
| 78 | Road vehicles | 4.8 | 3.3 | 88.9 | -7.9 | 106.7 | 82.0 |
| 54 | Medical and pharmaceutical products | 3.7 | 0.2 | 4.2 | -45.0 | 3.3 | 25.2 |
| 05 | Vegetables and fruit | 3.1 | 0.3 | 6.2 | -3.2 | -14.1 | 38.7 |
| 72 | Machinery specialized for particular industries | 3.1 | 2.8 | 168.5 | 111.2 | 170.7 | 232.8 |
| 89 | Miscellaneous manufactured articles | 2.9 | 1.1 | 38.1 | 71.5 | 25.6 | 37.7 |
| 12 | Tobacco and tobacco manufactures | 2.8 | 1.8 | 84.2 | 83.2 | 86.6 | 90.3 |

Source: Calculations based on the data of the National Bureau of Statistics

In the short and medium term, in the context of the recovery of the western partners from the crisis, probably the trade flows will intensify, and the growth of exports will be determined mainly by the export of agri-food products (oleaginous seeds and fruits, vegetables and fruits, cereals and cereal-based products, fats, vegetal oils fixed, raw, refined and fractioned) and other light industries (clothing, furniture, shoes) – which during the last decade reflected a high growth tendency, playing a significant role in export growth. Furthermore, the growth perspectives of these exports are determined also by the fact that Moldova has important Revealed Comparative Advantages in the export of these goods.

At the same time, Moldovan exports are losing their price competitiveness - a fact confirmed by the evolution of the real and effective exchange rate of the national currency. The evolution of the real exchange rate of the national currency during the period 2005-2010 was characterised by a gradual appreciation, thus a deviation from the trend of the last year. During the period 2005-2010, the real exchange rate of the national currency appreciated by about 18.7%, fact showing that our goods are relatively more expensive than the goods of our main trade partners.

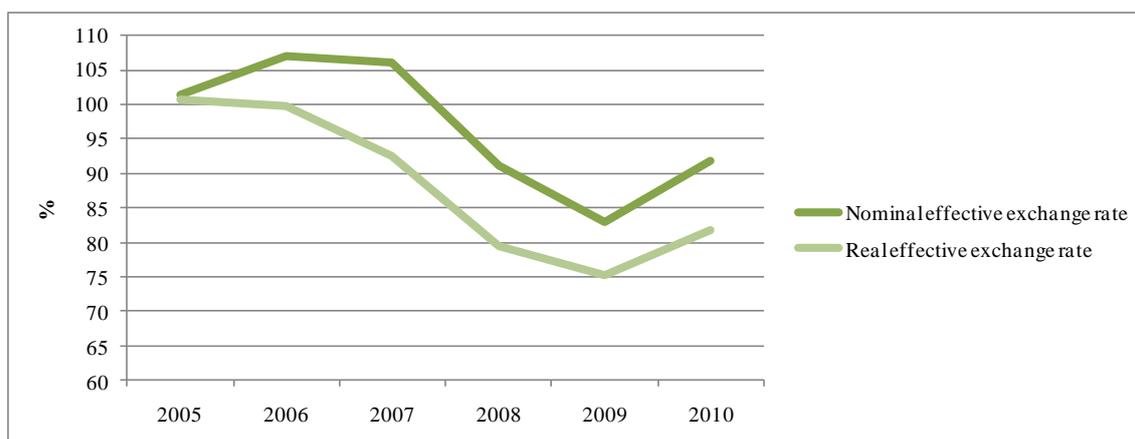


Figure 4.7. Evolution of the nominal effective exchange rate and the real effective MDL exchange rate, 2000=100

Source: Calculations based on the data of the International Monetary Fund and the National Bureau of Statistics

PERFORMANCE OF FOREIGN DIRECT INVESTMENTS

Due to the gradual recovery of the world economy from the crisis, in 2010 a slight increase of 13% was noted in the global FDI outflows after a sharp decline of 38% in 2009. The FDI rate is much below the level of 2008 and even lower than that of 2007, when the amount of world FDI outflows was 2,217 billion USD. The recovery of the FDI flows in 2010 was caused by the increase of reinvested incomes as result of the increase of corporative profits, while the capital investments did not develop much. Thus, the slight re-launch of the world outflows of foreign direct investments was mainly determined by the increase of the investments made by the developing economies and those in transition by 23%, due to faster recovery of these economies after the crisis, while the investments of the developed countries increased only by 10%.⁵

Since the beginning of 2010, due to the continuous reinforcement of the national economy and to the economic stabilization of the main countries investing in the Republic of Moldova, the FDI flows slightly increased.

⁵ Global and Regional Trends of FDI Outflows in 2010, UNCTAD Global Investment Trends Monitor, N. 6, 27 April 2011 available on http://www.unctad.org/en/docs/webdiaeia20114_en.pdf

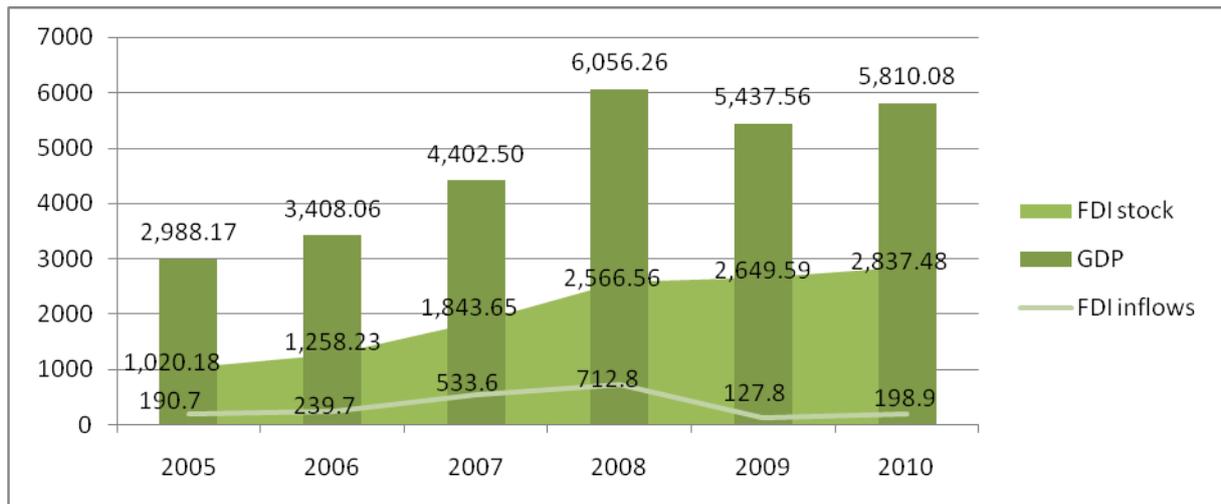


Figure 4.8. Evolution of FDI inflows and investments in fixed capital compared to the GDP growth during 2005-2010, million USD

Source: National Bureau of Statistic and the National Bank of Moldova

Therefore, the inflow of foreign direct investments into the national economy in 2010 constituted 198.9 million USD, having registered an increase by 55.6% in comparison with the previous year. In spite of this rate which seems relatively high its absolute amount is still low, and it hardly gets over the level of FDI inflows in 2005.

During the pre-crisis period, 2005-2008, FDI seemed to have strengthened, the latter growing at an annual rate of 53%, reaching its peak of 712 million USD in 2008 – 4 times higher than in 2005. Thus, the FDI stock also grew by 2.5 times during this period.

At the same time, the crisis interfered with the investment situation of the Republic of Moldova, highlighting its low investment attractiveness. In spite of the growth of FDI inflows by 55.6%, which resulted in a growth of FDI stock by 7% compared to the previous year, amounting to 2,837 million USD, it's too early to speak about their real performance - a fact that can be explained by the following developments:

- the share of FDI stock in GDP has grown over the past 5 years from 34% in 2005 to 49% in 2010. Nevertheless, this indicator for the Republic of Moldova can be hardly qualified as a performance indicator, as the country is considered one of the countries with the lowest GDP level. The reduced attractiveness of the national economy for foreign investors is visible from the fact that Moldova has the lowest FDI level per capita (the FDI inflow was about \$55 in 2010, whereas FDI stock per capita was about 797\$) compared to countries from Central and Eastern Europe, being also almost at the bottom of the list of CIS countries;

- the recovery of FDI inflows in 2010 occurred due to the increased number of investors who already operate in the national economy rather than due to the emergence of the new investors. In 2010, the reinvested income and investments have grown by 34% and, correspondingly, by 45%, while the foreign direct investments into the social capital dropped by 5%;

The low attractiveness of the Moldovan economy can be explained by different factors that create serious constraints for the business environment within the country: financial instability

and access to financing. According to the “Doing Business” Report, the regulation framework in this domain has not changed much over the past 5 years.

REMITTANCES TO THE REPUBLIC OF MOLDOVA

Remittances dominate the economic life of the Republic of Moldova. Remittances have a special role in financing the households’ consumption, being an element that determines the dynamics of the national economy. Regarding remittance volumes, the Republic of Moldova was among the top world leaders before the world crisis struck, the share of these inflows exceeding 30% of GDP. Remittances have attenuated the effects of economic shocks that the Republic of Moldova had to deal with constant and considerable increase of the energy prices, embargos on wine export in 2006, the drought of 2007. The world crisis affected the Republic of Moldova largely by reducing remittances, which determined a decrease in the demand. In 2010, a slight increase in the volume of received remittances was registered.

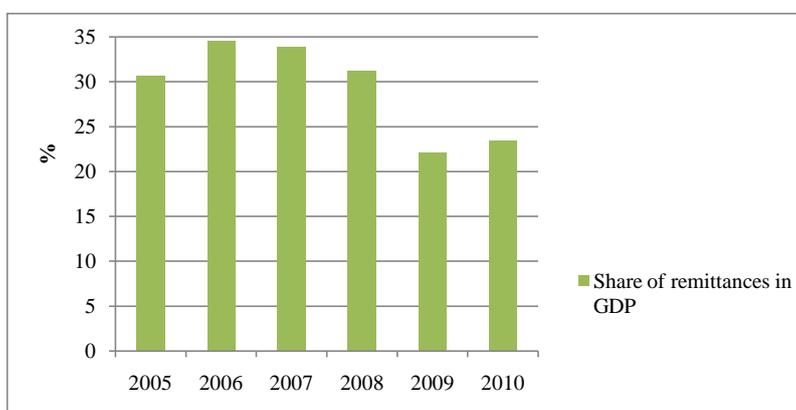


Figure 4.9. Share of the volume of remittances in GDP, %

Source: National Bank of Moldova and National Bureau of Statistics

There was a positive trend in the use of the banking system as means of transferring the remittances. In this regard, it is worth mentioning the evolution of money transfers from abroad made to physical persons through the banks of the Republic of Moldova; their evolution is directly correlated with the amount of received remittances. The balance between remittances and money transfer has grown continuously, rising from 74.67% in 2005 to 91.63% in 2010.

Transfers via banking system in the first quarter of 2011 amounted to 277 million USD, which is up by 44.04 million USD or by 18.88% compared to the same period last year. At the same time, in the first quarter, about 17.5 - 19.4% of the annual amounts of transfers were executed through the banking system. Such an evolution shows that in 2011 the amount of the bank transfers made for physical persons could be around 1,420 million USD.

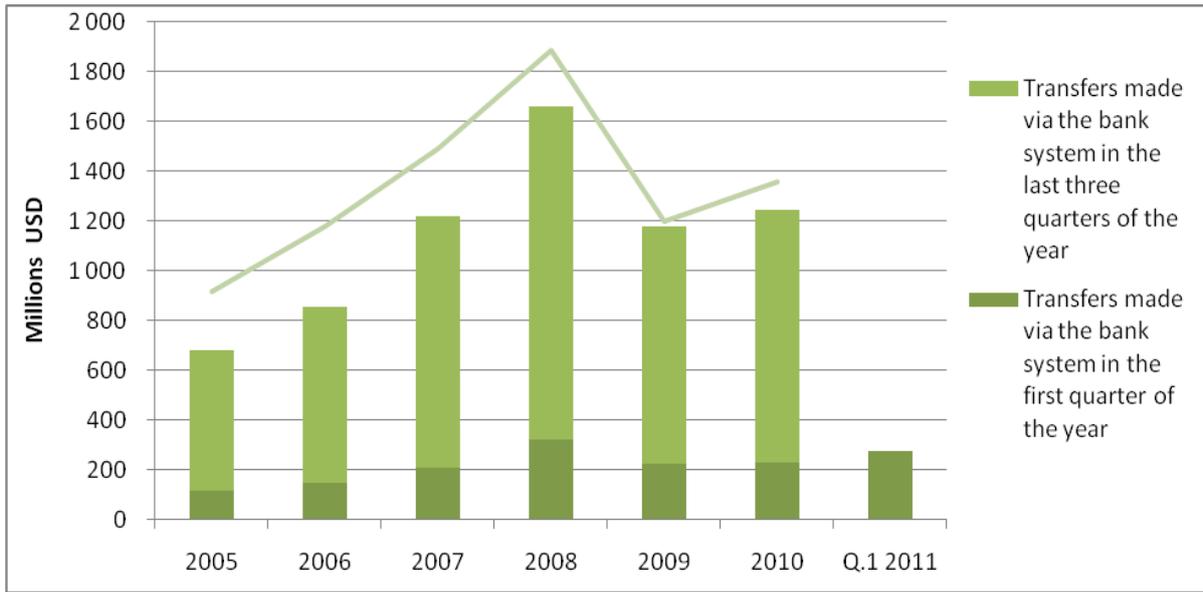


Figure 4.10. Evolution of transfers made via the bank system by physical persons and the amount of remittances, million USD

Source: National Bank of Moldova

Between 2005-2010, an increase of the share of remittances from Russia was registered; according to NBM data, in 2010 these equalled to 747 million USD – more than half of the transfers made by migrants who left to work abroad. At the same time, the remittances from the rest of the world continue to decrease.

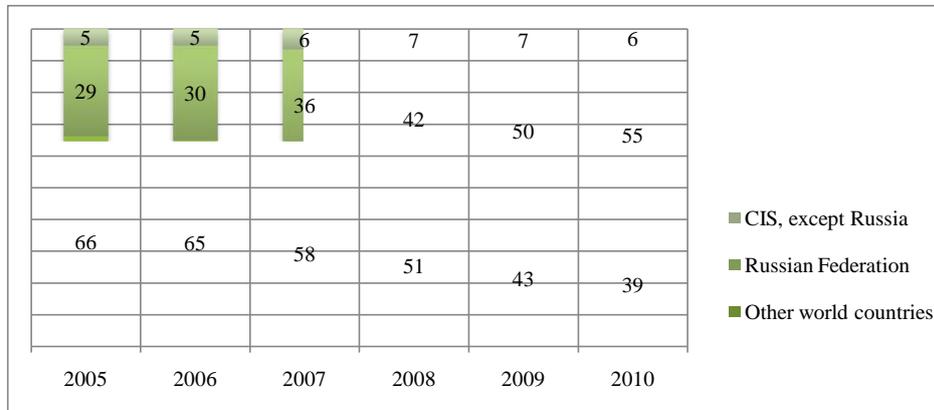


Figure 4.11. Structure of remittances depending on geographic origin, %

Source: National Bank of Moldova

TRENDS AND POLICIES OF THE MAIN COMMERCIAL/ECONOMIC PARTNERS OF THE REPUBLIC OF MOLDOVA

The world crisis stunted the general growth trend of the world economy in 2008, with a significant slowdown, and in 2009 the world economy entered recession, with a further decrease by 0.5%. At the end of the year, due to the prompt reaction of the national governments in developing anti-crisis policies, the great

majority of economies started recovering from the shock, and significantly recovering in the first half of 2010.

After a 5.25% growth in the first 6 months of 2010, world production started to slow down and in the second half of the year there was an increase of 3.75%⁶. During the next two years, the world economy will continue growing moderately by 4.5% according to the IMF data, or even by 3.1% according to UN estimates, the main cause for this being a difficult recovery of developed economies after the crisis.

Table 4.6. Economic growth of the main trade partners, constant prices (%)

| | Economic growth | | | Inflation | | | Exports (% change) | | | Imports (% change) | | |
|---|-----------------|------|------|-----------|------|------|-----------------------|------|------|-----------------------|------|------|
| | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 | 2009 | 2010 | 2011 |
| World | -0.5 | 5.0 | 4.4 | 2.5 | 3.7 | 4.5 | -11.4 | 14.1 | 7.9 | -11.9 | 12.9 | 7.4 |
| <i>United States</i> | -2.6 | 2.8 | 2,8 | -0.3 | 1.6 | 2.2 | -12.0 | 14.7 | 8.9 | -15.8 | 14.8 | 4.5 |
| <i>European Union</i> | -4.1 | 1.8 | 1.8 | 0.9 | 2.2 | 2.7 | -20.6 | 16.8 | - | -27.0 | 17.6 | - |
| <i>Romania</i> | -7.1 | -1.3 | 1.5 | 5.6 | 6.1 | 6.1 | -3.1 | 20.1 | 7.2 | -23.4 | 15.2 | 6.4 |
| <i>Commonwealth of Independent States</i> | -6.4 | 4.6 | 5.0 | 11.2 | 7.2 | 9.6 | -11.9 | 8.4 | 4.6 | -27.8 | 15.5 | 15.7 |
| <i>Ukraine</i> | -14.8 | 4.2 | 4.5 | 15.9 | 6.9 | 9.3 | -25.5 | 10.8 | 8.0 | -42.5 | 18.4 | 10.5 |
| <i>Russian Federation</i> | -3.1 | 6.0 | 5.5 | 11.7 | 6.9 | 9.3 | -9.8 | 9.2 | 1.8 | -31.2 | 23.1 | 17.2 |

Source: IMF, Global economic outlook April 2011, National Statistics Office

During the last two quarters of the previous year, the volume of global exports dropped; thus after a 14.5% increase in 2010 it is estimated that this year will register a more modest rise of 6.5%.

The period during the end of 2010 and the beginning of 2011 was characterized by a rapid increase of prices of energy and agricultural-food resources, resulting in higher inflation. The increase of global energy prices will have negative consequences on the economic activity of many countries. In addition, the food price rise will exert inflation pressure, in particular on the emerging countries where these goods represent an important part of the consumer basket.

USA. The US economy seems to be recovering slowly, reporting a growth rate of 2.8% in 2010, compared to the drop of -2.6% in 2009. However, it is estimated that during the first quarter of this year the real GDP will grow only by 1.8% as compared to 3.1% in the previous quarter, or by 2.3% compared to the same period of the previous year. The major factors that led to the economic increase in 2010 were, similarly to the first quarter of this year, the re-launch of the private initiative, showed through private consumption, in particular of durable goods and the growth of private investments into fixed capital.

On the other hand, other factors that contributed to the growth, but which by their slowing have determined an economic growth at a lower rate, slowing down its development include:

- slowing down growth rates of federal expenses, gross investments and reduction of the state and local investments;

⁶ IMF, Global economic outlook April 2011 available at <http://www.imf.org/external/pubs/ft/weo/2011/01/pdf/text.pdf>

- growth of goods and services import at rates exceeding the export growth rate⁷.

Although, generally speaking, GDP follows an increasing trend, getting gradually to the levels before the crisis, the situation on the labour market in 2010 didn't improve. The unemployment rate grew by 0.36% as compared to 2009, to 9.6%, while during 2005-2007 it oscillated between 4.6%-5%, and 5.8% in 2008.

Inflation continues to grow in the US economy, registering an annual increase of 2.7% in March, the maximum growth having been registered in December 2009. The prices of energy increased by 15.5% over the past 12 months, including by 27.5% for petrol; the prices for food goods have grown by 2.9%. Thus, the prices of goods, excluding food products and energy grew by 1.2%.

European Union. After a recession that hit almost all EU countries, but in particular the Euro Zone, the European economies started to gradually recover, registering an economic growth, with the exception of Spain, Greece, Ireland, Latvia and Romania. Overall, in 2010 an economic growth of 1.7% in the Euro Zone and of 1.8% in EU-27 was registered.

Following a constant growth during the first half of the year, which amounted to 1% in Q2, in the second half of the year, the growth rate started to drop to 0.5% in the third quarter, and in the last quarter it dropped to 0.2%. The main factors that led to the slowdown of the growth rate in the last quarter were the decrease in creating fixed capital by 0.8% as compared to the growth by 0.4% registered in Q3. The export grew by 1.8% compared to a previous quarter 2.2%, and the import increased by 1.1%, while in the previous quarter it increased by 1.6%. At the same time, the final consumption of household owners continued to grow at a rate of 0.3%, as compared to 0.2% in the third quarter⁸.

The recovery of the global economy, with increased exports and domestic production during the first quarter of the previous year, stimulated the economic activity in Europe. As the recovery of the member states was unequal, certain countries were still in an economic recession in the past year; this will likely result in a rather modest growth rate in the EU.

The situation in the labour market is rather difficult, with the unemployment rate increased in 2009 after a rather slight consolidation in 2007-2008, when it equalled to about 7% (7.2% in 2007 and 2008). In 2010, it grew to 9.6%, having peaked during the first three months to 9.9%⁹.

In March 2011, the annual average inflation in EU, according to Eurostat, was 3.1%, increasing from 2% in the same period of the last year; half of this increase is attributed to growth of the oil prices. In a short run, it will probably continue to grow as a result of accelerated prices increase, due to higher indirect taxes and managed costs.

Romania. For the majority of the countries of the European area, 2010 was a recovery year after the crisis; however, Romania went through a recession in 2010. The further drop of private consumption expenses, especially of Public Administration and significant decrease of the gross capital creation, contributed to the lower level of the real GDP by additional 1.3%, compared to

⁷ News release: Gross Domestic Product, 1st quarter 2011 (advance estimate), April, 2011 available at <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

⁸ Eurostat news release indicators: Second estimates for the fourth quarter of 2010, 35/2011 - 3 March 2011 available at http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-03032011-BP/EN/2-03032011-BP-EN.PDF

⁹ Eurostat, Harmonised unemployment rate by gender available at <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=teilm020&plugin=1>

2009. At the same time, the negative consequences on the evolution of GDP were partly compensated by the increase of goods and services exports by 14.4 %, as compared to the imports increase by 12.3%.

The export rate growth of 5.8% in comparison with imports growth of 2.6% in the third quarter, as well as the revival of the raw capital creation contributed to a 0.1% increase of the real GDP in the last quarter of 2010. At the same time, the final consumption continued to drop.

During the first three months of 2011, Romanian economy continued to grow because of the re-launched external demand, which gave an impulse to the national industry, while the internal demand continued to be under the pressure of the tax policies. It is estimated that by this year the inflation rate will have decreased down to 4%.

The Commonwealth of Independent States (CIS). In 2009, a major part of the economies of the CIS area managed to keep a positive development trend of economic growth. At the same time, some countries entered a serious recession - Armenia, Ukraine, Russia, Georgia and Moldova. The economic growth in CIS was subsequently re-established as a result of the improvement of external business environment, as well as due to the increase of world prices on agricultural products and energy resources. Goods and services import-export flows were regenerated – growing by 16.8% and 10.7% after a dramatic fall of 25.6% and, correspondingly, 12.5% in 2009.

It is estimated that the regional economy will follow the growth trend registered in 2010, evolving by up to 4%. The improvement of the economic environment in this region mostly depends on the revival of Russian economy, which is the main economic and commercial partner of other CIS countries.

In 2009, inflation decreased by 5.3%, following this tendency in the first half of 2010. Nevertheless, at the start of the second half of 2010, inflation began growing. On one hand, due to natural disasters which affected the production levels, and thus have determined a sudden rise in the prices to agricultural products. On the other hand inflation was conditioned by a general rise of global prices of energy, agricultural and food resources.

After the rate of unemployment rise in 2009, in the countries that have undergone economic recession, especially in Russia, Moldova, Georgia, Armenia, Ukraine, the situation started gradually to improve in 2010, except for Moldova and Armenia, where unemployment rates continued to increase. Overall, following the recovery from the crisis, the unemployment rate in the CIS dropped from 7.2% in 2009 to 6.5%¹⁰ in 2010.

The recovery of the countries of the CIS area, especially Russia, Ukraine and Belarus, is an important external factor that could contribute to the reinforcement of the national economy. However, Moldova should carefully examine the risks related to the trade with the CIS partners, the most prominent being embargos on the Moldovan wine exports.

Russia. After a drop of 7.8% in 2009, the Russian economy grew by 4.5% during 2010. The greatest contributor to the real GDP increase in 2010 was growth of the gross capital creation, increase of final consumption, especially in the private and governmental expenditures. At the

¹⁰ CISSTAT, The average amount of economically active population of the countries of the Commonwealth of Independent States in 2010, Press release of February 7, 2011. Available at <http://www.cisstat.com/rus/r06.pdf>

same time, this increase was stalled by an increase of imports at a higher rate compared to exports of goods and services.

During the first months of 2011, GDP has continued to grow, being stimulated by an increase of prices of energy resources, which represent a major share in Russian exports.

An average inflation rate of 9.6% was registered when compared to the same period of the previous year, in particular for the price rise in food products.

In 2010, for the second year in a row, Russia registered a fiscal deficit, after many years of positive balances. The risk of tightening the fiscal policy this year could influence negatively the economic activity and as result, could impede the regeneration process of the situation on the labour market. In 2010, the unemployment rate decreased by 0.9% compared to 2009, amounting to 7.5%.

Ukraine. Ukraine is one of CIS countries with the highest regress rate in 2009, equalling to -14.8%. Yet in 2010, as a result of the increase of final consumption of households, and investments in fixed capital, there was a growth of the real amount of GDP by 4.2%. Economic growth was positively influenced by the regeneration of goods and services exports which grew by 4.5%. Positive effects resulting from the increase of the exports were partly compensated by the import growth by 11.1% as compared to the previous year.

In the first quarter of 2011, prices continued to rise, but at a slow pace; during January-March 2011, the inflation rate was around 7.7%. At the same period last year, it was 11.2%. The prices rise during the first three months of this year was influenced by the price increase for alcoholic beverages and tobacco by 20%, gas by 50%, heating and fuels by 17%, as well as for certain food goods, such as bread, cereals and potatoes..

Chapter V
BUSINESS ENVIRONMENT

According to the data provided by the State Registration Chamber, on 01 April 2011, 158475 legal entities and individual entrepreneurs were registered in the Republic of Moldova. The entrepreneurs prefer to register their business by two organizational and legal forms: limited liability companies (47%) and individual enterprises (42%). The share of joint stock companies and cooperative of all types (production cooperatives, consumption cooperatives and entrepreneurial cooperatives) is 3%. The state and municipal enterprises represent 1% of all enterprises included in the State Register.

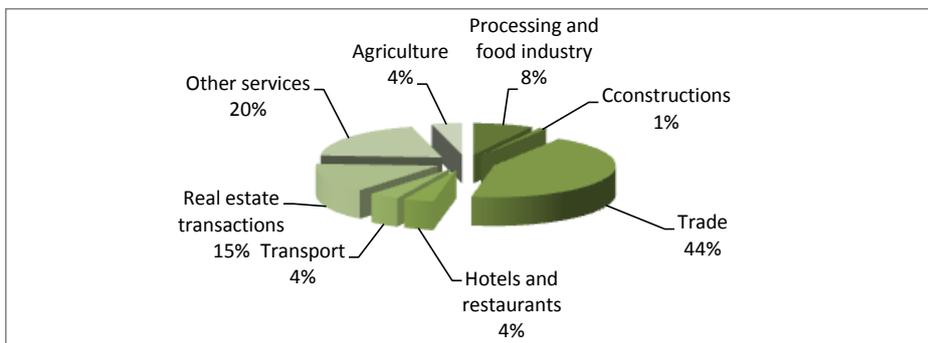


Figure 5.1. Declared types of activity at registration, 2010

Source: data from State Chamber of Registration <http://www.cis.gov.md/ru/content/241>

In 2010, at the moment of registration, entrepreneurs were declaring following types of activities: trade, including sale and repair of vehicles (44%); real estate transactions (15%); processing industry, including food industry (8%); agriculture (4%); transportation (4%) and construction (1%).

Dynamics of registered and liquidated enterprises during the period 2007- Q1/ 2011

Over the past 4 years (2007-2010), there was reduction steady decline in the number of enterprises registered at the State Register each year: from 11,480 enterprises (in 2007) to 6,488 (in 2010), or a reduction of 1.8 times. In the first quarter of 2011, there was a change in the trend, with the number of registered enterprises increased by 15.1% compared to the same period of 2010.

The dynamics of the number of enterprises officially liquidated (excluded from the State Register) during the period 2007-2010 did not follow a clear trend. During the 2008-2009, this indicator increased annually; in 2010 the number of liquidated enterprises decreased; in the first quarter of 2011 (compared to the same period of 2010) this indicator increased slightly, growth index being 101.3%.

The indicator, which characterises the net increase/decrease of the number of enterprises (registered ones minus liquidated ones), shows that during 2007-2010 there was a net increase

of the number of enterprises. At the beginning of 2011, the number of enterprises in the State Register increased by 27.3% compared to the same period of the previous year.

Table 5.1. Dynamics of registered and liquidated enterprises, 2007-2011

| Years | Registered enterprises | | Liquidated enterprises | | Net increase/ decrease | |
|-------------------------|------------------------|----------|------------------------|----------|------------------------|----------|
| | Number un. | Index, % | Number un. | Index, % | Number un. | Index, % |
| | 1 | 2 | 3 | 4 | 5 (1-3) | 6 |
| 2007 | 11,480 | | 1,915 | | 9,565 | |
| 2008 | 9,902 | 86.3 | 3,001 | 156.7 | 6,901 | 72.1 |
| 2009 | 7,220 | 72.9 | 3,274 | 109.1 | 3,946 | 57.2 |
| 2010 | 6,488 | 89.9 | 3,177 | 97.0 | 3,311 | 83.9 |
| Including: quarter I | 1,678 | - | 787 | - | 891 | - |
| 2011, I quarter | 1,931 | 115.1 | 797 | 101.3 | 1,134 | 127.3 |

Source: calculated according to the data of the State Chamber of Registration, <http://www.cis.gov.md/ru/content/241>

The dynamics of the main business development indicators 2005-2009

During the period 2005-2009, there was a constant increase of the number of enterprises: from 33,100 to 44,600. The annual growth rate of the number of enterprises was 9.1% in 2006, 10.6% – in 2007, and 5.3% -in 2008. Even in 2009, when all macroeconomic indicators dropped, the number of enterprises continued to rise, the growth rate was 6.0%.

During the period of 2005-2008, the average number of employees remained basically unchanged, in 2009 it decreased by 5.8% compared to the previous year, which corresponds to the general decrease in trends of the employed population.

Until 2009, the results of entrepreneurial activity increased significantly: in 2008 sales revenues increased by 79% compared to 2005 and profits by 227.2%. In 2009, these indicators decreased considerably: sales revenues by 16.3% compared to 2008, and profits by 34.4%.

Table 5.2. The dynamics of the main indicators of enterprise activity, 2005-2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|----------|-----------|-----------|-----------|-----------|
| Number of enterprises, un. | 33,141 | 36,158 | 39,987 | 42 121 | 44 633 |
| Index, % | | 109.1 | 110.6 | 105.3 | 106.0 |
| Average number of employees, pers. | 578,011 | 574,933 | 574,131 | 572 129 | 539,195 |
| Index, % | | 99.5 | 99.9 | 99.7 | 94.2 |
| Sale revenues, million MDL | 97,668.3 | 117,372.4 | 148,512.7 | 175,058.4 | 146,447.0 |
| Financial results (profit) of firms with profits, million MDL | 5,765.9 | 7,915.8 | 13,209.9 | 18,864.3 | 12,442.6 |

Source: calculated according to the statistical database of Moldova: <http://statbank.statistica.md/pxweb/Database/RO/databasetree.asp>. Accessed on April 10, 2011

2009 was a difficult year for businesses, as economy of Moldova suffered the impacts of the global financial crisis. The economic crisis affected all sectors of the economy.

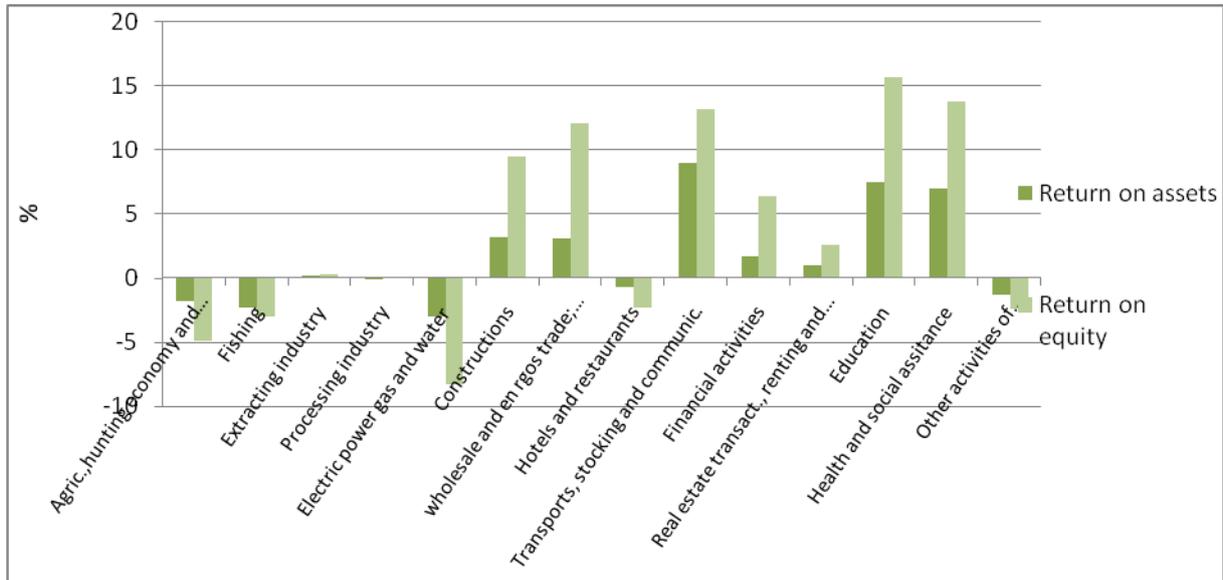


Figure 5.2. Return on assets and return on equity by sector of economy, 2009

Source: calculated according to data from NBS

The largest numbers of employees (20.4%) have been employed worked in the commerce and trade sector, followed by processing industry and agriculture, with 20.2% and 13.2% of employees respectively.

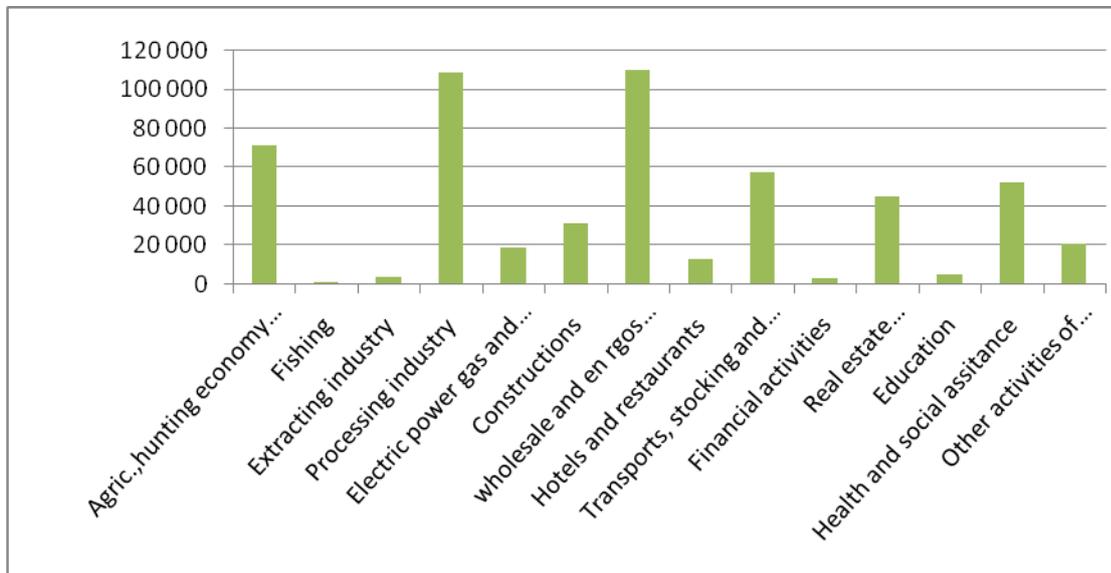


Figure 5.3. Average number of employees by sector of economy, 2009

Source: National Bureau of Statistics

The dynamics of the main development indicators of small and medium-enterprises (SME) during the period 2005-2009

In 2009, 98% of enterprises reporting their activity to NBS belonged to the SME sector. In 2009, the share of SMEs in GDP was 28.9%. The SME sector accounts for 59% of all enterprise employees, 39% of sales revenues and 48% of profits.

Structure of the SMEs sector: The SMEs sector includes micro-enterprises, small and medium-sized enterprises. The micro-enterprises dominate the SMEs sector (77.4%), small enterprises amount for 18.9%, and the medium-sized enterprises around 3.6%.

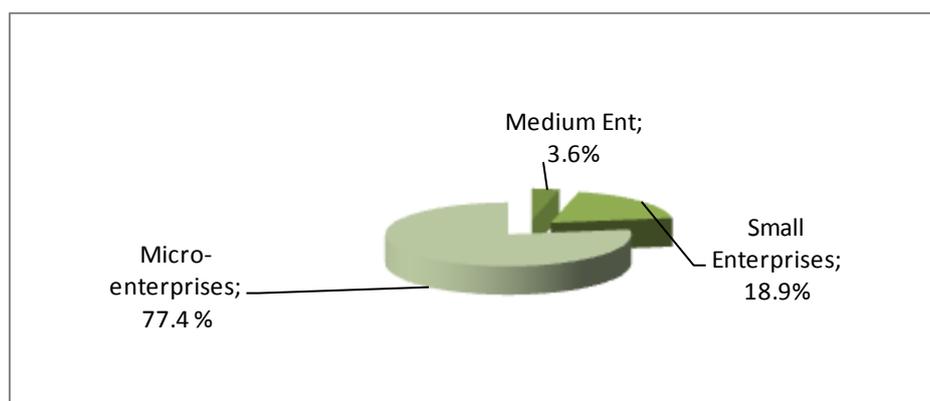


Figure 5.4. Structure of SMEs sector in 2009

Source: Statistics Bank of Moldova: <http://statbank.statistica.md/pxweb/Database/RO/databasetree.asp>. Accessed on April 10, 2011.

Change in the principal indicators of the SMEs: During the period 2005-2009, there was a constant increase in the number of SMEs; from 32.4 thousand to 43.7 thousand. The dynamics of the number of micro, small and medium sized enterprises had different trends. The growth of the number of enterprises belonging to the SME sector was primarily due to increase of micro and small enterprises. These groups of enterprises are distinguished by a high level of growth rates. The group of medium sized enterprises, have shown a decrease in the growth rate in period 2006-2007, (from 4.0% to 2.9%) and in 2008-2009 the number of enterprises decreased by 5% and correspondingly by 5.7%.

The total number of employees at all enterprises during the period 2005-2008 didn't change significantly, but in the SMEs sector during 2006-2007, there was an increase (annual growth rates of 4.9% and 3.3%, respectively). In 2008-2009, the number of employees decreased in all groups of enterprises, including the SMEs (4.5% and 3.6% respectively).

The maximum share of SMEs in GDP was recorded in 2005, with a value of 35%. After 2006, this indicator decreased constantly from 35.0% to 28.9% (in 2009).

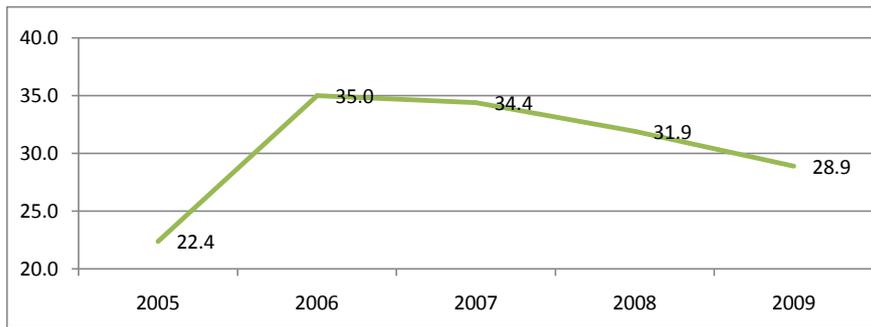


Figure 5.5. SME share in GDP during 2005-2009

Source: NBS data

One part of the SME sector is represented by the entrepreneurs who do business without setting up an enterprise. These are the patent holders. Their activities are regulated by the „Law on entrepreneurial patent”. According to the information from the State Tax Inspectorate 15537 patent holders were registered as of 31 December 2010. In 2010, the patent holders transferred into the local budgets around 26 million MDL.

Moldova in International ratings

Republic of Moldova has generally low rankings in international ratings - a fact showing various structural deficiencies of the national economy.

Doing business (2011). Compared to the previous year ratings, the position of the Republic of Moldova in the report “Doing business 2011” worsened, putting it in the 90th place out of 183 countries.

Table 5.3. Evolution of “Doing business” indicators for the Republic of Moldova

| | Indicators | Position in 2011 | Position in 2010 | Change in 2011 |
|----|--|------------------|------------------|----------------|
| 1. | Starting a business | 94 | 78 | -16 |
| 2. | Dealing with constructions permits | 159 | 163 | 4 |
| 3. | Registering property | 18 | 17 | -1 |
| 4. | Getting credit | 89 | 87 | -2 |
| 5. | Investor’s protection | 109 | 108 | -1 |
| 6. | Tax payment | 106 | 102 | -4 |
| 7. | External trade | 141 | 141 | No changes |
| 8. | Enforcing contracts | 20 | 20 | No changes |
| 9. | Closing a business | 92 | 91 | -1 |
| | Position of the Republic of Moldova in the rating „Doing business” | 90 | 87 | -3 |

Source: according to the data of the report "Doing Business" 2011

The highest ranking in the rating (18th place), was for property registration. The 5 procedures required take 5 days to complete.

The lowest ranking refers to obtaining construction permits (place 159). There are 30 procedures which take 292 days. On two categories – external trade (rank 141) and enforcing contracts (rank 20) – the Republic of Moldova’s position did not change in comparison with previous year. In all other categories, the Moldova’s ranking has deteriorated. The most significant decline refers to starting a business (down by 16 positions). Starting a business requires 8 procedures and 10 days.

Moldova in “The 2011 Index of Economic Freedom” rating

In the Economic Freedom¹¹rating, the Republic of Moldova was ranked 120th in 2011. The index of economic freedom for Moldova is 55.7, just 2 points higher than in the previous year. Six indicators of economic freedom (trade freedom, fiscal freedom, government involvement in the economy, monetary freedom, investment freedom, corruption freedom) have improved, the indicators of business and labour freedoms have decreased, and the indicators of financial and property rights freedoms haven’t changed.

The Republic of Moldova got a better score for „fiscal freedom” (85.6), „trade freedom” (80.2), „monetary freedom” (77.0) and „business freedom” (69.5). Lower scores were given for: „corruption freedom” (33.0), „investment freedom” (35.0) and „labour freedom” (39.0).

According to the classification of this rating, the economy of the Republic of Moldova is still „largely not free”. At the regional level, the Republic of Moldova is ranked 40th out of 43 countries.

Moldova in the Global Competitiveness Report (2010-2011)

The Global Competitiveness Report¹² is published annually by the World Economic Forum, measuring the competitiveness of countries, and ranking them.

During 2010-2011, Moldova had ranked 94th out of 139 countries included in the study. According to the ranking, Moldova is surpassed by Georgia (93), Ukraine (89), Albania (88), Kazakhstan (72), Bulgaria (71), Latvia (70) Romania (67) and Russia (63).

Table 5.4. Global Competitiveness Index (2010-2011) for the Republic of Moldova

| | | Position(out of 139) | Points (1-7) |
|---|--|----------------------|--------------|
| | Global Competitiveness Indices (2010-2011) | | |
| | Basic requirements | 97 | 4.1 |
| 1 | Institutions | 102 | 3.4 |
| 2 | Infrastructure | 97 | 3.2 |
| 3 | Macroeconomic environment | 90 | 4.3 |

¹¹The top of the Index of Economic Freedom is made annually by the Foundation Heritage and Wall Street Journal, in which 183 countries participated last year. The economic freedom is evaluated on the basis of 10 indicators, the so-called 10 economic freedoms: 1) Business freedom; 2) Trade freedom; 3) Fiscal freedom; 4) Government’s involvement into economy; 5) Monetary freedom; 6) Investments freedom; 7) Financial freedom; 8) Property rights; 9) Corruption freedom; 10) Labor freedom.

¹²For the comparative evaluation of the competitiveness of the countries it is used the Global Competitiveness Index, defined by 12 components. These are divided into 3 groups, characterized by:

- Basic requirements - „institutions”, „infrastructure”, „macroeconomic environment”, „health and primary education”.
- Efficiency potentials – „higher education and training”, “Goods market efficiency”, „labor market efficiency”, „financial market development”, „technological readiness”, „market size”.
- Innovation factors – „Innovation” and „business sophistication”.

| | | Position(out of 139) | Points (1-7) |
|----|--|----------------------|--------------|
| 4 | Health and primary education | 84 | 5.5 |
| | Efficiency potentials | 99 | 3.6 |
| 5 | Higher education and training | 78 | 3.9 |
| 6 | Goods market efficiency | 104 | 3.8 |
| 7 | Labour market efficiency | 68 | 4.4 |
| 8 | Financial market development | 103 | 3.7 |
| 9 | Technological readiness | 89 | 3.3 |
| 10 | Market size | 121 | 2.4 |
| | Innovation and sophistication factors | 123 | 2.9 |
| 11 | Business sophistication | 113 | 3.3 |
| 12 | Innovation | 129 | 2.5 |

Source: The Global Competitiveness Report 2010-2011

The competitiveness factors are common, but their importance is not identical for all the countries, due to the different levels of development. Depending on the contribution of factors, there are 3 stages of development.

According to the World Economic Forum, the Republic of Moldova has a low level of development, which is determined by unqualified or less-qualified labour force; natural resources and base factors as: institutions, infrastructure, macro-economic environment, health and primary education. For the institutions indicator, we have unfavourable positions at the following fields: property rights (rank 119), intellectual property protection (rank 118), judiciary independence (rank 130), and trust in police (rank 116). Unfavourable situation is pointed out for the quality of the total infrastructure (rank 119) and roads quality – the last position in ratings (rank 139).

A better rank position is for the „labour market efficiency” (rank 68), „higher education” (rank 78), „health and primary education” (rank 84). The innovation is low; Republic of Moldova is ranked 129th. The Global Competitiveness Index ¹³ for Republic of Moldova is 3.9.

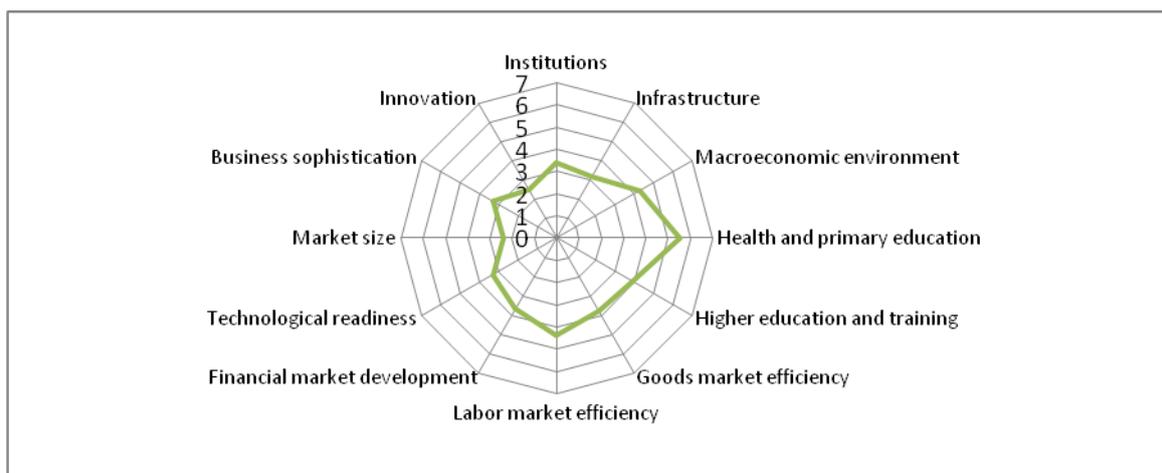


Figure 5.6. Global Competitiveness Indices, 2011

Source: The Global Competitiveness Report 2010-2011

¹³Rating is based on estimations, with a scale from 1 to 7, where 1 is the lowest mark, 7- the highest.

Chapter VI
SOCIAL SECTOR

Demographic background: At the beginning of 2011, the population of the Republic of Moldova amounted to 3,560,400, which is 0.1% less than at the same point in 2010 and 0.8% less than in 2006. In the context of a decrease in total population, the urban population kept increasing, while the rural was decreasing.

The population is exposed to demographic aging. The index of demographic load increased: the ratio of working age population in 2006 was 1,000 to 214 economically inactive persons and 1,000 to 229 persons in 2010. Women prevail in the gender structure of the population, their share being 51.9% of total population. The gender structure in 2010 is more balanced than in 2006, when the ratio between men and women was 47.9% to 52.1%.

Natural movements of population: In 2010, as compared to the previous year, the birth rate decreased by 0.9%, while the overall mortality rate increased by 3.5%. As a result, the natural decrease of population grew 2.4 times. However, the demographic dynamics in the course of 5 years looks considerably more positive. In 2006, the natural decrease of the population reached 5,550 persons, whereas in 2010 it was 3,164 persons, i.e. 1.7 times less.

In 2010, the birth rate was 11.4 per thousand, i.e. remained at the level of 2009. Compared to 2006, the birth rate increased by 0.9 per thousand. The mortality rate was 12.3 per thousand, i.e. 0.5 per thousand more than for the previous year. In comparison with 2006 the mortality rate increased by 0.3 per thousand. The infant mortality rate tends to decrease. In 2006 11.8 infants of 1000 new born under one year old died, whereas in 2010 - 11.6 infants.

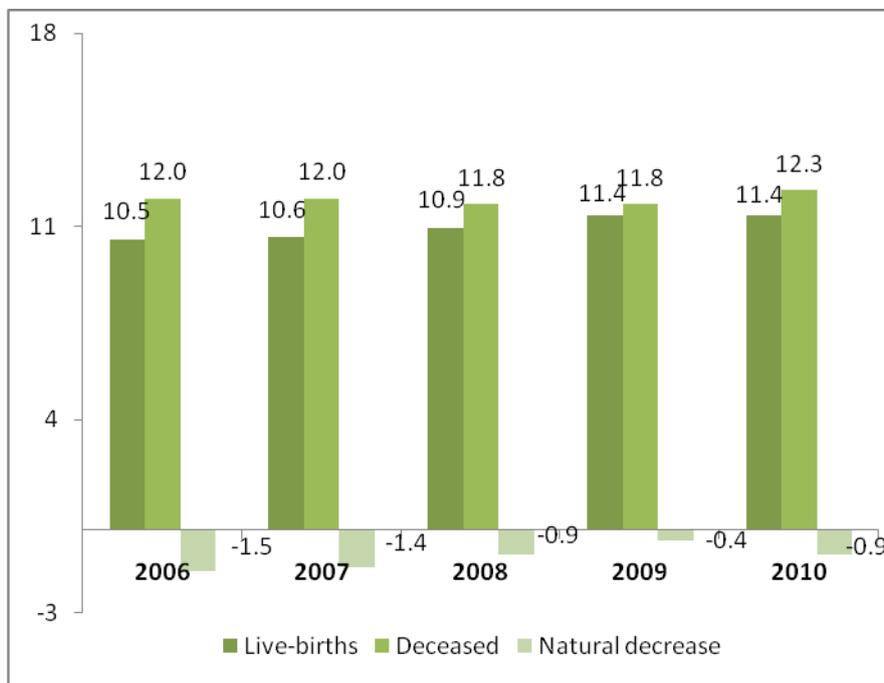


Figure 6.1. Birth rate, mortality rate and natural decrease of population, per thousand
Source: NBS RM

More than half of all deaths are attributable to circulatory diseases, 12.9% to malignant neoplasm, 10.0% to digestive system diseases, 8.4% to accidents, poisoning and traumas, 5.6% to respiratory diseases, and 6.9% to other reasons. Some of the main causes of infant death under the age of one are attributable to conditions originating from the prenatal period and from congenital abnormalities.

In comparison with the previous year, the number of marriages dropped by 1.2% and the number of divorces by 3.7%. This trend resulted in an improved ratio between the number of registered marriages and divorces - 2.25: 1 in 2009 and 2.31: 1 in 2010. The situation improved in comparison with 2006, when the marriage to divorce ratio was 2.17 to 1. In 2010, the marriage rate was 7.4% per 1000 inhabitants, as compared to 7.6% in 2006, while the divorce rate was 3.2% per 1000 inhabitants, as compared to 3.5% in 2006.

Demographic processes are significantly different from the territorial point of view. In two of the five developing regions of the country – Autonomous Region Gagauz Yeri and Centre, birth rates are above the country average. The lowest birth rate (10.7 per thousand) and the highest mortality rate (14.1 per thousand) are registered in the North of the country. It determined the highest rate of natural decrease of the population in regions (3.4%), which is 3.8 times higher than the country average. The highest marriage and divorce rates are registered in the Chisinau municipality.

Population migration: According to the Ministry of Internal Affairs, 2,512 immigrants entered the country in 2010. From the total number of immigrants, 140 have been issued permanent residence permit, and 2,372 a limited residence permit. In 2010, 1,678 people were repatriated.

Labour force market: In 2010, the size of the economically active population was 1,235.4 thousand persons, i.e. 2.4% less than in 2009 and 9.9% less than in 2006. The level of economically active population was 41.6%, i.e. 1.2 percentage points less than for the previous year and 4.7 percentage points less than in 2006. The level of economic activity is higher in men (45.0%) than in women (38.6%), which is also higher in urban (47.2%) than in rural areas (37.5%).

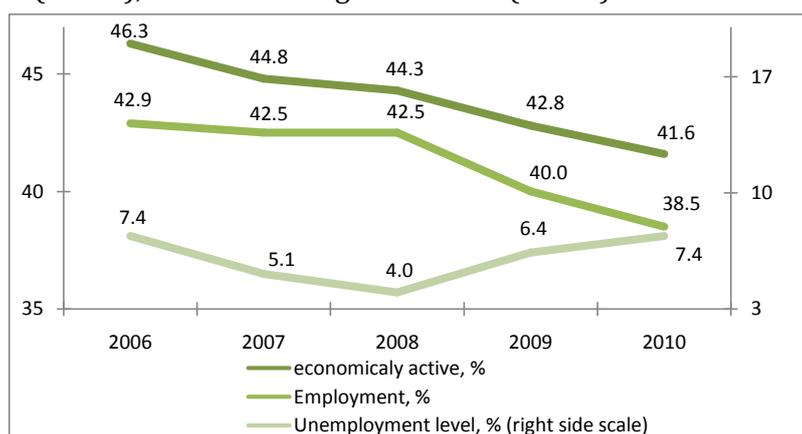


Figure 6.2. The dynamics of economic activity levels, labour force employment and unemployment

Source: NBS

The total number of gainfully occupied persons was 1,143.4 thousand, that is, 3.6% less than for the previous year and 10% less than in 2006. Thus, the number of gainfully occupied people decreased faster than the number of those economically active. Proportion of employed men and women is almost the same: 50.1% of men and 49.9% of women. From the total number of gainfully occupied population, 47.1% originated from urban areas and 52.9% from rural areas. The employment-to-population ratio was 38.5%, which is 1.5 percentage points less than in 2009 and 4.4 percentage points less than in 2006.

According to the ILO methodology, the number of unemployed persons was 92.0 thousand, i.e. 13.6% more than for the previous year, yet 7.6% less than in 2006. The unemployment rate was 7.4%, with a higher impact on men (9.1%) than on women (5.7%). There is a wide disparity between unemployment rates in urban (9.6%) and rural (5.4%) areas.

On 01 April 2011 the official number of unemployed was 51,204 persons, which is by 25.7% more than on January 1 of the current year. From the total number of unemployed, 50.9% were women, and 30.7% - young people between 16-29 years of age. For the 6 months period, 62.4% of registered people were unemployed, while for 6-12 months - 17.8%; 12-24 months - 16.8%, and for a period of more than 24 months - 3.0%. 8.7% of the registered unemployed received unemployment benefits, whereas at the beginning of the year this rate was 11.1%.

The average amount of benefit was 927.9 MDL (55.5 Euro), or 51.2 MDL (3.1 Euro) more than on January 1, 2011.

Labour force migration: The labour force migration of the Moldovan population abroad reached a considerable scale. Its dynamics is closely related to the economic situation of the destination countries for the labour force from the Republic of Moldova.

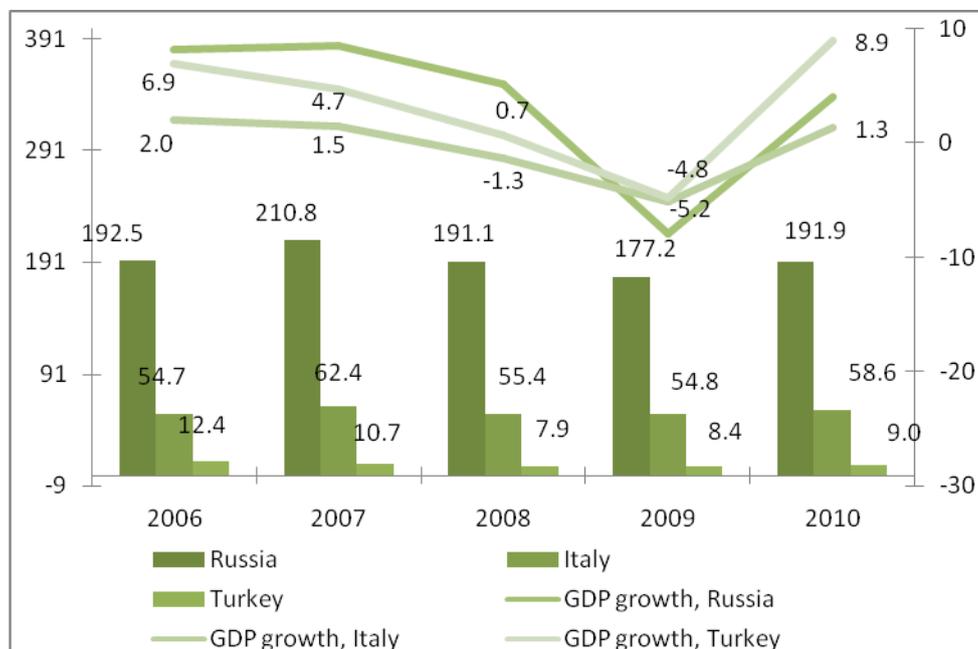


Figure 6.3. Number of migrants from RM (thousands of persons) and GDP growth rate in countries of destination (%)

Source: NBS

The global crisis caused a dramatic decrease in the number of migrant workers, which dropped by 13.8% in 2008 and by 5.0% in 2009 in comparison with the previous years. In 2010 the number of migrant workers increased by 5.4% and represented 311,000 persons (which is slightly higher than in 2006). The structure of migrant workers is mainly consisting of men - 63.7%, while women represent 36.3%. Labour target countries were mainly Russia and Italy. In 2010, 61.7% of the overall migrant workers migrated to Russia, while 17.9% went to Italy. Moreover, while migrant workers leaving for Russia were mostly men, women migrated more to Italy. The same trend occurred in previous years.

Minimum subsistence level: In 2010, the average minimum of subsistence was 1,373.4 MDL per person, which is 15.6% higher compared with the year 2009. In comparison with 2006, the minimum of subsistence increased by 46.9%. Its growth was determined by both prices increase and changes in the structure of household consumption expenditure, mostly by the increase of expenditures ratio in non-foods and services. On average, the value of the minimum food commodity basket increased by 9% and the non-food by 11%.

Based on the residence location, the minimum of subsistence for year 2010 reached highest values in urban areas (1,498.10 MDL), and, accordingly, lowest values in rural areas (1,285.20 MDL). The disparity is determined by existing commodity differences in the food commodity baskets as well as by the structure of household consumption expenditures in urban and rural areas. By population categories, the highest value of the subsistence minimum is related to the working age population - 1,453.10 MDL, mostly to men - 1,536.00 MDL. As for the retired population, the minimum of subsistence is 1,184.30 MDL, i.e. 86.2% of the average value for the entire population. The minimum of subsistence for children is, on average, 1,258.10 MDL.

Disposable income of the population: In 2010, the nominal disposable income per capita was 1,273.70 MDL per month (or according to the official exchange rates of the NBM - 77.70 Euro). In urban areas it reached 1,574.70 MDL (96 Euro), and in rural areas - 1,054.70 MDL (64.30 Euro). In comparison with 2009, the disposable income per capita grew by 9.2%. However, the ratio between disposable income and the minimum subsistence level has dropped from 98.2% in 2009 to 92.7% in 2010. From year to year, the nominal disposable income per capita showed a positive trend, except for the year 2009, when its overall country value dropped by 1.9%, and by 4.8% in rural areas. Salaries are the most important source of income, i.e. 42.6% of the total disposable income, its contribution decreasing by 2.7 percentage points compared with 2009.

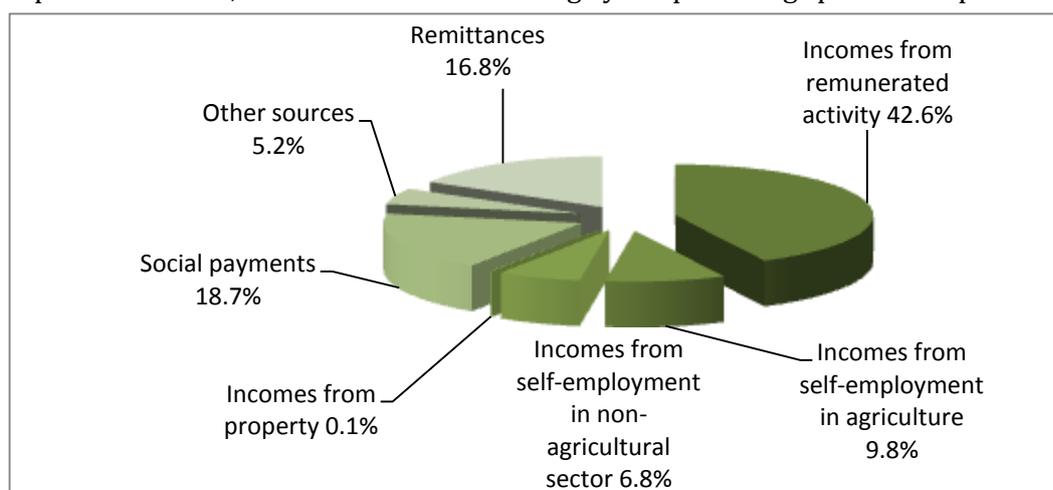


Figure 6.4. Structure of the total disposable income (2010)

Source: NBS

Social allowances are the second most important source of income as part of the household income, corresponding to 18.7% or 1.2 percentage points more compared to 2009. The income from individual agricultural activity is 9.8% from the total disposable income (+0.9% compared to 2009), while the income from individual non-agricultural activity is 6.8% (0.3%). Money transfers from abroad (remittances) are still an important source of household income, corresponding to 16.8% or 0.2 percentage points less than in 2009.

There is a tendency to reduced inequalities in the disposable income. In 2006, the Gini coefficient was equal to 0.3706, in 2009 it was 0.3702. The Gini coefficient has mainly dropped in urban areas: from 0.3806 in 2006 to 0.3323 in 2009. In rural areas, however, the income inequality had increased.

Household consumption expenditure: In 2010, the consumption expenditure per capita was 1,371.70 MDL per month (83.60 Euro). In urban areas it reached 1,712.40 MDL (104.40 Euro), while in rural areas it was 1,123.80 MDL (68.50 Euro). Thus, the individual consumption expenditure of a villager is 1.5 times lower than of a city dweller. In comparison with 2009, the consumption expenditure per capita grew by 12.7%, including 13.2% in urban areas and 12.1% in rural areas. During 2006-2010 the nominal consumption expenditure per capita increased by 43.9% for the entire country, including 55.6% in urban areas and 32.6% in rural areas.

The largest part of expenditure is traditionally related to foods, 40.8% (previous year level). As for housekeeping, one person spent 17.8% on average of the total consumption expenditure (+1.6 percentage points), and 10.8% (-1.4 percentage points) for clothing and footwear. Other expenses were related amongst others to the: healthcare (6.4% compared to 6.2% in 2009), transportation (5.0% vs. 4.7% in 2009), communications (4.6% vs. 5.0% in 2009), house furnishings (3.9%), and education (1.3% vs. 0.5% in 2009).

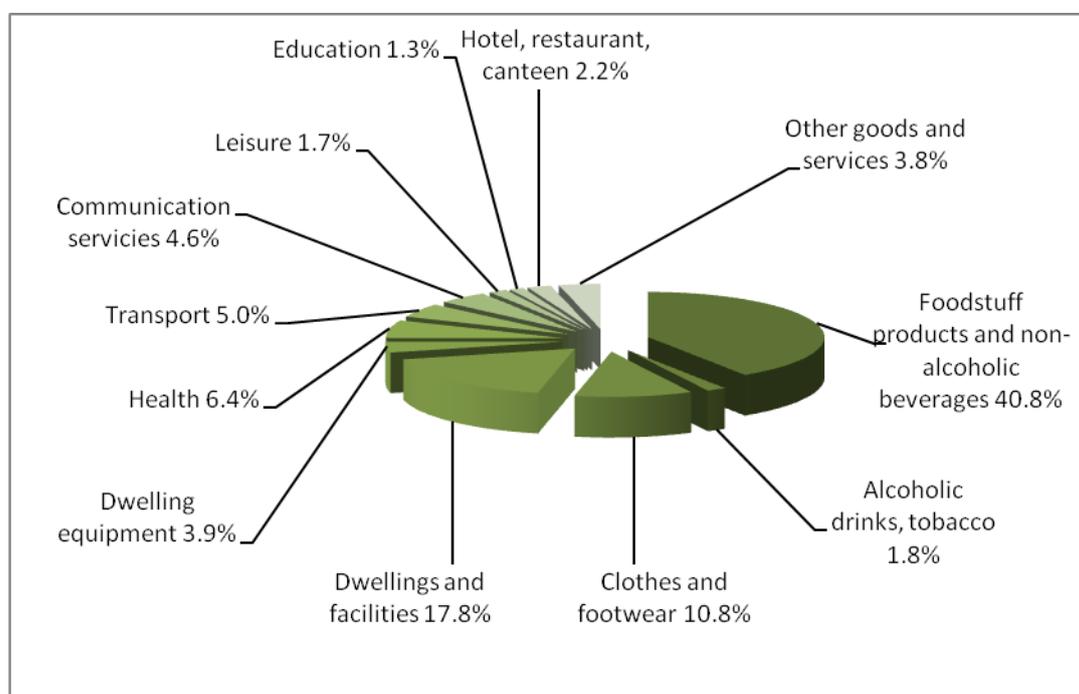


Figure 6.5. The structure of total household consumption expenditure (2010)

Source: NBS

Inequality in consumption expenditure has a visible decreasing tendency, both for the entire country, and in urban and rural areas. Thus, the Gini coefficient value for consumption expenditure is significantly lower than the Gini coefficient value for disposable income.

Work remuneration: In 2010, the average monthly nominal salary in the national economy was 2,971.70 MDL (181.20 Euro), which is 8.2% more than in 2008. However, the ratio between nominal salary and minimum subsistence level has dropped from 219.6% in 2009 to 204.5% in 2010. In comparison with 2006, the average monthly salary increased by 75.1%; also, the ratio increased between average salary and minimum subsistence level of working age population (in 2006 it was 171.9%).

During 2006-2010, the net salary adjusted to CPI, increased by 14.3%. The increase of its value within the above period was established by the dynamics of nominal salary and CPI growth. In 2010 the lowest growth rhythm of its value was registered (100.7%), i.e. the net salary remained, basically, at the previous year level.

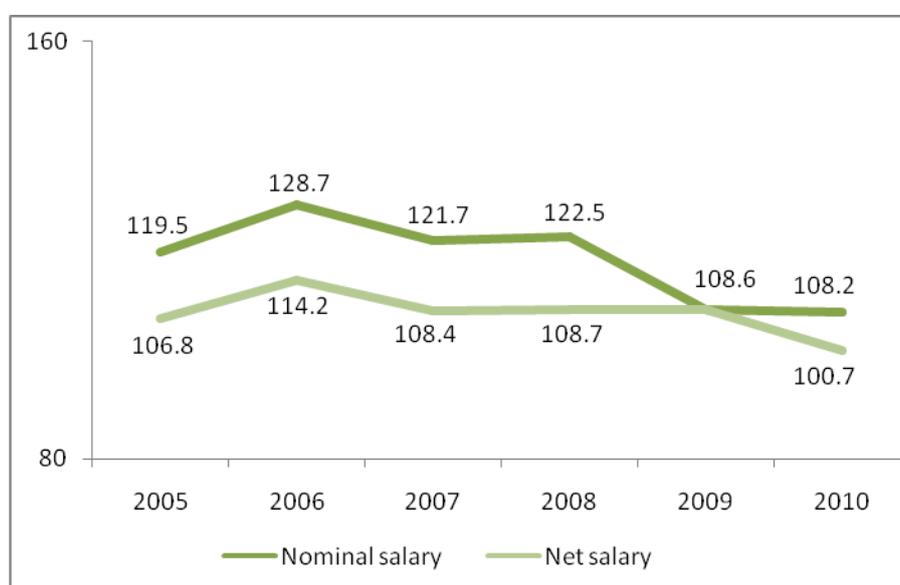


Figure 6.6. Evolution of average monthly salary indices (in % against previous year)

Source: NBS

According to the types of economic activity, the highest salary was registered in finance (2.1 times higher than the average national salary), heat and electric power, gas and water supply (63.4% higher), transportation and communications (31.7% higher), the lowest salary being registered in fish farming (54.5% of the average salary in national economy), in agriculture, hunting and forestry (55.1%). The ratio between salaries in some type of important activities, in the overall economy decreased dramatically. While in 2006 the salaries in construction exceeded the average level in economy by 43.1% and in mining industry by 54.6%, in 2010 they exceeded it only by 9.3%, and 14.1%, respectively. On the other hand, the situation in education improved, while the salaries in healthcare, basically reached the average level in the economy.

The poverty of population: The calculation of poverty indicators is performed based on the concept of absolute poverty. There was a tendency of reduction of the absolute poverty level. It decreased from 30.2% in 2006 to 26.3% in 2009, a significant decline by 3.9 percentage points. Sharp decrease in poverty rate is something specific and common for large cities. The poverty

level has decreased from 20.6% in 2006 to 7.0% in 2009, i.e. 2.9 times. In rural areas, on the contrary, the poverty rate increased from 34.1% in 2006 to 36.3% in 2009, i.e. by 2.2 percentage points or 1.06 times.

Poverty depth and gravity, also, showed lower values. The trend occurred both in urban and rural areas. Poverty level in Moldova, in times of economic crisis, has undergone a slight change. Related information can be found on the NBS web-page (<http://www.statistica.md>).

Health care: In 2010, a relatively high level of population morbidity remained unchanged. However, in comparison with the previous year, the number of intestinal infections, viral hepatitis, infections prevented through prophylactic vaccination, acute respiratory viral infections, "social disadvantage" disease decreased. The dynamics of morbidity level (number of deceased per 100,000 inhabitants) was ambiguous. With regard to the infectious disease, such as acute intestinal infections, the morbidity level changed little along time. As for other infections, such as epidemic parotitis, the level of morbidity dropped within the last years, while respiratory tuberculosis level tended to decrease each year: from 101 in 2006 to 88 in 2010.

Education: At the beginning of the academic year 2010-2011, the network of primary and secondary general education institutions consisted of 1,489 primary, secondary and high schools, 98.8% of them state funded. Besides these institutions, 18 high schools were private and located exclusively in urban areas. In comparison with the academic year 2006-2007 the number of secondary schools increased by 14.2% and high schools by 12.0%. On the other hand, the number of primary and secondary schools as well as specialized schools for disabled children was reduced. In the academic year 2010-2011, the primary and secondary education covered 395,100 persons, i.e. 4.5% less than in the previous academic year and 19.6% less than in academic year 2006-2007. The number of students per teacher in primary education was 16:1, 9:1 in secondary education, and 12:1 in higher education.

The number of institutions in secondary professional education dropped from 78 units in academic year 2006-2007 to 75 in the academic year 2010-2011, while the number of students decreased by 14.5%. At the beginning of academic year 2010-2011, out of 10,000 inhabitants, on average 60 were students and 37 graduates from secondary professional education, while in the academic year 2006-2007 there were 66 students and 40 graduates.

In the academic year 2010-11, 48 post-secondary education schools (Universities/Colleges) were operational. Their number decreased by 1 unit in comparison with the academic year 2006-2007. At the beginning of the academic year 2010-2011, out of 10,000 inhabitants, on average 90 were students and 19 were graduates from post-secondary education, while in academic year 2006-2007, 84 were students and 11 were graduates.

In the academic year 2010-2011 the higher education network consisted of 33 institutions, including 19 state and 14 private educational institutions. The number of students in higher education institutions was 107,800, i.e. 18.7% less than in 2006-2007. At the beginning of the academic year 2010-11, out of 10,000, on average 303 were students and 80 were graduates from higher education institutions, while in the academic year 2006-2007, only 357 were students and 47 were graduates.

Social protection of the population. At the end of 2010, there were 627,200 pensioners registered by the social protection bodies, i.e. 0.4% more than for the previous year and 0.9% more than at the end of 2006.

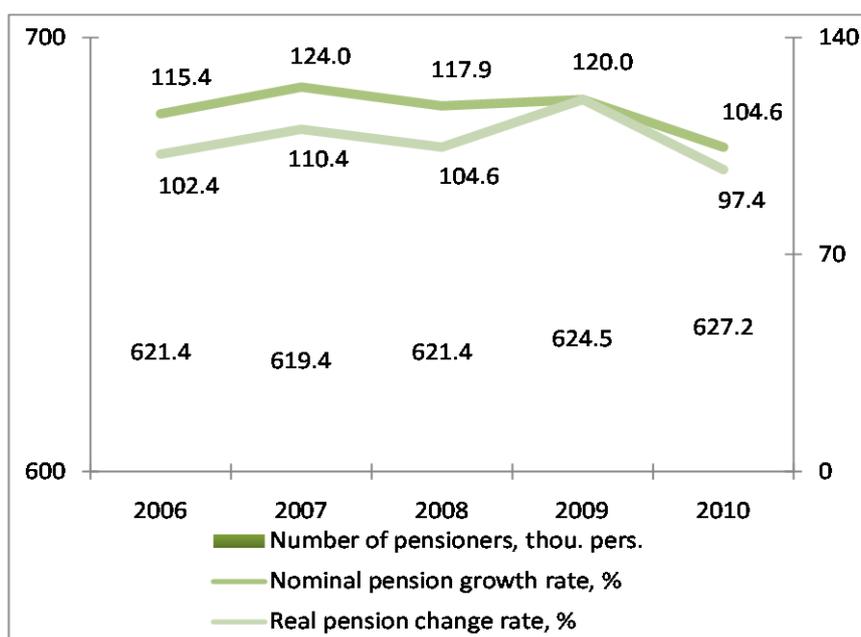


Figure 6.7. Number of pensioners and pension growth rate

Source: NBS

The average monthly pension established was 810.90 MDL (49.40 Euro). In comparison with the previous year, monthly pension increased by 4.6%; however, taking into account the CPI, a decrease of monthly pension real value by 2.6% was observed. As compared to 2006, monthly pensions increased by 83.3%, but in real terms only by 19.7%.

At the end of 2010 the number of disability pension recipients was 134,300, i.e. 1,000 (or 0.7%) more than for the previous year and 4,600 (or 3.5%) more than at the end of 2006. The average monthly disability pension was 674.50 MDL (41.10 Euro). In comparison with the previous year, the pension increased by 0.8%, but if taking into account CPI, the real disability pension decreased by 6.4%.

The system of child allowances includes a one-time payment at birth and monthly allowances for childcare. In 2010, the one-time payment for the first new born was 1,700 MDL (103.70 Euro), which is 2 times higher than the one for 2006. For each child born afterwards the one-time allowance was 2,000 MDL (122 Euro), which is 2.5 times more than in 2006. The monthly childcare allowance paid to insured persons (until the child is 3 years old) was, on average, 675.30 MDL (41.20 Euro), which is 3.7 times higher than in 2006. The monthly childcare allowance paid to uninsured people (until the child is 1.5 old) was 250 MDL (15.20 Euro), which is 5 times higher than in 2006.

The monthly pensions and childcare allowances are significantly lower than the minimum of beneficiaries' subsistence. Monthly pensions have a positive trend: the ratio between its value and pensioners' minimum of subsistence increased from 55.2% in 2006 to 68.5% in 2010.

The same trend occurs in childcare allowances paid to insured persons (until the child is 3 years old). As regards one-time childcare allowances paid to uninsured persons (until the child is 1.5 old), the ratio dropped from 30.0% in 2006 to 22.8% in 2010.

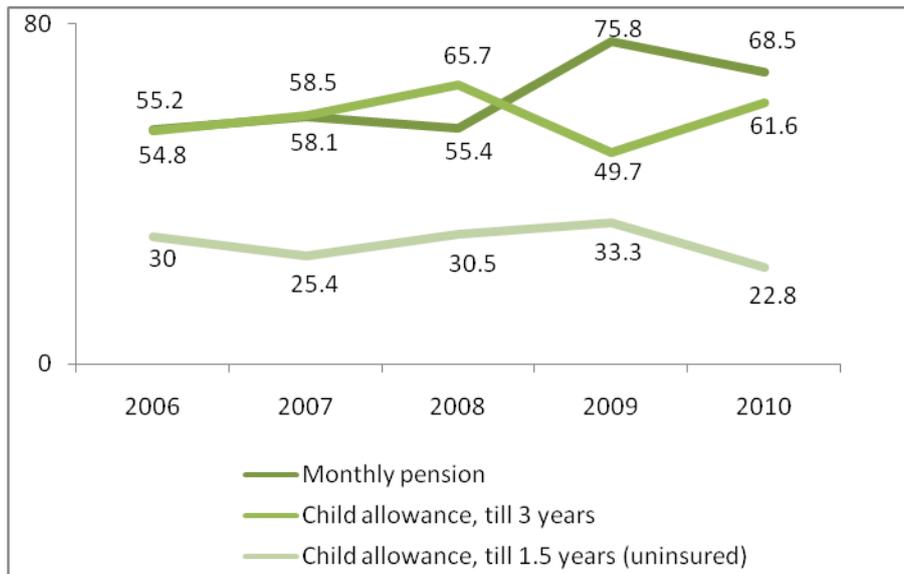


Figure 6.8. The ratio between pensions, children allowances and minimum of beneficiaries' subsistence (in %)

Source: NBS

In 2008-2010, social benefit expenses increased by 31.2%, while the expenditure from national public budget rose by 13.7%. As a result, the ratio between social benefits and the total expenditure from national public budget increased from 24.1% in 2008 to 27.8% in 2010. In Moldova, the percentage of social benefits reported to GDP was 10% in 2008, and 12.9% in 2009. This considerable improvement in the ratio between social benefits value and GDP in 2008-2010 was determined not only by increasing expenditures for social benefits, but, also, by a significant reduction in GDP value. As a result, the pressure on the budget was increased.

Infringement of the law: According to the Ministry of Internal Affairs, in 2010 33,400 infringements of the law were registered, which is 30.2% more than in 2009 and 34.9% more compared to 2006.

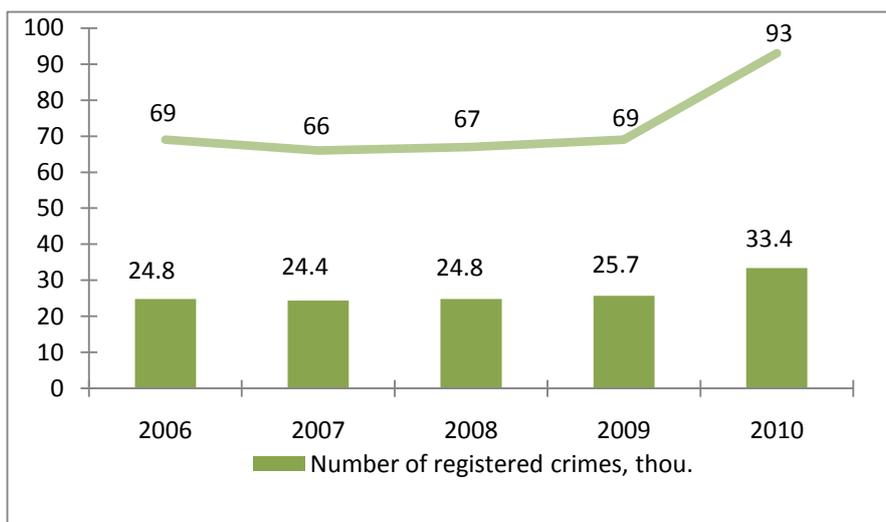


Figure 6.9. Rate of law infringements

Source: NBS

There were 93 crimes per 10 thousand inhabitants, which exceed the levels of the years 2006 and 2009. The highest level of infringement is registered in Chisinau (147 crimes per 10,000 persons) and Balti (126 per 10,000).

In 2010, 2,921 car accidents were registered, which is 6.0% more than in 2009. As a result, 452 persons died, including 38 children. In 2010, there were 1,970 fires, which is 14.7% less than in 2009 and 29.0% less than in 2006.

Chapter VII ESTIMATIONS AND FORECASTS

Forecast of the main macroeconomic indicators for the Republic of Moldova for 2011-2014

A forecast of the main macroeconomic indicators has been made based on the model with simultaneous equations, used at the IEFS. The model information has been corrected and recalculated on the NBS website along with the data specification for 2009. The model has been updated with 2010 data.

Forecasts and estimates made for the reference years are optimistic with GDP growth rates exceeding 6%. Provided that structural reforms are deepened and there is a favourable external environment, the projections/forecasts are realistic.

The main assumptions of the model are:

1. In the model, the exchange rate against the U.S. dollar, as an exogenous factor was used, based on an extrapolation of trends over the last four years. This method suggests a depreciation of the MDL against the U.S. dollar over the analysed period, although we believe that the current tendency of the MDL/USD evolution is appreciative. The main reason for the appreciation is the large inflow of foreign currency (through remittances, financial aid and increased growth rates of exports, etc.).
2. Remittances were reflected by transfers made through bank payment systems to individuals. A slight recovery of transfers from abroad towards the previous level is observed and we estimate 1.309 million USD in 2011.
3. In recent years, the population of the Republic Moldova has been decreasing. In the model, this indicator is exogenous and for subsequent years (2011-2014) was considered at the level of 2010. However, in the model, a decrease in the number of labour force was taken into account. This fact together with economic growth will lead to a reduction in the unemployment rate. This, in turn, will lead to relatively high wage growth rates, both in nominal and real terms.
4. A decrease in interest rates is forecast. This reduction will not be based on monetary policy instruments, particularly the base rate and the rate of compulsory reserves (provisions), but will be due to internal reserves of banks (profit margins) together with improved competition conditions in the banking and non-banking system.

The model estimates higher growth rates than the historical average. This is explained by the marginal productivity level (at low levels of capital, growth rates are higher due to positive scale returns on capital). The increased growth rates will be supported by the development of the national economy sectors.

The mineral products price index, according to the estimates of the international institutions will increase. In the medium term, import prices of mineral products will tend to follow the international ones. Thus, in particular through the Production Price Index (PPI) and food prices, the consumer price level will be influenced. The Consumer Price Index (CPI) forecast does not deviate from the NBM forecasts, which has raised its earlier estimate of the inflation level for 2012 (5%) by +1.5%, resulting in an inflation rate comparable to IEFS estimates.

Agriculture

The 6.8% growth in agriculture will be determined by the higher level of global food prices boosting foreign demand for local products and this will positively affect the level of domestic agricultural production. According to forecasts made by international institutions, world food prices will increase by 24% in 2011, thus boosting national production.

Industry

Growth rates for industry are explained by the influence of the exogenous factor of food exports in the model as the industrial production sensitivity for food exports represents 18%. Similarly, the industrial production volume is determined by gross fixed capital formation, which we expect to grow by about 18%¹⁴, affecting by 35%¹⁵ industry growth rates. The relationship between investments and interest rate, in the model, is treated as inversely proportional. The interest rate will decrease during 2011-2014 from 15 to 12%.

Services

The_GVA share of services in GDP formation is highest, a situation which is expected to be maintained over the forecast period. The growth in services will be driven by the transport and communications sectors, which in 2011 will grow by 12.7%, followed by the growth of trade by 7.7% (due to recovery in domestic demand). Overall, due to the opening of the national economy towards external markets, foreign demand for domestic services is growing. On the basis of the model estimates, this trend is expected to increase further supporting the growth of the services sector.

GDP Expenditures

With regard to expenditures, the forecasts carried out suggest the maintenance of major growth rates of internal consumption at 13.9%. The situation is explained by the increase in the disposable income and remittances component. Public consumption will grow by 9%, boosted by public spending. The model forecasts high growth rates of net taxes on products as well. In the forecast period, the growth in public consumption will not affect economic growth, as long as the public debt does not exceed the critical level of 60% of GDP.

Projected growth rates of exports of goods will only be achieved if the increase in food exports reaches 14.1%. It may be noted that the model predicts a higher increase in the nominal volume, compared to the real one that allows us to conclude that export prices will grow. A similar situation is observed in the case of imports and, in this regard, the importation of minerals is of decisive importance.

We believe that the increase in the export of goods will be approximately equal to that of the import of goods (around 17%). Imports of services will grow more than the exports of services, thus imports will grow faster than exports (increase of imports of goods and services 22.1%; growth in exports of goods and services 20.5%). The explanation of the higher growth in imports of services compared to the export of services arises from the structure of domestic absorption. The development of trade in services will be determined by the growth in transport

¹⁴ In logarithmic expression

¹⁵ In logarithmic expression

and travel (they have the largest share of trade in services). In the transport sector, the 2009 trend, involving a reorientation towards services provided by external operators, is expected to continue. Regarding travel, Moldovan citizens will travel abroad more than foreigners will visit our country (the forecast is based on an extrapolation of the historical trend).

The growth of unemployment rate during the last period of economic growth in the country remains unexplained; we believe that it will remain at the same level as in 2010 or around 7.4%. This situation is rather strange if there is economic growth and the revival of the national economy sectors takes place.

The forecast of investments in fixed capital gives relatively high growth rates both last year and this year (e.g. a 40% growth was forecasted by the mean of the model for 2010). We believe that the modest factual increase in investment in 2010 is due to other structural variables (unfavourable business environment, lack of economies of scale, etc.) which currently cannot be captured in the model. Both in the forecast made in 2010 as well as in the current one the developments of fixed capital investments has been corrected in accordance with the views of the experts with the help of "added" variables included in the EViews econometric package.

The forecast here can be considered "passive" because the evolution is largely determined by external factors (using IMF forecasts of these factors) which are included in the model. Another important factor for economic development is remittances – also an external factor. Accordingly, the forecast will be achieved provided that the external conditions are favourable. Thus, this forecast is not determined by specific decisions of decision makers in the Republic of Moldova, except perhaps as regards decisions concerning the growth of the money supply and the national currency exchange rate.

The dynamic evolution of the main macroeconomic indicators during 2011-2013

| | Unit of Measurement | IEFS | | | Ministry of Economy | | | IMF |
|--|---------------------|---------------|---------------|--------|---------------------|---------------|---------------|---------------|
| | | 2011 estimate | 2012 forecast | 2013 | 2011 estimate | 2012 forecast | 2013 forecast | 2011 estimate |
| Nominal GDP | billion MDL | 81.5 | 91.1 | 102.5 | 82.1 | 91.6 | 101.0 | 82.1 |
| Compared to the previous year in comparable prices | % | 107.44 | 107.7 | 108.1 | 105 | 105 | 105 | 104,5 |
| Average annual CPI | % | 107.2 | 106.9 | 106.6 | 107.2 | 106.9 | 105 | 7.5 |
| CPI at the end of the year | % | | | | 108 | 105.7 | 105 | 7.5 |
| MDL average exchange rate | MDL/USD | 11.91 | 12.20 | 12.40 | 11.73 | 11.93 | 12.00 | |
| MDL exchange rate at the end of the year | MDL/USD | | | | 12.00 | 12.10 | 12.10 | |
| Export of goods | million USD | 1814.6 | 2104 | 2423.1 | 1875 | 2100 | 2350 | 1931 |
| Compared to the previous year | % | 117.7 | 115.9 | 115.2 | 122 | 112 | 112 | |
| Import of goods | million USD | 4526.5 | 5236 | 5905.4 | 4650 | 5150 | 5650 | 4513 |
| Compared to the previous year | % | 117.4 | 115.7 | 112.8 | 121 | 111 | 110 | |

The dynamic evolution of the main macroeconomic indicators during 2011-2013

| | | IEFS | | | Ministry of Economy | | | IMF |
|--|-------------|--------|-------|--------|---------------------|-------|-------|------|
| Trade balance | million USD | -2712 | -3132 | -3482 | -2775 | -3050 | -3300 | |
| Industrial production in current prices | billion MDL | 30.6 | 34.7 | 39.4 | 31.4 | 35.3 | 40 | |
| Compared to the previous year in comparable prices | % | 108.5 | 109 | 109.0 | 107.5 | 107 | 107 | |
| Agricultural production in current prices | billion MDL | 21.7 | 24.3 | 27.9 | 21.7 | 23.4 | 24.8 | |
| Compared to the previous year in comparable prices | % | 106.8 | 107 | 107.1 | 105 | 103.5 | 103 | |
| Investment in fixed capital | billion MDL | 16.1 | 19.9 | 24.7 | 15.9 | 18.2 | 20.6 | |
| Compared to the previous year in comparable prices | % | 118.1 | 118 | 118 | 112 | 109 | 109 | |
| Average monthly nominal wage | MDL | 3272 | 3618 | 4026 | 3300 | 3650 | 4000 | 3350 |
| Compared to the previous year | % | | | | | | | |
| nominal | | 110.1 | 110.6 | 111.3 | 111 | 111 | 110 | |
| real | | 102.7 | 103.4 | 104.4 | 104 | 103 | 104 | |
| Labour remuneration fund | billion MDL | 32.7 | 36.2 | 40.3 | 24.0 | 26.9 | 29.8 | |
| Workforce | '000pers. | 1213 | 1191 | 1172 | | | | |
| Number of employees in the national economy | '000pers. | 1228.8 | 1116 | 1105.6 | | | | |
| Unemployment rate | | 7.4 | 6.7 | 6.0 | | | | 6.5 |

Evolution of exogenous indicators during 2008-2014

| Indicators | 2011 | 2012 | 2013 |
|--|----------|----------|----------|
| Interest rate on loans provided,% | 15 | 14 | 13 |
| Interest rate index on loans provided, 2000=100 | 45.06 | 42.05 | 39.05 |
| Monetary aggregate M2, at the end of year, million MDL | 26976.66 | 29278.32 | 31666.66 |
| Population of RM, thousands | 3560.70 | 3560.70 | 3560.70 |
| Remittances from abroad, million US\$ | 1309.53 | 1378.35 | 1450.78 |
| World consumer price index 2000=100 | 152.79 | 158.05 | 162.80 |
| World GDP, billion US\$ | 47969.45 | 50134.32 | 52410.41 |
| World food price index, 2000=100 | 231.31 | 220.71 | 210.60 |
| World gas price index, 2000=100 | 253.34 | 265.40 | 278.03 |
| World mineral products price index, 2000=100 | 379.51 | 382.50 | 385.52 |
| National currency exchange rate MDL/USD | 11.91 | 12.20 | 12.40 |

POLICY NOTES

Agri-food trade with the EU - the current situation and future developments

***Richard Moody, EU High Level Policy Adviser
to the Minister of Agriculture and Food Industry***

Introduction

The EU is the single biggest market in the world and constitutes a major agri-food trading partner for the Republic of Moldova. Total agri-food trade with the EU in 2010 was valued at approximately 500 million USD (imports very slightly higher than exports). Of the total exports of 252 Million USD approximately 50 million was fruit and vegetables, 25 million USD was wine and 63 million USD was grain¹⁶. The only current exports to the EU of products of animal origin¹⁷ are of honey for which approved third country status was achieved in 2010.

The next important stage of trade development with the EU is beginning, and Moldovan decision makers must try to ensure that the most appropriate fact-based policy decisions are taken during this important phase. The following is a brief analysis of the key issues to be borne in mind in this process.¹⁸

Current Moldovan agri-food trade relations with the EU

Current trade relations with the EU are primarily governed by World Trade Organisation (WTO) and Central European Free Trade Agreement (CEFTA) membership on a multilateral level and bilaterally by the trade provisions of the Partnership and Cooperation Agreement (PCA) and the Autonomous Trade Preferences (ATP) granted by the EU.

On membership of the WTO, Moldova and EU granted each other Most Favoured Nation (MFN) status. Moving on from this Moldova was granted the special incentive arrangement for sustainable development and good governance under the European Communities' Generalised System of Preferences (EC GSP).

In January 2008, on the basis of substantive progress made in the area of Customs legislation reform, implementation of international conventions on Human Rights and labour conditions and compliance with rules of origin requirements, the Council adopted EC regulation (EC) 55/2008 (as amended by Reg. (EC) 1210/2008) introducing autonomous trade preferences for the Republic of Moldova and giving unlimited and duty free access to the EU market for all products originating in Moldova, except for certain agricultural products.

Tariff Rate Quota usage Fill Rates and reasons

Even after only three years of being in place, the filling of these ATP quotas in 2008, 2009 and 2010 provides an interesting and informative picture. More than half of these quotas at the level

¹⁶ Department of marketing and international relations of the Ministry of Agriculture and Food Industry

¹⁷ In the year prior to Romanian EU membership, Moldova exported live animals, meat and meat products to the value of over 5 million USD. This was reduced by 98% on Romania joining the bloc and imposing the EU SPS requirements

¹⁸ This article is based on the analysis and findings of "Trade Law and Policy - Preparation and Negotiation of a Deep and Comprehensive Free Trade Agreement with the EU" where further detailed analysis may be found. Acknowledgement and thanks to the co-authors of that publication.

of tariff line as specified in the Regulation remained completely unused. The unused quota concern products of animal origin (e.g. bovine meat, poultry, eggs, dairy products and sausages), which Moldova is not authorised to export to the EU due to current non fulfilment of the EU sanitary and phytosanitary (SPS) requirements. The Tariff Rate Quota (TRQ) on wheat also remained unused in 2008. However, the quota was overfilled in 2009 (fill rate 127.4%) while it almost exhausted it in the first 11 months of 2010 (fill rate 99.3%).

Generally, in the period 2008–2010 only quotas for five tariff lines were actually used by Moldovan exporters. Only three out of these five quotas were filled in 2008, those for wheat, white sugar and wine of fresh grapes. For barley and maize, in contrast, the quotas were not filled. The situation was slightly different in 2009 where three out of five quotas were filled namely those of wine, wheat and barley. For the other two products (maize and sugar) fill rates were very high. In 2010 (January – November) only the wine quota was filled. Sugar quota was totally unutilised due to shortage in domestic production. The wheat quota was almost exhausted while the fill rate of quotas for barley and maize was very high.

Therefore, on the basis of these figures and as the producers adapt to the new regime all these five quotas are likely to be filled for agricultural products. In the interim before the advent of the Deep and Comprehensive Free Trade Agreement (DCFTA) the scheme can further improve for instance through increased TRQs at least for certain products with a view to cover actual trade flows and this has been already achieved for certain products namely wines, maize, and barley¹⁹.

Nevertheless, the scheme of unilateral autonomous preferences is only an interim measure, because the scheme is incompatible with the WTO rules and cannot be maintained for a long period without obtaining a WTO waiver in this regard and also because it is incompatible with the EU's plans to conclude a DCFTA with Moldova

The DCFTA – what will it mean for Moldovan agri-food exports to the EU?

The EU will eliminate all remaining tariffs and quotas on its imports from Moldova thus improving the competitiveness of Moldovan exports in the EU market. However, this would have little immediate effect as many import tariffs have already been suspended under the EU's present regime of Autonomous Trade Preferences for imports from Moldova except for a small number of agricultural products. Therefore, expected gains from the further EU liberalisation would be marginal.

Indeed, these expected gains, to a certain extent, might prove to be presumptive particularly for those products for which existing TRQs are not filled or even used. This is particularly the case for meat and animal products, honey and some fresh fruits and vegetables which cannot be exported to the EU market due to non-compliance with the EU SPS and with quality standards including private ones like the EUREPGAP²⁰.

What will be the impact on domestic production of improved access to the Moldovan market for EU producers?

¹⁹ Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 55/2008 introducing autonomous trade preferences for the Republic of Moldova Brussels, 10.11.2010 COM(2010) 649 final 2010/0318 (COD)

²⁰ Eurep GAP is a common standard for farm management practice

To be able to predict what will happen when the Moldovan tariffs are removed it is essential to examine the current tariff structure.

Moldova's current agri-food tariff structure

Moldova's tariff structure for agricultural products could be summarised as follows:

"The most highly protected products (i.e. products with average applied duty over 10.0%) are: sugar and confectionery - 18.6% average applied duty and 30% maximum duty, animal products - 16.9% average applied duty and 28% maximum duty, dairy products - 15.8% average applied duty and 44% maximum duty, beverages and tobacco - 13.9% average applied duty and 83% maximum applied duty, fruits and vegetables - 12.2% average applied duty and 25% maximum applied duty, cereals and cereal preparations - 10.2% average applied duty and 42% maximum applied duty.

There are certain groups of product for which a significant percentage of Moldova's imports already come under duty free access. This is particularly the case of "Other agricultural products" where 52.2% of imports are duty-free and "Cereals and cereals preparations" where 42.9% of imports are duty-free. Duty-free imports for the rest of agricultural products are significantly lower ranging from 0.5% for sugar and confectionery products, up to 27.4% for animal products"²¹.

The impact of liberalisation on domestic production

For the two groups of products with significant duty free imports the additional trade liberation implied by the conclusion of a Free Trade Agreement (FTA) between EC and Moldova, the consequences of increased liberalisation will not be too severe.

On the other hand, there are other groups of agricultural products, namely those protected via relatively high tariff and with relatively low share of duty free imports that may be more significantly affected. These might be considered potential candidates as sensitive i.e. products for which liberalisation will phase in through a transitional period. These groups of products are: sugar and confectionery, wine and alcohol beverages, dairy products, fruits and vegetables and oils and fats.

Preparations for the Free Trade area with the EU

Preparations for the forthcoming Free Trade Area can be divided into two parts: the public sector and the private sector. Both have their role to play to ensure that the maximum benefits of free trade are gained and the negative consequences are minimised and mitigated where possible.

The Moldovan Government - Identifying Moldova's offensive and defensive interests in agriculture

In terms of offensive interests, and despite the fact that the potential gains from the further EU market openness to Moldova's agricultural exports are expected to be marginal, Moldova has

²¹ Trade law and policy preparation and negotiation of a deep and comprehensive free trade agreement with the EU Chisinau, February 2011

good arguments to request the total elimination of all remaining restrictions (tariffs and quotas) on access to the EU agri-food market. Immediate elimination of these restrictions might prove difficult for certain agricultural products particularly for sugar, dairy and meat. If this is the case, the alternative option would be to negotiate a short period, say for instance three years.

In terms of defensive interests, and with a view to mitigate negative effects and facilitate the adjustment process, Moldovan authorities should identify which agricultural products are most likely to be negatively affected due to the opening of the Moldovan market to agricultural products originating from EU and accordingly which products and to what extent deserve some protection. In other words which products will be defined as sensitive?

The experience so far from both multilateral trade negotiations as well as from bilateral negotiations with the EU for the establishment of FTAs shows that it is impossible to secure all desired defensive interests. Therefore, Moldovan negotiators must be prepared and ready to make hard choices and prioritise.

Identifying the sensitive products

Several methods can be used to identify those products that are likely to be negatively affected due to the opening of Moldova's market and thus be candidate to be defined as sensitive. Some of them are highly sophisticated and very demanding in terms of data. This is particularly the case with econometric models. In this regard simpler measures (indicators) could be utilized.

Where available, existing studies should be used including the report "A Free Trade Area between the Republic of Moldova and the European Union: Feasibility, Perspectives and Potential Impact"²².

Possible analyses to be undertaken in the preparation phase

The simplest approach to identifying the current level of protection is to examine, at 6-digit or 8-digit level the Moldovan tariff structure. In cases of protection through specific and / or compound duties the Ad-Valorem Equivalent (AVE) of these duties must be calculated. This examination will allow identifying the most protected products. Another useful indicator is the Revealed Comparative Advantage (RCA). The RCA index can provide useful information for those products showing either systematic or unstable comparative advantages / disadvantages. Other coefficients that might be considered are Nominal Protection Coefficient (NPC) and Effective Protection Coefficient (EPC). Cooperation between the Ministry of Agriculture and Food Industry (MAFI) and the relevant Ministerial analytical departments and scientific institutes will be essential.

Negotiating issues in relation to sensitive products

The identification of the products or group of products that could be declared as sensitive is one step in the process. The other step for the Moldovan negotiators is to negotiate with the EU counterparts (i.e. the Commission's negotiators) on this issue. In general the more generous the

²² A Free Trade Area between the Republic of Moldova and the European Union: Feasibility, Perspectives and Potential Impact Authors: Valeriu Prohntchi (coordinator), Ana Popa, Alex Oprunenco, Matthias Luecke, Mahmut Tekce, Eugen Hristev, Georgeta Mincu, Victoria Vasilescu Chisinau, 2009

treatment is (i.e. the higher the protection rate) the lower the number of sensitive products would be and vice-versa.

Entering in these negotiations Moldovan negotiators should be aware that:

- it would be impossible to secure all their defensive interests and shelter a whole sub sector;
- some degree of market opening, through a combination of lower reductions in MFN tariffs and opening of TRQs, has to take place;
- the in-quota duties will have to be set at a very low if not at zero level;
- MFN tariff reductions and TRQs expansion have to be phased-in within a transitional period so as to reach full liberalisation at the end of this period and the maximum duration of transitional period cannot usually exceed 10 and is more often 5 years.

Complementary actions through appropriate domestic policies

In addition to the “favourable treatment” measures for sensitive products which are by their nature merely transitional it is necessary to prepare the domestic sector for the situation after the protection is phased out by introducing and implementing the appropriate domestic policies and measures aimed at boosting competitiveness, diversification and rural development.

The state structures must also be prepared to implement the control systems required by the EU SPS legislation which requires a new approach, much legislative activity, institutional changes and training.

Other issues of negotiations

Apart from the number and the treatment of sensitive products there are issues which whilst not agriculture-specific but are of a horizontal nature, including rules of origin and safeguard clauses including special safeguards²³.

Institutional and structural aspects

Successful negotiations and effective implementation cannot be conducted and ensured without having in place the required institutional, regulatory and administrative structure and capacity. Additionally the need for recent, reliable and consistent statistical data is of utmost importance. Ensuring good intra-ministerial / agency / institution coordination at both political and administrative level is a prerequisite for success.

²³ The special safeguards provisions for agriculture differ from normal safeguards. In agriculture, unlike with normal safeguards:

- higher safeguards duties can be triggered automatically when import volumes rise above a certain level, or if prices fall below a certain level; and
- it is not necessary to demonstrate that serious injury is being caused to the domestic industry.

The Moldovan agri/food business operators. Regulatory requirements

One of the main elements of the DCFTA will be SPS measures including food safety, animal and plant health regulation. As these involve safety issues, no preferences can be granted in the form of easier or softer requirements for FTA partners. These must be adopted in their entirety in order to ensure equivalent protection in Moldova. The main issues for decision makers will be the prioritisation and the scheduling of the introduction of the new requirements which should be decided on the basis of domestic policy and economic development goals based on solid regulatory impact analysis.

Market requirements

While legislation is established to safeguard health and safety and legally bind exporters and importers, market requirements can be described as a set of requirements producers or exporters can adhere to on a voluntary basis to show their product, production process, or management system takes account of certain mutually agreed requirements. In the agri-food sector there are many such standards which are prepared at the request of the industry concerned and are voluntary. Standards may become compulsory when public funds are involved e.g. selling into the intervention system. Examples of such standards in the agri-food sector are: Organic Farming, Good Agricultural Practice, EUREPGAP eco-labelling and quality management.

Conclusions

- By fulfilling the prerequisites for beginning negotiations including adopting an EU compliant risk based food safety strategy with appropriate institutional structures, Moldova will have taken the first important steps on the way to implementing the SPS requirements for the future DCFTA.
- At the same time, it will be necessary to establish structures and capacity to gather and analyse economic and trade data in order to work on identifying and preparing positions on defensive and offensive interests and on sensitive products.
- The SPS requirements for eventual barrier-free export from Moldova to the EU are non-negotiable and are stringent and include HACCP²⁴-based food production safety systems and full traceability. Negotiated implementation timetables should be realistic bearing in mind domestic and external resources and on the basis of sector wide consultation.
- In parallel to ensuring compliance with the mandatory requirements, sufficient attention and resources should be allocated to developing competitiveness and compliance with market requirements in order to take advantage of the negotiated market openings.

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²⁴ Hazard Analysis and Critical Control Points

A Free Trade Area between the Republic of Moldova and the European Union: Feasibility, Perspectives and Potential Impact Authors: Valeriu Prohntchi (coordinator), Ana Popa, Alex Oprunenco, Matthias Luecke, Mahmut Tekce, Eugen Hristev, Georgeta Mincu, Victoria Vasilescu Chisinau, 2009.

WHEN EMIGRANTS RETURN TO MOLDOVA

*Isabelle Mihoubi-Astor,
EU High Level Policy Adviser to the Bureau on Migration and Asylum*

*«Heureux qui, comme Ulysse, a fait un beau voyage,
Ou comme cestuy-là qui conquit la toison,
Et puis est retourné, plein d'usage et raison,
Vivre entre ses parents le reste de son âge !»*

Joachim du Bellay 1522-1560

*("Happy is the man who, like Ulysses, has made a fine voyage,
or has won the Golden Fleece, and then returns,
experienced and knowledgeable,
to spend the rest of his life among his family!")*

After the break- up of the former Soviet Union and the subsequent independence of the Republic of Moldova, the economic recession and population impoverishment which followed led thousands of Moldovan citizens to leave their country, legally or in an irregular manner, permanently or temporarily, in search for better economic opportunities abroad. Approximately one quarter of the active population of Moldova is estimated to be permanently living abroad. Approximately 10% of emigrants who left permanently have completed high education.

This emigration trend from Moldova affects Moldovan economy negatively, in particular in view of the brain drain and brain waste phenomena as well as the strain on families (it is estimated that some 120,000 children in Moldova are at present without parental care as the result of the emigration process). It also needs to be pointed out however that the flow of remittances of migrants from Moldova may constitute an important development tool, should the current flow be targeting investment benefitting the community. According to the National Bank of Moldova, in 2010 remittances from migrants through the formal channel (commercial banks) only amounted to over 1.3 Billion US Dollars, which constitutes 23% of the GDP. The average for the last 5 years is around 29% of GDP, with a historical maximum value of 34% of GDP in 2006.

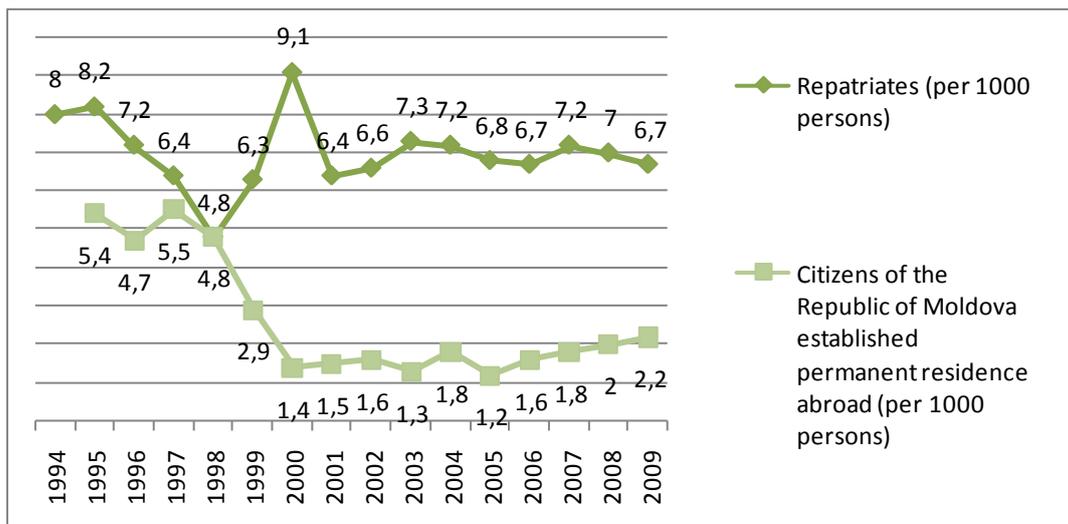


Figure 7.1. The number of Moldavian citizens who establish permanent residence abroad and repatriates

Source: The strategy of Bureau of Migration and Asylum

n order to encourage migrants in to orient their remittances towards investments in the Moldovan economy and to encourage their return, a pilot 'Program on Attracting Remittances into the Economy', called PARE 1+1, was launched in November 2010. PARE 1+1 was adopted by a governmental decision in October 2010. The program aims to stimulate the transfer of remittances through official channels, transfer of knowledge and know-how, facilitating the access of migrants to funds, and creation of new working places environments in Moldova.

Implemented by the Organization for Development off Small and Medium Enterprises (ODSME) for the period of 2010-2012, PARE 1+1 will match every 1 MDL invested by a Moldovan migrant or his/her 1st degree relative with another 1 MDL from the State for launching a new private enterprise, or the development of an existing enterprise, especially in rural areas.

The International Organization for Migration (IOM) supports the ODSME in the conduct of an information campaign on PARE 1+1, as well as in providing grants to several migrants who will demonstrate the feasibility of their businesses for the development of the local community. It is too early to assess the outcome of the project, but several migrants have already come forward to the OSME in order to present projects.

At present, the negative emigration trend is not curving downwards and the differential between persons who return to Moldova and persons who depart for permanent residence is high (cf. Table 1).

Concerned with the negative impact of emigration on the socio-economic fabric of the country, the Moldovan authorities have adopted a policy aimed at facilitating and encouraging the return of Moldovans as early as in 1992. This policy was first implemented through the enactment of the Law of 1992 on Migration, enabling all persons who had resided on the territory of the Republic of Moldova and their descendants (over two generations) to re-establish themselves on the territory of the Republic of Moldova, regardless as to whether those Moldovans nationals and their descendants had acquired the citizenship of Moldova or not. According to this law, such persons receive from the Bureau for Migration and Asylum (hereafter BMA) - a specialized body of the Ministry of the Interior, the status of "repatriates" on the territory of Moldova, which entitles them to a permanent residence, permit and offers the possibility to apply for Moldovan citizenship. This policy was further strengthened by the adoption of a Law on the Legal Status of Foreigners adopted in 2010. According to this Law, those who are Moldovan citizens and/or were born on the territory of Moldova do not need to receive the status of "repatriates" in order to legalize their stay; they only need to contact the competent local authorities to receive a passport and residence permit.

According to the statistics provided by the BMA during the period from 1 January 2008 to 31 December 2010, approximately 6,000 persons have received the status of "repatriants" in Moldova. The majority of those repatriates are male (55%) and they are mainly ethnic Moldovans, Ukrainians, Russians, Gagauz and Bulgars. They mostly came from the Russian Federation, Ukraine, Israel, Germany and Belarus. Most repatriates declare to have returned for reasons related to heritage, family or relatives. According to Eugenia Guricenco, Head of the Directorate on immigration and repatriation at the BMA, returnees are often motivated by the desire to die at "home", by difficulties to integrate in the country of origin or by property considerations. She stresses that return is facilitated in situation where immigrants can reside in Moldova and receive their pension from abroad, as it is the case with the Russian Federation. According to Ms Guricenco the medium age of the repatriates is around 40 years and some 20% are pensioners.

As already noted most emigrants who return to Moldova do not need status of repatriates and hence return without the assistance of the BMA. Therefore, it is very difficult to have a clear picture on how many there are and what their main characteristics are. The BMA statistics and concrete knowledge of the cases does however provide a certain picture of the return process in Moldova. Since the entry into force of the new law on the Legal Status of Migrants this year, more categories of Moldovans have been able to return without registering as repatriates since January 2011, in fact the number of repatriates for the last three months of 2011 has dropped to 146 persons only. New tools to gather information and statistics on returning migrants will need to be developed.

Behind every returning emigrant there is a person, a family, with evolving needs and aspirations. Behind every returning emigrant there is a story to tell and lessons to be learnt. I have met one of them, Tatiana. I have chosen to tell her story to show that return to Moldova, as challenging a decision and a process as it may be, can make a positive difference in the life of emigrant and his/her family as well as in the life of others - local communities, neighbours and vulnerable persons.

Tatiana is a 32 year-old Moldovan women, who spent 10 years of her life as an immigrant in France. Her process of integration was achieved in a remarkable way: she studied and worked in France, got married to a French citizen, acquired French citizenship and gave birth there to a baby girl. Yet, last year, Tatiana and her family decided to return to Moldova as permanent residents. When asked about the reasons underlying her decision to return, Tatiana responds that she returned in order to contribute to the development of her country. She also stresses that through the implementation of humanitarian projects she hopes to contribute to curbing the current emigration trends and to prevent rural girls and women from falling into the trap of prostitution. She mentions that she deeply feels for her country and would like to contribute to changing the image of Moldova abroad. Finally, she says that she and her family returned in order for her 4-year old daughter to know her culture and to reconnect with her grandmother and other relatives.

It is a well- established fact that in their vast majority, Moldovans who left their country did so and continue to do so because they feel the country is not able to offer them and their family economic opportunities. That is also the reason that drove Tatiana away from Moldova 10 years ago.

Reconnecting with family and the local language are important indicators of re-integration, but the major challenge depends on the economic opportunities which emigrant finds or are able to create upon return home. Upon return, Tatiana established the Moldovan branch of the French Association "Vent d'Est", an association she created in 2004 and which mandate is to finance and implement humanitarian projects for vulnerable children. The association now conducts several projects in rural areas of Moldova. Tatiana and her husband are planning to open a holiday centre for socially vulnerable children. The centre will function as an ecological lodge. Tourism will bring the income to run the holiday camp. The initiative will also permit to create employment to the local population, thus contributing to the development of the communities in rural areas of Moldova. Tatiana has submitted a project proposal for the PARE 1+1 scheme, but the application is still pending.

When asked about the major obstacles she faces in Moldova, Tatiana mentions that the most difficult challenge is the need to change mentalities. She also asserts that there is lack of information on existing programmes for returnees and that the staff in ministries needs to be trained.

Finally, when asked what she would tell other migrants in order to encourage them to return, and she says: “Come back to bring your experience acquired abroad, the country needs it. There is a lot to be built here, we need you.” After few seconds of silence she adds “apart from that, I have no arguments”...

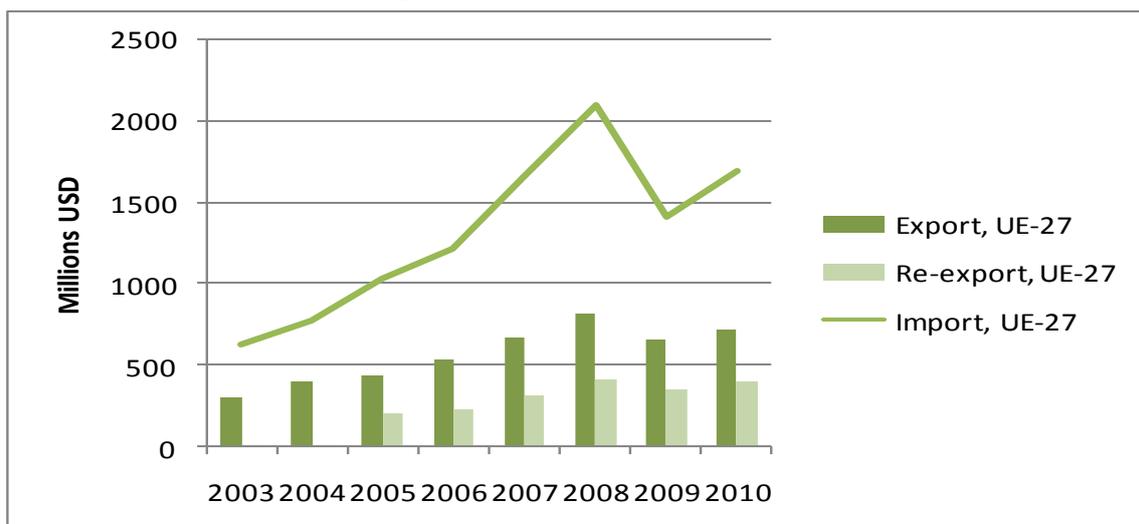
DCFTA EU-MOLDOVA: CHALLENGES AND ECONOMIC IMPLICATIONS

*Georgeta Mincu, Local Expert
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The Government of Moldova is in the process of preparing the launch of negotiations for a Free Trade Area with the European Union. Research shows that to obtain an impact on economic growth, Moldova needs a trade agreement of a new generation, and in particular a Deep and Comprehensive Free Trade Area (DCFTA). A DCFTA for Moldova can become the main vehicle for having actual real free trade with the EU, but to achieve this, the Moldovan economy has to undergo far reaching regulatory reforms.

The deep and comprehensive approach to trade is a very sensitive and quite complex subject. This approach goes much further than a simple free trade agreement (that merely aims to eliminate/abolish import tariffs and quotas), but contemplates an agreement covering the whole framework of trade and trade-related legislation, as well as setting forth standards compatible with those of the European Union. A DCFTA involves far-reaching elimination of barriers to trade and investment throughout various sectors of the economy. In addition to removing more tariff barriers to trade, a DCFTA will also provide a platform for addressing non-tariff barriers by both parties according to the same rules of game.

A DCFTA covers integration along all trade-related areas, and also tackles the so-called “beyond the border” obstacles to trade through deep regulatory approximation with the trade-related EU acquis. This exercise will lead to institutional reforms and transparent regulations which will give impulse to the economy and favour sustainable growth, as well as the modernization of Moldova. However, these reforms have to be supported by a diversification of trade and particularly by the increase of exports. Starting with 2003, the European Union became one of the key trade partners of Moldova. Achieving greater access of our goods and services to the European market is now a challenge for all involved stakeholders.



**Figure 2. Commercial relations between
Republic of Moldova and European Union (EU-27)**

The data from the External Sector chapter of this publication shows that Moldova is already considering the increase in export as one of the key factors that will boost the sustainable recovery of Moldova, and the European market is the platform that now can transform this opportunity into a reality.

From this figure, we can see that re-export from Moldova to EU during the last five years, amounted for almost half of all exports of Moldova to the EU market. It should be noted that our exports are proportional to our imports from the EU, therefore, in my view, the trade facilitation reforms should be listed as one of the main priorities of the country's development strategy, and trade facilitation instruments shall be used for the implementation of appropriate policies.

An important challenge for Moldova's negotiation of a DCFTA is to reach an agreement in line with our interests based on domestic economic situation. For Moldova, a small and weak economy, entering into negotiations with a powerful interlocutor, the following steps need to be taken before and during the process: identification of negotiation objectives; identification of areas of economic and trade interest; cooperation with business, raising awareness among and constantly informing the Parliament on the development of the process of negotiations, and, no less importantly, are the information campaigns across the country. If the government wants to achieve its negotiation goals and objectives, technical negotiating teams should be well-defined, trained and prepared. It is also crucial that technical negotiating teams work closely with academic and research institutions to simulate and assess negotiation scenarios, negotiating positions and possible outcomes in order to fully exploit the opportunities presented by the negotiation process.

The Government should involve civil society and economic operators through public awareness campaigns and debates to inform the public about the implications of the future DCFTA. It is equally important to identify at an early stage the necessary reforms and regulations needed to transpose some EU Directives relating to the different chapters of the Association Agreement, and be ready to include them into the legislative process supporting the implementation of the Government programme. As the DCFTA most likely will be embedded into the Association Agreement, it is be equally important to correlate on a continuous basis the results of the negotiation process with legal approximation with the EU acquis and ensure they make part of the Government priorities.

The fact-finding mission of the European Commission to Moldova and its Recommendations. In June 2010, the European Commission conducted a fact-finding mission to evaluate Moldovan capacities for launching DCFTA negotiations. In October of the same year, the EC submitted to the Government a set of recommendations focused on the preparation for launching of the future DCFTA. The set of recommendations includes a list of key and additional recommendations on trade related issues covering thirteen areas.

The summary of EU Recommendations - to strengthen the institutional and administrative capacity, and ensure continuity in the leadership of the negotiating team for the DCFTA; - to collect trade statistics for the whole territory of Moldova, and prepare a reliable tariff offer; - giving high priority to meeting the SPS standards to benefit from the existing market access to EU; - to prepare and start to implement a comprehensive and consistent plan on TBT area; - to prepare and start to implement a comprehensive food safety strategy, with accompanying operational programs and time lines; - to abolish customs fees not in compliance with WTO and EU provisions, and to ensure homogeneous implementation of customs legislation, including rules of origin throughout the territory of Moldova.

Another set of recommendations is related to reforms concerning trade in services and investment, and competition policy: - to prepare and start implementation of a comprehensive plan on financial services, including enforcement of relevant rules for crisis prevention; to improve the investment climate and abolish discriminatory measures that affect foreign investment; - to ensure enforcement of the intellectual property rights (IPR) legislation and to continue legislative alignment with EU *acquis*; to implement a strategy for full development of competition law and policy; - to continue improving the social dialogue and institutional framework, and ensure its representativeness at all levels.

There are also recommendations related to general issues that imply that government should step up its efforts to inform “TN²⁵” authorities”, economic operators, and the population on the negotiation of the future DCFTA and its implementation. It is important to mention that most of these recommendations have been transposed into a clear, time-bound implementation plan addressing all areas, as well as coordinated with the European Commission.

Moldova’s hopes to start negotiations on free trade agreement in 2011. The experience of other countries demonstrates that launching the negotiations is not easy due to substantial preparatory work related to EU recommendations that needs to be done by countries prior to become eligible for the negotiations. In case of Moldova, this preparatory work namely aims at: preparation of the required position papers on the areas subject to negotiations by a capable and well-defined high level negotiation team and technical negotiation teams ; conducting a thorough assessment of compatibility of the Moldovan legislation with the *acquis communautaire* on both trade on goods (non-tariff measures, technical barriers to trade (TBT), sanitary and phytosanitary standards (SPS), customs issues) and trade in services (licensing conditions, transparency and national treatment of foreign investors).

Special attention should be given to the functioning of relevant institutions and enforcement of legislation related to competition and IPR. The preparation for DCFTA negotiations is an important element on the EU-Moldova agenda, and the Government has already established necessary institutional structures to facilitate consultations with the European Commission, and enable effective and productive negotiations on the DCFTA. At end of 2010, the Government committed itself to implementation of the key recommendations by a clear, time-bound Action Plan, approved by the GD no.1125/2010.

Of course, Moldova still has to tackle a wide range of issues to grow the capacity to complete DCFTA negotiations. It is also true that the process of negotiations and comprehensive reforms is a lengthy one. . Still the timely launch of the official negotiations on a DCFTA is very important.

²⁵ Regions on the left bank of Nistru river

After the EU–Moldova Cooperation Council’s meeting held in Brussels on 6 May the Hungarian Minister of Foreign Affairs, Mr Zsolt Németh pointed out that “the last negotiation chapter for concluding the Association Agreement with Moldova may be opened soon”²⁶. On the same occasion, the Commissioner for Enlargement Mr Stefan Füle welcomed the results achieved by Moldova so far, but did not conceal that Moldova still needs further consolidation, and “should keep up the pace in combating corruption, improving the business environment and progressing in the field of judiciary reform”. He emphasized, however, that Moldova will not stand alone and the EU is ready to lend its support and assistance.¹

The content of a DCFTA varies from country to country. However, from recent EU practice, it can be observed that the key pillars of the international trade rules are to be transposed into the content of the free trade agreement. For instance, the FTA between Ukraine and the EU, which is an integral element of the new Association Agreement and represents one of the first deep and comprehensive FTAs of new generation, will cover all trade-related areas (including services, intellectual property rights, customs, public procurement, energy-related issues, competition, etc.) and also tackles the so-called “beyond the border” obstacles through deep regulatory approximation with the trade-related EU acquis²

In my view, on the basis of the experience of other countries and the scope of the EU recommendations to Moldova, it is likely that the content of the DCFTA with Moldova will focus on: national treatment and market access for goods, trade remedies (antidumping, subsidies and safeguards measures); standards and technical regulations; sanitary and phytosanitary measures; customs procedures; trade facilitation and rules of origin; services and investment; public procurement; IPR; competition policy and other related areas, regulatory cooperation and transparency; sustainable development (related to labour force and environment); dispute settlement; and institutional aspects related to the implementation of the DCFTA.

What hinders the access of Moldovan goods to the EU market? In spite of the fact that more than half of Moldovan exports goes to the EU market, it is still very difficult for new products to get access to it. In my opinion, the following key reasons can be mentioned: few European standards have been adopted by Moldova (to date only 2,666 out of about 20,000); the rules of origin are quite complex and difficult to fulfil, and they are not always known to our exporters (which is important for preparation of the goods for the EU market); lack of a food safety strategy and underlying system; lack of quality infrastructure and non-recognition of our laboratories by competent EU accreditation authorities; lack of efficient border management (that should ensure that customs, sanitary and phytosanitary control of imported and exported goods are conducted in a reasonable time); and no less important, the limited access by trade operators to trade regulatory information on placement of goods in both the Moldovan and the EU market.

It is impossible to develop a country’s foreign trade without a properly functioning WTO SPS, TBT, and GATS Enquiry Point – the technical advantage of Moldova’s WTO membership. Up-to-date it is not used by either public or private sector. A DCFTA can become a timely and appropriate instrument for reinforcing the country's trade institutions, as well as for leveraging trade policies to stimulate growth and reduce poverty, by substantially reducing fiscal and administrative burden imposed to local trade operators.

Key economic reforms that have to be undertaken to conclude the DCFTA negotiations: The current state of Moldova’s external trade, expressed by relevant economic indicators, suggest that the

²⁶ Németh calls Moldova success story in EU Neighbourhood Policy, Article dated with 2011, May 6 (<http://www.eu2011.hu/news/nemeth-calls-moldova-success-story-eu-neighbourhood-policy>)

above mentioned concerns should be addressed as soon as possible, and the right policies and reforms should be designed, so that reform outcomes may contribute to development of a sustainable economy, based on competitive and quality products with the export potential. The reforms to be undertaken should not be a burden for the negotiation process; on the contrary, this exercise should be seen as a great chance for decision makers to put together a package of trade-related institutional and legal reforms that contribute to growth. Effective implementation of this package should be based on basic trade standards recognised by the WTO and reiterated by the EU.

Why is a private – public dialogue important prior to launching DCFTA negotiations? In order to successfully implement all necessary prerequisites of a DCFTA (such as: improvement of legislation, effective functioning of relevant institutions, ensuring high standards of quality control on Moldovan goods, etc.) it is highly important to involve stakeholders in preparation and negotiation processes. Therefore, close cooperation between the Government of Moldova, the European Commission and the business community is crucial. To ensure that Moldovan businesses implement the DCFTA requirements relatively easily, public awareness campaigns addressing Moldovan companies on the impact of a DCFTA, the EU market and the challenges related to trade with the EU, are essential. To this end, the Government, the EU-funded programmes, and business associations should play an important role. To conclude, it is crucial that the public sector and the country's private sector work jointly on developing a common strategy for an effective use of the future DCFTA.

METHODOLOGY NOTES

The quarterly publication Moldovan Economic Trends uses a database covering the years 2005-2006. On the website of the Institute of Economy, Finance and Statistics, www.iefs.md, the electronic version of the publication information from the database (structured as a monthly, quarterly and annual data series in current, comparable and consistent prices) are available.²⁷

In the edition, a set of indicators requiring a methodological explanation was used and estimated.

Banking sector. In the analysis of the banking and micro-financing sector, the indicators of market concentration were calculated - market concentration ratio (CR-4) and the Herfindahl-Hirschman Index (HHI).

For the calculation of the indicators (CR-4) and (HHI) of the banking sector, the total assets of 15 commercial banks from the Republic of Moldova for 2009-2010 were selected, based on the annual financial reports of the commercial banks from the Republic of Moldova.

For the calculation of the indicators (CR-4) and (HHI) of the micro-financing sector, the total amount of loans granted during the period 2007-2010 were selected, based on the annual reports of the NCFM.

Market concentration ratio (CR-4) is calculated as the percentage ratio between the volume of sales by the four companies (market leaders) and total sales of all companies within the limits determined by the services market.

Accordingly, the market is considered weakly concentrated, when the indicators obtain the following values:

$$CR-4 < 35\%.$$

The market is considered moderately concentrated, when the indicators obtain the following values:

$$35\% < CR-4 < 70\%.$$

The market is considered excessively concentrated, when the indicators obtain the following values:

$$70\% < CR-4 < 100\%.$$

Herfindahl-Hirschmann Index (HHI) is calculated as the sum of squared percentage of the market shares of each participant.

The market is considered weakly concentrated when the indicators are at the level: $HHI < 800$.

The market is considered moderately concentrated when the indicators obtain the following values:

²⁷ Depending on the frequency of indicators

$$800 < \text{HHI} < 1.800.$$

The market is considered excessively concentrated when the indicators are in the range:

$$1800 < \text{HHI} < 10.000.$$

Public finances. The Tax burden as a percentage of tax revenues in GDP was calculated based on data from the Organisation for Economic Cooperation and Development <http://www.oecd.org/dataoecd/41/27/46771900.xls>

Prices and exchange rates. Monthly index of prices (in comparison to a baseline month).

$$I_{t/0} = \prod_{i=1}^t I_{t/t-1}$$

where:

- $I_{t/t-1}$ – monthly price index, taken from the National Bureau of Statistics;
- January 2000 was chosen as the baseline period.

Quarterly index of prices (in comparison to the previous quarter)

$$I_T = \sqrt[3]{\frac{I_{t/0}}{I_{t-3/0}} \cdot \frac{I_{t+1/0}}{I_{(t+1)-3/0}} \cdot \frac{I_{t+2/0}}{I_{(t+2)-3/0}}}$$

where:

- I_T - the quarterly price index (T refers to the quarters);
- The quarter T has three months: t, t +1, t +2. Three months are part of the previous quarter: t-3, (t+1)-3, (t +2)-3.

Quarterly index of prices (in comparison to the same quarter of the previous year)

$$I_T = \sqrt[3]{\frac{I_{t/0}}{I_{t-12/0}} \cdot \frac{I_{t+1/0}}{I_{(t+1)-12/0}} \cdot \frac{I_{t+2/0}}{I_{(t+2)-12/0}}}$$

where:

- the same quarter of the previous year is formed of three months: t-12, (t+1)-12, (t +2)-12.
- Real effective exchange rate (RER):

$$RER = \left(\frac{e_{MDL/i,t}}{e_{MDL/i,01.2000}} \right) \cdot \left(\frac{IPC_{i,t}/01.2000}{IPC_{RM,t}/01.2000} \right) \cdot 100$$

where:

- $e_{MDL/i,t}$ - nominal exchange rate of the national currency against the currency of the country i in the month t;
- $e_{MDL/i,01.2000}$ - nominal exchange rate of the national currency against the currency of the country I during the baseline period (January 2000 was chosen as baseline period);
- $IPC_{i,t/01.2000}$ - consumer price index in the country i in month t, calculated against the baseline period;
- $IPC_{RM,t/01.2000}$ - consumer price index in the Republic of Moldova in the month t, calculated against the baseline period.

External sector. International specialisation indices.

Lafay index of specialisation (1992) is calculated according to the following formula:

$$LFI_i = \left(\frac{X_i - M_i}{X_i + M_i} - \frac{\sum_{i=1}^N (X_i - M_i)}{\sum_{i=1}^N (X_i + M_i)} \right) \frac{X_i + M_i}{\sum_{i=1}^N (X_i + M_i)} * 100, \quad i = 1, \dots, N$$

where:

LFI_i – Lafay specialisation index;

X_i – export of product i;

M_i – import of product i;

The Index reflecting positive values indicates the existence of a comparative advantage for the respective product. Accordingly, the greater the index value, the greater is the degree of specialisation.

Bela Balassa Specialization Index (1965) is calculated using the following formula:

$$ACR_{ij} = \frac{\frac{X_{ji}}{X_j}}{\frac{X_{wi}}{X_w}}$$

where:

ACR – Relevant Comparative Advantage;

X_{ji}, X_{wi} – represents the exports of the country j, respectively, the global exports of the product i;

X_j, X_w – represents the exports of the country i, respectively global exports.

This indicator can have values higher or lower than 1. If the index is greater than 1, then it shows a comparative advantage for the respective sector or product and, vice versa, a value lower than 1 reflects a comparative disadvantage.

When making calculations, the data on foreign trade were used according to the Standard International Trade Classification (SITC Rev. 3) disaggregated at the level of 3-digits, drawn from the United Nations Commodity Trade Statistics Database.

Herfindahl-Hirschmann concentration index was calculated according to the following formula:

$$H_j = \frac{\sqrt{\sum_{i=1}^n \left(\frac{x_i}{X}\right)^2} - \sqrt{1/n}}{1 - \sqrt{1/n}}$$

where:

H_j - Herfindahl-Hirschmann index;

x_i - represents the value of exports of goods i ;

X - total value of exports;

n - disaggregated product number at 3-Digit according to the SITC rev.3.

The value of the index between 0- 0.15 indicates a diversification of exports, a moderate diversification from 0.15 - 0.25; the values higher than 0.25 indicate a high concentration.

During the computations, the data on foreign trade were used according to the Standard International Trade Classification (SITC Rev. 3) disaggregated at the level of 3-digits, drawn from the United Nations Commodity Trade Statistics Database.

The Diversification Index measures the deviation of a country's export structure vis-à-vis the global structure and is calculated using the following formula:

$$S_j = \frac{\sum_i |h_{ij} - h_i|}{2}$$

Where h_i is the share of product i in the total exports of country j and in global exports respectively. The Index can vary between 0 and 1 (the total deviation from the structure of global exports).

During the computations, the data on foreign trade were used according to the Standard International Trade Classification (SITC Rev. 3) disaggregated at the level of 3-digits, drawn from the United Nations Commodity Trade Statistics Database.

Nominal Effective Exchange Rate

$$NEER = \prod_{i=1}^{22} \left(\frac{\left(\frac{e_{MDL/USD,t}}{e_{i/USD,t}} \right)}{\left(\frac{e_{MDL/USD,2000}}{e_{i/USD,2000}} \right)} \right)^{w_i}$$

where:

- $e_{MDL/USD,t}$ – exchange rate of MDL against USD during the year t (i.e. for the year 2000);
- $e_{MDL/USD,2000}$ - the exchange rate of MDL against USD for 2000;
- $e_{i/USD,t}$ – national currency exchange rate of the state i against USD in year t;
- $e_{i/USD,2000}$ - exchange rate of the national currency of the state i against USD in 2000;
- w_i – share of external trade of the Republic of Moldova with State i, calculated using the following formula:

$$w_i = \frac{x_i + m_i}{\sum_{i=1}^{22} x_i + \sum_{i=1}^{22} m_i}$$

where:

- x_i - exports of the Republic of Moldova to country i;
- m_i – imports of the Republic of Moldova from country i.

The 22 most important trading partners of the Republic of Moldova were selected. The share of the trade exchanges with these countries in foreign trade exceeded 90% during 2005-2010 (see table below).

The lack of data regarding the exchange rates of the MDL against the currencies of the major trade partners led to the use of the cross-rates. In order to determine the MDL exchange rate against other currencies, the reporting of the exchange rate of MDL against USD at the rate of other currencies against the USD was used. In turn, the currency of the state i against USD was estimated by reporting the GDP of the country expressed in the national currency to GDP expressed in USD. The data regarding GDP and CPI in other countries has been taken from the IMF.

Real Effective Exchange Rate

$$REER = \prod_{i=1}^{22} \left[\frac{\left(\frac{e_{MDL/USD,t}}{e_{i/USD,t}} \right)}{\left(\frac{e_{MDL/USD,2000}}{e_{i/USD,2000}} \right)} \right] \left(\frac{IPC_{i,t}/2000}{IPC_{RM,t}/2000} \right)^{w_i}$$

where:

- $IPC_{i,t/2000}$ - Consumer price indices of country i , calculated based on the year 2000;
- $IPC_{RM,t/2000}$ - Consumer price index in the Republic of Moldova, calculated based on the year 2000.

Data on CPI in other countries has been taken from the IMF.

Share of major trading partners in the foreign trade of the Republic of Moldova

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|------|------|------|------|------|------|
| Austria | 1 | 1 | 1.4 | 1.3 | 1.4 | 1.3 |
| Belarus | 4.6 | 4 | 4 | 4.5 | 4.8 | 3.7 |
| Belgium | 1.3 | 1.4 | 1 | 0.7 | 0.6 | 0.8 |
| Bulgaria | 1.1 | 1.3 | 1.5 | 1 | 1.2 | 1.3 |
| China | 2.2 | 3.1 | 4.1 | 5 | 5.4 | 6 |
| Switzerland | 0.6 | 0.8 | 0.8 | 1 | 1 | 0.7 |
| Russian Federation | 18.2 | 16 | 14.5 | 15.1 | 14.4 | 18.4 |
| France | 2.4 | 2.3 | 2.4 | 1.9 | 1.8 | 1.7 |
| Germany | 7.0 | 7.1 | 8.1 | 6.6 | 7.2 | 6.9 |
| Greece | 0.4 | 0.6 | 0.6 | 0.6 | 1.5 | 2.1 |
| Italy | 8.4 | 8.4 | 8.1 | 7.3 | 8 | 7.7 |
| Japan | 0.6 | 0.6 | 0.9 | 1.3 | 0.7 | 0.6 |
| Kazakhstan | 2.5 | 0.8 | 1.1 | 1 | 4.3 | 0.9 |
| Netherlands | 1.1 | 0.8 | 1.1 | 1 | 0.9 | 1 |
| Poland | 2.7 | 3 | 2.7 | 2.7 | 2.7 | 2.8 |
| United Kingdom of great Britain and Northern Ireland | 0.9 | 1.6 | 1.4 | 1.8 | 2.4 | 2.5 |
| Czech Republic | 1 | 1 | 1 | 1 | 0.9 | 0.9 |
| Romania | 10.9 | 13.4 | 13.1 | 14.3 | 12.1 | 11.7 |
| USA | 2.3 | 1.4 | 1.2 | 1.7 | 1.3 | 1.6 |
| Turkey | 3.5 | 3.8 | 4 | 4.1 | 4.5 | 5.1 |
| Ukraine | 17.1 | 17.2 | 17 | 15.1 | 11.8 | 11.5 |
| Hungary | 1.4 | 1.3 | 1 | 1.4 | 1.4 | 1.3 |
| Total | 91.3 | 90.8 | 91.1 | 90.4 | 90.5 | 90.3 |

BUSINESS ENVIRONMENT

The main source for the business analysis was the NBS, which receives and processes reports on active enterprises, which apply a full accounting system (simplified double and full double). The analysis of the key indicators of business development, based on NBS data, was made for 2005-2009. The data available from the State Registration Chamber (regarding registered and liquidated companies) covered the period from 2007 until the first quarter of 2011.

According to Law of the Republic of Moldova No.206-XVI of 7 July 2006 on supporting the small and medium-sized enterprises sector, the SME sector consists of all micro, small and medium-sized enterprises.

A business is a micro enterprise if it meets the following criteria: the annual average number of employees does not exceed 9 persons, the total annual turnover does not exceed 3 million MDL and total assets in the annual balance sheet do not exceed 3 million MDL.

A business is a small enterprise if it meets the following criteria: the annual average number of employees does not exceed 49 persons, the annual turnover does not exceed 25 million MDL and total value of assets in the annual balance sheet does not exceed 25 million MDL.

A business is considered a medium-sized enterprise if it meets the following criteria: the annual average number of employees does not exceed 249 persons, the annual turnover does not exceed 50 million MDL and the total value of assets in the annual balance sheet not exceeding 50 million MDL.

Studies conducted by many international organisations dealing with business environment research from many countries and business environment items addressed in the context of other analysed economic categories were the basis of the analysis of the business environment in Moldova.

Most of the studies concerning the business environment pursue its quantitative assessment in an impressive number of countries, so that, ultimately, it is possible to achieve a ranking of countries based on the quality of their business environment. Usually, the goal of the international studies is to provide an orientation tool for investors who are looking for the best locations in countries around the world for capital investment in starting and developing a profitable business.

The data from the following international ratings were used: The annual report “Doing Business”, Global Competitiveness Report prepared by the World Economic Forum and the “Index of Economic Freedom” rating of the Heritage Foundation and Wall Street Journal.

The purpose of the annual report “Doing Business” is to determine the degree of ease of doing business in different countries, based on an analysis of incentives and regulations that impede business activity in the countries examined. The Global Competitiveness Report measures the competitiveness of the country and, based on these data, is developing a rating of the nations analysed. The annual issues of the “Economic Freedom Index” of the Heritage Foundation and Wall Street Journal determine the level of economic freedom, which is considered a key element in creating a favourable environment for entrepreneurship and innovation and economic growth in any country.

In the first issue of the quarterly bulletin, the left bank of Nistru river (Transnistria) was not included. The analysis was conducted for the territory of the Republic of Moldova without Eastern regions. This is explained by large differences in statistical data series that can be found. It is planned that the following issue of the MET will include also information on the region. The data will be collected and processed basing on the economic, social and political data provided by the Ministry of Economy, the Ministry of Industry, the Republican Bank of Transnistria, as well as other agencies involved in production, delivery of public services, distribution of social benefits etc.

Inclusion of the analysis of the regions located on the left bank of Nistru river, in the upcoming MET should contribute to creation of a comprehensive picture of economic and social developments on the whole territory of the Republic of Moldova.

STATISTICAL ANNEX

| List of indicators (current prices) | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Output and National Accounts | | | | | | | |
| GDP nominal. million MDL | 37652 | 44754 | 53430 | 62922 | 60430 | 71849 | |
| Resources: | | | | | | | |
| Added value. million MDL | 31616 | 37339 | 44413 | 51774 | 50809 | 59895 | |
| Agriculture. million MDL | 6175 | 6489 | 5334 | 5544 | 5063 | 8582 | |
| Industry. million MDL | 5936 | 6581 | 7616 | 8737 | 7818 | 9520 | |
| Construction. million MDL | 1257 | 1776 | 2586 | 3115 | 2057 | 2300 | |
| Services. million MDL | 19505 | 24269 | 31463 | 37493 | 37928 | 41793 | |
| Net taxes on products. million MDL | 6036 | 7415 | 9017 | 11148 | 9621 | 11954 | |
| Expenditures: | | | | | | | |
| Consumption final. million MDL | 41368 | 50972 | 60618 | 71452 | 68574 | 82611 | |
| Household consumption. million MDL | 34694 | 41360 | 49178 | 57805 | 53353 | 65650 | |
| Private and Public Consumption. million MDL | 6674 | 9612 | 11440 | 13647 | 15221 | 16961 | |
| Gross Fixed Capital Formation. million MDL | 9258 | 12691 | 18222 | 21391 | 13655 | 16306 | |
| Gross capital formation. million MDL | 11607 | 14656 | 20360 | 24683 | 13985 | 16997 | |
| Stocks variation. million MDL | 2349 | 1965 | 2138 | 3292 | 330 | 691 | |
| Exports. million MDL | 19264 | 20254 | 24354 | 25684 | 22282 | 28448 | |
| Imports. million MDL | 34587 | 41128 | 51902 | 58896 | 44411 | 56207 | |
| Net export. million MDL | -15323 | -20874 | -27548 | -33212 | -22129 | -27759 | |
| Disposable income. million MDL | 49932 | 60229 | 72229 | 85479 | 76874 | | |

MOLDOVAN ECONOMIC TRENDS

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|--------|--------|-------|--------|--------|-------|------|
| Agriculture | | | | | | | |
| Agricultural production: | 12688 | 13734 | 12825 | 16503 | 13300 | 19715 | |
| Plant production. million MDL | 8449 | 9079 | 7941 | 10600 | 7861 | 13005 | |
| Animal production. million MDL | 3851 | 4278 | 4509 | 5519 | 4987 | 6245 | |
| Services. million MDL | 388 | 377 | 375 | 384 | 452 | 465 | |
| Area of cultivation: | | | | | | | |
| Grain. thousand ha | 1034.7 | 917.6 | 955.4 | 1005.8 | 951.6 | 925.6 | |
| Sunflower. thousand ha | 275.7 | 287.4 | 233.6 | 228 | 226.6 | 252.6 | |
| Sugar beet. thousand ha | 34.2 | 42.4 | 34.3 | 24.7 | 23.4 | 27.1 | |
| Potatoes. thousand ha | 35.9 | 34.4 | 35.4 | 31.2 | 28.2 | 27.6 | |
| Vegetables. thousand ha | 36.7 | 42.4 | 37.7 | 39.8 | 35.2 | 38.2 | |
| Tabacco. thousand ha | 4.7 | 3.5 | 3.1 | 2.7 | 2.5 | 4.3 | |
| Forage plants. thousand ha | 67.8 | 77.5 | 94.1 | 71.1 | 70.7 | 76.8 | |
| Agricultural production: | | | | | | | |
| Grain. thousand ha | 2837.9 | 2290.2 | 901.9 | 3169.5 | 2176.5 | 2428 | |
| Sunflower. thousand ha | 331.1 | 379.9 | 155.5 | 371.9 | 284.2 | 383 | |
| Sugar beet. thousand ha | 991.2 | 1177.3 | 612.3 | 960.7 | 337.4 | 824 | |
| Potatoes. thousand ha | 378.2 | 376.9 | 199.4 | 271 | 260.9 | 279 | |
| Vegetables. thousand ha | 389.3 | 475.2 | 221.8 | 376.3 | 307.9 | 343 | |
| Tabacco. thousand ha | 6.7 | 4.8 | 3.6 | 3.9 | 4.4 | 7 | |
| Fruits. thousand ha | 386.2 | 329.2 | 277.2 | 370.5 | 308 | 308 | |
| Grapes. thousand ha | 518.5 | 466.1 | 598 | 635.5 | 685.1 | 481 | |
| Meat. thousand ha | 86.5 | 134 | 149.5 | 108.2 | 124.5 | 152.8 | |
| Milk. thousand ha | 659 | 627.5 | 603.9 | 543.4 | 574.7 | 585.4 | |
| Eggs. million pieces | 762 | 765.2 | 704.3 | 562.6 | 640.3 | 724.8 | |
| Smooth. tones | 2079 | 2170 | 2146 | 2021 | 1996 | 2082 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|--------|-------|-------|-------|-------|-------|--|
| Agricultural output: | | | | | | | |
| Wheat. tone/ha | 2.6 | 2.3 | 1.3 | 3.1 | 2.1 | 2.3 | |
| Corn. tone/ha | 3.3 | 2.9 | 0.8 | 3.4 | 2.9 | 3.4 | |
| Sunflower. tone/ha | 1.2 | 1.3 | 0.7 | 1.6 | 1.3 | 1.5 | |
| Sugar beet. tone/ha | 1.8 | 28.3 | 19.3 | 39.1 | 17.1 | 31.5 | |
| Potatoes. tone/ha | 10.5 | 11 | 5.7 | 8.7 | 9.3 | 10.1 | |
| Vegetables. tone/ha | 10.5 | 11.3 | 5.9 | 9.4 | 8.6 | 8.9 | |
| Tobacco. tone/ha | 1.4 | 1.4 | 1.2 | 1.5 | 1.8 | 1.7 | |
| Fruits. tone/ha | 3.7 | 3.1 | 2.6 | 3.5 | 3.2 | 3.4 | |
| Grapes. tone/ha | 3.6 | 3.2 | 4.1 | 4.4 | 4.8 | 3.5 | |
| Production of the food industry: | | | | | | | |
| Wine. million dal. | 36.3 | 19.3 | 12.3 | 15.4 | 11.9 | 9.4 | |
| Sparkling wine. thousands dal. | 1051 | 402 | 541 | 572 | 500 | 537.2 | |
| Divin. thousands dal. | 1189.8 | 560.4 | 504.6 | 701.3 | 431 | 445 | |
| Sausage. thousands tones | 14.2 | 14.6 | 17 | 18.9 | 14.1 | 11.7 | |
| Juices of fruit and vegetables. thousands tones | 30 | 29.7 | 53.8 | 38.4 | 27.9 | 29.3 | |
| Butter. tones | 3393 | 3321 | 3387 | 4338 | 3819 | 1682 | |
| Sugar. thousands tones | 133.5 | 149.0 | 74 | 134 | 42.4 | 90.8 | |
| Livestock of animals: | | | | | | | |
| Cattle | 331 | 311 | 299 | 232 | 218 | 222 | |
| Cows | 231 | 217 | 207 | 169 | 160 | 161 | |
| Swine | 398 | 461 | 532 | 299 | 284 | 377 | |
| Sheep and goats | 948 | 938 | 947 | 853 | 866 | 915 | |
| Birds | 17522 | 22235 | 22531 | 17157 | 18328 | 22457 | |
| | | | | | | | |
| Prices and Exchange Rates | | | | | | | |
| CPI | | | | | | | |
| CPI. % (average year prices) | 111.9 | 112.7 | 112.3 | 112.7 | 100 | 107.4 | |
| Food. % (average year prices) | 113.7 | 109.1 | 111 | 115.6 | 94.4 | 105.7 | |
| Non-food. % (average year prices) | 112.3 | 116.4 | 113.1 | 108.3 | 99.7 | 107.3 | |
| Services. % (average | 107.8 | 114.7 | 114.3 | 116.5 | 108.2 | 109.1 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|---------|---------|---------|---------|---------|--------|--|
| year prices) | | | | | | | |
| Percentage change of CPI (average year prices) | 11.90 | 12.70 | 12.30 | 12.70 | 0.00 | 7.40 | |
| Percentage change of food (average year prices) | 13.70 | 9.10 | 11.00 | 15.60 | -5.60 | 5.70 | |
| Percentage change of non-food (average year prices) | 12.30 | 16.40 | 13.10 | 8.30 | -0.30 | 7.30 | |
| Percentage change of services (average year prices) | 7.80 | 14.70 | 14.30 | 16.50 | 8.20 | 9.10 | |
| Producer Price Indices | | | | | | | |
| PPI.% | 105.3 | 112.2 | 113.4 | 110.4 | 97 | 107.9 | |
| Price indices in construction. % (prices of 2000=100) | 184.03 | 221.02 | 266.10 | 319.32 | 283.88 | 290.41 | |
| Exchange rates | | | | | | | |
| Nominal exchange rate. MDL/USD | 12.60 | 13.13 | 12.14 | 10.39 | 11.11 | 12.37 | |
| Nominal exchange rates. MDL/EURO | 15.70 | 16.49 | 16.60 | 15.29 | 15.52 | 16.40 | |
| Real effective exchange rates. % | 100.68 | 99.86 | 92.63 | 79.37 | 75.21 | 81.89 | |
| Nominal effective exchange rates.% | 101.32 | 107.04 | 106.14 | 91.21 | 82.9 | 91.8 | |
| | | | | | | | |
| Social and Demographic Indicators | | | | | | | |
| Number of population - total. by gender. area. type localities | | | | | | | |
| Number of population total. thousand pers. | 3 600.4 | 3 589.9 | 3 581.1 | 3 572.7 | 3 567.5 | 3563.7 | |
| Number of male population. thousand pers. | 1 724.8 | 1 719.3 | 1 721.0 | 1 717.5 | 1714.9 | 1713.5 | |
| Number of female population. thousand pers. | 1 875.6 | 1 870.6 | 1 860.1 | 1 855.2 | 1852.6 | 1850.2 | |
| Number of urban population. thousand pers. | 1 476.0 | 1 469.8 | 1 478.0 | 1 476.1 | 1476.1 | 1476.7 | |
| Number of rural population. thousand pers. | 2 124.4 | 2 120.1 | 2 103.1 | 2 096.6 | 2091.4 | 2087 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--|
| Natural growth of population | | | | | | | |
| Births. per 1000 people | 10.5 | 10.5 | 10.6 | 10.9 | 11.4 | 11.4 | |
| Deaths. per 1000 people | 12.4 | 12 | 12 | 11.8 | 11.8 | 12.3 | |
| Natural increase. per 1000 people | -1.9 | -1.5 | -1.4 | -0.9 | -0.4 | -0.9 | |
| Marriages . per 1000 people | 7.6 | 7.6 | 8.2 | 7.5 | 7.5 | 7.4 | |
| Divorces. per 1000 people: | 4 | 3.5 | 3.9 | 3.5 | 3.3 | 3.2 | |
| | | | | | | | |
| Number of economically active persons. thousand and | 1422.3 | 1357.2 | 1313.9 | 1302.8 | 1265.3 | 1235.4 | |
| Number of employees. thousand pers. | 1318.7 | 1257.3 | 1247.2 | 1251 | 1184.4 | 1143.4 | |
| ILO Unemployed persons. thousand pers. | 103.7 | 99.9 | 66.7 | 51.7 | 81 | 92 | |
| The number of labor migrants. thousand pers. | 394.5 | 310.1 | 335.6 | 309.7 | 294.9 | 311 | |
| Activity rate. % | 49 | 46.3 | 44.8 | 44.3 | 42.8 | 41.6 | |
| Employment rate. % | 45.4 | 42.9 | 42.5 | 42.5 | 40 | 38.5 | |
| Unemployment rate. % | 7.3 | 7.4 | 5.1 | 4.0 | 6.4 | 7.4 | |
| Average monthly wage | | | | | | | |
| Nominal wage. MDL | 1318.7 | 1697.1 | 2065.0 | 2529.7 | 2747.6 | 2972.2 | |
| Nominal wage. USD | 104.7 | 129.2 | 170.2 | 243.4 | 247.2 | 240.4 | |
| Nominal wage. EURO | 84.0 | 102.9 | 124.4 | 165.4 | 177 | 181.2 | |
| Number of pensioners. thousands pers | 634.3 | 637.8 | 636.7 | 639.4 | 643.4 | 627.2 | |
| The average monthly pension. MDL | 383.2 | 442.3 | 548.3 | 646.4 | 775.5 | 810.9 | |
| Disposable income. MDL | 568.6 | 839.6 | 1018.7 | 1188.6 | 1166.1 | 1273.7 | |
| Consumer spending. MDL | | 953.3 | 1119.1 | 1227.5 | 1217.4 | 1371.7 | |
| Gini coefficient of total income | 0.4112 | 0.3706 | 0.3712 | 0.3672 | 0.3702 | | |
| Gini coefficient of total expenditures | | 0.3733 | 0.3287 | 0.3188 | 0.3045 | | |
| Average subsistence . MDL | 766.1 | 935.1 | 1099.4 | 1368.1 | 1187.8 | 1373.4 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|----------|----------|----------|-----------|----------|----------|--|
| Subsistence for all socio-demographic profile groups | | | | | | | |
| Working age population. thousand pers. | 809.2 | 987 | 1159.5 | 1446.5 | 1251.1 | 1453.1 | |
| Pensioners. thousand pers. | 649.1 | 800.3 | 943.4 | 1167.4 | 1022.8 | 1184.3 | |
| Children. thousand pers. | 715.6 | 851.9 | 1002.7 | 1267.4 | 1112 | 1258.1 | |
| | | | | | | | |
| Fiscal and Monetary Indicators | | | | | | | |
| Revenues of Public National Budget. million MDL | 14527.7 | 17827.2 | 22292 | 25516.9 | 23517.7 | 27550.9 | |
| Expenditures of Public National Budget. million MDL | 13949.3 | 17973.9 | 22415.6 | 26146.9 | 27354.3 | 29328.9 | |
| Sources of Financing the Deficit of the Public National Budget. million MDL | -578.4 | 146.7 | 123.6 | 630 | 3836.6 | 1778 | |
| Government Debt. million MDL | 12208.7 | 13058.6 | 12393.1 | 11604.36 | 14622.6 | 18870.8 | |
| Primary Surplus/Deficit. million MDL | -90.9 | 601.3 | 758.2 | 1362.7 | 4679.6 | 2335.6 | |
| Tax burden. % | 32.04 | 33.74 | 34.43 | 34.25 | 32.32 | 31.38 | |
| Banking assets. million MDL | 18007.68 | 22776.72 | 31978.66 | 391226.91 | 39915 | 42302.92 | |
| Banking liabilities. million MDL | 14997.88 | 18843.02 | 26454.37 | 32088.01 | 33008.33 | 35013.03 | |
| Bank's equity. million MDL | 3009.79 | 3933.70 | 5524.28 | 7034.67 | 6456.081 | 7289.88 | |
| Loans total. million MDL | 13444.2 | 16590.3 | 26486.8 | 27811.8 | 14246.5 | 23429.8 | |
| Loans structure: | | | | | | | |
| Loans to agriculture and food industry. % | 23.97 | 18.66 | 13.85 | 13.27 | 15.87 | 14.85 | |
| Loans to estate. construction and development. % | 6.86 | 10.6 | 12.78 | 14.63 | 12.54 | 12.33 | |
| Consumer credits. % | 7.8 | 9.2 | 14.06 | 12.92 | 8.73 | 8.4 | |
| Loans to energy and fuel. % | 2.89 | 2.18 | 2.03 | 1.98 | 3.3 | 3.61 | |
| Loans to banks. % | 0.45 | 0.71 | 0.5 | 0.12 | 0.05 | 0.08 | |
| Loans to Government. % | 1.32 | 1.37 | 0.4 | 0.18 | 0.07 | 0.08 | |
| Credits to trade | 48.08 | 48.88 | 48.57 | 48.72 | 51.6 | 51.441 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|--|
| sector. % | | | | | | | |
| Loans to construction of roads and transports. % | 2.92 | 3.38 | 2.23 | 1.57 | 1.42 | 3.54 | |
| Other credits. % | 5.71 | 5.02 | 5.58 | 6.61 | 6.4 | 5.7 | |
| Total deposits. million MDL | | | | | | | |
| Structure of deposits | | | | | | | |
| Deposits of individuals. % | 50.19 | 53.59 | 61.1 | 62.86 | 62.33 | 63.28 | |
| Deposits of legal persons. % | 46.17 | 40.04 | 31.35 | 28.08 | 30.33 | 33.96 | |
| Deposits of individuals and legal persons as share of total assets. % | 73.49 | 70.88 | 66.74 | 63.22 | 61.32 | 66.02 | |
| Deposits in currency as share of total deposits. % | 38.2 | 49.24 | 48.56 | 46.41 | 53.59 | 48.45 | |
| Earnings and Profitability | | | | | | | |
| Return on assets. % | 3.16 | 3.44 | 3.94 | 3.49 | -0.39 | 0.54 | |
| Return on equity. % | 17.34 | 20.67 | 24.16 | 19.91 | -2.12 | 3.04 | |
| Efficiency index. % | 171.71 | 193.2 | 196.5 | 187.6 | 148.84 | 150 | |
| Liquidity rate | | | | | | | |
| Ratio I.% | 0.53 | 0.58 | 0.73 | 0.65 | 0.6 | 0.67 | |
| Ratio II > 20 % | 36.71 | 33.48 | 28.98 | 30.63 | 38.27 | 34.15 | |
| Interest rates of deposit | | | | | | | |
| In MDL.% | 12.99 | 11.93 | 15.13 | 18.09 | 14.66 | 7.56 | |
| In currency. % | 5.15 | 5.17 | 6.01 | 9.64 | 7.61 | 3.42 | |
| Interest rates of credits | | | | | | | |
| In MDL. % | 18.33 | 18.18 | 18.85 | 20.96 | 20.31 | 16.25 | |
| In currency. % | 11.07 | 11.06 | 10.88 | 12.02 | 12.51 | 9.91 | |
| Monetary Aggregates. current prices | | | | | | | |
| M0. million MDL | 4571.2 | 5145.8 | 6664.9 | 7578.7 | 8849 | 10107.6 | |
| M1. million MDL | 7333.2 | 8268.2 | 10923.6 | 11609.2 | 13206.8 | 15720.2 | |
| M2. million MDL | 11125.5 | 12485.2 | 18396.7 | 21774.1 | 20942 | 24770.7 | |
| M3. million MDL | 15826.8 | 19558 | 27344.2 | 31680.7 | 32684.4 | 37051.2 | |
| Overnight credits. million MDL | | | | | | | |
| Interest rate for | 15.3 | 16.3 | 17.6 | 19.2 | 10.5 | 9.6 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|--|----------|----------|----------|----------|----------|---------|------|
| overnight credits. % | | | | | | | |
| Overnight deposits. million MDL | | 983 | 607 | 623.9 | 1062.9 | 5478.1 | |
| Interest rate for overnight deposits. % | 2.4 | 2 | 2 | 2 | 2 | 3.6 | |
| Certificates of NBM. million MDL | 4160.1 | 6629.1 | 16642.7 | 14893.2 | 408.4 | 38943.7 | |
| Interest rate for certificates of NBM. % | 3.41 | 8.35 | 14.16 | 16.97 | 3.4 | 6.63 | |
| Foreign exchange operations | | | | | | | |
| Purchasing of currency. million USD | 205.12 | 145.02 | 372.46 | 415.44 | 318.82 | 86.47 | |
| Selling of currency. million USD | 8 | 23 | 5 | 176 | 539 | 70 | |
| Foreign reserves. million USD | 597.44 | 775.29 | 1333.69 | 1672.41 | 1480.25 | 1717.69 | |
| | | | | | | | |
| External activity indicators | | | | | | | |
| Balance of payments | | | | | | | |
| Current accounts. million USD | -225.81 | -387.86 | -674.05 | -987.13 | -464.61 | -482.27 | |
| Capital and financial. million USD | 47.56 | 310.62 | 556.8 | 900.97 | 406.84 | 411.4 | |
| Trade. million USD | -1201.03 | -1641.53 | -2347.78 | -3307.57 | -1990.73 | -2313.8 | |
| Export diversification index | 0.77 | 0.74 | 0.72 | 0.74 | 0.74 | 0.75 | 0.77 |
| Market concentration index | 0.31 | 0.23 | 0.23 | 0.26 | 0.26 | 0.27 | 0.31 |
| Product concentration index | 0.27 | 0.17 | 0.13 | 0.14 | 0.16 | 0.15 | 0.27 |
| CPI of main economic Partners | | | | | | | |
| Moldova. % | 11.90 | 12.70 | 12.30 | 12.70 | 0.00 | 7.40 | |
| EU. % | 2.20 | 2.20 | 2.30 | 3.70 | 1.00 | 2.10 | |
| Romania. % | 9.10 | 6.60 | 4.90 | 7.90 | 5.60 | 6.10 | |
| Russia. % | 12.68 | 9.68 | 9.01 | 14.11 | 11.65 | 6.86 | |
| Ukraine. % | 13.50 | 9.10 | 12.80 | 25.20 | 15.90 | 9.40 | |
| USA. % | 3.39 | 3.23 | 2.85 | 3.84 | -0.36 | 1.64 | |
| Share of exports and imports in GDP | | | | | | | |
| Share of exports in GDP. % | 36.5 | 30.9 | 30.5 | 26.3 | 23.7 | 26.5 | |
| Share of imports in | 76.7 | 79.0 | 83.8 | 80.9 | 60.3 | 66.4 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|--|
| GDP. % | | | | | | | |
| Value of total trade. million USD | 3383.60 | 3744.80 | 5031.20 | 6490.00 | 4565.80 | 5396.80 | |
| Value of export. million USD | 1091.30 | 1051.60 | 1341.70 | 1591.20 | 1287.50 | 1541.50 | |
| Value of import. million USD | 2292.30 | 2693.20 | 3689.50 | 4898.80 | 3278.30 | 3855.30 | |
| Net exports. million USD | -1201.00 | -1641.60 | -2347.80 | -3307.60 | -1990.80 | -2313.80 | |
| Import coverage by exports. % | 47.6 | 39 | 36.4 | 32.5 | 39.3 | 40 | |
| Value index of imported goods | 129.62 | 117.49 | 136.99 | 132.77 | 66.92 | 103.00 | |
| Unit value of imported goods. % | 107.00 | 109.00 | 117.00 | 116.00 | 89.00 | 114.00 | |
| Volume indices of imported goods. % | 121.00 | 108.00 | 125.00 | 114.00 | 75.00 | 117.60 | |
| Value index of exported goods. % | 103.0 | 104.0 | 109.0 | 113.0 | 87.0 | 103.0 | |
| Unit value of exported goods. % | 110.8 | 96.4 | 127.6 | 118.6 | 80.9 | 119.7 | |
| Volume indices of exported goods. % | 108.00 | 93.00 | 110.00 | 105.00 | 93.00 | 117.0 | |
| Per capita exports. USD | 303.1 | 292.9 | 374.7 | 445.4 | 360.9 | 432.6 | |
| The average yearly change in per capita exports. % | 111.0 | 96.6 | 127.9 | 118.9 | 81.0 | 119.9 | |
| FDI flows. million USD | 190.7 | 239.7 | 533.6 | 712.8 | 127.8 | 198.9 | |
| FDI stock. million USD | 1020.2 | 1258.2 | 1843.7 | 2566.6 | 2649.6 | 2837.5 | |
| Remittances. million USD | 920.0 | 1182.0 | 1498.0 | 1897.0 | 1211.0 | 1316.0 | |
| | | | | | | | |
| Business Activity Indicators | | | | | | | |
| Number of enterprise by types of activity | 33141 | 36 158 | 39 987 | 42 121 | 44 633 | | |
| Agriculture. hunting and forestry | 2 013 | 2 109 | 2 211 | 2 222 | 2 325 | | |
| Fishing | 58 | 68 | 77 | 70 | 80 | | |
| Mining | 75 | 87 | 89 | 97 | 104 | | |
| Processing industry | 4 316 | 4 674 | 5 143 | 5 173 | 5 254 | | |
| Electricity. gas and water | 133 | 139 | 150 | 174 | 190 | | |
| Constructions | 1 851 | 2 099 | 2 411 | 2 561 | 2 595 | | |
| Wholesale and retail trade | 13 906 | 14 855 | 16 309 | 17 247 | 18 330 | | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|---------|---------|---------|---------|---------|--|--|
| Hotels and restaurants | 1 034 | 1 117 | 1 217 | 1 266 | 1 311 | | |
| Transport and communications | 2 323 | 2 573 | 2 869 | 2 955 | 3 040 | | |
| Financial activities | 449 | 479 | 540 | 616 | 701 | | |
| Real estate transactions | 3 918 | 4 521 | 5 271 | 6 064 | 6 727 | | |
| Education | 238 | 239 | 253 | 276 | 304 | | |
| Health and social insurance | 434 | 484 | 531 | 603 | 661 | | |
| Other social collective services | 2 393 | 2 714 | 2 916 | 2 797 | 3 011 | | |
| Number of enterprises by size of enterprises (units) | | | | | | | |
| Total number of enterprises. | 33 141 | 36 158 | 39 987 | 42 121 | 44 633 | | |
| SME | 32 444 | 35 542 | 39 320 | 41 109 | 43 658 | | |
| Medium | 1 657 | 1 724 | 1 774 | 1 685 | 1 589 | | |
| Small | 6 440 | 6 544 | 7 194 | 8 329 | 8 264 | | |
| Micro | 24 347 | 27 274 | 30 352 | 31 095 | 33 805 | | |
| Number of employees | | | | | | | |
| <u>Number of employees by types of activity</u> | 578 011 | 574 933 | 574 131 | 572 129 | 539 195 | | |
| Agriculture, hunting and forestry | 122 768 | 105 619 | 88 849 | 78 691 | 71 398 | | |
| Fishing | 714 | 681 | 741 | 636 | 700 | | |
| Mining | 2 898 | 3 102 | 3 389 | 3 321 | 3 073 | | |
| Processing industry | 127 837 | 127 712 | 123 729 | 119 917 | 108 833 | | |
| Electricity, gas and water | 18 706 | 18 882 | 18 386 | 18 505 | 18 695 | | |
| Constructions | 28 633 | 32 169 | 35 702 | 36 789 | 31 177 | | |
| Wholesale and retail trade | 90 311 | 96 383 | 104 797 | 113 029 | 110 093 | | |
| Hotels and restaurants | 9 886 | 10 879 | 12 145 | 13 161 | 12 469 | | |
| Transport and communications | 61 794 | 60 856 | 63 344 | 61 490 | 57 645 | | |
| Financial activities | 1 836 | 1 995 | 2 558 | 2 697 | 2 852 | | |
| Real estate transactions | 35 860 | 39 201 | 41 972 | 47 583 | 45 095 | | |
| Education | 4 625 | 4 728 | 5 105 | 4 962 | 4 668 | | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|--|--|
| Health and social insurance | 52 328 | 53 385 | 52 424 | 51 139 | 51 800 | | |
| Other social collective services | 19 815 | 19 341 | 20 990 | 20 209 | 20 697 | | |
| Number of employees by size of enterprises | | | | | | | |
| Total number of enterprises. | 578 011 | 574 933 | 574 131 | 572 129 | 539 195 | | |
| SME | 317 163 | 332 720 | 343 525 | 328 065 | 316 244 | | |
| Medium | 145 323 | 143 342 | 140 821 | 125 482 | 115 055 | | |
| Small | 105 223 | 107 182 | 111 662 | 120 249 | 117 104 | | |
| Micro | 66 617 | 82 196 | 91 042 | 82 334 | 84 085 | | |
| Turnover | | | | | | | |
| Turnover by types of activity. million MDL | 97668.31 | 117372.36 | 148512.75 | 175058.44 | 146447.0 | | |
| Agriculture. hunting and forestry. million MDL | 4405.03 | 4145.31 | 4184.25 | 5639.33 | 4806.86 | | |
| Fishing. million MDL | 23.64 | 23.71 | 28.81 | 30.74 | 26.07 | | |
| Mining. million MDL | 288.11 | 448.56 | 468.01 | 611.30 | 380.34 | | |
| Processing industry. million MDL | 20486.38 | 21144.30 | 24980.10 | 27616.55 | 22207.43 | | |
| Electricity. gas and water. million MDL | 9325.26 | 12499.04 | 16698.41 | 19015.99 | 15074.15 | | |
| Constructions. . million MDL | 4297.77 | 6388.27 | 8494.68 | 9883.92 | 6451.82 | | |
| Wholesale and retail trade. million MDL | 40845.19 | 49014.11 | 63045.12 | 79045.84 | 65622.75 | | |
| Hotels and restaurants. million MDL | 572.88 | 874.83 | 1095.31 | 1322.46 | 1182.49 | | |
| Transport and communications. million MDL | 11398.77 | 14699.95 | 18300.06 | 17574.93 | 15301.24 | | |
| Financial activities. million MDL | 264.67 | 426.84 | 2881.99 | 4008.87 | 4525.79 | | |
| Real estate transactions. million MDL | 3608.89 | 4828.19 | 4409.51 | 5759.06 | 5773.67 | | |
| Education. million MDL | 162.87 | 195.87 | 297.89 | 387.87 | 331.56 | | |
| Health and social insurance. million MDL | 1455.67 | 1889.61 | 2410.49 | 3032.37 | 3627.19 | | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|------------------------|--|--|
| Other social collective services. million MDL | 533.19 | 793.76 | 1218.11 | 1129.22 | 1135.63 | | |
| Turnover by size of enterprises | | | | | | | |
| Total enterprises. million MDL: | 97668.31 | 117372.36 | 148512.75 | 175058.44 | 146447.0 | | |
| SME. million MDL | 42115.35 | 54280.71 | 66786.55 | 64984.12 | 57480.03 | | |
| Medium. million MDL | 16221.22 | 19305.14 | 24881.2 | 23306.22 | 20318.25 | | |
| Small. million MDL | 20620.58 | 25891.51 | 30229.95 | 33598.68 | 29104.21 | | |
| Micro. million MDL | 5273.55 | 9084.06 | 11675.4 | 8079.22 | 8057.57 | | |
| Financial result. (profit) | | | | | | | |
| Financial result (profit) by types of activities. million MDL | 5765.88 | 7 915.78 | 13 209.86 | 18 864.29 | 12 442.59 | | |
| Agriculture. hunting and forestry. million MDL | 253.41 | 412.15 | 790.12 | 1 034.89 | 531.91 | | |
| Fishing. million MDL | 1.52 | 1.09 | ... | 2.57 | 1.31 | | |
| Mining. million MDL | 44.06 | 80.6 | 69.08 | 100.13 | 45.23 | | |
| Processing industry. million MDL | 1 425.34 | 1 506.08 | 2 350.71 | 2 886.31 | 1 729.94 | | |
| Electricity. gas and water. million MDL | 318.47 | 241.98 | 1 307.21 | 3 106.73 | 426.43 | | |
| Constructions. million MDL | 307.18 | 526.9 | 857.27 | 1 290.54 | 874.31 | | |
| Wholesale and retail trade. million MDL | 1 229.86 | 1 825.03 | 3 164.31 | 5 543.50 | ³ 753.36 | | |
| Hotels and restaurants. million MDL | 54.52 | 196.63 | 186.61 | 173.8 | 125.66 | | |
| Transport and communications | 1 548.77 | 2 249.41 | 2 595.82 | 2 463.03 | ² 522.35 | | |
| Financial activities. million MDL | 30.12 | 53.6 | 127.47 | 238.14 | 271.12 | | |
| Real estate transactions. million MDL | 419.25 | 645.94 | 1 430.76 | 1 545.27 | ¹ 672.04 | | |
| Education. million MDL | 12.15 | 18.01 | 19.54 | 52.32 | 49.22 | | |
| Health and social insurance. million MDL | 70.73 | 91.35 | 89.6 | 187.04 | 302.67 | | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|--|--|
| Other social collective services. million MDL | 50.5 | 67.01 | 140.46 | 240.01 | 137.05 | | |
| Financial result by regions | | | | | | | |
| Republic. million MDL | 5765.88 | 7 915.78 | 13 209.86 | 18 864.29 | 12 442.59 | | |
| Mun. Chisinau. million MDL | 4 431.55 | 6 333.30 | 10 506.70 | 13 907.56 | 9 623.62 | | |
| North region. million MDL | 657.54 | 891.19 | 1 347.16 | 2 691.58 | 1 206.04 | | |
| Center region. million MDL | 445.43 | 455.54 | 885.16 | 1 482.46 | 933.55 | | |
| South region. million MDL | 231.35 | 182.98 | 335.71 | 514.48 | 399.02 | | |
| A.T.U. Gagauzia. million MDL | 48.61 | 52.77 | 135.13 | 268.2 | 280.35 | | |
| Financial result (profit) by size of enterprises | | | | | | | |
| Total enterprises: | 5765.88 | 7915.78 | 13209.86 | 18864.29 | 12442.59 | | |
| SME. million MDL | 2215.78 | 3321.29 | 5394.45 | 7531.54 | 5920.23 | | |
| Medium. million MDL | 823.4 | 1198.15 | 1923.46 | 2419.32 | 1807.72 | | |
| Small. million MDL | 1048.29 | 1467.67 | 2496.37 | 4000.71 | 3038.08 | | |
| Micro. million MDL | 344.09 | 655.47 | 974.62 | 1111.51 | 1074.43 | | |

| List of indicators (current prices) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------------|------------------------------|-------|-------|-------|-------|-------|------|
| | Output and National Accounts | | | | | | |
| GDP nominal. million MDL | 37652 | 44754 | 53430 | 62922 | 60430 | 71849 | |
| Resources: | | | | | | | |
| Added value. million MDL | 31616 | 37339 | 44413 | 51774 | 50809 | 59895 | |
| Agriculture. million MDL | 6175 | 6489 | 5334 | 5544 | 5063 | 8582 | |
| Industry. million MDL | 5936 | 6581 | 7616 | 8737 | 7818 | 9520 | |
| Construction. million MDL | 1257 | 1776 | 2586 | 3115 | 2057 | 2300 | |
| Services. million MDL | 19505 | 24269 | 31463 | 37493 | 37928 | 41793 | |
| Net taxes on products. million | 6036 | 7415 | 9017 | 11148 | 9621 | 11954 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--|
| MDL | | | | | | | |
| Expenditures: | | | | | | | |
| Consumption final. million MDL | 41368 | 50972 | 60618 | 71452 | 68574 | 82611 | |
| Household consumption. million MDL | 34694 | 41360 | 49178 | 57805 | 53353 | 65650 | |
| Private and Public Consumption . million MDL | 6674 | 9612 | 11440 | 13647 | 15221 | 16961 | |
| Gross Fixed Capital Formation. million MDL | 9258 | 12691 | 18222 | 21391 | 13655 | 16306 | |
| Gross capital formation. million MDL | 11607 | 14656 | 20360 | 24683 | 13985 | 16997 | |
| Stocks variation. million MDL | 2349 | 1965 | 2138 | 3292 | 330 | 691 | |
| Exports . million MDL | 19264 | 20254 | 24354 | 25684 | 22282 | 28448 | |
| Imports. million MDL | 34587 | 41128 | 51902 | 58896 | 44411 | 56207 | |
| Net export. million MDL | -15323 | -20874 | -27548 | -33212 | -22129 | -27759 | |
| Disposable income. million MDL | 49932 | 60229 | 72229 | 85479 | 76874 | | |
| | | | | | | | |
| Agriculture | | | | | | | |
| Agricultural production: | 12688 | 13734 | 12825 | 16503 | 13300 | 19715 | |
| Plant production. million MDL | 8449 | 9079 | 7941 | 10600 | 7861 | 13005 | |
| Animal production. million MDL | 3851 | 4278 | 4509 | 5519 | 4987 | 6245 | |
| Services. million MDL | 388 | 377 | 375 | 384 | 452 | 465 | |
| | | | | | | | |
| Area of cultivation: | | | | | | | |
| Grain. thousand ha | 1034.7 | 917.6 | 955.4 | 1005.8 | 951.6 | 925.6 | |
| Sunflower. thousand ha | 275.7 | 287.4 | 233.6 | 228 | 226.6 | 252.6 | |
| Sugar beet. thousand ha | 34.2 | 42.4 | 34.3 | 24.7 | 23.4 | 27.1 | |
| Potatoes. thousand ha | 35.9 | 34.4 | 35.4 | 31.2 | 28.2 | 27.6 | |
| Vegetables. thousand ha | 36.7 | 42.4 | 37.7 | 39.8 | 35.2 | 38.2 | |
| Tabacco. thousand ha | 4.7 | 3.5 | 3.1 | 2.7 | 2.5 | 4.3 | |
| Forage plants. thousand ha | 67.8 | 77.5 | 94.1 | 71.1 | 70.7 | 76.8 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|--------|--------|-------|--------|--------|-------|--|
| Agricultural production: | | | | | | | |
| Grain. thousand ha | 2837.9 | 2290.2 | 901.9 | 3169.5 | 2176.5 | 2428 | |
| Sunflower. thousand ha | 331.1 | 379.9 | 155.5 | 371.9 | 284.2 | 383 | |
| Sugar beet. thousand ha | 991.2 | 1177.3 | 612.3 | 960.7 | 337.4 | 824 | |
| Potatoes. thousand ha | 378.2 | 376.9 | 199.4 | 271 | 260.9 | 279 | |
| Vegetables. thousand ha | 389.3 | 475.2 | 221.8 | 376.3 | 307.9 | 343 | |
| Tabacco. thousand ha | 6.7 | 4.8 | 3.6 | 3.9 | 4.4 | 7 | |
| Fruits. thousand ha | 386.2 | 329.2 | 277.2 | 370.5 | 308 | 308 | |
| Grapes. thousand ha | 518.5 | 466.1 | 598 | 635.5 | 685.1 | 481 | |
| Meat. thousand ha | 86.5 | 134 | 149.5 | 108.2 | 124.5 | 152.8 | |
| Milk. thousand ha | 659 | 627.5 | 603.9 | 543.4 | 574.7 | 585.4 | |
| Eggs. million pieces | 762 | 765.2 | 704.3 | 562.6 | 640.3 | 724.8 | |
| Smooth. tones | 2079 | 2170 | 2146 | 2021 | 1996 | 2082 | |
| Agricultural output: | | | | | | | |
| Wheat. tone/ha | 2.6 | 2.3 | 1.3 | 3.1 | 2.1 | 2.3 | |
| Corn. tone/ha | 3.3 | 2.9 | 0.8 | 3.4 | 2.9 | 3.4 | |
| Sunflower. tone/ha | 1.2 | 1.3 | 0.7 | 1.6 | 1.3 | 1.5 | |
| Sugar beet. tone/ha | 1.8 | 28.3 | 19.3 | 39.1 | 17.1 | 31.5 | |
| Potatoes. tone/ha | 10.5 | 11 | 5.7 | 8.7 | 9.3 | 10.1 | |
| Vegetables. tone/ha | 10.5 | 11.3 | 5.9 | 9.4 | 8.6 | 8.9 | |
| Tobacco. tone/ha | 1.4 | 1.4 | 1.2 | 1.5 | 1.8 | 1.7 | |
| Fruits. tone/ha | 3.7 | 3.1 | 2.6 | 3.5 | 3.2 | 3.4 | |
| Grapes. tone/ha | 3.6 | 3.2 | 4.1 | 4.4 | 4.8 | 3.5 | |
| Production of the food industry: | | | | | | | |
| Wine. million dal. | 36.3 | 19.3 | 12.3 | 15.4 | 11.9 | 9.4 | |
| Sparkling wine. thousands dal. | 1051 | 402 | 541 | 572 | 500 | 537.2 | |
| Divin. thousands dal. | 1189.8 | 560.4 | 504.6 | 701.3 | 431 | 445 | |
| Sausage. thousands tones | 14.2 | 14.6 | 17 | 18.9 | 14.1 | 11.7 | |
| Juices of fruit and vegetables. | 30 | 29.7 | 53.8 | 38.4 | 27.9 | 29.3 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--|
| thousands tones | | | | | | | |
| Butter. tones | 3393 | 3321 | 3387 | 4338 | 3819 | 1682 | |
| Sugar. thousands tones | 133.5 | 149.0 | 74 | 134 | 42.4 | 90.8 | |
| Livestock of animals: | | | | | | | |
| Cattle | 331 | 311 | 299 | 232 | 218 | 222 | |
| Cows | 231 | 217 | 207 | 169 | 160 | 161 | |
| Swine | 398 | 461 | 532 | 299 | 284 | 377 | |
| Sheep and goats | 948 | 938 | 947 | 853 | 866 | 915 | |
| Birds | 17522 | 22235 | 22531 | 17157 | 18328 | 22457 | |
| | | | | | | | |
| Prices and Exchange Rates | | | | | | | |
| CPI | | | | | | | |
| CPI. % (average year prices) | 111.9 | 112.7 | 112.3 | 112.7 | 100 | 107.4 | |
| Food. % (average year prices) | 113.7 | 109.1 | 111 | 115.6 | 94.4 | 105.7 | |
| Non-food. % (average year prices) | 112.3 | 116.4 | 113.1 | 108.3 | 99.7 | 107.3 | |
| Services. % (average year prices) | 107.8 | 114.7 | 114.3 | 116.5 | 108.2 | 109.1 | |
| Percentage change of CPI (average year prices) | 11.90 | 12.70 | 12.30 | 12.70 | 0.00 | 7.40 | |
| Percentage change of food (average year prices) | 13.70 | 9.10 | 11.00 | 15.60 | -5.60 | 5.70 | |
| Percentage change of non-food (average year prices) | 12.30 | 16.40 | 13.10 | 8.30 | -0.30 | 7.30 | |
| Percentage change of services (average year prices) | 7.80 | 14.70 | 14.30 | 16.50 | 8.20 | 9.10 | |
| Producer Price Indices | | | | | | | |
| PPI.% | 105.3 | 112.2 | 113.4 | 110.4 | 97 | 107.9 | |
| Price indices in construction. % (prices of 2000=100) | 184.03 | 221.02 | 266.10 | 319.32 | 283.88 | 290.41 | |
| Exchange rates | | | | | | | |
| Nominal exchange rate. MDL/USD | 12.60 | 13.13 | 12.14 | 10.39 | 11.11 | 12.37 | |
| Nominal exchange rates. MDL/EURO | 15.70 | 16.49 | 16.60 | 15.29 | 15.52 | 16.40 | |
| Real effective exchange rates. % | 100.68 | 99.86 | 92.63 | 79.37 | 75.21 | 81.89 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|---------|---------|---------|---------|---------|--------|--|
| Nominal effective exchange rates. % | 101.32 | 107.04 | 106.14 | 91.21 | 82.9 | 91.8 | |
| | | | | | | | |
| Social and Demographic Indicators | | | | | | | |
| Number of population - total. by gender. area. type localities | | | | | | | |
| Number of population total. thousand pers. | 3 600.4 | 3 589.9 | 3 581.1 | 3 572.7 | 3 567.5 | 3563.7 | |
| Number of male population. thousand pers. | 1 724.8 | 1 719.3 | 1 721.0 | 1 717.5 | 1714.9 | 1713.5 | |
| Number of female population. thousand pers. | 1 875.6 | 1 870.6 | 1 860.1 | 1 855.2 | 1852.6 | 1850.2 | |
| Number of urban population. thousand pers. | 1 476.0 | 1 469.8 | 1 478.0 | 1 476.1 | 1476.1 | 1476.7 | |
| Number of rural population. thousand pers. | 2 124.4 | 2 120.1 | 2 103.1 | 2 096.6 | 2091.4 | 2087 | |
| Natural growth of population | | | | | | | |
| Births. per 1000 people | 10.5 | 10.5 | 10.6 | 10.9 | 11.4 | 11.4 | |
| Deaths. per 1000 people | 12.4 | 12 | 12 | 11.8 | 11.8 | 12.3 | |
| Natural increase. per 1000 people | -1.9 | -1.5 | -1.4 | -0.9 | -0.4 | -0.9 | |
| Marriages . per 1000 people | 7.6 | 7.6 | 8.2 | 7.5 | 7.5 | 7.4 | |
| Divorces. per 1000 people: | 4 | 3.5 | 3.9 | 3.5 | 3.3 | 3.2 | |
| | | | | | | | |
| Number of economically active persons. thousand | 1422.3 | 1357.2 | 1313.9 | 1302.8 | 1265.3 | 1235.4 | |
| Number of employees. thousand pers. | 1318.7 | 1257.3 | 1247.2 | 1251 | 1184.4 | 1143.4 | |
| ILO Unemployed persons. thousand pers. | 103.7 | 99.9 | 66.7 | 51.7 | 81 | 92 | |
| The number of labor migrants. thousand pers. | 394.5 | 310.1 | 335.6 | 309.7 | 294.9 | 311 | |
| Activity rate. % | 49 | 46.3 | 44.8 | 44.3 | 42.8 | 41.6 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|---------|---------|---------|----------|---------|---------|--|
| Employment rate. % | 45.4 | 42.9 | 42.5 | 42.5 | 40 | 38.5 | |
| Unemployment rate. % | 7.3 | 7.4 | 5.1 | 4.0 | 6.4 | 7.4 | |
| Average monthly wage | | | | | | | |
| Nominal wage. MDL | 1318.7 | 1697.1 | 2065.0 | 2529.7 | 2747.6 | 2972.2 | |
| Nominal wage. USD | 104.7 | 129.2 | 170.2 | 243.4 | 247.2 | 240.4 | |
| Nominal wage. EURO | 84.0 | 102.9 | 124.4 | 165.4 | 177 | 181.2 | |
| Number of pensioners. thousands pers | 634.3 | 637.8 | 636.7 | 639.4 | 643.4 | 627.2 | |
| The average monthly pension. MDL | 383.2 | 442.3 | 548.3 | 646.4 | 775.5 | 810.9 | |
| Disposable income. MDL | 568.6 | 839.6 | 1018.7 | 1188.6 | 1166.1 | 1273.7 | |
| Consumer spending. MDL | | 953.3 | 1119.1 | 1227.5 | 1217.4 | 1371.7 | |
| Gini coefficient of total income | 0.4112 | 0.3706 | 0.3712 | 0.3672 | 0.3702 | | |
| Gini coefficient of total expenditures | | 0.3733 | 0.3287 | 0.3188 | 0.3045 | | |
| Average subsistence . MDL | 766.1 | 935.1 | 1099.4 | 1368.1 | 1187.8 | 1373.4 | |
| Subsistence for all socio-demographic profile groups | | | | | | | |
| Working age population. thousand pers. | 809.2 | 987 | 1159.5 | 1446.5 | 1251.1 | 1453.1 | |
| Pensioners. thousand pers. | 649.1 | 800.3 | 943.4 | 1167.4 | 1022.8 | 1184.3 | |
| Children. thousand pers. | 715.6 | 851.9 | 1002.7 | 1267.4 | 1112 | 1258.1 | |
| | | | | | | | |
| Fiscal and Monetary Indicators | | | | | | | |
| Revenues of Public National Budget. million MDL | 14527.7 | 17827.2 | 22292 | 25516.9 | 23517.7 | 27550.9 | |
| Expenditures of Public National Budget. million MDL | 13949.3 | 17973.9 | 22415.6 | 26146.9 | 27354.3 | 29328.9 | |
| Sources of Financing the Deficit of the Public National Budget. million MDL | -578.4 | 146.7 | 123.6 | 630 | 3836.6 | 1778 | |
| Government Debt. million MDL | 12208.7 | 13058.6 | 12393.1 | 11604.36 | 14622.6 | 18870.8 | |
| Primary Surplus/Deficit . | -90.9 | 601.3 | 758.2 | 1362.7 | 4679.6 | 2335.6 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|--|----------|----------|----------|-----------|----------|----------|--|
| million MDL | | | | | | | |
| Tax burden. % | 32.04 | 33.74 | 34.43 | 34.25 | 32.32 | 31.38 | |
| Banking assets. million MDL | 18007.68 | 22776.72 | 31978.66 | 391226.91 | 39915 | 42302.92 | |
| Banking liabilities. million MDL | 14997.88 | 18843.02 | 26454.37 | 32088.01 | 33008.33 | 35013.03 | |
| Bank's equity. million MDL | 3009.79 | 3933.70 | 5524.28 | 7034.67 | 6456.081 | 7289.88 | |
| Loans total. million MDL | 13444.2 | 16590.3 | 26486.8 | 27811.8 | 14246.5 | 23429.8 | |
| Loans structure: | | | | | | | |
| Loans to agriculture and food industry. % | 23.97 | 18.66 | 13.85 | 13.27 | 15.87 | 14.85 | |
| Loans to estate . construction and development. % | 6.86 | 10.6 | 12.78 | 14.63 | 12.54 | 12.33 | |
| Consumer credits. % | 7.8 | 9.2 | 14.06 | 12.92 | 8.73 | 8.4 | |
| Loans to energy and fuel. % | 2.89 | 2.18 | 2.03 | 1.98 | 3.3 | 3.61 | |
| Loans to banks. % | 0.45 | 0.71 | 0.5 | 0.12 | 0.05 | 0.08 | |
| Loans to Government. % | 1.32 | 1.37 | 0.4 | 0.18 | 0.07 | 0.08 | |
| Credits to trade sector. % | 48.08 | 48.88 | 48.57 | 48.72 | 51.6 | 51.441 | |
| Loans to construction of roads and transports. % | 2.92 | 3.38 | 2.23 | 1.57 | 1.42 | 3.54 | |
| Other credits. % | 5.71 | 5.02 | 5.58 | 6.61 | 6.4 | 5.7 | |
| Total deposits. million MDL | | | | | | | |
| Structure of deposits | | | | | | | |
| Deposits of individuals. % | 50.19 | 53.59 | 61.1 | 62.86 | 62.33 | 63.28 | |
| Deposits of legal persons. % | 46.17 | 40.04 | 31.35 | 28.08 | 30.33 | 33.96 | |
| Deposits of individuals and legal persons as share of total assets. % | 73.49 | 70.88 | 66.74 | 63.22 | 61.32 | 66.02 | |
| Deposits in currency as share of total deposits. % | 38.2 | 49.24 | 48.56 | 46.41 | 53.59 | 48.45 | |
| Earnings and Profitability | | | | | | | |
| Return on assets. % | 3.16 | 3.44 | 3.94 | 3.49 | -0.39 | 0.54 | |
| Return on equity. % | 17.34 | 20.67 | 24.16 | 19.91 | -2.12 | 3.04 | |
| Efficiency index. % | 171.71 | 193.2 | 196.5 | 187.6 | 148.84 | 150 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|--|
| Liquidity rate | | | | | | | |
| Ratio I.% | 0.53 | 0.58 | 0.73 | 0.65 | 0.6 | 0.67 | |
| Ratio II > 20 % | 36.71 | 33.48 | 28.98 | 30.63 | 38.27 | 34.15 | |
| Interest rates of deposit | | | | | | | |
| In MDL.% | 12.99 | 11.93 | 15.13 | 18.09 | 14.66 | 7.56 | |
| In currency. % | 5.15 | 5.17 | 6.01 | 9.64 | 7.61 | 3.42 | |
| Interest rates of credits | | | | | | | |
| In MDL. . % | 18.33 | 18.18 | 18.85 | 20.96 | 20.31 | 16.25 | |
| In currency. . % | 11.07 | 11.06 | 10.88 | 12.02 | 12.51 | 9.91 | |
| Monetary Aggregates. current prices | 39322.7 | 46451.5 | 61210 | 83188.3 | 74325 | 90788.2 | |
| M0. million MDL | 4571.2 | 5145.8 | 6664.9 | 7578.7 | 8849 | 10107.6 | |
| M1. million MDL | 7333.2 | 8268.2 | 10923.6 | 11609.2 | 13206.8 | 15720.2 | |
| M2. million MDL | 11125.5 | 12485.2 | 18396.7 | 21774.1 | 20942 | 24770.7 | |
| M3. million MDL | 15826.8 | 19558 | 27344.2 | 31680.7 | 32684.4 | 37051.2 | |
| Overnight credits. million MDL | | 10.5 | 27.1 | 56.1 | 263.6 | | |
| Interest rate for overnight credits. % | 15.3 | 16.3 | 17.6 | 19.2 | 10.5 | 9.6 | |
| Overnight deposits. million MDL | | 983 | 607 | 623.9 | 1062.9 | 5478.1 | |
| Interest rate for overnight deposits. % | 2.4 | 2 | 2 | 2 | 2 | 3.6 | |
| Certificates of NBM. million MDL | 4160.1 | 6629.1 | 16642.7 | 14893.2 | 408.4 | 38943.7 | |
| Interest rate for certificates of NBM. % | 3.41 | 8.35 | 14.16 | 16.97 | 3.4 | 6.63 | |
| Foreign exchange operations | | | | | | | |
| Purchasing of currency. million USD | 205.12 | 145.02 | 372.46 | 415.44 | 318.82 | 86.47 | |
| Selling of currency. million USD | 8 | 23 | 5 | 176 | 539 | 70 | |
| Foreign reserves. million USD | 597.44 | 775.29 | 1333.69 | 1672.41 | 1480.25 | 1717.69 | |
| | | | | | | | |
| External activity indicators | | | | | | | |
| Balance of payments | | | | | | | |
| Current accounts. million USD | -225.81 | -387.86 | -674.05 | -987.13 | -464.61 | -482.27 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|------|
| Capital and financial. million USD | 47.56 | 310.62 | 556.8 | 900.97 | 406.84 | 411.4 | |
| Trade. million USD | -1201.03 | -1641.53 | -2347.78 | -3307.57 | -1990.73 | -2313.8 | |
| Export diversification index | 0.77 | 0.74 | 0.72 | 0.74 | 0.74 | 0.75 | 0.77 |
| Market concentration index | 0.31 | 0.23 | 0.23 | 0.26 | 0.26 | 0.27 | 0.31 |
| Product concentration index | 0.27 | 0.17 | 0.13 | 0.14 | 0.16 | 0.15 | 0.27 |
| CPI of main economic Partners | | | | | | | |
| Moldova. % | 11.90 | 12.70 | 12.30 | 12.70 | 0.00 | 7.40 | |
| EU. % | 2.20 | 2.20 | 2.30 | 3.70 | 1.00 | 2.10 | |
| Romania. % | 9.10 | 6.60 | 4.90 | 7.90 | 5.60 | 6.10 | |
| Russia. % | 12.68 | 9.68 | 9.01 | 14.11 | 11.65 | 6.86 | |
| Ukraine. % | 13.50 | 9.10 | 12.80 | 25.20 | 15.90 | 9.40 | |
| USA. % | 3.39 | 3.23 | 2.85 | 3.84 | -0.36 | 1.64 | |
| Share of exports and imports in GDP | | | | | | | |
| Share of exports in GDP. % | 36.5 | 30.9 | 30.5 | 26.3 | 23.7 | 26.5 | |
| Share of imports in GDP. % | 76.7 | 79.0 | 83.8 | 80.9 | 60.3 | 66.4 | |
| Value of total trade. million USD | 3383.60 | 3744.80 | 5031.20 | 6490.00 | 4565.80 | 5396.80 | |
| Value of export. million USD | 1091.30 | 1051.60 | 1341.70 | 1591.20 | 1287.50 | 1541.50 | |
| Value of import. million USD | 2292.30 | 2693.20 | 3689.50 | 4898.80 | 3278.30 | 3855.30 | |
| Net exports. million USD | -1201.00 | -1641.60 | -2347.80 | -3307.60 | -1990.80 | -2313.80 | |
| Import coverage by exports. % | 47.6 | 39 | 36.4 | 32.5 | 39.3 | 41 | |
| Value index of imported goods | 129.62 | 117.49 | 136.99 | 132.77 | 66.92 | 103.00 | |
| Unit value of imported goods. % | 107.00 | 109.00 | 117.00 | 116.00 | 89.00 | 114.00 | |
| Volume indices of imported goods. % | 121.00 | 108.00 | 125.00 | 114.00 | 75.00 | 117.60 | |
| Value index of exported goods. % | 103.0 | 104.0 | 109.0 | 113.0 | 87.0 | 103.0 | |
| Unit value of exported goods. % | 110.8 | 96.4 | 127.6 | 118.6 | 80.9 | 119.7 | |
| Volume indices of exported goods. % | 108.00 | 93.00 | 110.00 | 105.00 | 93.00 | 119.72 | |
| Per capita exports. USD | 303.1 | 292.9 | 374.7 | 445.4 | 360.9 | 432.6 | |
| The average yearly change in per capita exports. % | 111.0 | 96.6 | 127.9 | 118.9 | 81.0 | 119.9 | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|---------|---------|---------|---------|---------|--------|--|
| FDI flows. million USD | 190.7 | 239.7 | 533.6 | 712.8 | 127.8 | 198.9 | |
| FDI stock. million USD | 1020.2 | 1258.2 | 1843.7 | 2566.6 | 2649.6 | 2837.5 | |
| Remittances. million USD | 920.0 | 1182.0 | 1498.0 | 1897.0 | 1211.0 | 1316.0 | |
| | | | | | | | |
| Business Activity Indicators | | | | | | | |
| Number of enterprise by types of activity | 33141 | 36 158 | 39 987 | 42 121 | 44 633 | | |
| Agriculture. hunting and forestry | 2 013 | 2 109 | 2 211 | 2 222 | 2 325 | | |
| Fishing | 58 | 68 | 77 | 70 | 80 | | |
| Mining | 75 | 87 | 89 | 97 | 104 | | |
| Processing industry | 4 316 | 4 674 | 5 143 | 5 173 | 5 254 | | |
| Electricity. gas and water | 133 | 139 | 150 | 174 | 190 | | |
| Constructions | 1 851 | 2 099 | 2 411 | 2 561 | 2 595 | | |
| Wholesale and retail trade | 13 906 | 14 855 | 16 309 | 17 247 | 18 330 | | |
| Hotels and restaurants | 1 034 | 1 117 | 1 217 | 1 266 | 1 311 | | |
| Transport and communications | 2 323 | 2 573 | 2 869 | 2 955 | 3 040 | | |
| Financial activities | 449 | 479 | 540 | 616 | 701 | | |
| Real estate transactions | 3 918 | 4 521 | 5 271 | 6 064 | 6 727 | | |
| Education | 238 | 239 | 253 | 276 | 304 | | |
| Health and social insurance | 434 | 484 | 531 | 603 | 661 | | |
| Other social collective services | 2 393 | 2 714 | 2 916 | 2 797 | 3 011 | | |
| Number of enterprises by size of enterprises (units) | | | | | | | |
| Total number of enterprises. | 33 141 | 36 158 | 39 987 | 42 121 | 44 633 | | |
| SME | 32 444 | 35 542 | 39 320 | 41 109 | 43 658 | | |
| Medium | 1 657 | 1 724 | 1 774 | 1 685 | 1 589 | | |
| Small | 6 440 | 6 544 | 7 194 | 8 329 | 8 264 | | |
| Micro | 24 347 | 27 274 | 30 352 | 31 095 | 33 805 | | |
| Number of employees | | | | | | | |
| <u>Number of employees by types of activity</u> | 578 011 | 574 933 | 574 131 | 572 129 | 539 195 | | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|--------------------|----------------|----------------|----------------|----------------|--|--|
| Agriculture, hunting and forestry | 122 768 | 105 619 | 88 849 | 78 691 | 71 398 | | |
| Fishing | 714 | 681 | 741 | 636 | 700 | | |
| Mining | 2 898 | 3 102 | 3 389 | 3 321 | 3 073 | | |
| Processing industry | 127 837 | 127 712 | 123 729 | 119 917 | 108 833 | | |
| Electricity, gas and water | 18 706 | 18 882 | 18 386 | 18 505 | 18 695 | | |
| Constructions | 28 633 | 32 169 | 35 702 | 36 789 | 31 177 | | |
| Wholesale and retail trade | 90 311 | 96 383 | 104 797 | 113 029 | 110 093 | | |
| Hotels and restaurants | 9 886 | 10 879 | 12 145 | 13 161 | 12 469 | | |
| Transport and communications | 61 794 | 60 856 | 63 344 | 61 490 | 57 645 | | |
| Financial activities | 1 836 | 1 995 | 2 558 | 2 697 | 2 852 | | |
| Real estate transactions | 35 860 | 39 201 | 41 972 | 47 583 | 45 095 | | |
| Education | 4 625 | 4 728 | 5 105 | 4 962 | 4 668 | | |
| Health and social insurance | 52 328 | 53 385 | 52 424 | 51 139 | 51 800 | | |
| Other social collective services | 19 815 | 19 341 | 20 990 | 20 209 | 20 697 | | |
| Number of employees by size of enterprises | | | | | | | |
| Total number of enterprises. | 578 011 | 574 933 | 574 131 | 572 129 | 539 195 | | |
| SME | 317 163 | 332 720 | 343 525 | 328 065 | 316 244 | | |
| Medium | 145 323 | 143 342 | 140 821 | 125 482 | 115 055 | | |
| Small | 105 223 | 107 182 | 111 662 | 120 249 | 117 104 | | |
| Micro | 66 617 | 82 196 | 91 042 | 82 334 | 84 085 | | |
| Turnover | | | | | | | |
| Turnover by types of activity, million MDL | 97668.31 | 117372.36 | 148512.75 | 175058.44 | 146447.0 | | |
| Agriculture, hunting and forestry, million MDL | 4405.03 | 4145.31 | 4184.25 | 5639.33 | 4806.86 | | |
| Fishing, million MDL | 23.64 | 23.71 | 28.81 | 30.74 | 26.07 | | |
| Mining, million MDL | 288.11 | 448.56 | 468.01 | 611.30 | 380.34 | | |
| Processing industry, million MDL | 20486.38 | 21144.30 | 24980.10 | 27616.55 | 22207.43 | | |
| Electricity, gas and water, million MDL | 9325.26 | 12499.04 | 16698.41 | 19015.99 | 15074.15 | | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|----------|-----------|-----------|-----------|-----------|--|--|
| Constructions. . million MDL | 4297.77 | 6388.27 | 8494.68 | 9883.92 | 6451.82 | | |
| Wholesale and retail trade. million MDL | 40845.19 | 49014.11 | 63045.12 | 79045.84 | 65622.75 | | |
| Hotels and restaurants. million MDL | 572.88 | 874.83 | 1095.31 | 1322.46 | 1182.49 | | |
| Transport and communications. million MDL | 11398.77 | 14699.95 | 18300.06 | 17574.93 | 15301.24 | | |
| Financial activities. million MDL | 264.67 | 426.84 | 2881.99 | 4008.87 | 4525.79 | | |
| Real estate transactions. million MDL | 3608.89 | 4828.19 | 4409.51 | 5759.06 | 5773.67 | | |
| Education. million MDL | 162.87 | 195.87 | 297.89 | 387.87 | 331.56 | | |
| Health and social insurance. million MDL | 1455.67 | 1889.61 | 2410.49 | 3032.37 | 3627.19 | | |
| Other social collective services. million MDL | 533.19 | 793.76 | 1218.11 | 1129.22 | 1135.63 | | |
| Turnover by size of enterprises | | | | | | | |
| Total enterprises. million MDL: | 97668.31 | 117372.36 | 48512.75 | 175058.44 | 146447.0 | | |
| SME. million MDL | 42115.35 | 54280.71 | 66786.55 | 64984.12 | 57480.03 | | |
| Medium. million MDL | 16221.22 | 19305.14 | 24881.2 | 23306.22 | 20318.25 | | |
| Small. million MDL | 20620.58 | 25891.51 | 30229.95 | 33598.68 | 29104.21 | | |
| Micro. million MDL | 5273.55 | 9084.06 | 11675.4 | 8079.22 | 8057.57 | | |
| Financial result. (profit) | | | | | | | |
| Financial result (profit) by types of activities. million MDL | 5765.88 | 7 915.78 | 13 209.86 | 18 864.29 | 12 442.59 | | |
| Agriculture. hunting and forestry. million MDL | 253.41 | 412.15 | 790.12 | 1 034.89 | 531.91 | | |
| Fishing. million MDL | 1.52 | 1.09 | ... | 2.57 | 1.31 | | |
| Mining. million MDL | 44.06 | 80.6 | 69.08 | 100.13 | 45.23 | | |
| Processing industry. million MDL | 1 425.34 | 1 506.08 | 2 350.71 | 2 886.31 | 1 729.94 | | |
| Electricity. gas and water . | 318.47 | 241.98 | 1 307.21 | 3 106.73 | 426.43 | | |

MOLDOVAN ECONOMIC TRENDS

| | | | | | | | |
|---|----------|----------|-----------|-----------|-----------|--|--|
| million MDL | | | | | | | |
| Constructions. million MDL | 307.18 | 526.9 | 857.27 | 1 290.54 | 874.31 | | |
| Wholesale and retail trade. million MDL | 1 229.86 | 1 825.03 | 3 164.31 | 5 543.50 | 3 753.36 | | |
| Hotels and restaurants. million MDL | 54.52 | 196.63 | 186.61 | 173.8 | 125.66 | | |
| Transport and communications | 1 548.77 | 2 249.41 | 2 595.82 | 2 463.03 | 2 522.35 | | |
| Financial activities. million MDL | 30.12 | 53.6 | 127.47 | 238.14 | 271.12 | | |
| Real estate transactions. million MDL | 419.25 | 645.94 | 1 430.76 | 1 545.27 | 1 672.04 | | |
| Education. million MDL | 12.15 | 18.01 | 19.54 | 52.32 | 49.22 | | |
| Health and social insurance. million MDL | 70.73 | 91.35 | 89.6 | 187.04 | 302.67 | | |
| Other social collective services. million MDL | 50.5 | 67.01 | 140.46 | 240.01 | 137.05 | | |
| Financial result by regions | | | | | | | |
| Republic. million MDL | 5765.88 | 7 915.78 | 13 209.86 | 18 864.29 | 12 442.59 | | |
| Mun. Chisinau. million MDL | 4 431.55 | 6 333.30 | 10 506.70 | 13 907.56 | 9 623.62 | | |
| North region. million MDL | 657.54 | 891.19 | 1 347.16 | 2 691.58 | 1 206.04 | | |
| Center region. million MDL | 445.43 | 455.54 | 885.16 | 1 482.46 | 933.55 | | |
| South region. million MDL | 231.35 | 182.98 | 335.71 | 514.48 | 399.02 | | |
| A.T.U. Gagauzia. million MDL | 48.61 | 52.77 | 135.13 | 268.2 | 280.35 | | |
| Financial result (profit) by size of enterprises | | | | | | | |
| Total enterprises: | 5765.88 | 7915.78 | 13209.86 | 18864.29 | 12442.59 | | |
| SME. million MDL | 2215.78 | 3321.29 | 5394.45 | 7531.54 | 5920.23 | | |
| Medium. million MDL | 823.4 | 1198.15 | 1923.46 | 2419.32 | 1807.72 | | |
| Small. million MDL | 1048.29 | 1467.67 | 2496.37 | 4000.71 | 3038.08 | | |
| Micro. million MDL | 344.09 | 655.47 | 974.62 | 1111.51 | 1074.43 | | |

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