



Academy of Sciences  
of Moldova



*Institute of Economy,  
Finance and Statistics*



Ministry of Economy  
of the Republic of Moldova

# MOLDOVAN ECONOMIC TRENDS

**Nr. 2 (Q II) 2011  
ISSN 1857-3134  
Chisinau**



Supported by the European Union High Level Policy  
Advice Mission to the Republic of Moldova



**ISSN 1857-3134**

**AUTHORS:**

Alexandru Stratan, Marcel Chistruga, Anatolii Rojco, Elena Aculai, Alexandru Fala, Tatiana Colesnicova, Victoria Clipa, Viorica Septelici, Veronica Vragaleva, Alexandra Novac, Eugenia Lucasenco, Zinovia Toaca, Zaharia Olarescu, Andrea Lorenzo Capussela

**Acknowledgements**

This initiative was supported by the EUHPAM Project, funded by European Union and implemented by UNDP Moldova.

The **MET** team would like to acknowledge the cooperation with public institutions: the Ministry of Economy, the Minister of Finance, the National Bank of Moldova and the National Bureau of Statistics.

All rights reserved. No information in this publication cannot be reprinted or reproduced in any form without written permission of IEFS.

*The Moldovan Economic Trends is a quarterly publication, produced with the assistance of the European Union. The contents of this publication are the sole responsibility of Institute of Economy, Finance and Statistics and can in no way be taken to reflect the views of the European Union.*

© Institute of Economy, Finance and Statistics

**For additional information please contact us:**

**Institute of Economy, Finance and Statistics**

2064, RM, Chișinău, Str. Ion Creangă, 45

Tel: (+ 373 22) 50-11-00, Fax: (+ 373 22) 74-37-94

e-mail: iefs@iefs.md, web site: www.iefs.md

## CONTENTS

<b>Main social, political and economic events in the Republic of Moldova .....</b>	<b>7</b>
<b>Summary of the issue .....</b>	<b>10</b>
<b>Chapter I. OUTPUT .....</b>	<b>16</b>
<b>Chapter II. PRICES AND EXCHANGE RATES.....</b>	<b>28</b>
<b>Chapter III. FINANCES.....</b>	<b>34</b>
<b>CHAPTER IV. EXTERNAL SECTOR.....</b>	<b>61</b>
<b>CHAPTER V. BUSINESS ENVIRONMENT.....</b>	<b>79</b>
<b>CHAPTER VI. SOCIAL SECTOR.....</b>	<b>89</b>
<b>CHAPTER VII. ESTIMATIONS AND FORECASTS.....</b>	<b>101</b>
<b>POLICY NOTES.....</b>	<b>116</b>
<i>Andrea Lorenzo Capussela/Marcel Chistruga</i> <b>WHAT ARE THE IMMEDIATE CONSTRAINTS TO ECONOMIC GROWTH IN MOLDOVA? COMPARATIVE STUDY.....</b>	<b>116</b>
<i>Andrea Lorenzo Capussela/Alexandru Fală</i> <b>THE WEAK BUSINESS AND INVESTMENT CLIMATE IS A MAJOR CONSTRAINT TO GROWTH.....</b>	<b>125</b>
<i>Andrea Lorenzo Capussela/Marcel Chistruga</i> <b>ACCESS TO FINANCE - CONSTRAINT ON ECONOMIC GROWTH IN MOLDOVA.....</b>	<b>132</b>
<i>Anatolii Rojco/Oxana Livitchi</i> <b>POVERTY IN THE REPUBLIC OF MOLDOVA.....</b>	<b>145</b>
<b>STATISTICAL ANNEX.....</b>	<b>151</b>

## GENERAL INFORMATION

<b>Official name</b>	REPUBLIC OF MOLDOVA
<b>Capital</b>	Chisinau
<b>Head of State</b>	Marian Lupu, Interim President of the Republic of Moldova
<b>Speaker of Parliament</b>	Marian Lupu
<b>Prime Minister</b>	Vlad Filat
<b>Moldovan Parliament</b>	101 members (Communist Party of Moldova - 42, Liberal Democratic Party - 31, Democratic Party of Moldova - 15, Liberal Party - 12, Non-attached Members - 1)
<b>Independent since</b>	August 27, 1991
<b>Area</b>	33,800 km <sup>2</sup>
<b>Administrative units</b>	32 rayons, 5 municipalities (Chisinau, Balti, Bender, Comrat, Tiraspol), Autonomous Territorial Unit Gagauz Yeri, Administrative Territorial Units of the left bank of Dniester river
<b>Resident population</b>	3,560,400 inhabitants
<b>Main religions</b>	Orthodox
<b>Official language</b>	Romanian
<b>National currency</b>	Moldovan Leu (USD 1 USD = MDL 11.45, EUR 1= MDL 16.46)

## ABBREVIATIONS

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

<b>NEER</b>	<b>Nominal Effective Exchange Rate</b>
<b>NPB</b>	<b>National Public Budget</b>
<b>NPC</b>	<b>Nominal Protection Coefficient</b>
<b>ODSME</b>	<b>Organization for Development of Small and Medium Enterprises</b>
<b>PCA</b>	<b>Partnership and Cooperation Agreement</b>
<b>PPI</b>	<b>Production Price Index</b>
<b>RCA</b>	<b>Revealed Comparative Advantage</b>
<b>REER</b>	<b>Real Effective Exchange Rate</b>
<b>SDR</b>	<b>Special Drawing Rights</b>
<b>SITC</b>	<b>Standard International Trade Classification</b>
<b>SME</b>	<b>Small and Medium Enterprises</b>
<b>SPS</b>	<b>Sanitary and phytosanitary measures</b>
<b>TBT</b>	<b>Technical Barriers to Trade</b>
<b>TN</b>	<b>Transnistria</b>
<b>TRC</b>	<b>Total Regulatory Capital</b>
<b>TRQ</b>	<b>Tariff Rate Quota</b>
<b>UN</b>	<b>United Nations</b>
<b>USD</b>	<b>US Dollar</b>
<b>VAT</b>	<b>Value Added Tax</b>
<b>WTO</b>	<b>World Trade Organization</b>
<b>YoY</b>	<b>Year on Year</b>

## MAIN SOCIAL, POLITICAL AND ECONOMIC EVENTS IN THE REPUBLIC OF MOLDOVA

The second quarter of 2011 was characterized by a series of political, economic and social events.

### May 11

The Spanish electric power supply company operating in Moldova, RED "Union Fenosa" changed its brand name to "Gas Natural Fenosa." The new trademark was the result of the unification of the branding and logos of two Spanish companies - "Gas Natural Fenosa - Uion Fenosa" and "Gas Natural", which merged in September 2010. In the same context "Gas Natural Fenosa" in Moldova will continue to supply electric power, while the distribution of gas is impossible because of a lack of infrastructure and the limited number of suppliers at the government level.

### May 26

The Board of the National Bank of Moldova tightened certain monetary policy instruments, increasing the required reserves for funds in MDL and nonconvertible currencies, as well as from funds in freely convertible currencies by 3.0 percentage points, for a total a value of 14 per cent effective for the period between July 8 and August 7, 2011.

### June 05, 2011

On June 5, 2011, local general elections were held in the Republic of Moldova, in which 898 mayors and 1,120 rayonal and 10,630 village, municipal and city counsellors were elected. In all the 35 constituencies the first round was valid, with the threshold turn-out level of 25 per cent exceeded. Given that during the first round, in 512 localities none of the mayoral candidates received the 50 per cent of votes required for victory in the elections, the second round was held on June 19. The elections for the membership of Chisinau Municipal Council resulted in 26 seats going to the Communist Party, while the other parties, the members of the Alliance for European Integration won a total of 25 seats.

### June 9

The Board of the World Bank approved a loan of USD 37m to the Republic of Moldova. This amount is intended for the implementation of the Project for the Strengthening of Social Protection Network Capacity in the Republic of Moldova. According to the World Bank Office in Moldova, the main objective of this loan is to improve the efficiency and equity of the social protection network in Moldova through sustainable fiscal expansion and the strengthening of the Welfare Program.

### June 12, 2011

In the first half of June, Moldova was visited by Senator McCain, who reiterated U.S. support for Moldova, stressing that it is on the right path of democratic reforms and economic development. He also set out his country's position on supporting the Government's objectives in Chisinau - territorial integrity, independence, democratic reforms and European integration – noting that it will continue to advocate for the repeal of the Jackson-Vanik amendment. At the end of his

speech, he congratulated the Republic of Moldova on 20 years of independence, adding that the U.S. is always ready to support this country. The visit was regarded as a positive one, expressing the great interest of the United States in the Republic of Moldova, this being considered a constructive framework for promoting relations between the two countries.

#### **June 16 - 18**

The International Economic Forum was held in St. Petersburg, and Moldova was represented by a delegation headed by conducted by Mr. Valeriu Lazar, vice-prime minister, the Minister of Economy. The event is organized by the Ministry of Economic Development of Russia, the current meeting being held under the patronage of the President of the Russian Federation. The forum included a number of events - plenary sessions, round tables, and briefings with various topics addressed, including: energy and food safety, integration processes and the perspectives for the CIS's development, business, investment and finance, information technologies and innovations, migration.

#### **June 19, 2011**

On June 19, 2011 the second round of local elections took place. Chisinau was the most closely followed contest, with the mayoralty of the city also in play. In the first round none of the 13 candidates received the 50 per cent of votes required for victory in the elections. Thus, after the second round, the incumbent Mayor, Mr. Chirtoaca was re-elected for a second consecutive term, on a turnout of 59.88, beating the Communist Party candidate, Mr. Dodon.

#### **June 21, 2011**

The General Affairs and External Relations Council of the European Union issued a mandate to launch negotiations with the Republic of Moldova for the subsequent signing of a comprehensive free-trade agreement.

#### **June 21, 2011**

A new round of negotiations in the "5 +2" format on the Transnistrian conflict settlement took place. The negotiations were attended by representatives of Chisinau and Tiraspol and by mediators from the Russian Federation, Ukraine and OSCE as well as representatives of the EU and U.S. as observers. The results of the talks, although barely visible and tangible, represented another step towards the settlement of the Transnistrian conflict.

#### **June 21, 2011**

The Board of Directors of JSC "Franzeluța" decided to dismiss its Director Eugene Baleca as a result of revisions made by Center for Combating Economic Crime and Corruption in October 2010, which specified that the Director had cost the state 24 million lei in a flour-import deal. Less than a month after the beginning of problems in the bakery plant, on July 22, 2011, Victor Cojocaru was appointed as Director General of the joint stock company "Franzeluța". The change had some political connotations

#### **June 24**

The Government of Moldova appointed a National Action Plan for structural reform in the educational system in order to fulfill a condition imposed by the International Monetary Fund

for obtaining its next credit instalment in July. The reform strategy requires that class sizes and school networks be optimized a reduction in the size of non-teaching staff and of vacant positions, increased flexibility in labor relations in the sector, the implementation of a per capital funding system, and a transition of the social protection costs in education to a family income based principle.

#### **June 28**

The Government of Moldova and Romania signed a Memorandum of Understanding on the Information Technologies and Communications Sector. The heads of the national authorities responsible for the management of the radio frequencies of both countries (The National Center for Radio Frequencies and the National Authority for Management and Regulating Communications) concluded an Agreement on the coordination and distribution of preferential frequencies for land mobile digital radio systems. The Memorandum will serve as a basis for an expansion of the collaboration between the two countries, will provide possibilities for launching projects of common interest and will enable development of electronic communications projects.

## SUMMARY OF THE ISSUE

### *Production*

The first half of 2011 showed a decline in economic growth rates. There was growth, but growth of 6.8 per cent in the second quarter is significantly lower than the 8.4 per cent growth recorded in the first quarter of 2011. The half-year growth rate is 7.5 per cent, one of the highest in the region.

The fall in economic growth was largely caused by lower quarterly growth rates in net taxes on products: in the first quarter of 2011 the increase was 17.9 per cent, compared to the same period of the previous year, while the second quarter only saw a 5.2 per cent increase compared with the same period of 2011. This situation is partly explained by lower levels of VAT collections.

In the second quarter of 2011 household consumption increased by 10.9 per cent compared to the same period of the last year, a lower rate than the one recorded in the first quarter, when it was 11.9 per cent. The final consumption of government and non-profit institutions serving households increased by 0.9 per cent compared with the same period of 2010, while growth in the first quarter was 0.8 per cent.

In the second quarter, gross capital formation fell by 4 per cent compared to the same period of 2010. This was caused by inventory reductions, in the second quarter inventories fell by 398.9m MDL, lower than the level of 497 million MDL recorded in the first quarter of 2011. The decrease in inventory is associated with export growth. On the other hand, the expansion of investment activity continued; in the second quarter of 2011 the growth rate of gross fixed capital formation rose by 27.1 per cent compared with the same period of the previous year and exceeded the increase of 24.9 per cent recorded in the first quarter of 2011.

Similarly, the positive trends in foreign trade continued: in the second quarter of 2011 compared to the same period of the previous year the import growth rate was 23.7 per cent, which is roughly half the increase in exports, which was 46.2 per cent.

The first half of 2011 saw an increase in agricultural output of 3.9 per cent, compared to the previous year, with agricultural output standing at MDL 3,015 million, including animal production - MDL 2482 million, and vegetal production - MDL 348 million.

In the first half of the year agricultural output growth was driven mainly by increased livestock production, which rose by 4.2 per cent compared to the same period of the previous year, following an increase of 9 percent in cattle and poultry production increase , or 65 000 tons. The increase in livestock and poultry production was accompanied by a 10 per cent increase in sales compared to the same period of 2010, equivalent to 64 tons. At the same time, this period showed a decrease in the production of milk and eggs, by 1 per cent and 2 per cent respectively compared with the same period in 2010.

With regard to vegetal production, its contribution to increasing agricultural output in the first semester is insignificant, as it recorded the highest values in the second half of the year. However, in the first six months of this year the crop output increased by 0.9 per cent compared to the first half of last year.

### ***Public finance***

In the first half of 2011 the NPB accumulated an income 10.1 per cent higher than in the same period of 2010, continuing thus the increasing trend described in the previous edition, while implementation of the plan is 5.4 per cent lower than during the previous year mainly due to non-execution of the VAT revenue plan.

In respect of expenses, in the first half of 2011 the expenditures from the NPB were 9.5 per cent higher than in the same period of 2010, and they targeted mainly social actions.

State budget execution in the first half of 2011 showed a deficit 4.4 per cent higher than in the same period of 2010.

Of the total public debt, the largest share is state debt, followed by the debt of the NBM and the debt of public sector enterprises and the debt of the Autonomous Region Gagauzia. At the same time, the state debt increased compared to the same period of the previous year, largely due to external debt. With regard to the structure of domestic debt, depending on the term, the trend described in the previous edition of MET continued - the lack of long-term domestic debt against a background of growing medium and short term debt, which showed a tendency of short-term orientation towards internal donors.

The public finance analysis of Transnistria shows that the revenues in 2010 exceeded significantly the revenues collected in 2009, taking into account humanitarian aid and the repayment of budget loans (non-tax revenues), which have approximately the same share of total income as tax revenues. However, the expenditures in 2010 fell compared with 2009. As a result, the budget was in deficit.

### ***Banking sector***

In the first semester of 2011, the Moldova's banking sector recorded a positive trend of development, as reflected by improving banking activity indicators (liquidity, efficiency, and increases in profitability and loan portfolio quality).

Thus, over the first six months of 2011, the sector continued its development having registered a growth both in lending and in deposits. Accordingly, in June 2011, the leading bank balance by bank loans, Moldova Agroindbank recorded a credit balance amounting to 6024.6 million MDL and in a chapter attracting deposits, Victoriabank becomes leader, with a deposit balance amounting to 6,436.9m MDL in the first semester of 2011.

In the first semester of 2010, there was a continuing decline in interest rates, both on loans and on deposits in national currency – this trend stabilized in the first semester of 2011. Accordingly, in June 2011 the average interest rate on credits in national currency was 14.2 per cent and the average rate on deposits reached the level of 7.28 per cent. In the same period, the banking margin for operations in local currency reached a level of 6.92 per cent.

In general, in the first semester of 2011, the banking system demonstrated a good immunity, reliability and high stability.

### ***Prices and exchange rate***

As of the first semester of 2011 a growth rate of CPI of 7.1 per cent was recorded over the same

period of the previous year. In the first quarter of 2011 the CPI growth rate compared to the same period of 2010 was 6.1 per cent, i.e. a slowing compared to the previous trend (in the last three quarters of 2010, prices rose by about 8 per cent on average), however in the second quarter the increased inflationary process generated a change in trend, which resulted in an increase of 7.1 per cent.

In the first semester of 2011 industrial production prices increased by 5.5 per cent compared to the same period in 2010. After four consecutive quarters of slowing price growth for industrial production, in the second quarter of 2011 we are witnessing a trend change. In the first quarter of 2011, industrial production prices rose by 4.7 per cent compared with the same period of the previous year, while in the second quarter the increase was already 6.3 per cent. The prices in agricultural sector and construction the prices also had an upward trend.

The price increases in the second quarter were caused by:

- ✓ propagation of the second round of the effects of higher energy prices in the first quarter;
- ✓ electricity price rises in April 2011;
- ✓ weather conditions (in June) that disadvantaged the harvest collection.

The trend towards consolidation of the MDL's position against the USD (started in January 2011) continued in the second quarter, the nominal MDL/USD exchange rate appreciated between March and June by 4.75 per cent. On the other hand, the second quarter showed a change in MDL/EUR rate, and from April the rate began to appreciate. Overall, in the second quarter of 2011 the MDL/EUR rate appreciated slightly by 0.27 per cent. The real MDL/USD rate continued to appreciate in the second quarter of 2011, changing by 4.75 per cent. On the other hand, the real MDL/EURO rate evolved showed low volatility (which has been the case since June 2010) and in the second quarter it appreciated by about 2 per cent.

### ***Monetary policy***

Monetary policy did not undergo significant changes during the second quarter of 2011. The monetary policy instruments' rates remained steady during the quarter:

- ✓ the basic rate applied to the main short-term monetary policy operations - 8 per cent;
- ✓ rate on overnight loans - 11 per cent;
- ✓ rate on overnight deposits - 5 per cent.

Similarly, the rate of compulsory reserves did not change, remaining at the level of 11 per cent. However, due to increasing inflationary risks, the Board of the National Bank of Moldova decided during its meeting on May 26, 2011 to raise the required reserves ratio from 11 to 14 per cent effective from July 8.

On the other hand, in the second quarter of 2011, currency reserves reached a record level, their level on June 30, 2011 amounting to USD 1.9 billion.

### ***Balance of payments***

In the first quarter of this year the current account deficit stood at USD 232.95 million. This was an increase compared to the same period of the previous year of 63.58 per cent, as a result of a 32 per cent increase in the trade deficit and a 5.5 per cent fall in current income by, while there was a 23 per cent increase in inflows of current transfers and a 13 per cent reduction in the trade deficit.

In Q1'2011, net capital transfers amounted to 7.69 million USD, an increase of 48 per cent over the previous year; the trend is due mainly due to the growth in the size of immigrants' transfers compared to emigrants' transfers in the Republic of Moldova.

In the first quarter of the current year, the balance of the financial account was USD 165.31 million, an increase of 80 per cent over the same period of the previous year. During this period there was a reduction in net foreign assets and in the associated flows of foreign liabilities due to a reduced inflow of other investments into the economy, especially of borrowings, while FDI in the national economy increased by 73 per cent.

### ***International investment position***

The debit balance of Moldova's net international investment position continued to grow in the second quarter of this year, rising by 7.77 per cent to 4,980 million USD since the beginning of the year. The increase is due to the slight fall in the balance of other investments made by Moldovan residents abroad and an 8.97 per cent increase in external liabilities on the other.

### ***Foreign direct investment***

In the first semester of this year the FDI of non-residents in the economy rose by 96per cent compared to S1'2010, reaching USD 152 million, which is the maximum semester amount that have been registered since 2009. During this period, investments in fixed capital rose by 48per cent compared to the previous year, reaching USD 60.82 million, and investments in the form of reinvested earnings amounted to USD 59.95 million, exceeding the annual value of the previous year, which was USD 22 million.

### ***Remittances***

Though slower than in the pre-crisis period, remittances continued on an upward trend in Q2, rising by 12.77per cent compared to the previous year, amounting to USD 384.87million. The growth rate of remittances is slower than it was before the crisis period. During the first half-year the amount of remittances constituted 670m USD, while the volume of bank transfers to physical persons equalled 643m USD.

### ***Foreign trade***

In the second quarter of this year foreign trade amounted to USD 1,798.2 million. Exports continued to grow at rates higher than imports, rising by 71 per cent compared to the previous year, while imports increased by 40 per cent.

There was also sustained growth in exports, as there was with imports, for the main geographical areas, including the EU and the CIS. This was driven by manufactured products. However a gradual increase in exports suggests an increase in re-export flows, rather than an increase in domestic production capacity. Thus, there is a strong correlation between the products, which recorded high export dynamics in this period and their imports.

The re-export of oil also increased during this period due to a fourfold increase in export volume and a doubling in prices.

Agricultural products, a traditional Moldovan export, have had an insignificant influence during this time period, wine exports continued even to decline, with a 15.4 per cent fall in the second

quarter as a result of a decline in export volumes and unit price. Thus, in the second quarter of 2011, wine exports reached 2,702 thousands dal, compared to 3,063 thousands dal in the same period of the previous year.

### ***Business environment***

The number of enterprises registered with the State Registration Chamber increased in January-June 2011 compared with the same period of the previous year, with the annual growth rate being 108.9 per cent.

In the first half of 2011, the number of new enterprises registered with the Chisinau territorial office reached 57 per cent of all enterprises registered in January-June this year.

The number of enterprises removed from the Registry in January-June 2011 was 15 per cent higher than the same period of the previous year 68.7 per cent of companies excluded from the register in the first half of this year are outside Chisinau.

During the period 2007-2010 there was a slight but steady increase in the number of businesses: from 40.0 thousand to 46.7 thousand companies. In 2009, when the macroeconomic indicators decreased significantly, the number of businesses continued to grow, the annual growth rate was 106.0 per cent. In 2010, compared with 2009, the annual growth in the number of enterprises recorded a slight decrease (104.7 per cent).

Despite the increasing number of enterprises, in 2010, there was a decrease in the average number of employees. Compared with 2007, the average number of employees registered a downward trend (index being 91.6 per cent).

In 2010 compared with 2009 there was a significant increase in sales revenue (index 121.2 per cent). 2010 showed an increase in sales revenue in all sectors of the economy.

Small businesses underwent high annual growth rates (110.5 per cent in 2010). The group of medium-sized companies, by contrast, showed a decrease in the number of enterprises, in 2009-2010 the index was 99.8 per cent.

The SME share in GDP in 2009-2010 increased: from 28.9 to 35.5 per cent.

### ***Social sector***

**Labor market.** In the second quarter of 2011, the economically active population was 1,328,700 persons and decreased by 20,900 persons comparative with the second quarter of 2010. The level of economically active population was 44.7 per cent (in the second quarter of 2010 – 45.5 per cent). The employment rate was 41.9 per cent (in the second quarter of 2010 – 42.3 per cent). The number of unemployed was 82,600 persons which decreased by 11.9 thousands persons comparative with the second quarter of 2010. The unemployment rate was 6.2 per cent (in the second quarter of 2010 – 7.0 per cent). There are still significant disparities between the urban unemployment rate - 7.9 per cent and the rural - 4.7 per cent.

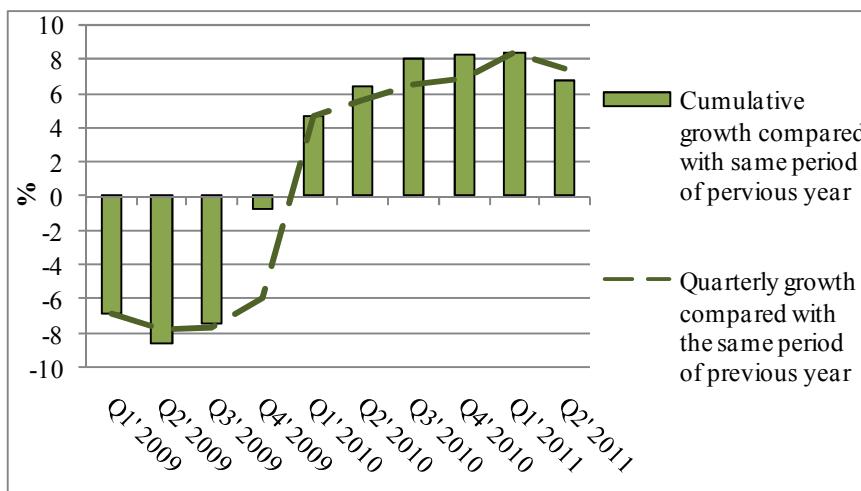
**Household disposable income.** In the first quarter of 2011, household disposable income was 1352.2 MDL in average per person monthly, an increase of 10.6 per cent over the same period last year. In real terms household income increased by 4.2 per cent.

**Remuneration of labor.** Gross nominal average salary in June 2011 was 3,556.2 MDL, an increase of 20.0 per cent compared to June of 2010 and of 10.6 per cent compared to the previous month (May 2011). Increasing the average wage in economy is determined mainly by over 60 per cent growth of the average wage in public educational sector.

**Social protection.** The number of pensioners registered at the social security bodies as of 1 July, 2011 was 627,400 persons that makes 4,100 persons more than as of July 1, 2010. The average monthly pension established on 1 July, 2011 amounted to 875.6 MDL, increasing by 8.2 per cent since July 1, 2010, and the increase was 0.5 per cent in real terms.

## Chapter I OUTPUT

In the first quarter of 2011, the GDP amounted to MDL 36.6 billion rising by 7.5 per cent compared to a similar period of 2010. There has been a notable growth rate, though the economic growth has slowed - the increase in GDP during the last semester was lower than the 8.4 per cent growth recorded in the first quarter of 2011, compared to the same period of 2010.



**Figure 1.1. Evolution of GDP**

Source: National Bureau of Statistics (NBS)

### Sources of GDP

In the first half of the year there were positive developments in all components of GDP. **Gross added value in the goods sector** increased by 7.2 per cent compared with the same period of the previous year, resulting in a 1.5 per cent increase in GDP. However, the growth rate of 6.8 per cent recorded in the second quarter of 2011, compared to the same period of the previous year, was lower than the 8.4 per cent increase recorded in the first quarter. Though in the first half of the year, the volume of net taxes per product recorded a 10.5 per cent growth compared to the same period of the previous year, the decline in GDP growth was largely caused by the lower quarterly growth rates of net taxes on products: in the first quarter of 2011 the increase was 17.9 per cent, compared to the same period of the previous year, while the second quarter only saw a 5.2 per cent increase compared to the same period of 2011. This situation is partly explained by lower VAT collections.

**Gross added value in services** increased compared to the same period of the previous year by 7 per cent, leading to a 4.5 per cent increase in GDP. The gross added value in the second quarter 2011, as well as all its components, except the energy sector, increased, continuing the positive trend of the past. The highest increases were registered in construction - an advance of 24.9 per cent compared with the same period of the previous year, followed by retail trade with an increase of 17.2 per cent. These developments show unequivocally that the national economy revived after the 2009 crisis.

**Table 1.1. GDP components growth rate**

GDP COMPONENTS	GROWTH RATE, per cent		
	Quarter I 2011/ Quarter I 2010/	Quarter II 2011 / Quarter II 2010	Quarter I 2011/ Quarter I 2010/
<b>Agriculture</b>	6.4	2.1	3.3
<b>Mining and quarrying</b>	27.6	18.2	20.7
<b>Processing industry</b>	13.3	11.4	12.2
<b>Energy Sector</b>	-3.1	-2.9	-3.1
<b>Construction</b>	4	24.9	18
<b>Trade</b>	19.5	17.2	18.3
<b>Transport and</b>	2	5.3	3.6
<b>Other service activities</b>	3.2	1.5	2.3
<b>Gross added value</b>	6.6	7.1	6.9
<b>Net taxes on products</b>	17.9	5.2	10.5

Source: National Bureau of Statistics (NBS)

In the second quarter of 2011 the GDP structure has remained relatively unchanged. Although growth rates have declined, services continued to contribute the highest share of GDP, in the second quarter of 2011 they accounted for 63 per cent of the total. The construction sector underwent an increase, while transport and communications and other services recorded a slight decrease. Compared with the same quarters in 2010 and 2009, there has been a slight increase in the share of industry and agriculture in GVA.

**Table 1.2. GDP structure by category of resources**

GDP COMPONENTS	SHARE IN GDP, per cent		
	Q2 2009	Q2 2010	Q2 2011
Agriculture	9	9.6	10.6
Industry	11.6	12.3	12.6
<b>Total goods</b>	20.6	21.9	23.2
Construction	4.8	4.4	5
Trade	14.9	14.3	15.1
Transport and communications	11.2	11	10.4
Other services	34.7	33.8	32.6
<b>Total Services</b>	65.6	63.5	63.1
<b>Services of financial intermediaries indirectly measured</b>	-1.5	-2.2	-2.1
<b>Net taxes on products</b>	15.3	16.8	15.9

Source: National Bureau of Statistics (NBS)

### *GDP by expenditures*

In the first half of 2011 most GDP components grew, except for gross capital formation. Final consumption increased by 9.1 per cent compared with same quarter of the previous year, leading to an 11.2 per cent increase in GDP. The increase was due to the growth in the final consumption of households (11.4 per cent). At the same time, in the second quarter of 2011 household consumption increased by 10.9 per cent compared to the same period of the last year, a lower rate than the one recorded in the first quarter, when it was 11.9 per cent.

The final consumption of government and non-profit institutions serving households increased by 0.9 per cent compared with the same period of 2010, while growth in the first quarter stood at 0.8 per cent.

In semester I, 2011, gross capital formation exceeded by 7.2 per cent the performance of the same period in 2010. However, in quarter II, 2011, gross capital formation fell by 4 per cent compared to the same period of 2010. This was caused by a decrease in inventories: in the second quarter the changes in inventories amounted to 398.9m MDL, lower than the level of 497m MDL recorded in the first quarter of 2011. Decline in inventory is not a sign of any problems that business entities face (changes in inventories are related to the business cycle, while the decline in inventories occurs in the temporal proximity of slower growth, given the sales decrease the entities rarely resort to filling stock); these developments are associated with export growth - some of the exports are made based on the sale of products in stock. On the other hand, the expansion of investment activity has continued; in the second quarter of 2011 the growth rate of gross fixed capital formation increased by 27.1 per cent compared with the same period of the previous year and exceeded the increase of 24.9 per cent recorded in first quarter of 2011.

On the other hand, the positive trend in foreign trade has continued. For the first half of 2011, compared with the same period of the previous year, exports increased by 39.1 per cent and imports by 24.7 per cent. At the same time, in quarter II 2011, compared to the same period of the previous year, the import growth rate was 23.7 per cent, which is practically half the growth in exports, which was 46.2 per cent.

**Table 1.3. GDP components growth rate**

<b>GDP COMPONENTS</b>	<b>GROWTH RATE, per cent</b>		
	<b>Quarter I 2011/ Quarter I 2010</b>	<b>Quarter II 2011 / Quarter II 2010</b>	<b>Semester I 2011 / semester I 2010</b>
<b>Final consumption of households</b>	11.9	10.9	11.4
<b>Final consumption of government and non-profit institutions serving households</b>	0.9	0.8	0.8
<b>Gross capital formation</b>	32.5	-4	7.2
Gross fixed capital formation	24.9	27.1	26.4
<b>Exports of goods and</b>	31.5	46.2	39.1
<b>Import of goods and</b>	25.9	23.7	24.7

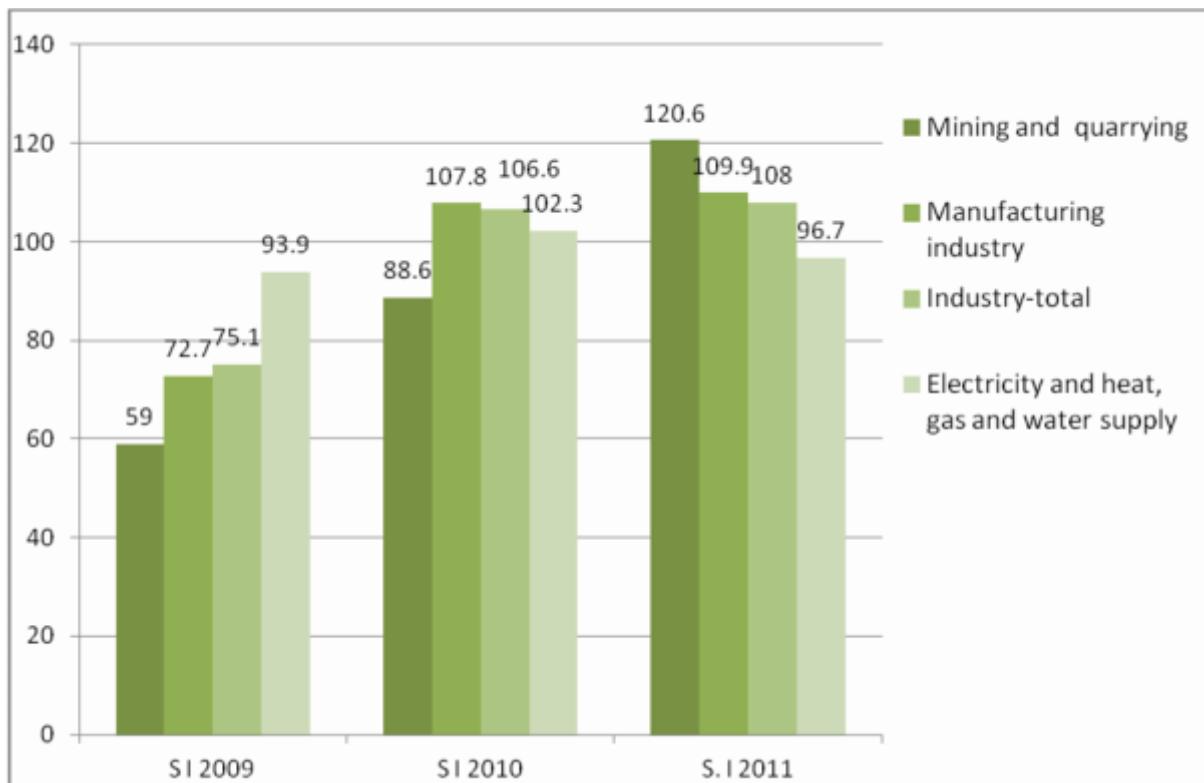
Source: National Bureau of Statistics (NBS)

In structural terms, household consumption continues to be the main component of GDP - in quarter II of 2011 household consumption accounted for 96.2 per cent of GDP. On the other hand, the spectacular growth in exports began to be reflected in the GDP structure as well: in the second quarter 2011 net export accounted for 42.6 per cent of the GDP, decreasing by 1.1 percentage points compared with the second quarter of 2010.

## Production of Goods and Services

### Industry

In the first half of this year the industry showed a growing trend. In this period industrial enterprises produced output worth 14.4 billion lei or 9 per cent more than in the first six months of the previous year, this output consisting of 20.6 per cent mining, manufacturing on 11.3 per cent and 3.3 per cent electricity and heat production and distribution.

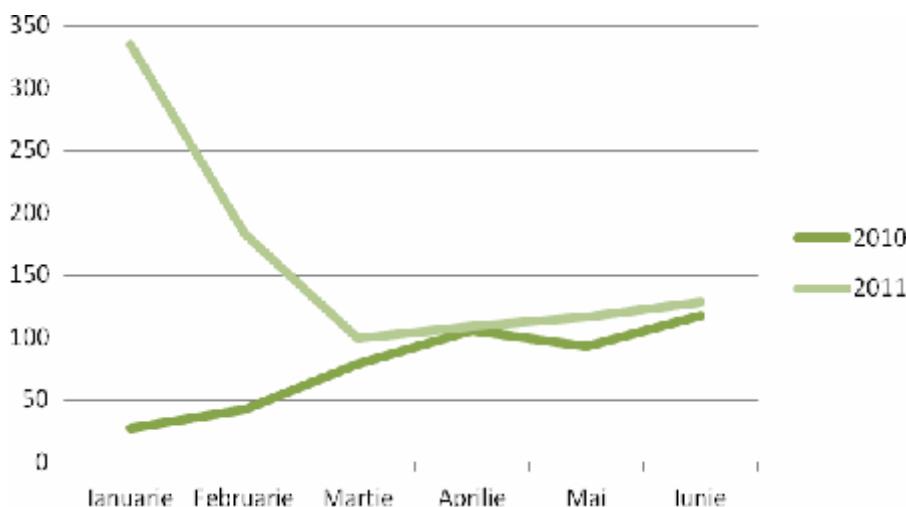


**Figure 1.2. Development of industrial production indices, similar period of the previous year = 100 per cent**

Source: National Bureau of Statistics

Industrial enterprises included in the monthly statistical research delivered 32.3 per cent of the value of their production to foreign markets, up 3.7 percentage points. Though there is this positive trend, it should be noted that in absolute terms the export of industrial products amounted to 3.9 bn MDL, which represents about 30 per cent of total exports in the first half of 2011.

In the first half of 2011, there was marked growth in the mining industry. The first two months of the year showed an increase of 334 per cent and, respectively, 248 per cent of the index of mining industry, compared with the same period of the previous year. This spectacular growth was due to the economic recovery, particularly in the construction sector. It should be noted that in 2010 mining industry production volume indices fell dramatically (in January 2010, the mining and quarrying industry shrank by 73.3 per cent compared with 2009). Accordingly, large increases this year are due largely to the lower base of comparison since the previous year. Thus, although the most significant increase was recorded in the first half of 2011, the share of mining industry in the total added value remains at a modest level of 3 per cent.



**Figure 1.3. Development of mining production indices**

Source: according to NBS

In quantitative terms, the increase in the mining industry in semester I, 2011, compared to the same period of the previous year, is determined by the industrial production of the following:

- gypsum and anhydrite, increasing by 42.6 per cent;
- gravel, pebbles, rocks and flint – 3.8 per cent increase after a decline by 14.7 per cent in the same period of 2010 compared to 2009;
- calcareous rocks for construction, which rose by 5.5 per cent following a decrease of 12.4 percent in the same period of 2009 compared with 2010;

For the second consecutive year in January-June, production of sand decreased: 5.6 per cent - in the first half of 2011 compared to 2010, by 9.9 per cent – in 2010 compared to 2009. The largest decrease in this sector was recorded in production of limestone in the period under review, the decrease was of 23.5 per cent.

The most significant share of total production – 8 0.6 per cent is held by the processing industry, which recorded highest increases in volume of industrial production compared to the average for the first semester of the last eight years (average 9.9 per cent in 2011 and 4-5 per cent in 2004-2011<sup>1</sup>).

Compared to the same period of the previous year, remarkable growth trends in the output were recorded in production of ready fodder for animals (141.7 per cent), production of machinery and equipment (58 per cent) and production of medical instruments and appliances, precision, optical device and clocks production (48 per cent). Meanwhile, production of rubber and plastic and chemical industry fell by 8.6 per cent and 6.1 per cent respectively.

In quantitative terms, in the first half of 2011, products with the best performance in the processing industry compared to the same period of the previous year were:

<sup>1</sup> Crisis year 2009 was excluded from the calculations

**Table 1.4. Processing industry output, the first half of 2011**

Products	Semester I 2011, compared to semester I 2010	The amount produced
<b>Processed and preserved fruit,</b>	by 2.2 times	897.9 – 15 tons
<b>Glass bottles</b>	by 2.0 times	177.8 thousand pieces
<b>Parquet panels</b>	196.9	8.6 sq. m
<b>Corrugated paper and paperboard</b>	195.4	3.3 sq. m
<b>Steel pieces</b>	176.2	39.2 – 15 tons
<b>Costumes and sets</b>	152.1	62.9 thousand pieces

Source: according to NBS

In the first half of 2011 compared with 2010 some changes occurred in the structure of industrial production. There was an increase in the shares of the electricity and heat, gas and water sectors (1.6 percentage points) and of the extractive industries (0.13 percentage points) in total industrial output and a decline in the share of the processing industry (by 1.72 percentage points). This is partly explained by increases in energy and utility prices.

The sectors that recorded the most significant changes in industrial production structure are:

- in terms of decline of the share, production of garments and electrical machinery and devices by 6.7 percentage points and 1.84 percentage points respectively;
- in terms of share increase, the chemical industry by 1.85 percentage points and production of rubber and plastic, by 1.81 percentage points.

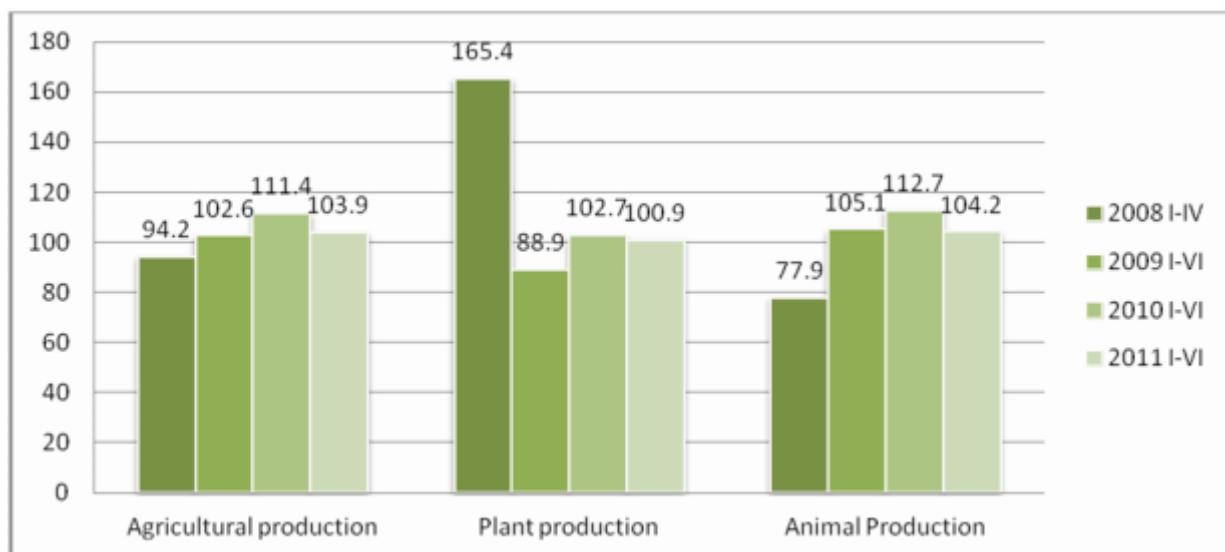
**Table 1.5. Changes in the structure of production value, 2011 compared to 2010**

Industry	Decrease of the share in total production value, 2011/2010	Industry	Increase of the share in total production value, 2011/2010
Production of apparel, production and dyeing of fur	6.77 percentage points	Chemical industry	1.85 percentage points
Production of electrical machinery and device	1.84 percentage points	Production of rubber and plastic items	1.81 percentage points

Source: according to NBS

### *Agriculture*

In the first half of 2011 agricultural output was worth 3,015 bn MDL, rising by 30 per cent in nominal terms and 3.9 per cent in real terms compared to the similar period of the previous year. It shows a trend of slowing growth rates of agricultural output. In the same period of the previous year the agricultural output increased by 11.4 per cent compared with 2009.

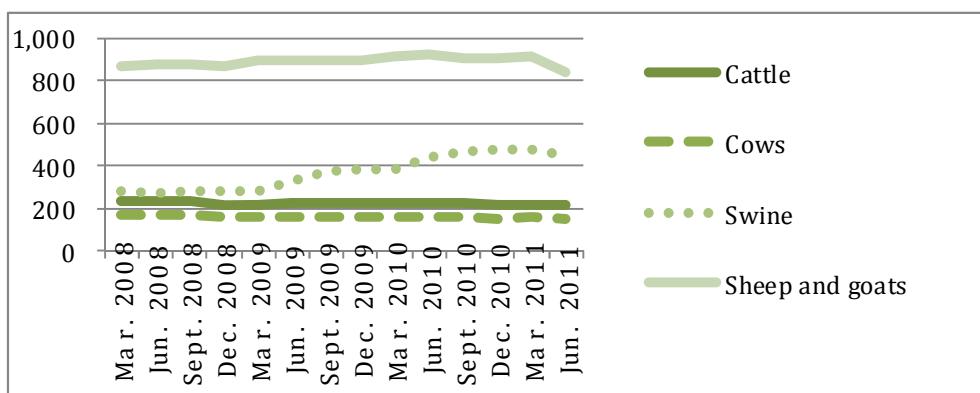


**Figure 1.4. Semester evolution of agricultural production during the years 2008-2011, %**

Source: according to NBS

**Livestock production** output was 2482 million MDL, which accounts for 82.3 per cent in total agricultural output, 2.1 percentage points less than in the same period of the previous year. The growth in livestock production fell to 4.2 per cent, compared with the 12.7 per cent recorded in the same period of the previous year. It should be noted that in the first quarter of 2011, the livestock production growth rate was 8.4 per cent compared to the same period of the previous year.

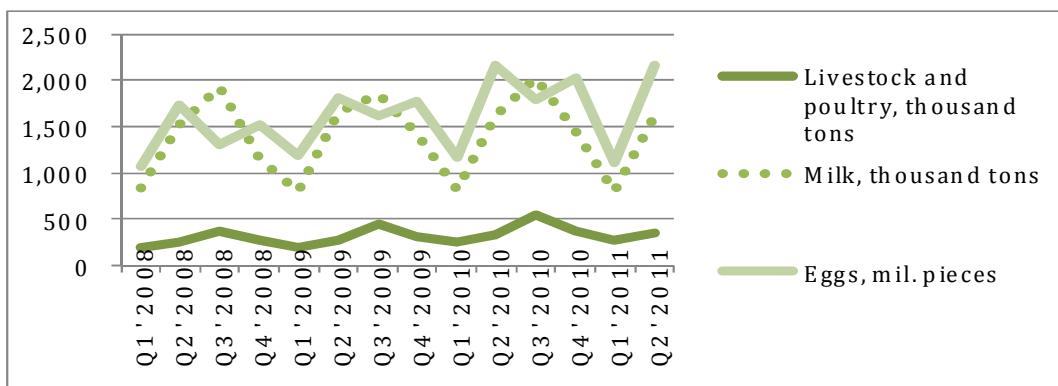
Overall agricultural output growth in the first semester was influenced mainly by increasing animal output. The livestock holdings of households of all types, except for pigs, which at the end of the first half of the year rose by 4 per cent compared to the same period of the previous year, reaching 451,000 heads, recorded a declining trend. Thus in June 2011 the number of cattle (213,000 heads), including cows (154,000 heads) went down by 6 per cent compared to the previous year, while sheep and goats (835,000 heads) decreased by 9 per cent. It should be noted that the number of these animals at the end of first semester represents the minimum registered in the similar periods during the last 5 years.



**Figure 1.5. Number of living animals in all categories of households in 2008-2011, thousand heads**

Source: according to NBS

Despite an overall downward trend in the number of living animals, living cattle and poultry sales amounted to 36,000 tons and increased by 6 per cent in the second quarter compared to the same period of the previous year. There was a strong seasonal trend in the production of livestock and poultry in live weight and milk, which increases in the third quarter, when the maximum value is registered, declining afterwards in the fourth quarter. Production of milk and eggs in the second quarter of this year remained virtually at the level reached during the same period of the previous year, amounting to 161,000 tons and 217 million pieces respectively.



**Figure 1.6. Quarterly dynamics in animal production in 2008-2011**

Source: according to NBS

Overall, between January and June 2011 production in cattle and poultry was 65,000 tons, up 8.7 per cent compared to the previous year, the sales amounting to 64,000 tons, a 10 per cent increase. Agricultural enterprises produce about 30 per cent of output and sales of livestock and poultry. About 65 per cent of cattle and poultry production and 73 per cent of their sales are made by agricultural enterprises in the central part of the country.

In the first semester milk production amounted to 241,000 tons, while egg production – 329 million pieces, down by 1 per cent and 2 per cent accordingly.

Against the background of a declining number of cattle in households of all categories and the growth of the number of pigs, the first semester saw an increase in prices for cattle of 22 per cent and, by contrast, a reduction of 27 per cent in the number of pigs. Production of milk and eggs also increased by 16 per cent and 10 per cent respectively compared to the same period of the previous year.

**The value of vegetal production** was of 348 million MDL, which accounts for 12 per cent of total agricultural output, a 2.4 percentage point increase over the same period of the previous year. The same situation is present in crop production, an increase of 0.9 per cent vs. 2.7 per cent in the first semester of 2010. At the end of the second quarter, the area covered with crops in 2011 was 1.442 m hectares, of which 798,890 were in agricultural enterprises and farms, a fall of 1.1 per cent compared to the previous year. In regional terms, the areas sown by agricultural enterprises and farms in the North increased by 1.1 per cent, while in other regions these went down. The growth in the North was due to the growing area sown with maize and industrial crops such as sugar beet and corn.

It should be mentioned that there has been a general increase in areas sown with these crops in all regions. At the same time, the greatest reductions were recorded in areas sown with tobacco, potatoes and winter wheat.

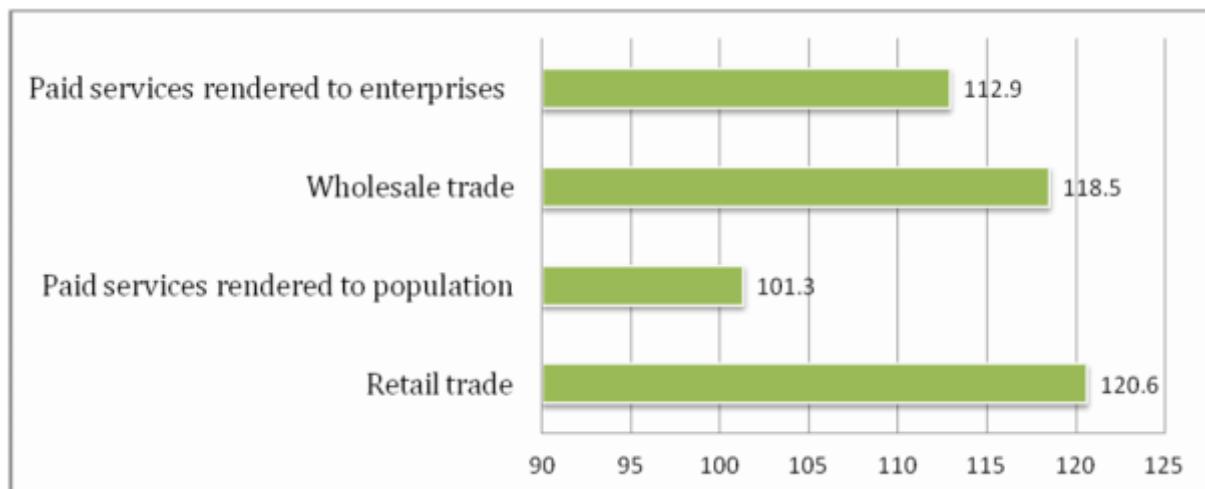
## *Services*

Sector, wholesale and retail trade, repair of motor vehicles, motorcycles and personal household goods continued performance of the first quarter, the index of physical volume increased by 18 per cent in the first half compared with same period previous year.

In the first half of this year, the indicators of trade activity on the domestic market demonstrated positive trends:

- Turnover in retail trade increased compared to the same period of the previous year by 20.6 per cent (in comparable prices);
- turnover for enterprises whose main activity is wholesale trade increased by 18.5 per cent compared to the same period of the previous year (current prices).

A modest increase was recorded in paid services rendered to the population. Thus, during the reference period, the turnover in enterprises whose main activity consists of market services rendered to the population increased compared to the same period of the previous year by 1.3 per cent (in comparable prices).



**Figure 1.7. Turnover Indices for Retail Trade and Market Services Rendered in the First Half of 2011**

Source: according to NBS

Retail structure by ownership denotes a constant reduction in the number of commercial enterprises and of mixed and public companies, and an increase in the number of private and collective ownership companies (foreign-owned), the latter accounting for over 95 per cent.

## *Transport*

In the first half of 2011 the volume of transport services grew. Freight transport in this period increased by 27 per cent compared to the previous year, while the volume of goods transported by all transport companies reached 4.04m tones. The upward trend during this period was characterized by a 34.1 per cent increase in the volume of goods transported by railway, of 28.7 per cent of those transported by air, 26.3 per cent for river transport and 19.2 per cent for road transport.

During January-June 2011, the distance covered by freight transport was 1634 million tons-km or over 21 per cent more than in the same period of the previous year. The transport activity in the period examined is as follows in the table below.

**Table 1.6. Volume of Transported Goods and Distance Run between January-June 2011**

	Goods transported			Distance run by goods		
	thousand tons	as per cent of January-June 2010	as per cent of January-June 2009	thousand tons-km	as per cent of January-June 2010	as per cent of January-June 2009
Transport companies - total	4039.8	126.6	45.9	1634.0	121.4	64.7
of which:						
railway	2105.6	134.1	33.9	556.3	145.0	33.8
road	1874.6	119.2	74.3	1076.7	112.0	122
river	59.1	126.3	92	0.2	141.6	80
air	0.7	128.7	166	0.8	109.1	133

Source: according to NBS

Although transport services in the first semester of 2011 showed quite good developments compared to the same period of the previous year, given the depth of the sector's fall in 2009, it is estimated that at the end of this year, the distance run by goods will only amount to 80 per cent of the value recorded in 2008, and the transported goods by 65-70 per cent.

### **Construction**

In the first half of 2011, construction sector has a solid pace of growth, it increased by nearly 13 per cent compared with same period of last year. This rate of growth is explained by sharp decrease in the previous two years.

Most dynamics was housing, which grew by 28.7 per cent, compared to the previous year, which accounted for 945 apartments with a total area of 138,400 m<sup>2</sup> constructed in this period.

### **Communications**

In January-June 2011, compared with similar period of the last year, positive trends were recorded for sending mail (an increase of 6.5 per cent in the first half of 2011, compared with 3.2 per cent decrease in 2010). Shipment of packages continued its positive evolution and increased 4.4 times in the first semester of 2011.

A reduction in growth rate is registered in pension payments, subsidies and allowances. In the first half this sector increased by 0.7 per cent, while in 2010 compared to same period of 2009, growth rate was 9.3 per cent.

### **Tourism**

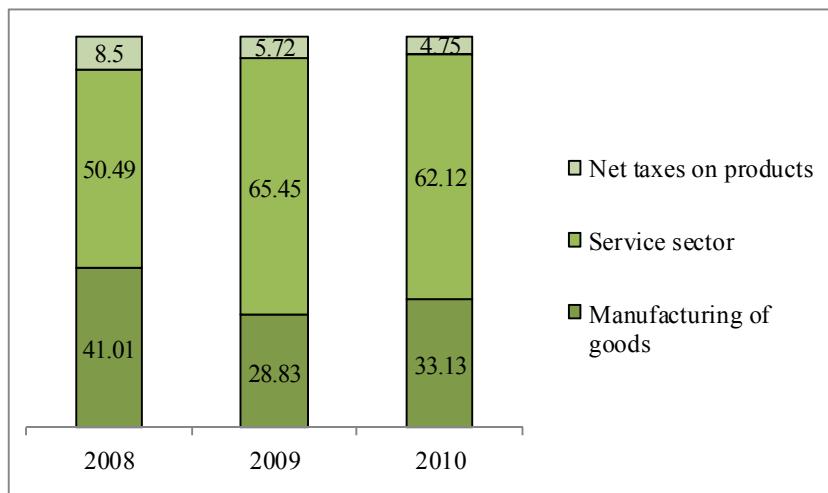
In tourism sector trends are positive, both in the total number of tourists and in number of foreign tourists. Sector revealed an increase of 7.4 per cent in the number of tourists and a 15.7 per cent increase in the number of non-resident tourist, compared to first half of the last year.

Domestic tourists preferred accommodations recovery centers (increase in January-June 2011 by 30.9 per cent compared with first half 2010) and villas, holiday villages (26.7 per cent increase compared to same period of 2010). Foreign tourists preferred tourist villas, holiday villages, the increase was 2.2 per cent. Accommodations by non-residents in hotels and motels increased by 15.7 per cent in the first quarter compared to same period of 2010.

### ***Left Bank of Dniester River***

The GDP in the region of the left bank of the Dniester River in 2010 was 9388.1m rubles (equivalent to USD 992.3 million) and 1807.3 million rubles in the first quarter of 2011. In 2009 the region's economy recorded a growth rate of 8.3 per cent (an indicator which in fact does not reflect the economic development of the region during the crisis, and this value was obtained due to a low GDP deflator of approximately 0.98 per cent in 2009), the economic growth in 2010 was only 1.8 per cent, and in the first half of 2011 it has already shown a fall of 4.9 per cent.

The GDP structure has undergone significant changes. Before the crisis production of goods accounted for 41.01 per cent of GDP, in 2009 this indicator fell to 28.83 per cent, and developments in 2010 only allowed a partial recovery of the sector, when it reached a share of 33.13 per cent. The GDP structure is dominated by the service sector - 62.12 per cent in 2010. Likewise, there has been a decrease in the share of net taxes on products in GDP, from 8.5 per cent in 2008 to 4.75 per cent in 2010.



**Figure 1.8. GDP structure in the region on the left bank of Dniester River, per cent**  
Source: <http://www.mepmr.org/>

The input of agriculture to GDP in the regions of the left bank was 16.3 per cent in 2010, the gross added value in this sector amounting to 507.8 million rubles (1 USD = 10.4 rubles)<sup>2</sup>.

In January-June 2011, the overall agricultural production value in the left bank region amounted to 191,316m rubles, its volume having decreased compared to the previous year by 28.2 per cent.

The area planted with winter and autumn crops in 2011 by the agricultural enterprises, except

<sup>2</sup> <http://www.cbpmr.net/resource/prbvd143-1.pdf>

farms and small businesses, was 133,000 ha. 7.4 per cent more than the area under cultivation in 2010. In the first half of the year, the yields of the main crops were as follows: cereals and vegetables, except corn - 1120.8 tons, rape - 586.4 tons, fruit - 1397.2 tons, which is 17.4 per cent, 11.2 per cent and 89.8 per cent respectively, compared to the previous year.

Animal production in the period under review had a general trend of growth, the production of cattle and poultry in live weight increasing compared to the same period of the previous year by 26.5 per cent, amounting to 1298.6 tons, while egg production increased by 41.6 per cent, for a total of 7,317,700. At the same time milk production decreased by 8.1 per cent, to 3576.0 tons. The number of livestock and poultry, except pigs, fell in the first half of 2011.

**Table 1.7. Number of livestock and poultry in agricultural enterprises  
of the left bank of Dniester river, except farmer households and small enterprises  
at the end of the semester I, 2011, thousands of heads**

	Livestock, thousands heads	per cent compared to the same period in 2010
Cattle	7,794	96.5
of which cows and bulls	2,207	89.1
Pigs	14,028	114.2
Sheep and goats	3,713	90.2
Poultry	230,962	78.5

## Chapter II

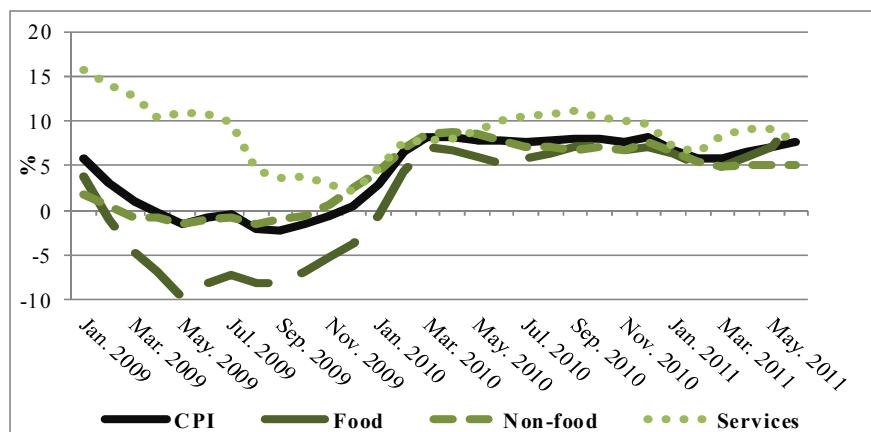
### PRICES AND EXCHANGE RATES

In the first half of 2011, consumer price indices rose by 6.6 per cent compared with same period last year. In the same period, CPI components recorded the following increases: Food – 6.6 per cent, non-food products – 5.3 per cent, services – 8 per cent. Meanwhile, in the second quarter of 2011 compared to same period last year, prices have risen, meaning the rate of inflation also rose. The price increases were caused by:

- ✓ the propagation of the second round of effects of higher prices for energy products, introduced in the first quarter;
- ✓ an increase in the electricity price in April 2011;
- ✓ weather conditions (manifested in June) that were harmful for harvest collection.

In the second quarter of 2011, CPI increased by 7.1 per cent compared to the previous year. Monthly indices of prices, calculated against the same period of 2010, had the following increases: 6.5 per cent in April, 7 per cent in May and 7.7 per cent in June. In the second quarter of this year compared to same quarter of the previous year, the CPI components have registered:

- ✓ the most significant increase in services – by 8.6 per cent (in monthly terms compared with the same period last year, the following price increases occurred: 9.1 per cent in April, 9.1 per cent in May and 7.7 per cent in June);
- ✓ prices for food products increased by 7.8 per cent (in monthly terms compared with the same period last year, the following price increases occurred: 6.1 per cent in April, 7.1 per cent in May and 10.3 per cent in June);
- ✓ non-food products have undergone relatively steady price inflation of around 5.1 per cent (in monthly expression compared with the similar period last year, the following price increases occurred: 5.0 per cent in April, 5.1 per cent in May and 5.1 per cent in June).



**Figure 2.1. The growth rate of CPI and its components  
(same month of previous year = 100)**

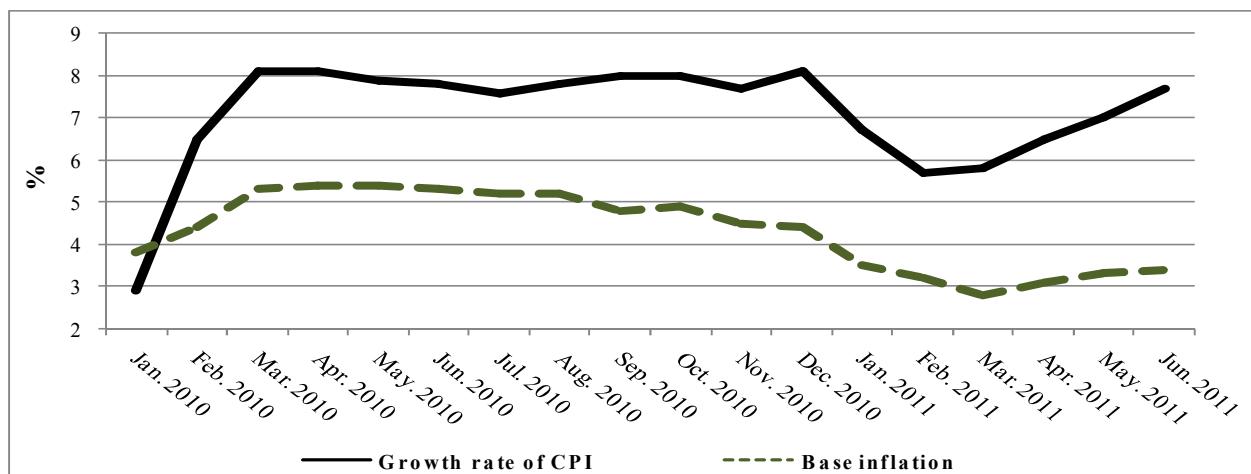
Source: National Bureau of Statistics

The growth in the price of services was caused by the setting new tariffs for electricity consumption in April 2011, and increases introduced in the first quarter for gas and central heating. Similarly, in the second quarter of 2011, compared to same period last year, railway tariffs have increased by 16.3 per cent as a result of fuel price increases.

With food, in the second quarter compared with same period last year, there were increases in bakery products of 8.6 per cent. This development is the result of the impact of the second round of price increases related to energy products in the first part of 2011. In June there was an increase in the price of vegetables by 10.3 per cent compared with same month of 2010. The situation in question was caused by climatic conditions that affected the collection of vegetables.

For non-food products, there was a specific increase in fuel prices of 16.9 per cent in the second quarter of 2011 compared to the second quarter of 2010, as well as for construction materials - an increase of 16.9 per cent.

The increased influence of non-monetary factors on inflation is reflected in core inflation (calculated excluding food and beverages, fuels, products and services with regulated prices), which, during the second quarter of 2011 compared with same period of previous year, grew at rates above 3 per cent.



**Figure 2.2. The growth rate of CPI and core inflation  
(same month of previous year = 100)**

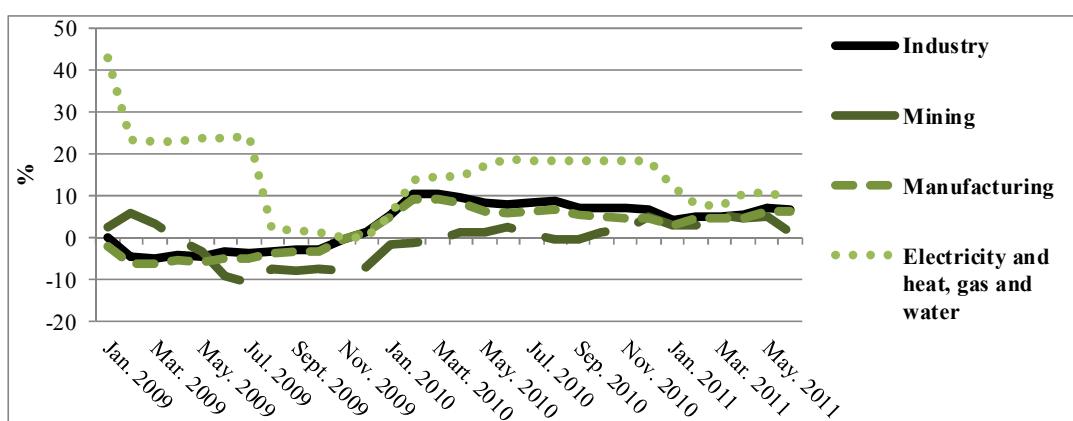
Source: National Bureau of Statistics

In the first half of 2011, the industrial producer price index rose by 5.5 per cent compared with same period last year. These industries have recorded the following increases: extractive industry – 3.6 per cent, processing industry – 4.8 per cent, energy – 9.6 per cent. From the beginning of the year there has been acceleration in the growth rate of the industrial production price index: in the first quarter of 2011, industrial prices rose 6.3 per cent compared to the same quarter of 2010, while in the first quarter the growth was only 4.7 per cent. In monthly terms, compared to the previous year, industrial production prices rose by 5.5 per cent in April, by 6.9 per cent in May and in June the growth trend decreased, reaching a rate of 6.6 per cent. In the second quarter, compared to the previous year, the industry sub-sectors have recorded the following increases:

- ✓ increases in the energy sector by 10.1 per cent (monthly increases compared to the same period last year were: 10.5 per cent in April, 10.7 per cent in May and 9.2 per cent in June);

- ✓ the manufacturing price index rose by 5.7 per cent (monthly increases compared to the same period last year were: 4.6 per cent in April, 6.3 per cent in May and 6.2 per cent in June);
- ✓ prices in the mining industry recorded a rise of 3.5 per cent (monthly increases compared to the same period last year was 4.5 per cent in April, 4.9 per cent in May and 1.3 per cent in July).

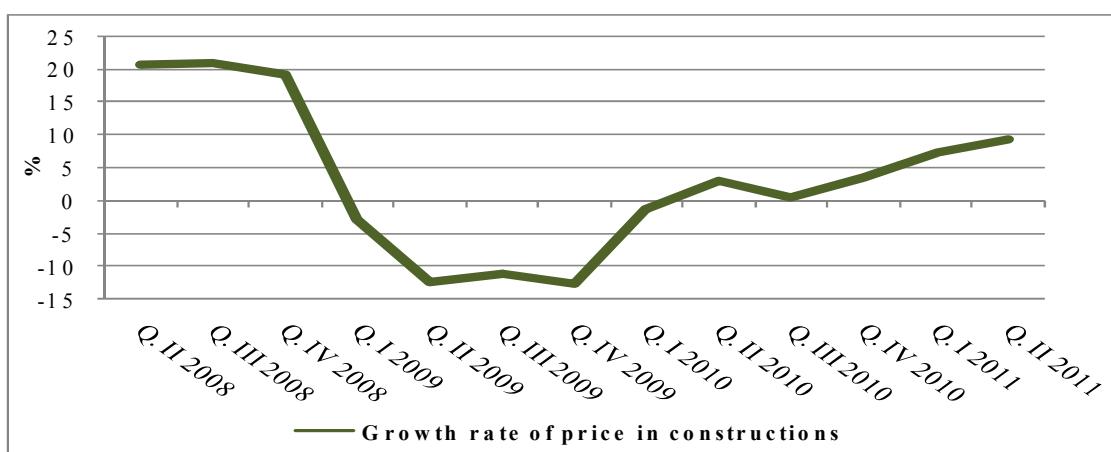
There were also price increases compared to the same period of 2010 in *manufacture, milling, and in starch products* – an increase in the second quarter of 2010 of 39.2 per cent and for sugar production an increase of 20.9 per cent. The increase in industrial production prices was caused by more expensive fuels, raw materials and food products on international markets.



**Figure 2.3. The growth rate of industrial production price index and its components  
(the same month of previous year = 100)**

Source: National Bureau of Statistics

Construction prices continue to rise, prolonging the trend started in the second quarter of 2010. In the second quarter, compared to the previous year, prices increased by 9.4 per cent. The increase in construction prices indicates a revival of the sector. In sectoral terms, compared to same period last year, the largest price increases were recorded in telecommunications – by 13.2 per cent, housing – by 13.1 per cent and agriculture - by 11.4 per cent.



**Figure 2.4. The growth rate of prices in construction  
(the same month of previous year = 100)**

Source: National Bureau of Statistics

Prices of agricultural products rose in the first semester of 2011, increasing by 19.8 per cent

compared with same period last year. The growth in prices for agricultural production was caused by a 44.2 per cent increase in vegetable prices, while livestock prices fell by 7.9 per cent. Cereals and pulses underwent particularly strong increases in price—the increase in the first half of the year amounted to 59.1 per cent.

Both in 2010, but especially in 2011, authorities have used administrative methods to counter price increases. Eloquent in this respect are two decisions taken by the Government: stopping the export of cereals and pharmaceutical market regulation.

#### FIRST EFFECTS OF DRUG PRICE REGULATION

In 2011, in order to counter the increase of prices, the Government resorted to the use of administrative methods. The pharmaceutical market regulation is a relevant example in this respect. By Government Decision no. 525 of 22.06.2010 a new way of calculating the price of medicines was established. The decision sets the introduction of the *National Catalogue of producer prices on drugs* and drug selling price must be calculated according to the manufacturer price set in the catalog. It also states that "the price offered by drug manufacturers should not exceed the average price for the lowest three prices of similar drugs in the countries of reference" (three CIS and 15 EU countries). Implementation of this decision began in early 2011 by beginning the process of filling out the Catalogue (a procedure that lasted several months).

At the same time, the drug prices trend reveals a lack of efficiency in the implementation of the decision. From January to July 2011 drug prices have decreased compared to the previous year by 5.6 per cent. However, monthly analysis displays a different situation - the prices of drugs have decreased in April, after which period the trend was reversed. In March the lowest drug prices were registered compared with December 2010 (prices were down by 4.4 per cent), while in April the lowest prices on drugs were found compared with same period of 2010 (a fall of 7.8 per cent). Since April, the monthly price index of drugs rose in a volatile fashion, but continues, as reflected in indices that have different periods as the basis: in July 2011 drug prices fell by 7.2 per cent compared with same period of previous year and by 3.3 per cent compared to December 2010.

For the most part, the fall in the price index for the past 12 months, recorded in the first quarter of 2011, is due to decreasing prices for medicines introduced in the period June-October 2010. Taking as base period May 2010, prices fell at the most by 8.5 per cent (the level recorded in March 2011), and in July 2011 the reduction in prices was already 7.2 per cent. For comparison, during December 1999 - May 2010, drug prices increased by 4.12 times and in June 2011 prices were 3.84 times higher than in December 1999.

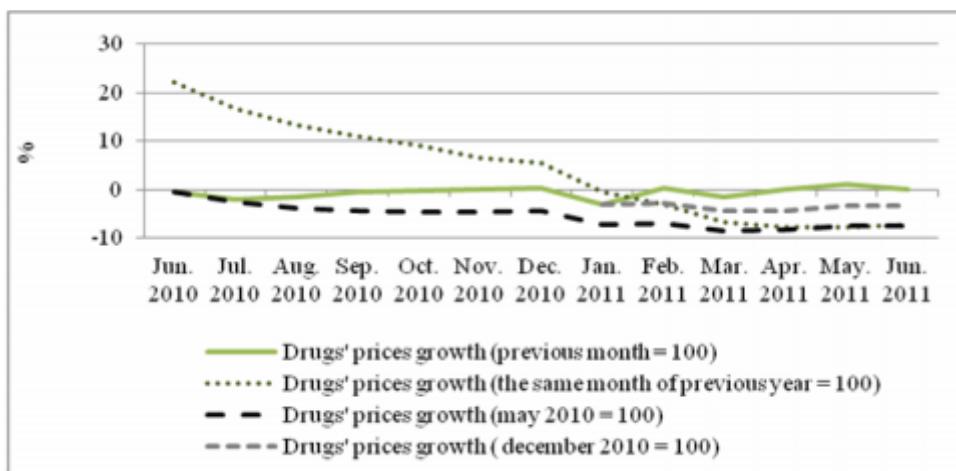
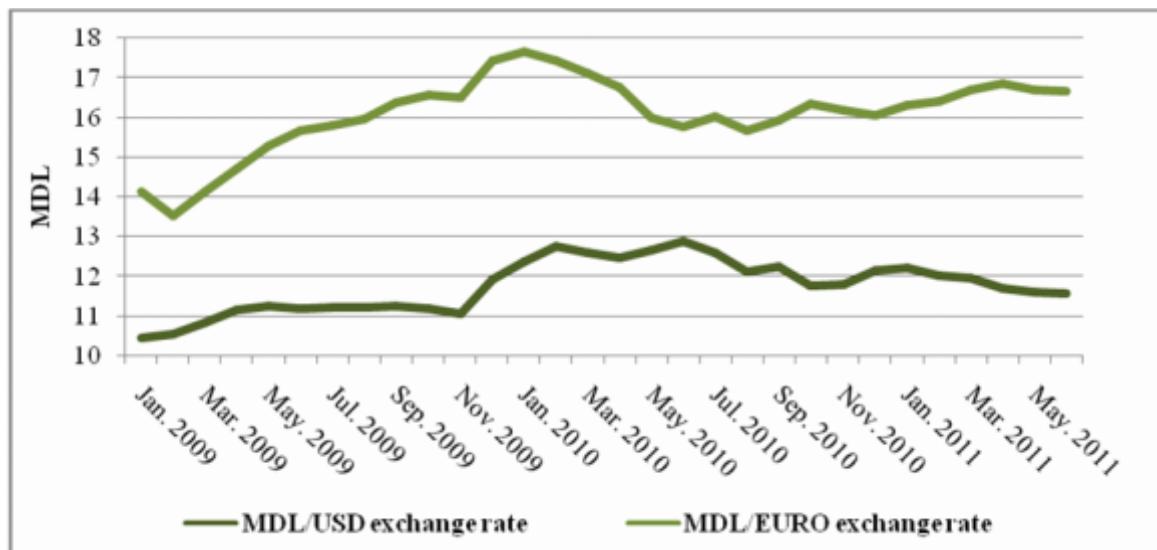


Figure 2.5. The evolution of drug prices

Source: National Bureau of Statistics

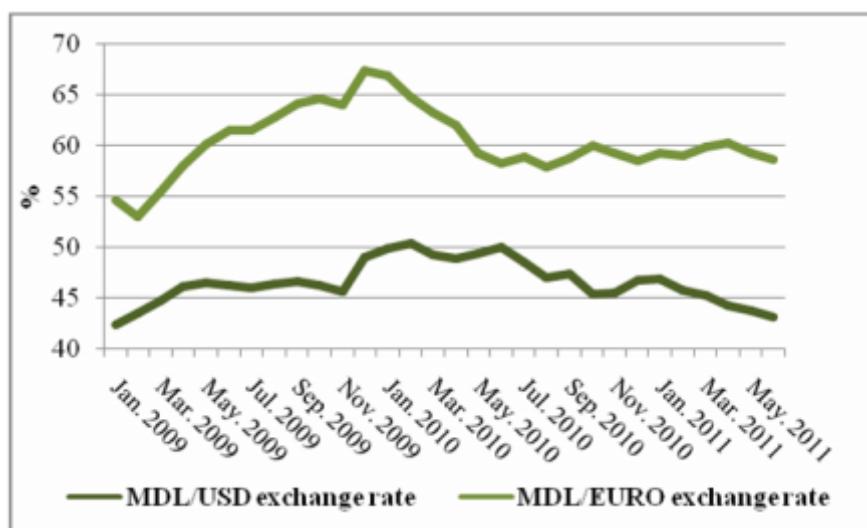
The MDL/EUR rate depreciated by about 1 per cent in April compared to March 2011, which was the highest valuation for the MDL since the beginning of the year: 16.86 MDL for 1 EURO. Subsequently the trend has changed slightly – in June MDL/EUR rate appreciated by 0.3 per cent compared with March. During the second quarter of 2011, the national currency appreciated against the USD, continuing the trend from the first quarter. The average monthly rate MDL/USD in June was 11.58 and it has risen by 3 per cent compared to March 2011.



**Figure 2.6. Evolution of the average monthly rate MDL / USD and MDL / EURO**

Source: National Bureau of Statistics

In the second quarter, the real rate of national currency appreciated against the currencies of reference: the MDL/USD rate by 4.75 per cent and MDL/EURO by 2% (between March and June). However, while the MDL/USD exchange rate appreciated continuously following events in the first quarter, the MDL/EUR rate depreciated by 0.7 per cent in April compared to the previous month, after which the trend resumed.

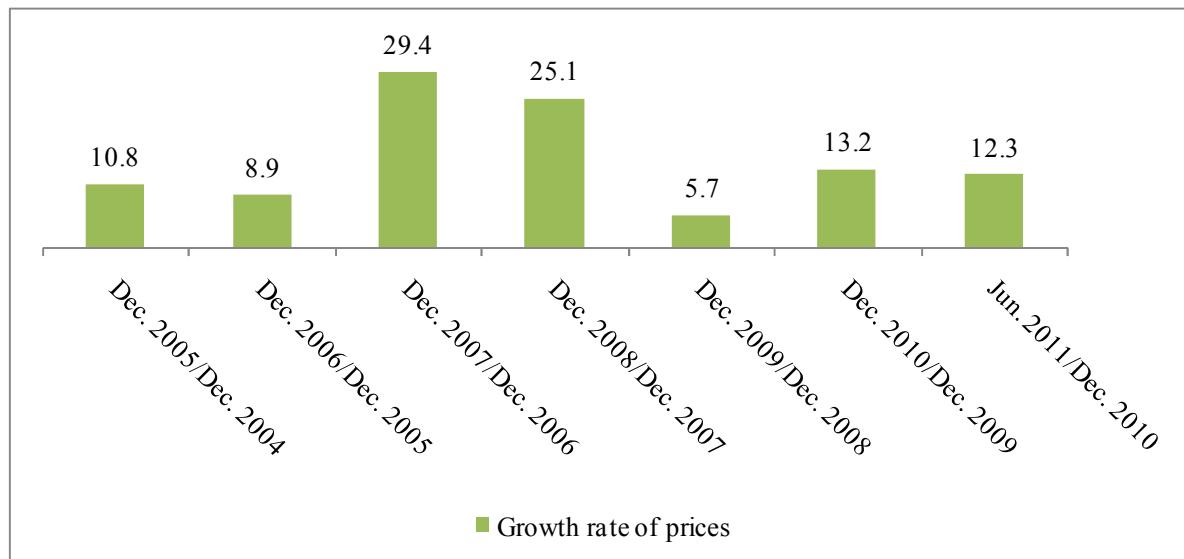


**Figure 2.7. The evolution of real exchange rate MDL/USD MDL/EURO  
(Jan. 2000 = 100)**

Source: National Bureau of Statistics

### **The Region on the left bank of Nistru**

Price increases have been high on the region on the left bank of the Nistru river. Annual inflation in the period 2005-2010 (calculated as price increases in December compared to December previous year) were well above 10 per cent, with the exception of 2006 and 2009. For the first half of 2011, again, there is strong evidence of inflation: in June 2011, compared with December 2010, prices increased by 12.3 per cent.



**Figure 2.8. Inflation level in the region on the left bank of Nistru, %**

Source: <http://www.cbpmr.net/>

## Chapter III FINANCES

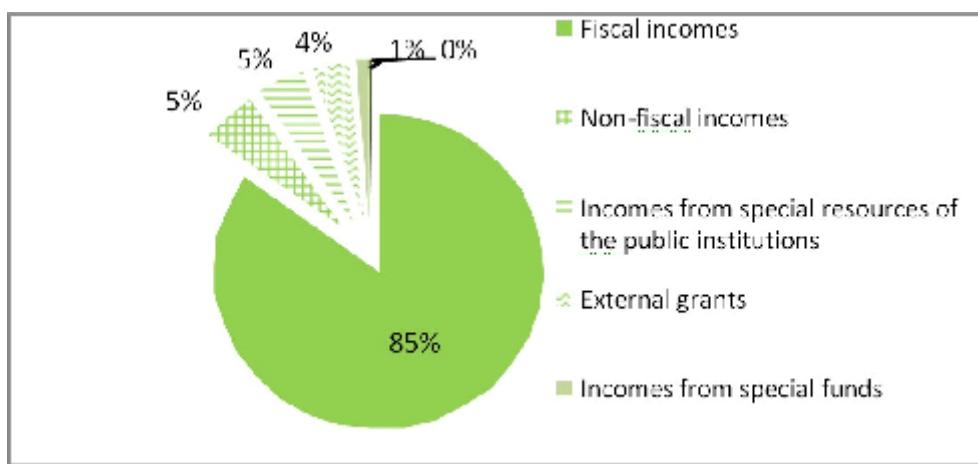
### PUBLIC FINANCES

#### *Revenues of the National Public Budget*

A total amount of 13,646.5m lei were collected during the first half of 2011 into the National Public Budget, 1246.7m lei or 10.1 per cent more than during the same period of 2010, continuing thus the upward trend observed in the previous edition of this report.

This means revenue targets were 100 per cent fulfilled (2.7m lei were not collected), compared to the 105.4 per cent fulfilment of the revenue plan that was achieved in the first half of 2010. The lower level of fulfilment is due, among other things, to the failure to carry execute plans for VAT. Potential explanations are listed in the Public Finances Box. It is noteworthy that the average level of revenues collected during the first half of 2011 (2274.4m lei) is higher than the average monthly level of the revenues collected during the first quarter of the same year (2040.7m lei). In fact, this trend can be also observed while analysing the semester and quarter revenues of 2010 (2066.6m lei – during the first semester of 2010 and 1860.8 million lei – during the first quarter of the same year). However, if comparing the monthly rate of growth of the collected revenues during the first semester of 2011 to the first quarter of the same year (10.28 per cent) it should be noted that the rate is more accelerated during the same period of 2010 (9.96 per cent). This fact underlines the trend of growth in revenues collected monthly, which could mean that the economic activity is revived over time.

Analysis of the structure of BPN revenues during the first semester of the year 2011, it can be seen that the majority still comes from tax revenues (85 per cent).

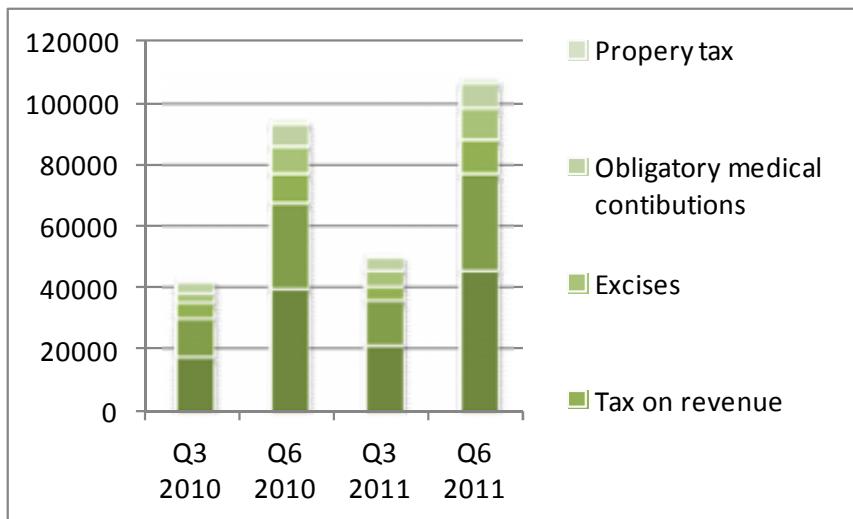


**Figure 3.1. The Structure of National Public Budget revenues during semester 1 of 2011**

Source: MF

If compared to the first quarter of 2011, the share of the tax revenues fell by 2.8 per cent, being also higher by 2.5 per cent if compared with the same period of 2010. The VAT revenues represent the largest share of the tax revenues, a share that grows in time, as can be seen in Figure 3.1.

Thus, the trend mentioned in the previous edition of this report, of indirect revenues prevailing over direct ones is maintained. However, this trend could change due to the increase, as of 01.01.2012, in the income tax rate from 10 per cent to 12 per cent.



**Figure 3.2. The structure of the tax revenues (mil. lei)**

Source: MF

As for non-tax revenues, we note that 741.5m MDL were collected during the first half of 2011, their share in the total revenues being 5.4 per cent versus 3.9 per cent for the first quarter of 2011. However, while analysing the similar periods of 2010 a tendency for the share of the tax revenues to fall as a share of total revenues is observed.

The most important contribution to the formation of revenues under the form of grants comes from external grants, with a total value of 504.1m for the first half of 2011, of which 488.0m was external grants and 16.1m external and internal grants.

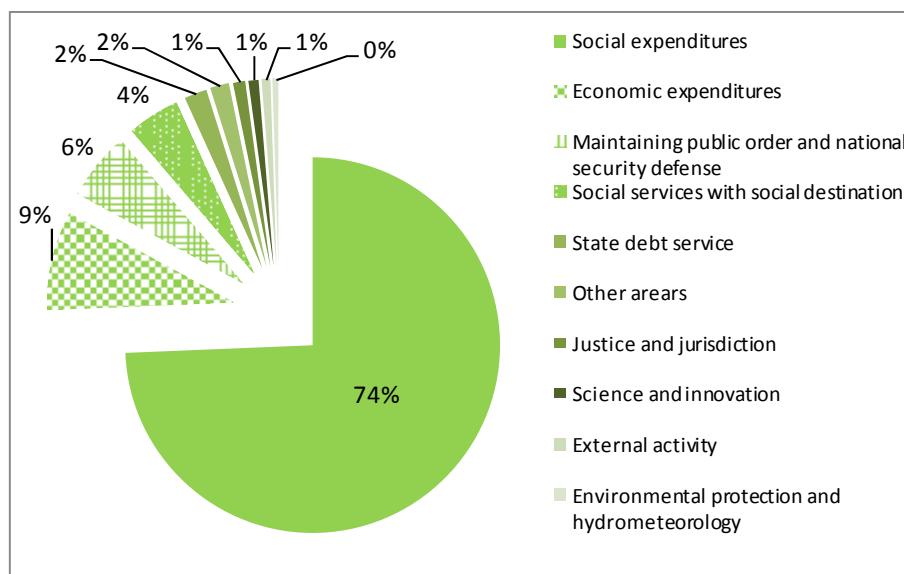
In the light of the revenues collected it should be noted that the arrears to BPN found in the first half of 2011 represented 861.3m lei. Of the total amount, the arrears for VAT amounted to 367.6m lei (42.7 per cent), income tax - 39.3m (4.6 per cent), corporate income tax - 55.0m (6.4 per cent), property taxes - 37.2 m (4.3 per cent), excise taxes - 11.3m (1.3 per cent).

#### *National public budget expenditures*

In the first semester of 2011, there was 15,009.1m lei of budgetary spending, some 1304.0 million lei or 9.5 per cent more than during the same period of 2010.

Therewith, the fulfillment ratio of the plan was 84.1 per cent (2,845.4m lei), which comes as a tendency to optimize the national public expenditures, especially in the light of carrying out 86 per cent of the expenditure plan (2,181.6m lei) during the same period of 2010.

Analysis of the expenditure patterns under the NBP during the first half of 2011 shows that the bulk of expenditure continues to comprise social spending (74 per cent).



**Figure 3.3. The structure of national public budget expenditure during the first half of 2011**

Source: MF

Therefore, the development of the share of this indicator in the total amount of expenditures for the first quarter and for the years 2010 and 2011 shows a reduction of expenditure at this level. If during the first quarter of 2010, social expenditure's share of the total represented 74 per cent and increased to 75.6 per cent during the first semester of the same year. During the first quarter of 2011, the expenditures in question represented 76.7 per cent of the total, dropping during the first semester of the same year to 74.6 per cent of total expenditures.

Of the total social expenditures, the biggest share is contributed by social insurance and assistance, which is on a rising trend (2 per cent), based on data from the first semester of the years 2010 and 2011, a situation happening in the context of cuts to the other components of social expenditure: health care - 0.4 per cent and education – 2 per cent. Moreover, a rising trend was also registered in case of expenditures on cultural, art, sports and youth activities (+0.5 per cent).

### **Financial budgetary result**

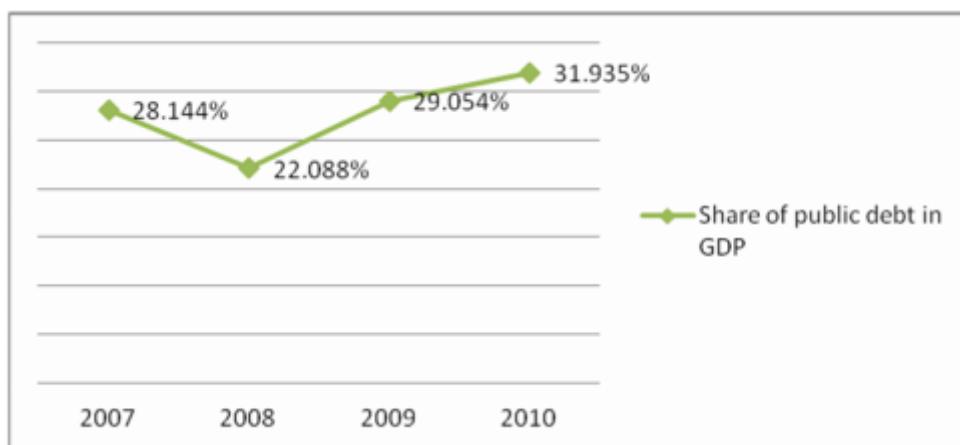
The execution of the state budget during the first half of 2011 resulted in a **deficit** of 1362.6m lei, which is 32.4 per cent of the amount planned for the reporting period (4,205.3m lei), which is 4.4 per cent (57.3m lei) more than during the same period of 2010.

The list of the main **sources of budget deficit financing** includes among others revenues from selling state securities (64.1m lei, 64 per cent less than during the same period of 2010), the difference between the exchange rate of the exchange sources (21.4m lei), loans provided by international financial organizations (517.1m lei, or 44 per cent less than during the same period of 2010), income from the sale and privatization of public assets (158.6m lei, or 14.5 per cent more than during the same period of 2010).

On 30.06.2011 **the balance** amounted to 3066.3m lei, which is 41.5 per cent more than the planned level and 2.8 per cent less than the balance on the same date of the previous year. Compared with the balance on 01.01.2011, there was a gain of 937.2m lei.

### The Public Debt

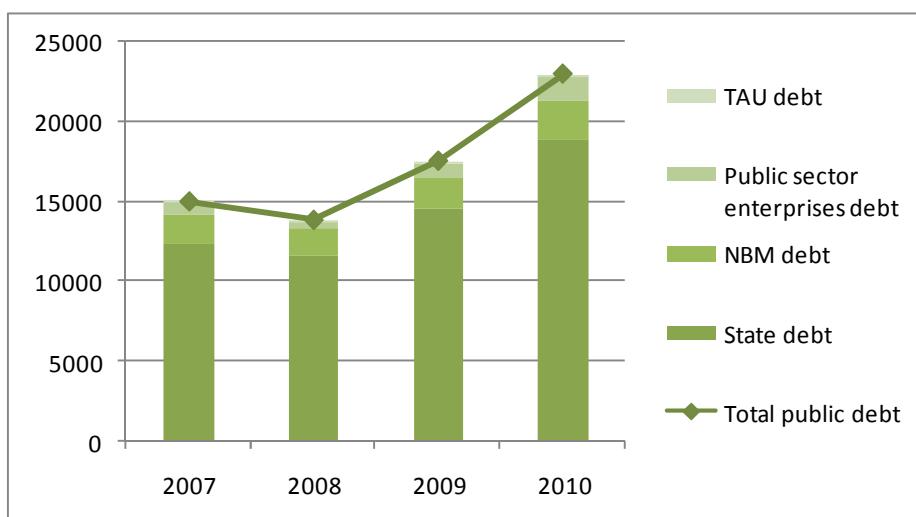
In the years 2007-2010, public debt represented, on average, 17359.3m MDL, and was on a rising trend as of 2008.



**Figure 3.4. The evolution of the public debt as a proportion of the Gross Domestic Product**

Source: MF, NBS

A structural analysis of public debt shows that the largest part is composed of state debt (about 83 per cent – a figure which has remained relatively constant over the years examined), followed by bank debt – about 11.5 per cent, the debt of public sector enterprises – about 4.9 per cent and the debt of the TAU – about 0.7 per cent. The evolution of the other components varies from one period to another. For example, bank debt's share of the total tends to fall (from 12 per cent in 2007 to 10.8 per cent in 2010), while public sector enterprise debt shows the opposite trend (from 4.5 per cent in 2007 to 6.6 per cent in 2010, with a minor deviation from the trend in 2008, when the share of the expenditures in question represented 3 per cent).



**Figure 3.5. The evolution of public debt structure in the years 2007-2010**

Source: MF

By 31.03.2011 the debt balance had fallen by 2.9m lei compared to the beginning of the year, reaching 801.17m lei. It was composed of government debt – 18768.0m lei, NBM debt – 2460.3m

lei, the debt of public sector enterprises – 1438.3m lei, the debt of the TAU – 134.6m lei. Compared to the beginning of the year, the reduction of the debt balance by the end of the first quarter of 2011 was conditioned by a reduction in the level of government debt (by 102.78m lei) and the balance of NBM debt (by 22.01m lei). At the same time, an increase in public sector enterprises' debt balance (by 56.40m lei) and of the TAU debt balance (by 65.49m lei) was registered.

Compared to the first quarter of 2010, the balance of public debt increased by approximately 10.8 per cent.

### ***Government debt***

By 06.30.2011, the government debt amounted to 18991.6m lei, which is 0.6 per cent more than compared to 01.01.2011 and 5.5 per cent more than the government debt registered on the same date of the previous year.

Of the total amount, 28.3 per cent is domestic government debt and 71.7 per cent is foreign government debt. Accordingly, unlike at the end of the first quarter of 2011, domestic government debt rose by 0.4 percentage points, while foreign debt fell by the same amount. Compared to the end of the first semester of 2010, domestic state debt had fallen by 1.1 percentage points while foreign government debt increased by the same amount.

By 30.06.2011, *domestic government debt* was 5368.9m lei and was composed entirely of state securities at the moment of the analysis, unlike the moment of the analysis of the previous year when some other insignificant components were present along with the state securities

A structural analysis of government debt shows that the balance of the converted SS remained unchanged during the periods analysed, the deviations resulting from the SS issued on the primary market.

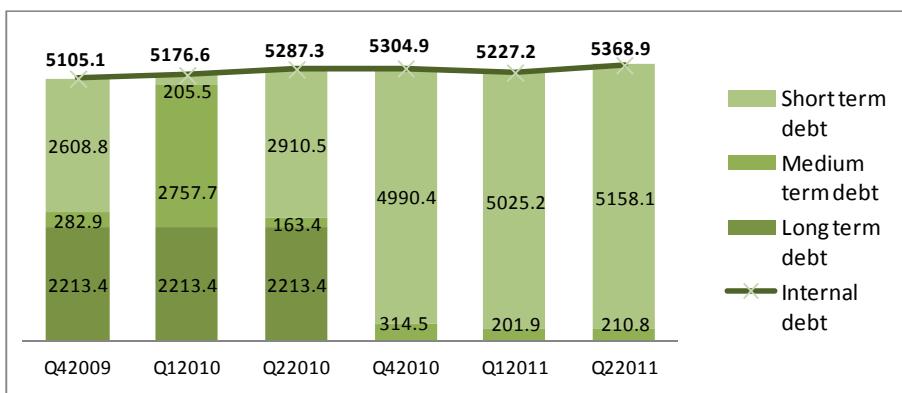
**Table 3.1. The balance of domestic government debt at the beginning of the years 2010 and 2011 and at the end of Semester I of the years 2010 and 2011**

(mil. lei)

Indicators	Government debt balance on:				Deviation on 30.06.2011 compared to 01.01.2011			
	01.01.2010	30.06.2010	01.01.2011	30.06.2011	Suma	%	Suma	%
<b>Total amount of the government debt</b>	14622.4	18005.1	18870.7	18991.6	+120.9	100.6	+3382.7	105.5
<b>Domestic government debt</b>	5104.9	5287.3	5304.9	5368.9	+64	101.2	+182.4	101.5
<b>SS issued on the primary market</b>	2441.5	2723.9	3091.5	3155.5	+64	102.1	+282.4	115.8
<b>Converted SS</b>	2213.4	2213.4	2213.4	2213.4	0	100.0	0	100.0

Source: MF

As for the structure of the domestic debt by the time period, it appears that the trend noted in the previous edition of the MET - lack of long-term domestic debts, in the light of the growth of medium- and short-term debt, which shows a tendency towards short-term orientation in the direction of the internal donors – is maintained.



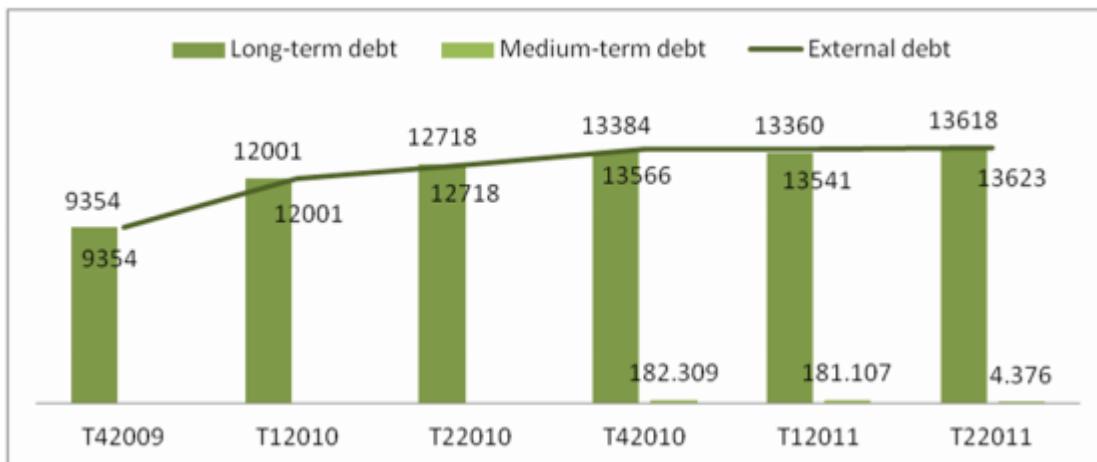
**Figure 3.6. The evolution of the domestic government debt (million lei)**

Source: MF

During the first six months of this year, the interest rate on SS sold at auctions was 10.81 per cent (depending on the types of SS: 91 days - 9.88 per cent, 182 days - 11.23 per cent, 364 days - 11.69 per cent, 2 years - 11.48 per cent), which is 4.1 percentage points higher than during the same period of 2010.

On 30.06.2011, *foreign government debt* amounted to 13622.7m lei (approximately 1173.6m USD), thus, increasing since the beginning of the current year by 57.5m USD due to the inflows of the account of foreign government loans which exceeded the reimbursements by about 21.4m USD as well due to the positive fluctuation of the exchange rate of the U.S. dollar against other currencies worth about 36.1m USD.

As for the structure of foreign debt by time period, we note that, in general, the trend noted in the first edition of the MET is maintained (the absence of short-term debts, the presence of medium-term debts). However, the share of mid-term foreign debt went down compared to its balance at the end of the first quarter of 2011, from 1.34 per cent to 0.03 per cent.



**Figure 3.7. The evolution of the foreign government debt (million lei)**

Source: MF

This fact reflects the trend of supplementing the total amount of foreign debt with medium-term foreign debt only.

Generally, it is observed that the trend of long-term foreign lending and short-term domestic

lending is preserved. We assume that the foreign loans are used to fund government programs that require a longer period of implementation, while the domestic sources are intended to meet current needs. Besides, this situation could be caused by the higher price of domestic financial resources compared to the external financing.

### ***Government debt servicing***

836m lei were used during the first semester of 2011 for government debt servicing, namely:

- for government debt servicing – 294.8m lei;
- for the reimbursement of the main domestic and foreign sums – 542.1m lei.

Financial means in the amount of 209.9m lei have been used for domestic government debt service during the first semester of 2011, of which 118.2m lei was used to pay the interest and coupons on SS issued on the primary market and 91.7m lei to pay the interest on the converted SS.

Financial sums in the amount of 527.1m lei have been used for foreign government debt, of which 84.9 was used to service government debt and 442,1m lei for the reimbursement of the principle.

### ***Public finances of Transnistria***

According to the information available on the official website of the Ministry of Finance of Transnistria<sup>3</sup>, 1473.7m roubles were collected as budgetary revenues in 2010, which can be equated to 1214.3m lei (on 30.06.2011, a Transnistrian rouble was worth 0.8240 lei<sup>4</sup>; about 4.4 per cent of the revenues collected on the controlled territory of the Republic of Moldova), 96.7 per cent of the revenue plan being achieved. The revenues collected in 2010 exceed by 22.7 per cent the revenues collected in 2009, and if taking into account the humanitarian aid and the budgetary loans repayment - by 63.1 per cent. Therewith, for 2011 there was a rate of revenues of 1061m roubles (874,3m lei) planned for 2011, registering therefore a reduction by 30 per cent if compared to the amount planned in 2010.

44.5 per cent of the total revenues are tax payments, of which 55 per cent represent the income tax on the part of organizations. In turn, the non-tax revenues accounted for 40 per cent of total revenues, the largest share being composed of the sums of the budgetary credits reimbursed and their related interest (66.7 per cent).

In 2010, budgetary expenditures accounted for 2466.1m roubles, or 2032.1m lei (about 8.4 per cent of the expenditures made in territory controlled by the Republic of Moldova), which was by 7 per cent less than the expenditures made in 2009. For 2011, the budgetary expenditures plan was set at 2607.6m roubles (2148.7m lei).

The bulk of the expenditures (43.1 per cent) in 2010 went to other expenses (24.1 per cent), followed by expenditures on social protection (16.5 per cent) and health (14.1 per cent).

As a result, in 2010 the budgetary deficit amounted to 992.6m roubles or 817.7m lei.

---

<sup>3</sup><http://minfin-pmr.org/>

<sup>4</sup><http://www.cbpmr.net/?kv=1&lang=en/>

*Public Finances Box***THE CAUSES OF THE INSUFFICIENT VAT COLLECTION IN THE COUNTRY**

When expressly analysing the budgetary positions as regards the collection of taxes during the first six months of 2011, it is noted that the plan is 88 per cent fulfilled when it comes to the collection of VAT on goods and services produced within the country (188.3m lei) in the light of the overall exceeding of the plan of the VAT collection (102.4 per cent). In fact, the amount of VAT returns in the period under review is 112.1m lei less than in the same period of 2010, and that in an environment of general economic growth. The trend in question was noted as of the first months of the year, the uncollected sums growing afterwards month by month, which gave birth to questions about the causes that led to those effects. I will present below the causes that most likely led to these effects.

***Changes in the fiscal policy***

The changes in fiscal policy are very important factor when it comes to estimating the causes explaining why returns have not been collected into the state budget.

For instance, the change in fiscal policy relating to deliveries by enterprises specialized in producing and trading agricultural products was reflected in the returns collected from these enterprises.

Thus, the negative effect was felt both in the VAT share (in 2009 the VAT share for delivering agricultural products made of captive supplies was 20 per cent, while as of 2010 it reached 8 per cent, January 2010 being a month marked by payments related to the products delivered in 2009, taxed at a 20 per cent VAT rate) and the non-appliance of the VAT on the amount below the cost in case of agricultural products sold at a price below the cost (as the amendments to the Fiscal Code, operated by Law No. 233 of 24.09.2010, entered into force).

As a result, on 31.05.2011<sup>5</sup>, the enterprises in question paid an amount of 20.7m lei as VAT compared to the 65.9m registered during the same period of 2010. At the same time, the amount of VAT collected during the subsequent periods after the first three months of 2011 accounted for 241.8m lei compared to 130.4m lei collected during the same period of the previous year.

***Increasing the value of imported goods***

According to data from the State Tax Service, published in the Fiscal Journal (FISC.md), the major telecommunications companies registered a reduction of the payments compared to the same period of the previous year, mainly caused by the value of the imported goods (equipment), which led to an increase in the VAT amounts attributed to settlements on the account of the sums paid to the Customs Service.

The results of a thematic analysis reveal an increase in the VAT on goods imported during the first six months of 2011 by 25.8 per cent compared to the same period of 2010, when it was 25.8 per cent. However, compared to the first half of 2009, during the same period of 2010 the situation was similar (25.3 per cent), as opposed to comparing the respective periods of 2009 and 2008 (down by 30.3 per cent). Accordingly, it is concluded that this trend has existed since 2009. This could be caused by an inadequate assessment of goods in the customs, by using the estimate method – a method that the World Trade Organization does not recommend, given the fact that it leaves room for interpretation, thus forming premises for the use of traffic of influence among customs employees.

Overall, this redistribution of VAT among the goods produced within the country and those imported does not affect the state budget. However, the possibilities of collective VAT from deliveries within the country (payments managed by the State Tax Service) are exhausted at the very stage of importing because they increase of the tax obligation to the Customs Service and grant the right to take the VAT into account on an

<sup>5</sup>Monitorul fiscal FISC.md, nr.02, iulie 2011

increased amount, which reduces the obligation of delivering goods within the country.

#### ***Investments***

According to the source mentioned above, the investments made by economic agents who specialize in trading food and non-food products represent another cause of this state of affairs, especially when it comes to the construction of new networks of stores. Accordingly, the VAT on the investments in question enters the account, thus diminishing the amount of VAT paid to the state budget.

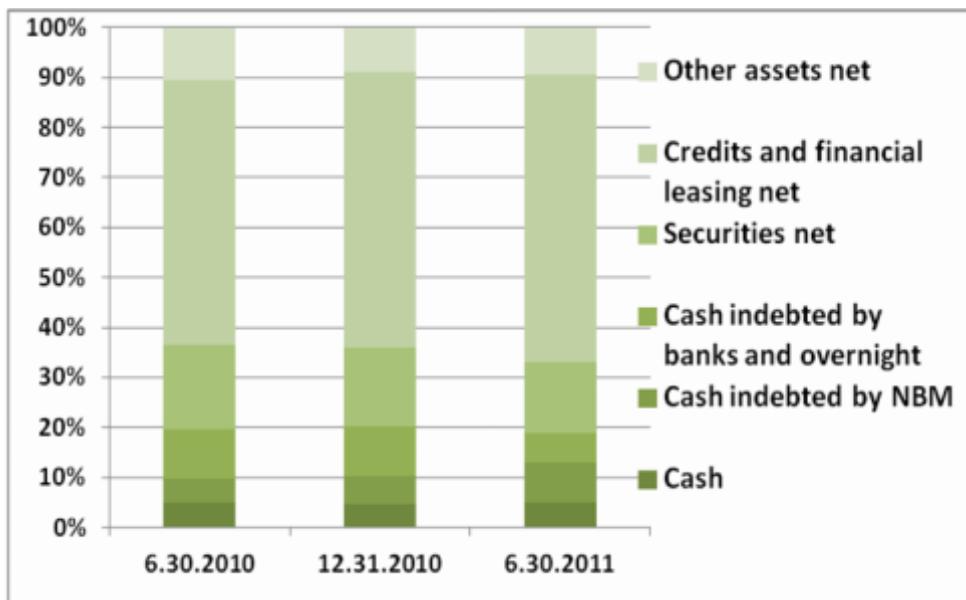
### **THE BANKING SECTOR**

The evolution of the banking system of the Republic of Moldova delivered significant results during the first six months of 2011, showing positive dynamics in the majority of indicators.

In the first semester of 2011, *the total assets of the banking system* amounted to 44,837.3m MDL, 13.07 per cent more than in the same period of 2010. The evolution of the banking assets was due to strong growth in profit generating assets, the loan portfolio, the largest component of total assets, returned 57.5 per cent, up by 2.3 percentage points compared to 30.06.2010. The rhythmic growth of the assets by components leads to the conclusion of a relative bank stability.

Thus, the following changes have been registered on 30.06.2011 compared to 30.06.2010:

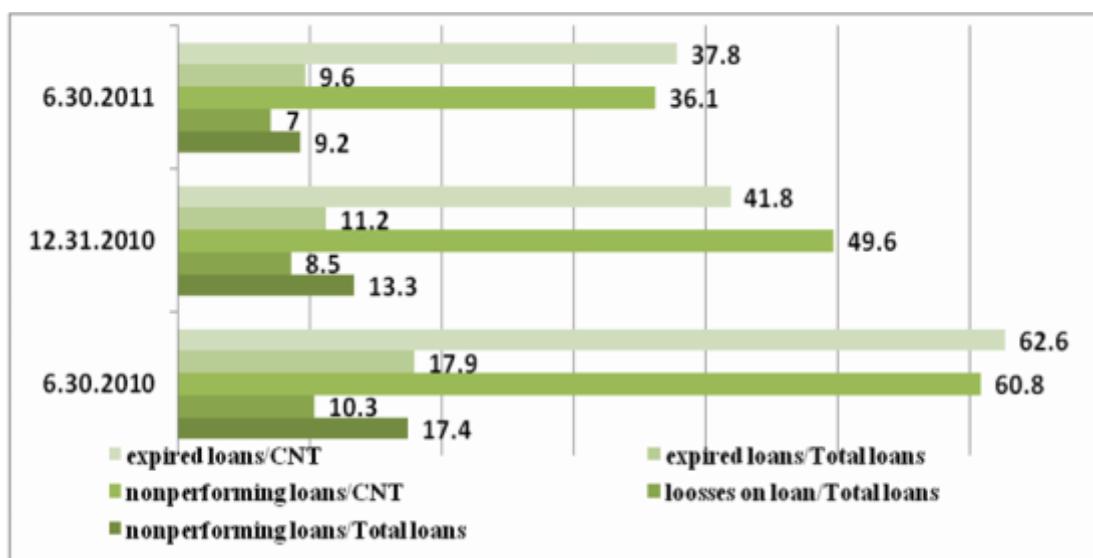
- an increase in cash by 12.8 per cent up to 2,212.1m. MDL;
- an increase in the means due from the NBM by 96.3 per cent up to 3,666.5m MDL;
- an increase in loans and in net financial leasing by 22.6 per cent up to 2,577.5m MDL;
- a decrease in the means due from the banks and the net overnight means by 4.7 per cent, down to 2,591.7m. MDL;
- a reduction in other net assets by 9.4 per cent, down to 1,266.0m MDL;
- a fall in the net amount of securities by 2.9 per cent down to 6,463.5m MDL.



**Figure 3.8. Evolution of the banking assets according to their amount and structure, Semester I 2010-2011, %**

Source: NBM

The amount of loans in the economy amounted to 28,833.4m MDL on 30.06.2011, and increased by 3,930.4m MDL compared to 30.06.2010. In the first semester of 2011, the upward trend was due to the increase in the balance of loans granted in the national currency by 21.9m. MDL (0.1 per cent) and of the balance of loans in the foreign currency by 654.1m MDL (5.3 per cent). On 30.06.2011, the share of non-performing loans in the total amount of loans was 9.2 per cent and it decreased by 8.2 percentage points compared to 30.06.2010. The same amount of non-performing loans, projected over TRC, is 36.1 on 30.06.2011 and decreased by 24.7 percentage points compared to 30.06.2010.

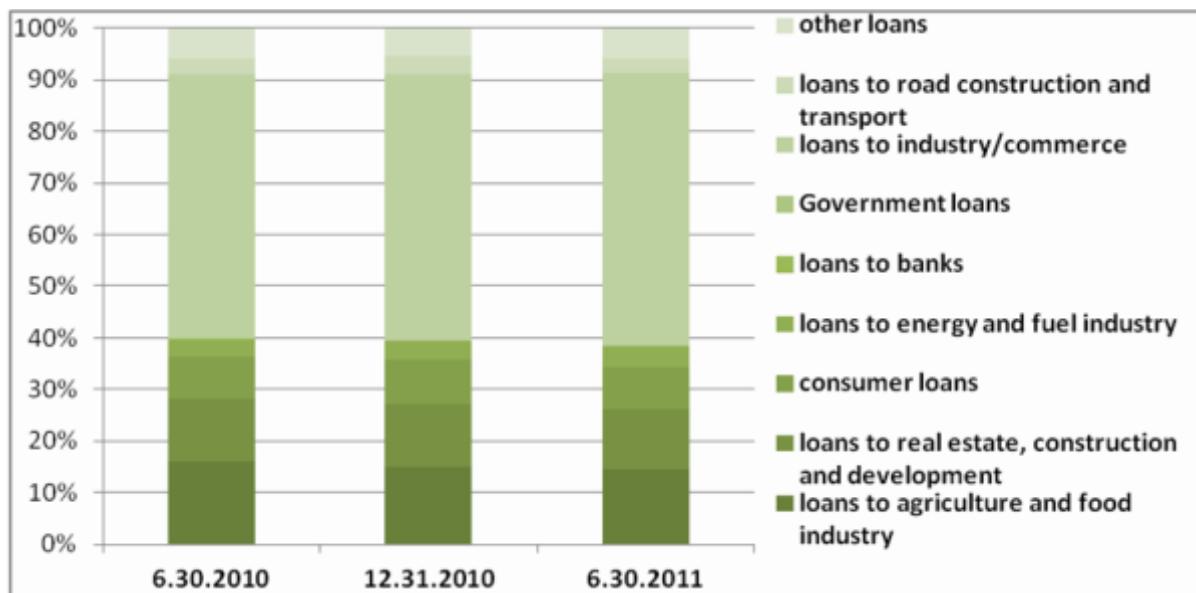


**Figure 3.9. The evolution of the banking quality, semester I 2010-2011, %**

Source: NBM

The amount of expired loans and non-accrual loans on 30.06.2011 accounted for 9.6 per cent of the total loan portfolio 8.3 per cent less than on 30.06.2010. Accordingly, the amount of expired

loans and non-accrual loans in relation to the CNT accounted for 37.8 per cent on 30.06.2011, 24.7 percentage points less than on 30.06.2010. Under these circumstances, the reductions on the loan losses fell by 3.3 percentage points



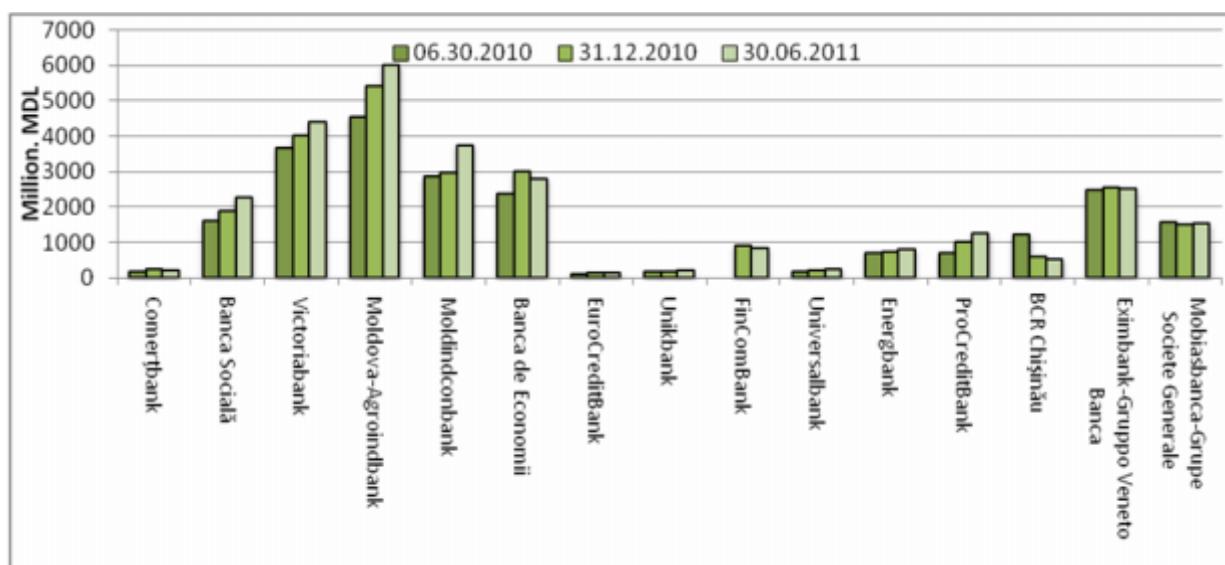
**Figure 3.10. The structure of the loan portfolio of the banking sector of the Republic of Moldova during semester I 2010-2011, %**

Source: NBM

On 30.6.2011, the largest share of total loans was represented by loans granted to industry and trade – 52.9 per cent, followed by loans to the agriculture and food industries - 14.5 per cent, loans for real estate, constructions and development - 11.6 per cent, consumer loans - 8.2 per cent and loans to the energy industry – 4 per cent. At the same time, we notice that there were significant decreases in the following types of loans – loans to the agriculture and food industry – by 1.4 percentage points, loans to real estate, constructions and development - by 0.7 percentage points.

In June 2011, the average *interest rate on loans* granted in the national currency fell by 2.2 percentage points, reaching the level of 14.2 per cent, while on 06.30.2010 it amounted to 16.4 per cent. Accordingly, there is a fall noticed in the case of the average rate on loans granted to natural persons, this indicator amounted to 16.4 per cent in June 2011, a fall of 3 percentage points compared to June 2010. In June 2011, the average interest rate on loans in foreign currency fell by 1.9 percentage points compared to 30.06.2011 and stood at 8.2 per cent level. This reduction was caused by a fall in the lower average rate on loans granted to legal persons which amounted in June 2011 to 8.8 per cent, 1.5 percentage points less than in June 2010.

During the second semester of 2011, the evolution of the commercial bank loans registered is rising. Thus, on 30.06.2011 four commercial banks owned 61 per cent of total loan portfolios, of which Moldova-Agroindbank- 22 per cent, Victoriabank-16 per cent, Moldindconbank - 13 per cent and Banca de Economii -10 per cent. Moldova-Agroindbank, the leader in the banking market, had a loans balance of 6,024.6m MDL on 30.06.2011, 1,454.3m MDL than on 30.06.2010.

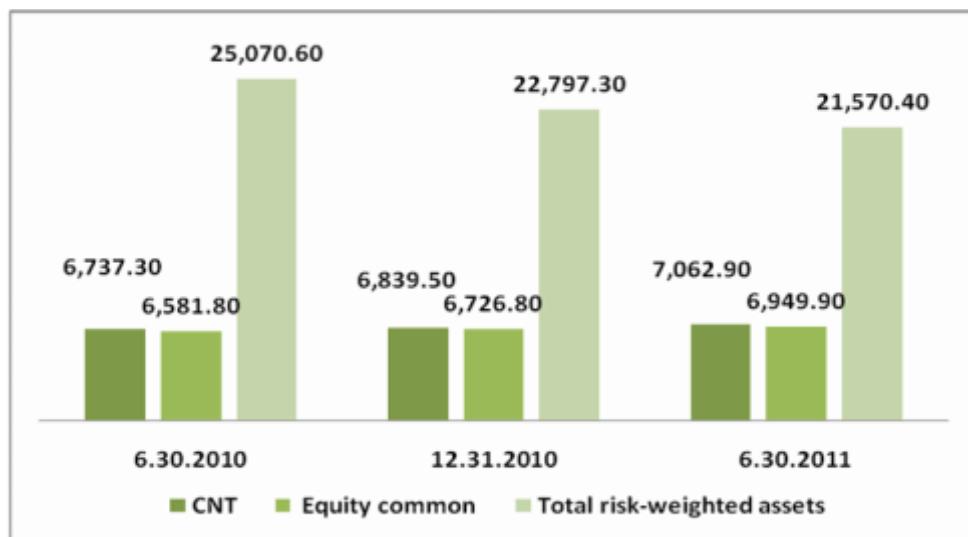


**Figure 3.11. The evolution of lending by commercial banks in the Republic of Moldova in semester I of the years 2010-2011 (million MDL)**

Source: NBM

The analysis of *total regulatory capital*, which determines the solvency of the banks, showed that it amounted to 7,062.9 m. MDL on 06.30.2011, up 4.8 percentage points compared to 30.06.2010. The capital increase, accomplished at the expense of issuing shares, which increased by 33.3 per cent over the six months of this year, was marked by qualitative changes. Thus, comparing the CNT to the risk-weighted assets, it is found the growth of CNT is slower, accounting for 15.7 per cent, while that of risk-weighted assets was 55.9 per cent at the end of June 2011.

On 30.06.2011, *first-tier capital* increased by 5.5 per cent up to 6,949.9m. MDL compared to 30.06.2010. The positive value of this indicator confirms the strength and resilience of the system to financial shocks.



**Figure 3.12. The evolution of the capital of the banking system of the Republic of Moldova in semester I of the years (million MDL)**

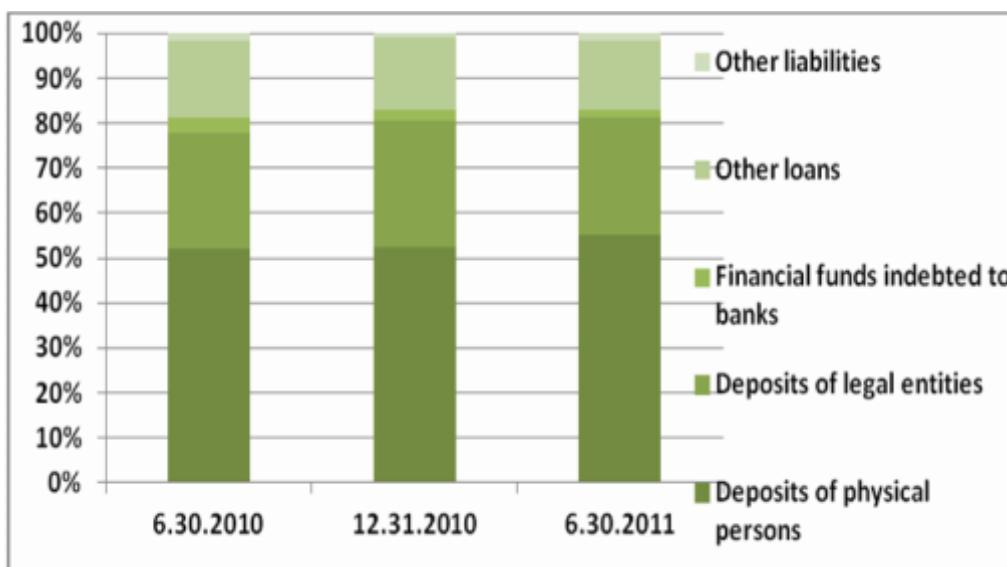
Source: NBM

The capital adequacy ratio has remained at a high level, standing at 28.7 per cent on 30.06.2011. Although well above the required minimum of 12 per cent, there has been a small fall of 3 per cent by 30.06.2010. We found that the fall in capital adequacy could be explained via the considerable increase in the size of the loans portfolio, a class of risky assets bearing substantial risks.

On 30.06.2011, *the bonds of the banks* accounted for 37,354.2 m MDL, up 14.7 per cent compared to 30.06. 2010.

The following changes in the structure of the bank bonds sector were seen during semester I of 2011:

- a fall in the financial means available to banks of 4978.3m MDL, bringing them to 6669.6m. MDL;
- an increase in deposits by natural persons of 355.6m MDL, up by 39.4 per cent;
- an increase in deposits by legal persons of 179.9m MDL, or 36.2 per cent;
- an increase in other loans of 4.6 per cent amounting to 5749.4m MDL on 30.06.2011;
- a fall in other bonds, bringing them down to 5,371.1 million MDL or a fall of 4,9 per cent compared to 30.06.2010.



**Figure 3.13. The structure of the bonds of Moldova's banking sector in semester I of the years 2010-2011,%**

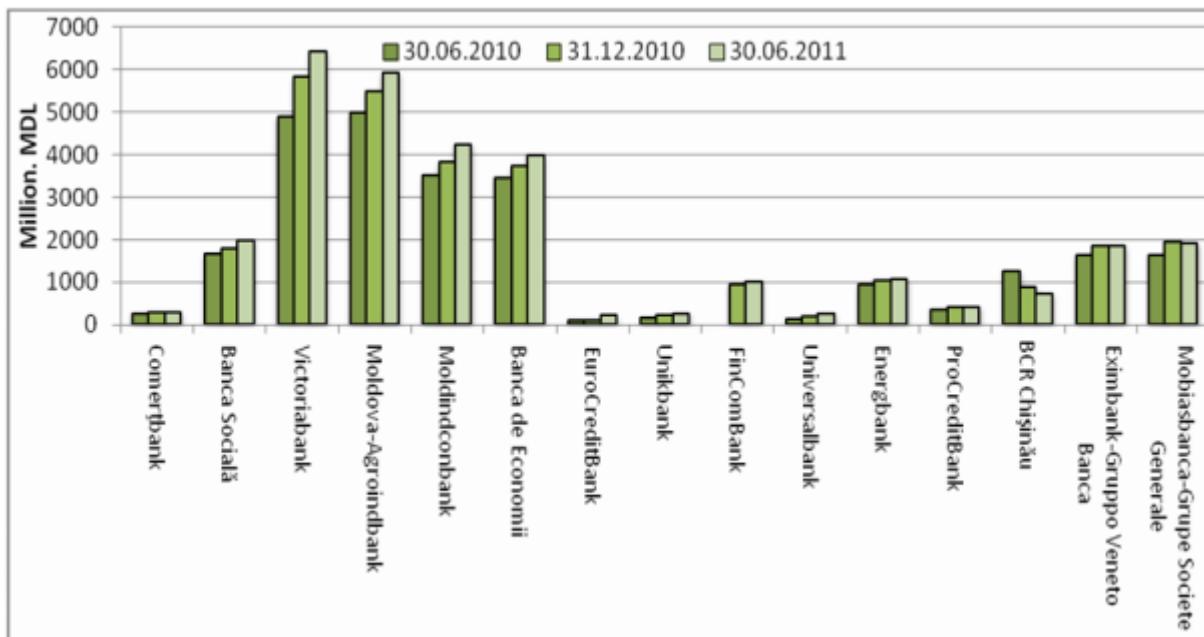
Source: NBM

On 30.06.2011, the balance of *the deposits in the bank system* amounted to 29033.5m MDL, 4895.5m MDL more than on 30.06.2010, as a result of an increase in the balance of deposits by natural persons that amounted to 20291.1m MDL.

An increase in the amount of deposits in commercial banks in the Republic of Moldova was observed in semester I of 2011. Thus, by value of bank deposits, the market is concentrated in four commercial banks that hold 67 per cent of the total amount of deposits, of which

Victoriabank makes up 21 per cent, Moldova-Agroindbank 19 per cent, Moldindconbank 14 per cent and Banca de Economii 13 per cent.

As for deposit gathering, at the end of 2010 Victoriabank had become the market leader, outrunning Moldova-Agroindbank, (Victoriabank had a balance of 5849.4m MDL, while Moldova-Agroindbank held a balance of 5503.1m MDL). This trend intensified in the first semester of 2011. On 30.06.2011, Victoriabank had a balance of 6436.9 m MDL, while Moldova-Agroindbank held a balance of 5949.7m MDL.



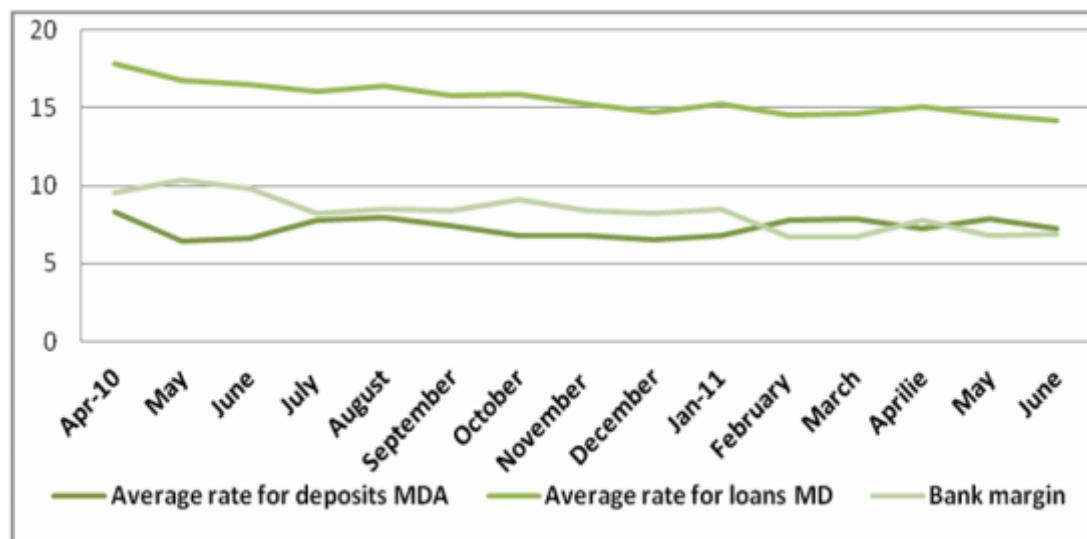
**Figure 3.14. The evolution of the deposits of commercial banks in the Republic of Moldova during the first semester of the years 2010-2011 (million MDL)**

Source: BNM

Growth trends have been observed for *interest rates*. In June 2011, the interest rate on deposits was 7.28 per cent, which was 0.6 percentage points more than in June 2010, when this indicator was 6.6 per cent. Accordingly, in June 2011, the rate of the deposits by natural persons was 9.04 per cent, up 0.15 percentage points over June 2010, while growth of deposits by legal persons in June 2011 showed a level of 4.9 per cent, up by 0.64 percentage points compared to the same period of the previous year.

In June 2011, the average interest rate on time deposits in foreign currency increased by 0.26 percentage points accounting for 3.5 per cent, while in June 2010, it stood at 3.3 per cent level. In June 2011, the rate of deposits by natural persons increased by 0.30 percentage points compared to June 2010, while the rate of deposits of legal persons fell by 0.2 percentage points reaching a level of 4 per cent.

*The margin* on banking operations in the national currency fell from 9.23 per cent in June 2010 to 6.92 per cent in June 2011.

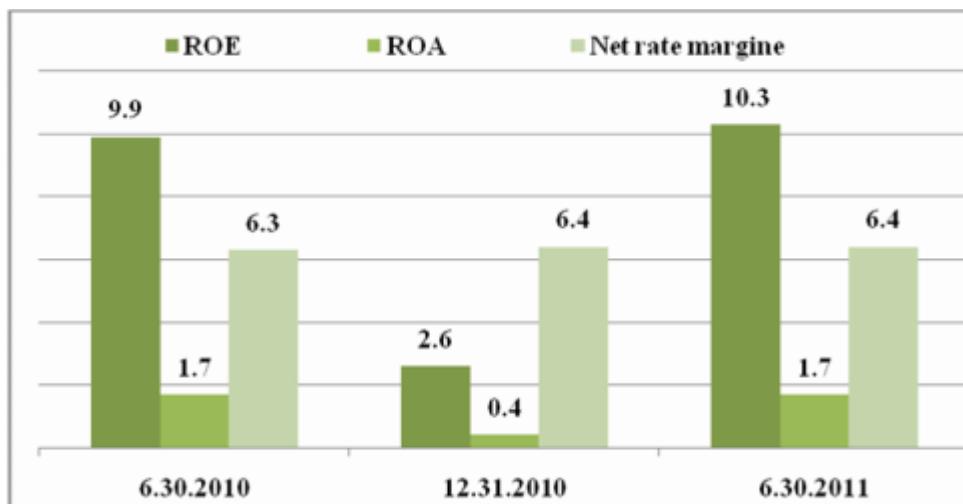


**Figure 3.15. The evolution of the bank margin, average rates of deposits and loans in MDL during semester I of 2010-2011,%**

Source: NBM

The evolution of *the bank profitability* highlights the fact that the banks were able to increase their net return on assets (ROA) by 1.2 percentage points, achieving 1.7 per cent in absolute terms, on 30.06.2011, as well as their return on equity (ROE), by 7.7 percentage points, achieving 10.3 per cent compared to 2010. Along with the increase in the shareholder and assets capital, the ROE and ROA increase shows a growth rate that is much faster, which is quite encouraging. Thus, at the end of June 2011, the total revenue of the banks was 383.6m MDL.

The share of assets generating interest increased on 30.06.2011 by 2.6 percentage points and amounted to 79.5 per cent, compared to the 76.8 per cent registered on 30.06.2010. Accordingly, there is an insignificant increase on 30.06.2011 of the net interest margin by 0.06 percentage points amounting to 6.4 per cent compared to 30.06.2010. Thus, banks that are in more difficult situations offset income from other sources, particularly from the commission allowed on transfers, including those from abroad, and other charges levied by the bank.

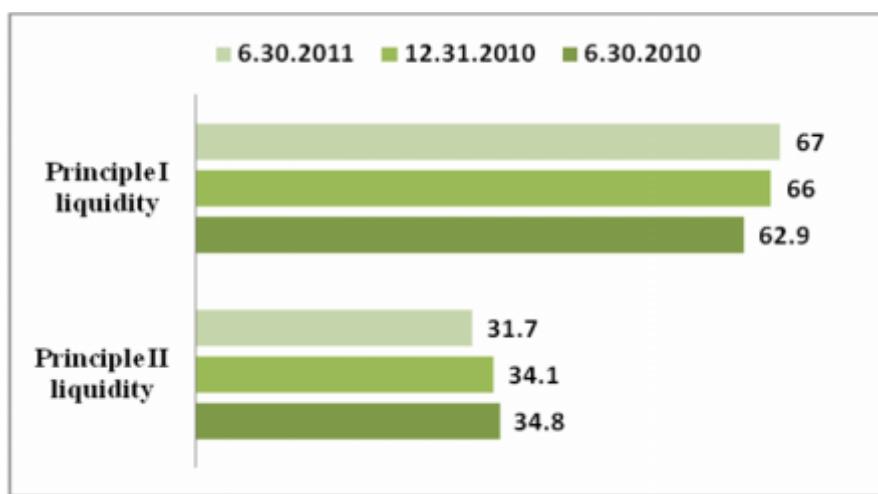


**Figure 3.16. The trends of the net margin interest, ROE and ROA, during semester I of the years 2010-2011,%**

Source: NBM

The efficiency index, calculated as the ratio of net interest revenue plus non-interest income and non-interest expenditures up to 30.06.2011 has risen by 16.3 per cent compared to 30.6.2010, reaching 166.3 per cent.

**Bank liquidity** can be regarded both in terms of the share of liquid assets of the total assets, as well as through bonds, which the bank is obliged to honor. Thus, we notice a deduction in the share of liquid assets (principle II of liquidity), by 3.03 per cent, registering 31.7 per cent on 30.06.2011, which shows that the banks' ability to pay is not affected. The share of deposits in the total amount of assets on 30.6.2011 was 4.08 per cent, accounting for 67 per cent compared to 30.06.2010.



**Figure 3.17. The evolution of bank liquidity in 2010, in semester I of the years 2010-2011,%**

Source: NBM

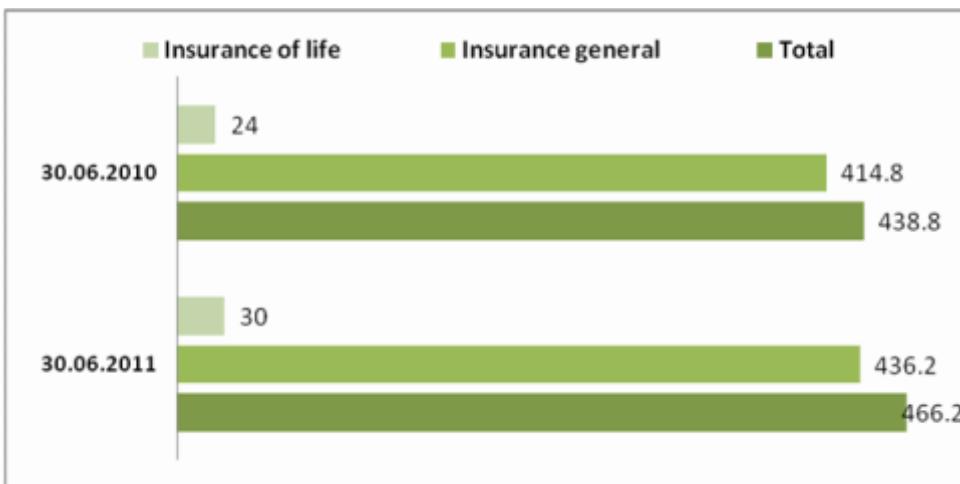
The long-term, or principle I, liquidity of the entire banking system was 0.7 per cent on 30.06.2011, 0.11 per cent more than on 30.06.2010. These values of the liquidity indicators reveal the existence of sources adequate for meeting bond payment schedules.

On the whole, we can say that in the first semester of the years 2011-2010, the banking system has supported the national economy through the new economic conditions and rules, preserving its stability and credibility in spite of a relatively unfavorable economic environment.

### ***The insurance market***

The evolution of the insurance market in the Republic of Moldova during the first semester of 2011 was characterized by modest trends as regard the key indicators of the sector. Twenty four insurance companies and 68 insurance/reinsurance brokers operated during this period.

The gross premiums written related to the insurance activity during the first semester of 2011 amounted to 466.2m MDL, up 6.2 per cent compared to the same period in 2010. Thus, general insurance recorded during the first semester of 2011 gross premiums worth 436.2m MDL, up 5.2 per cent compared to the first semester of 2010. At the same time, the gross premiums written in life insurance accounted for 30.0m MDL, up 25.0 per cent on the first semester of 2010.



**Figure 3.18. The evolution of gross premiums written on the whole and insurance categories during the first semester of the years 2010-2011, million MDL**

Source: CNPF

During the first semester of 2011 the structure of the gross premiums written has not changed essentially: voluntary insurances accounted for 50.6 per cent and 49.4 per cent of the market was made up by compulsory insurances. As for the segment of civil liability insurances, it accounts for 50.8 per cent of the total amount, followed by the insurance of goods, on 35.7 per cent, personal insurance accounted for 13.2 per cent, while insurance premiums accounted for 0.3 per cent.

The top five insurance companies that accounted for the biggest sums of gross premiums written made up 74.2% of the market. They included: Moldasig SRL - 26.3 per cent and a sum of 122.9m MDL, followed by Asito SA - 17.7 per cent with 82.5m MDL, Grawe Carat Asigurari SA - 12.4 per cent or 51.8m MDL and Moldcargo - 9.4 per cent or 43.8m MDL. Thus, during the first semester of 2011, *Moldasig SRL and Asito SA are in the position of market leaders and hold a quota of 44 per cent of the insurance market, while during the same period of 2010 the same companies held a quota of 51.3 per cent.*

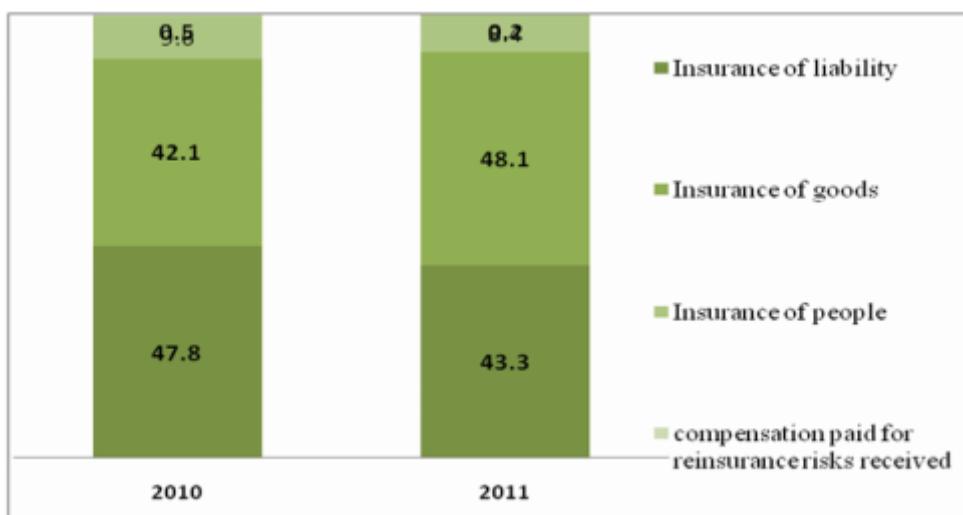
**Table 3.2. The top of the insurance in the Republic of Moldova according to the size of the gross premiums written during the first semester of the years 2010-2011,%**

Rating 2011/2010	Company name	The size of the gross premiums written, MDL		Change of the gross premiums written, %	Market share, %	
		30.06.2011	30.06.2010		30.06.2011	30.06.2010
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>1/1</b>	<b>MOLDASIG SRL</b>	<b>12,913,637</b>	<b>123,701,512</b>	<b>-0.64</b>	<b>26.36</b>	<b>28.19</b>
<b>2/2</b>	<b>ASITO SA</b>	<b>82,563,260</b>	<b>101,812,678</b>	<b>-18.91</b>	<b>17.71</b>	<b>23.20</b>
<b>3/3</b>	<b>GRAWE CARAT ASIGURARI SA</b>	<b>58,024,929</b>	<b>51,874,013</b>	<b>11.86</b>	<b>12.45</b>	<b>11.82</b>
<b>4/5</b>	<b>MOLDCARGO SRL</b>	<b>43,893,233</b>	<b>18,755,954</b>	<b>134.02</b>	<b>9.41</b>	<b>4.27</b>
<b>5/4</b>	<b>DONARIS-GROUP SA</b>	<b>38,750,021</b>	<b>29,394,223</b>	<b>31.83</b>	<b>8.31</b>	<b>6.70</b>
<b>6/7</b>	<b>EUROASIG GRUP SRL</b>	<b>19,040,427</b>	<b>14,449,407</b>	<b>31.77</b>	<b>4.08</b>	<b>3.29</b>
<b>7/6</b>	<b>ACORD-GRUP SRL</b>	<b>18,153,309</b>	<b>15,314,566</b>	<b>18.54</b>	<b>3.89</b>	<b>3.49</b>
<b>8/12</b>	<b>VICTORIA ASIGURARI SRL</b>	<b>15,025,924</b>	<b>8,300,982</b>	<b>81.01</b>	<b>3.22</b>	<b>1.89</b>
<b>10/11</b>	<b>KLASSIKA ASIGURARI SA</b>	<b>11,461,877</b>	<b>8,654,777</b>	<b>32.43</b>	<b>2.46</b>	<b>1.97</b>
<b>11/14</b>	<b>GARANTIE SA</b>	<b>7,895,356</b>	<b>5,758,853</b>	<b>37.10</b>	<b>1.69</b>	<b>1.31</b>
<b>12/12</b>	<b>AUTO-SIGURANTA SA</b>	<b>6,530,311</b>	<b>5,230,136</b>	<b>24.86</b>	<b>1.40</b>	<b>1.19</b>

1	2	3	4	5	6	7
13/8	MOLDOVA-ASTROVAZ SRL	5,458,734	14,325,889	-61.90	1.17	3.26
14/16	ASTERRA GRUP SRL	5,087,291	4,473,155	13.73	1.09	1.02
15/13	GALAS SA	4,758,645	6,041,267	-21.23	1.02	1.38
16/10	EXIM-ASINT SA	4,719,114	8,763,474	-46.15	1.01	2.00
17/19	IDEEA ASIGURARI SA	3,346,173	3,013,269	11.05	0.72	0.69
18/18	VITORIASIG SRL	2,617,334	3,022,426	-13.40	0.56	0.69
19/17	ARTAS SRL	2,014,719	3,053,322	-34.02	0.43	0.70
20/20	SIGUR-ASIGUR SRL	1,763,857	1,858,367	-5.09	0.38	0.42
21/22	ALIANȚA-MOLDCOOP SRL	382,528	384,647	-0.55	0.08	0.09
22/21	GARANT SRL	9,543	835,340	-98.86	0.00	0.19
23/23	AFES-MOLDOVA SRL	0	315,836	0.00	0.00	0.07
24/24	EDICT SRL	0	162,536	0.00	0.00	0.04
<b>TOTAL</b>		<b>466,213,509</b>	<b>438,839,747</b>	<b>6.23</b>	<b>100</b>	<b>100</b>

Source: CNPF

In the first semester of 2010, insurance companies paid compensation and insurance indemnities in the amount of 172.9m MDL, up 17.8m MLD, or 11.5 per cent than in the same period of 2010. General insurers paid compensations of 168.1m MDL or 97 per cent, while insurers who granted life insurance paid compensations in the amount of 4.8m or 3 per cent. Compared to the same period in 2010, the compensations paid during the first semester of 2011 for civil liability insurance registered growth of 14.5 per cent or 9.5m MDL more, in the case of property insurance the growth rate was 12.0 per cent (8.9m MDL), while the compensation paid for insurances of persons fell by 1.2 per cent (0.2m MDL).



**Figure 3.19. The structure of insurance compensations and indemnities, semester I of the years 2010-2011,%**

Source: CNPF

Thus, during the first semester of 2011, the top five insurance companies that paid the largest amounts of insurance compensation and indemnities were: Moldasig SRL – 48.5 per cent with 48.6m MDL, followed by Asito SA – 20.4 per cent with 35.3m MDL, Donaris-Group SA - 7.6 per cent with 13.1 MDL and Grawe Carat Asigurari SA- 6.4 per cent with 11.2m MDL. *Moldasig SRL and Asito SA held the position of market leaders during the first semester of 2011 with a 48.5 per cent share of the insurance market.*

**Chart 3.3. The top of insurance companies in the Republic of Moldova according to the size of the paid compensations and indemnities, semester I of the years 2010-2011, %**

Rating 2011/2010	Company name	The size of the paid compensations and indemnities MDL		The change of the compensations and indemnities, %	Market share, %	
		30.06.2011	30.06.2010		30.06.2011	30.06.2010
1/1	MOLDASIG SRL	48,678,267	44,785,075	8.69	28.16	28.88
2/2	ASITO SA	35,317,046	35,277,523	0.11	20.43	22.75
3/3	DONARIS-GROUP SA	13,186,293	13,224,828	-0.29	7.63	8.53
4/4	GRAWE CARAT ASIGURARI SA	11,222,188	9,861,351	13.80	6.49	6.36
5/9	EUROASIG GRUP SRL	9,591,178	4,368,764	119.54	5.55	2.82
6/5	MOLDCARGO SRL	9,204,822	8,000,923	15.05	5.33	5.16
7/10	GARANTIE SA	8,957,610	3,541,693	152.92	5.18	2.28
8/7	VICTORIA ASIGURARI SRL	8,826,781	5,199,525	69.76	5.11	3.35
9/8	KLASSIKA ASIGURARI SA	4,992,607	4,978,224	0.29	2.89	3.21
10/11	GALAS SA	4,474,024	2,913,385	53.57	2.59	1.88
11/6	MOLDOVA- ASTROVAZ SRL	3,878,761	7,548,143	-48.61	2.24	4.87
12/13	TRANSELIT SRL	2,894,981	2,719,513	6.45	1.67	1.75
13/15	AUTO-SIGURANTA SA	2,423,784	2,014,196	20.34	1.40	1.30
14/12	EXIM-ASINT SA	2,411,731	2,790,431	-13.57	1.40	1.80
15/16	IDEEA ASIGURARI SA	1,781,539	1,056,270	68.66	1.03	0.68
16/17	ASTERRA GRUP SRL	1,717,267	1,012,348	69.63	0.99	0.65
17/14	ARTAS SRL	1,617,184	2,380,853	-32.08	0.94	1.54
18/18	VITORIASIG SRL	815,906	768,734	6.14	0.47	0.50
19/21	AFES-MOLDOVA SRL	239,113	690,898	-65.39	0.14	0.45
20/19	GARANT SRL	233,956	757,131	-69.10	0.14	0.49
21/22	ALIANȚA- MOLDCOOP SRL	175,891	389,935	-54.89	0.10	0.25
22/20	ACORD-GRUP SRL	172,073	718,905	-76.06	0.10	0.46
23/23	SIGUR-ASIGUR SRL	33,097	22,315	48.32	0.02	0.01
24/24	EDICT SRL	11,439	46,244	-75.26	0.01	0.03
<b>TOTAL</b>		<b>172,857,537</b>	<b>155,067,207</b>	<b>11.47</b>	<b>100</b>	<b>100.00</b>

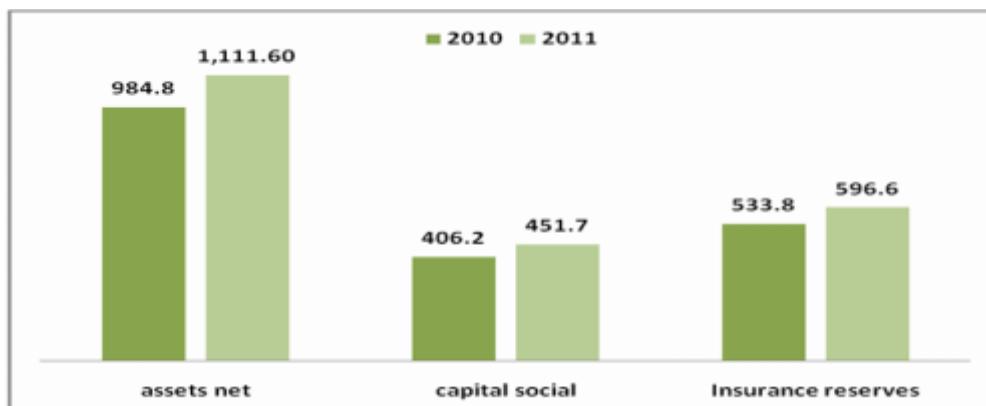
Source: CNPF

The main indicators characterizing the financial solvability and stability of the insurance companies are: the amount of the capital stock, the net assets and the total amount of the insurance reserves of the insurance companies.

Therefore, the net assets of the insurance companies amounted on 30.06.2011 to 1111.7m MDL, or 126.9m MDL (12.9 per cent) more than on 30.06.2010. The increase in net assets is due to an increase of retained profit by 109.4m MDL and the long-term growth of the amount of assets as a consequence of reassessment by 36.4m MDL. Thus, the total amount of the paid-in capital on

30.06.2011 by the insurance companies accounted for 451.8m MDL, up by 11.2 per cent compared to 30.06.2010.

The total amount of the technical reserves for general and life insurance contracts at the end of semester I of 2011 accounts for 596.6m MDL, up 62.7m MDL compared to the end of semester I of 2010. Accordingly, the technical reserve of the insurers who undertook general insurance activities on 30.06.2011 went up by 32.2m MDL (1.1 per cent) and by 30.5m MDL (22.0 per cent) compared to 30.06.2010 in the case of life insurances.



**Figure 3.20. The evolution of the main indicators of the insurance companies, semester I of the years 2010-2011, million MDL**

Source: CNPF

During the first semester of 2011, insurance companies registered a profit of 20.6m MDL or 3.3 times less than during the first semester of 2010. Accordingly, during the first semester of 2011, the financial losses registered by 11 insurance companies in the amount of 20.9m MDL reveal an increase in losses of 15.2m MDL compared to the same period in 2010.

### ***The Region of the left bank of Nistru River***

The evolution of Transnistria's banking sector during the first semester of 2010-2011 showed modest trends in the main indicators.

Thus, on 30.06.2011 the total assets of Transnistria's banking system amounted to 7116.6m MDL, which represents a fall of 1544.2m MDL compared to 30.06.2011.

In this context, there was a decrease in the amount of loans to 3298.2m MDL on 30.06.2011, 133.9m MDL less than on 30.06.2010. This decrease is influenced by the loans granted to legal persons and which reduced by 1233.3m MDL on 30.06.2011, reaching the level of 2153m MDL compared to 30.06. 2010.

Growth trends have been seen in terms of deposit volumes, reaching the sum of 2208.8m MDL on 30.06.2011, 117.6m MDL more than on 30.06.2010. This increase is due to deposits by natural persons – up to 1502.7m MDL and deposits of legal persons – up to 225.8m MDL on 30.06.2011. The level of liquidity in the banking sector during the first semester of 2011 increased by 1.3 percentage points, amounting to 26.5 per cent compared to the end of 2010.

The positive results of the Transnistrian financial indicators of the last years are due to the growth in asset volumes and improvements in the quality of the loans portfolio, even though reductions have been seen in the case of some indicators during the first semester of 2011.

***The evolution of the insurance market in the Republic of Moldova in terms of concentration indexes in the years 2005-2010***

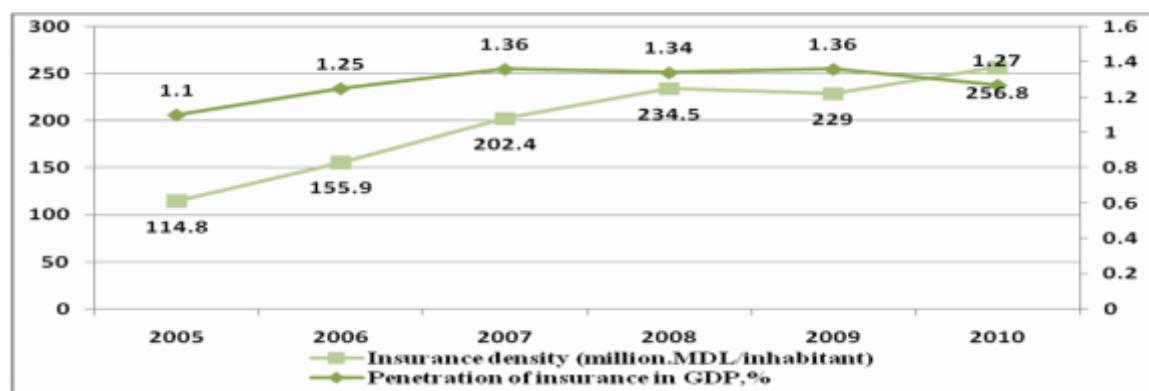
The insurance market of the Republic of Moldova registered growth trends over the last years, though its contribution to the development of the real economy is still insignificant compared to the developed countries.

A series of structural changes regarding the insurance market have been seen during the years 2005-2010, among which:

- The insurance market grew during the years 2005-2010: the total amount of premiums written increased from 413.3m MDL to 914.7m MDL;
- Two companies – GRAWE and CARAT – merged in 2008 to give birth to a new player on the market - GRAWE CARAT ASIGURARI, with a strengthened position on the market and higher ranking in the insurance company league table;
- In 2008, ROSGOSSTRAH Company bought MOLDASIG JSC, thus increasing the statutory capital of the company (from 1.1m USD to 5.8m USD);
- In 2009, "ACCEPT INSURANCE"LLC was reorganized through merger-absorption by "GARANT" LLC. Following the withdrawal of the business license of the insurance companies "DELTA" LLC and "NOTABIL-POLIS" LLC the provisional administration and a forced liquidation procedure was applied;
- 24 companies carried out insurance activities in 2010, of which 22 insurers worked in the "general insurance" category, while the other two companies undertook composite activity. Thus, the number of insurance companies in 2010 fell by 8 units compared to 2005;

The highest number of insurance and reinsurance brokers was registered in 2010 (a total of 63).

There is a growth trend in the case of indicators that reveal the development level of the insurance market in the years 2005-2010: the insurance density and the insurance penetration level in the GDP. Thus, the peak was reached in 2007 and 2009 with 1.36 per cent, while the minimum was registered in 2005 with 1.1 per cent. In 2010, the insurance penetration level registered a 1.27 per cent level, which shows the evolution of the GDP index (in current prices) over the amount of the premiums written. The insurance density registered a 256.8m MDL/inhabitant level, up by 27.8m MDL /inhabitant (12.1 per cent) compared to the level registered in 2009.



**Figure 3.21. The evolution of the penetration level and density of the insurances in the Republic of Moldova in the years 2005-2010**

Source: CNPF

In 2010, the insurance companies ran up 914.7m MDL in total premiums written, up by 12 per cent, or with a nominal increase of 98.2m MDL compared to 2009. The share of compulsory insurances in the structure of the gross premiums written accounted in 2010 for 42.7 per cent, up by 2.4 per cent compared to 2009, and up by 57.3 per cent of the value of voluntary insurance. Thus, the civil liability insurance represents 50.9 per cent, followed by the property insurances with 36.2 per cent, insurances of persons on 12.8 per cent and premiums received in reinsurance with 0.1per cent.

In 2010, the insurance market falls within the limits of the market with a moderate degree of concentration, registering in 2010 a slight increase compared to 2007 regarding the HHI indicator by 52.8 points and CR-4 by 5.3 percentage points. There were 24 insurance companies on the market in 2010 and 33 companies registered in 2007.

Thus, in 2010, according to the amount of premiums written, the insurance market is concentrated into four insurance companies which accounted for 68.7 per cent of the total amount of premiums written. Therefore, the leaders of the insurance sector are: Moldasig LLC with a share of 29 per cent, followed by Asito JSC with 21 per cent, Grawe Carat Asigurari JSS with 11.5 per cent and Donaris-Group JSC with a share of 7.6 per cent. *Moldasig LLC and Asito JSC with over 49.6% of the insurance market held the position of leaders on the market in 2010, while back in 2008 these two companies had a share of 52.7 per cent.*

**Chart 3.4. The indicators of concentration of the insurance sector for the years 2007-2010**

No.	Indicators	2007	2008	2009	2010
1	CR-4 , %	63.1	66.3	70.3	68.4
2	HHI, points	1481.3	1609.2	1694.4	1534.1
3	No. of insurance companies	33	28	24	24

Sursa: calculations in the database, CNPF.

In 2010, the insurance companies paid insurance compensations and indemnities in the amount of 322.7m MDL, 38.5m MDL less or 10.7 per cent less than in 2009. The cumulative amount of the insurance compensations paid for auto insurances (national motor vehicle liability insurance, „Green Card” and Casco foreign motor vehicle liability insurance) was 258.1m MDL or 80 per cent of the total amount of the compensations.

Thus, in 2010, according to the amount of paid insurance compensations and indemnities, the market was concentrated into four insurance companies, among which: Moldasig SRL which a share of 31.8 per cent, followed by Asito JSC with a share of 19.9 per cent, Donaris-Group JSC with a share of 8.1 per cent and Grawe Carat Asigurari JSC with 7.2 per cent. Accordingly, *Moldasig LLC and Asito JSC with a share of over 51.7 per cent hold the position of market leaders in 2010, while in 2008 these two companies had a share of 51.6 per cent.*

At the end of 2010, the cumulated amount of the profit accounted for 162.0 million MDL, up by 18,4 million MDL compared to 2009 with 143.6 million MDL. Thus, *Moldasig LLC with 79.6 million MDL, followed by Sigur-Asigur LLC with 31.9 million MDL and ASITO JSC with 21.1 million MDL registered the largest profits.* At the same time, the following insurance companies registered the largest losses at the end of 2010: Afes-Moldova LLC – 1.6 million MDL and Exim-Asint JSC- 1.5 million MDL.

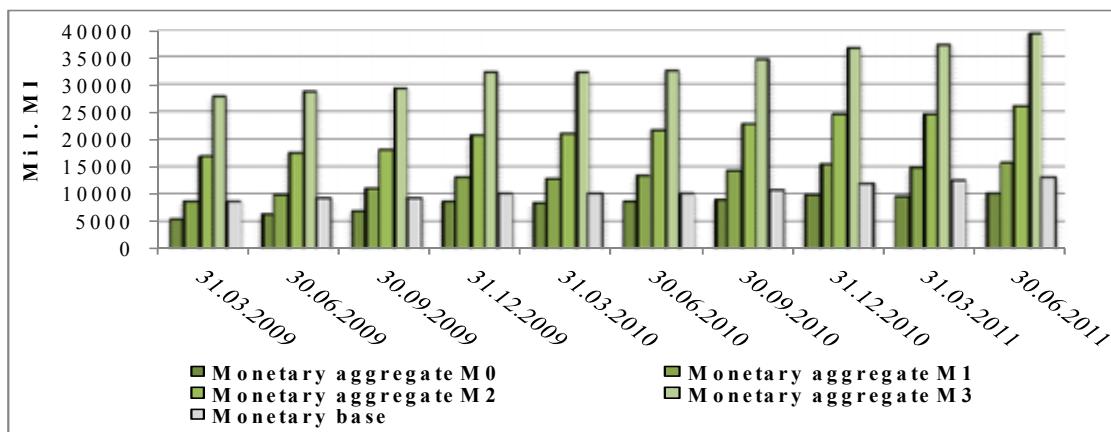
Judging by the things mentioned above, we can say that the insurance market of the Republic of Moldova has modest trends of development. Accordingly, competitive players are present on this segment, while the appearance of new players will boost the development of the insurance sector in the future.

## MONETARY POLICY

The monetary indicators registered a growing trend, so that on 30.06.2011 the stock of the monetary aggregates was larger compared to 30.06.2010:

- ✓ The M0 monetary aggregate amounted to approximately 10.7bn MDL (by comparison: on 30.06.2010 the M0 monetary aggregate was 8.8bn MDL);
- ✓ The M1 monetary aggregate was 16.08bn MDL (by comparison: on 30.06.2010 the M1 monetary aggregate was 13.5bn MDL);
- ✓ The M2 monetary aggregate reached the level of 26.4bn MDL (by comparison: on 30.06.2010 the M2 Monetary aggregate was 21.8bn MDL);
- ✓ The M3 monetary aggregated amounted to 39.5bn MDL (by comparison: on 30.06.2010 the M1 monetary aggregate was 32.9bn MDL).

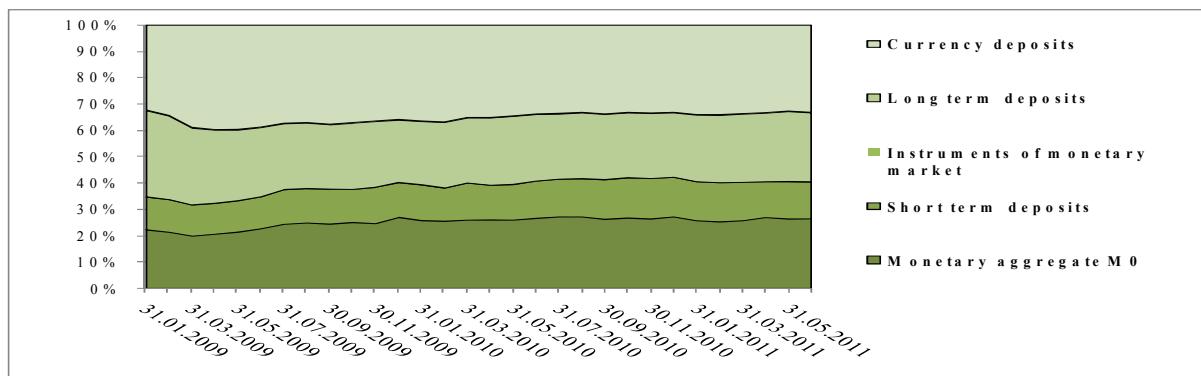
The monetary basis has also increased, reaching on 30.06.2011 the amount of 13.4bn MDL, while on 30.06.2010 this indicator was at the 10.5bn MDL level.



**Figure 3.22. Evolution of the monetary aggregates and the monetary basis**

Source: The National Bank of Moldova

The structure of the monetary mass has not been subject to any essential changes. On 30.06.2011 the components of the money supply were distributed as follows: the M0 monetary aggregate (money into circulation) – 26.5 per cent; demand deposits – 14.1 per cent; money market instruments – 0.006 per cent; time deposits – 26.2 per cent and foreign currency deposits – 33.2 per cent.



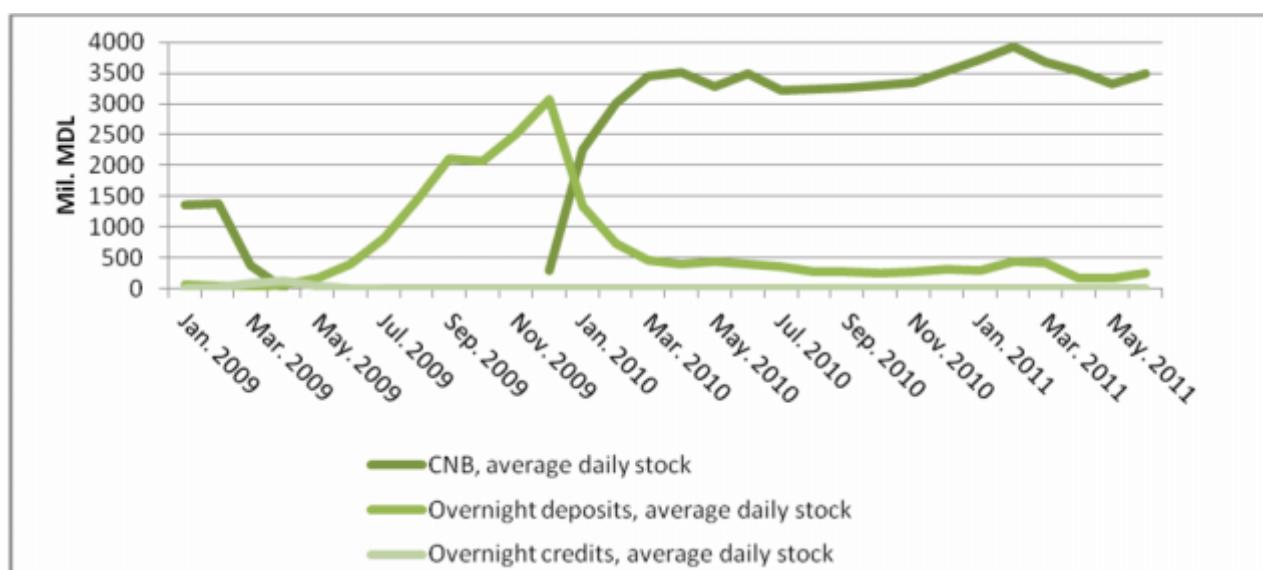
**Figure 3.23. The structure of the money supply**

Source: The National Bank of Moldova

The rates of the interests associated to the tools of the monetary policy have not been modified during quarter II of 2011:

- ✓ The basic short term rate applied on the main monetary policy operations – 8 per cent;
- ✓ The rate for the overnight credits – 11 per cent;
- ✓ The rate for the overnight deposits – 5 per cent.

The average monthly balance of CBN had a downward trend. In April 2011 the average sold of CBN amounted to 3.5bn MDL – a smaller amount than in March when this indicator amounted to approximately 3.7bn MDL. In May, the average sold fell down and reached a level of approximately 3.3bn MDL, and it was only in June that this indicator registered an increase amounting to approximately 3.5bn MDL. Similarly, the average balance of overnight deposits decreased in trimester II. Compared to March 2011, when the average balance of the overnight deposits amounted to 409.8m MDL, in the months that followed this indicator, though with an upward evolution, was lower: 162.5m MDL in April, 174m MDL in May and 260m MDL in June. The commercial banks did not ask the NBM to provide overnight credit facilities during the period in question.



**Figure 3.24. The tools of monetary policy**

Source: The National Bank of Moldova

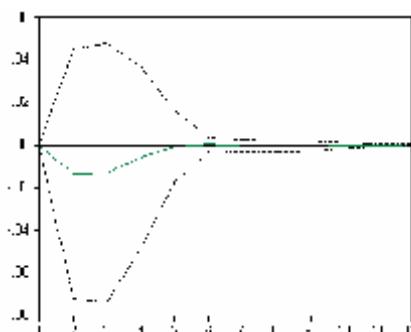
In the second trimester, the level of the rate of the legal reserves has not been changed, remaining at the 11 per cent level. At the same time, the increase in legal reserves in January 2011 from 8 per cent to 11 per cent contributed to a relaxation of the money market. Due to this measure liquidity excess has been reduced, which has resulted in a reduction of the average balance of the sterilization operations and overnight deposits. As a result of the intensification of the inflationary risks, following a meeting of the Board of Directors of the National Bank of Moldova on May 26 2011 it was decided to increase the norm of the obligatory reserves from 11 per cent to 14 per cent, as of July 8. It was also decided to modify the "Regulation on the regime of the obligatory reserves", which would provide for the application of a norm of obligatory reserves of 0 per cent of deposits gathered whose due date is more than 2 years. This measure could determine the increase of the deposits attracted for the long term, which would be oriented towards the real sector through long-term credits. However, taking into consideration that the NBM offers secure tools with a good profitability, along with the banks' "predilection" for these ones, it may come to a situation in which the sources attracted for the long term are oriented towards short-term operations, thus creating additional pressure on the money market.

**CONVEYANCE OF THE EFFECTS ASSOCIATED TO THE IMPLEMENTATION SOME INSTRUMENTS OF THE MONETARY POLICY. QUANTITATIVE ASPECTS**

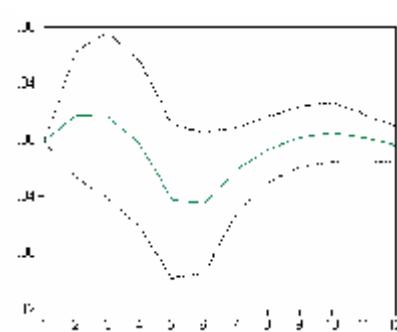
The NBM makes wide use of the basic rate in promoting its monetary policy. Still, the characteristics of the Moldovan bank market create barriers in propagating the effects associated to the use of the basic rate. The excess liquidity existing in the system allows banks to operate without turning to the financial resources of the NBM. On the other hand, the rate of the legal reserves has a greater efficiency. The quantitative methods come to prove this hypothesis.

A VAR model (vector auto-regression) was used to determine the basic rate's impact on the money supply. Monthly data for the period January 2000 – June 2010 referring to the evolution of the price level, basic rate and M0 monetary aggregate have been included in the model, while in the case of the rate of the legal reserves the period January 2004 –June 2010 was used. The series that reveals the evolution of the M0 aggregate and of the price level has been deseasonalized using the TRAMO/SEATS. Though, further differentiation of the logarithmic data, the series have been stationarised.

The executed VAR models (for the pairs: basic rate – M0 monetary aggregate, rate of the obligatory reserves –M0 monetary aggregate, M0 monetary aggregate–inflation) reveal a reduced influence of the basic rate upon the M0 monetary aggregate (based on the impulse-response function). A growth dynamic based on a 1 percent rate has the greatest effect in two months and helps to decrease the money supply by 0.013 per cent, and then the effect fades out. On the other hand, the rate of legal reserves bears a higher impact than the basic rate of the M0 monetary aggregate. The growth of legal reserves by 1 percent has a maximum effect in 6 months and contributes to a slowing in growth of the monthly M0 monetary aggregate to 0.045 per cent.



**Figure 3.25. The response of the growth rate of the M0 monetary aggregate to the input of the growth of the basic rate by one per cent per cent**



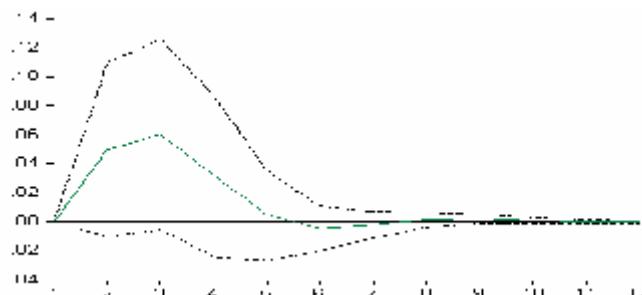
**Figure 3.26. The response of the growth rate of the M0 monetary aggregate to the increase of the legal reserves rate by one per cent per cent**

Source: estimated based on NBM and NBS data  
 Note: the dotted line –the 2 units of standard deviation

Source: estimated based on NBM and NBS data  
 Note: the dotted line –the 2 units of standard deviation

Based on our calculations, we assume that the increase of the legal reserves rate from 11 per cent to 14 per cent, which is in the case of the model an impulse of about 27 units [ $27 = (14 - 11) \cdot 100/11$ ], will make its negative influence felt upon M0 in 4 months, and after 6 months the maximum effect will be achieved when the monthly growth rate will be tempered by 1.2 per cent.

*On the other hand, the M0 monetary aggregate bears a relatively reduced impact on the price level. The maximum effect of a monetary aggregate growth by one per cent has an impact on the prices in 3 months, while their lever grows by 0.06 per cent.*

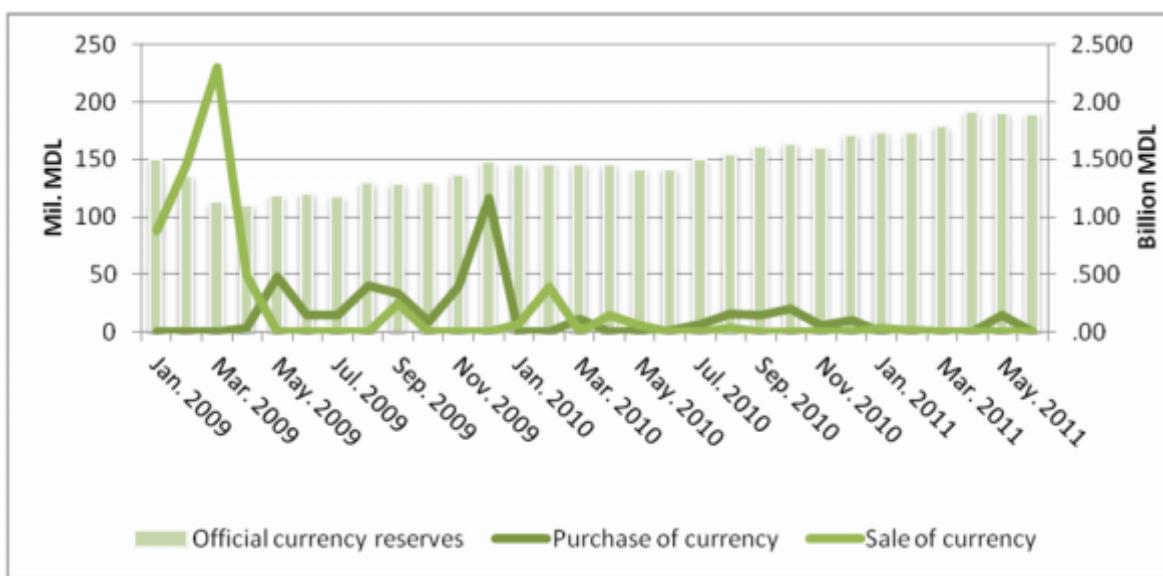


**Figure 3.27.The response of the growth rate of the price level to the increase of the M0 monetary aggregate by one per cent**

Note: dotted line – standard 2 units deviation

Source: estimated based on the NBM and NBS data

In the second trimester of 2011, the National Bank of Moldova intervened in the currency market as a buyer, purchasing foreign currency amounting to 42693.45 USD in April, 14.39m USD in May and 45917 USD in June. These interventions were aimed at tempering the pace of appreciation of the MDL. During this period foreign exchange reserves reached a record level at the end of the trimester amounting to a level that surpassed 1.9m USD.



**Figure 3.28. Currency operation of the NBM and official reserve assets**

Source: The National Bank of Moldova

### **The Region of the left bank or Nistru River**

On 6/30/2011, the money supply in the region of Transnistria was 3765.4m roubles. What is peculiar for the region of Transnistria is the high degree of dollarization – on 30.06.11 this indicator was 63.1 per cent.

Monetary policy in Transnistrian region in 2011 primarily aims at maintaining rouble stability,

while the goal of the monetary indicators is to promote the policy. The currency policy is promoted within a controlled float regime for the exchange rate. For 2011 the exchange rate variation shall fall within a corridor of 10 to 11 roubles for one U.S. dollar (from January to June 2011 the exchange rate was 10.2 roubles for 1 USD). The monetary-currency policy will be oriented toward creating conditions for achieving the targeting of the rouble against the U.S. dollar for the medium term.

In the first half of 2011 monetary policy in Transnistrian region was tightened - on April 1 the rate of the legal reserves was increased from 9 per cent to 11 per cent. The legislation of the Transnistrian region also provides that the maximum level of the increase of the reserve rate is 15 per cent. At the same time, the refinancing rate was 7 per cent - a level that has not changed since June 1, 2010.

## CHAPTER IV

### EXTERNAL SECTOR

#### BALANCE OF PAYMENTS

**Current account.** After a slight strengthening of the current balance account of the balance of payments in 2009, in 2010 it seems that the pre-crisis trend has been resumed in the light of the revitalization of the import of goods and services, thus reducing the effects of the sensitive growth of the surplus of the income and current transfers account following growth of the income resulted from labor compensation and government transfers. The current account deficit amounted to 522.91m USD, amounting to 9 per cent of GDP, 0.37 per cent more than last year, but less than during the years 2006-2008, when its amount exceeded the 10 per cent level.

The negative balance of the current account continued to grow during the first semester of this year amounting to 232.95m USD, 63.58 per cent more than during the same period of the last year. The deficit growth was favored by the worsening of the trade deficit of goods and income reduction, while there was an increase of the inflows of current transfers and a significant reduction of the trade balance deficit with services.

**Chart 4.1. The balance of payments –The current account  
(synthetic presentation), million USD**

	2007	2008	2009	2010	Q1' 2010	Q1' 2011	Q1' 2011/ Q1' 2010
<b>Current account</b>	<b>-674.05</b>	<b>-987.19</b>	<b>-469.24</b>	<b>-522.91</b>	<b>-142.41</b>	<b>-232.95</b>	<b>63.58</b>
A. Goods	-2,298.07	-3,223.23	-1,948.82	-2,219.52	-437	-580.82	32.91
Export	1,373.34	1,645.91	1,326.92	1,590.44	312.31	492.15	57.58
Import	3,671.41	4,869.14	3,275.74	3,809.96	749.31	1,072.97	43.19
B. Services	-24.67	-1.36	-43.98	-80.31	-20.72	-18.01	-13.08
Export	625.46	837.28	668.88	689.79	141.2	163.03	15.46
Import	650.13	838.64	712.86	770.1	161.92	181.04	11.81
C. Revenues	416.41	598.6	302.93	471.17	77.33	73.06	-5.52
Entries	710.07	905.01	590	741.25	132.64	151.18	13.98
Payments	293.66	306.41	287.07	270.08	55.31	78.12	41.24
D. Transfers	1,232.28	1,638.8	1,220.63	1,305.75	237.98	292.82	23.04
Profits	1,297.34	1,750.29	1,323.99	1,391.15	255.76	311.43	21.77
Payments	65.06	111.49	103.36	85.4	17.78	18.61	4.67

Source: The National Bank of Moldova

Both goods and services registered a negative balance in the first three months of the year, with the degree of imports coverage by exports being 46 per cent and, accordingly, 90 per cent. The assets balance deficit was 580.82m USD, up by 33 per cent if compared to the same period of the last year. There was a strengthening of the services balance, the deficit of which fell down by 13 per cent compared to the previous year, amounting to 18m USD. The growth of the IT, constructions, tourism and insurance services contributed to situation. At the same time, the growth of imports of business and transport services had a negative influence.

The surplus in terms of revenues was 73m USD, 5.5 per cent less than in 2010. The effects of the growth of the revenues surplus on the account of work compensations that amounted to 130.39m USD have been mitigated by the growth of the deficit of revenues resulting from investments of 57.33m USD.

The balance of the current transfers grew by 23 per cent, amounting to 292.8m MDL, which occurred due to the increase of the surplus of the governmental current transfers and other sectors.

### The capital account

Net capital transfers registered a negative trend over the last years, due mainly to the excess of the immigrants' transfers over the transfers of the emigrants in the Republic of Moldova. In Q1 of 2011, the net capital transfers amounted to 7.69m, up 48 per cent compared to the previous year.

**Table 4.2. The balance of payments – Capital and financial account (synthetic presentation), million USD**

	2007	2008	2009	2010	Q1'2010	Q1'2011	Q1' 2011/ Q1'2010
<b>Capital account</b>							
Capital transfers	-7.96	-14.61	-17.54	-28.36	-5.21	-7.69	47.6
Entries	6.97	9.33	12.19	13.39	2.67	1.88	-29.59
Migrants' transfers	6.97	9.28	12.13	12.06	2.67	1.88	-29.59
Exits	-14.93	-23.94	-29.73	-41.75	-7.88	-9.57	21.45
<b>Financial account</b>							
<b>Foreign assets</b>	<b>-511.44</b>	<b>-415.05</b>	<b>-16.68</b>	<b>-223.24</b>	<b>-21.86</b>	<b>71.77</b>	-428.32
Foreign Direct Investments	-17.36	-16.08	-6.76	-3.5	-0.19	-2.88	1415.79
Portfolio investments	-0.07	-0.04	-0.25	-0.2	-	-0.07	-
Other investments	35.32	52.14	-210.56	75.46	12.7	99.96	687.09
Financial derivatives	-0.47	0.94	0.34	-0.63	-0.31	0.02	-106.45
Reserve assets	-528.86	-452.01	200.55	-294.37	-34.06	-25.26	-25.84
<b>Foreign liabilities</b>	<b>1076.2</b>	<b>1330.63</b>	<b>441.06</b>	<b>663</b>	<b>113.62</b>	<b>93.54</b>	-17.67
Foreign Direct Investments	533.62	712.77	127.84	198.9	43.31	74.91	72.96
Portfolio investments	-4.44	6.42	-5.57	5.84	0.01	0.02	100
Other investments	547.02	611.44	318.79	458.26	70.3	18.61	-73.53
<b>Financial Account Balance</b>	<b>564.76</b>	<b>915.58</b>	<b>424.38</b>	<b>439.76</b>	<b>91.76</b>	<b>165.31</b>	80.15
Foreign Direct Investments	516.26	696.69	121.08	195.4	43.12	72.03	78.83
Portfolio investments	-4.51	6.38	-5.82	5.64	0.01	-0.05	800
Other investments	582.34	663.58	108.23	533.72	83	118.57	-241.23
Financial Derivatives	-0.47	0.94	0.34	-0.63	-0.31	0.02	-106.45
Reserve assets	-528.86	-452.01	200.55	-294.37	-34.06	-25.26	-25.84
<b>Errors and omissions</b>	<b>117.25</b>	<b>86.22</b>	<b>62.4</b>	<b>111.51</b>	<b>55.86</b>	<b>75.33</b>	34.85

Source: The National Bank of Moldova

### ***The financial account***

The balance of the financial account remains to be a net crediting one. In 2010, the surplus reached 439.76m USD, a slight increase of 4 per cent after a 54 per cent reduction in 2009, a trend driven by FDI growth and other investments in the national economy. In 2010, net foreign assets have increased approximately 13 times compared to 2009, but the amount reached – 223.24m USD - was just over half the level of 2008 (reserve assets grew, while investments made by foreign residents, including direct, portfolio and other investments went down).

There was also an increase of 50 per cent in net foreign liabilities, up to 663m USD as a result of growth in foreign investments into the national economy in all the functional categories.

During the first quarter of the year the current financial account balance registered growth 80 per cent compared to the previous year, amounting to 165.31m USD. Net foreign assets fell during this period, amounting to 71.77m USD, compared to 21.86m USD registered during the same period of the previous year. The flows of foreign liabilities (capital inflows) have also fallen by 18 per cent, amounting to 93.54m USD due to the reduced inflow of other investments in the national economy, especially of loans contracted, while FDI into the national economy rose 73 per cent.

### ***FOREIGN DIRECT INVESTMENT***

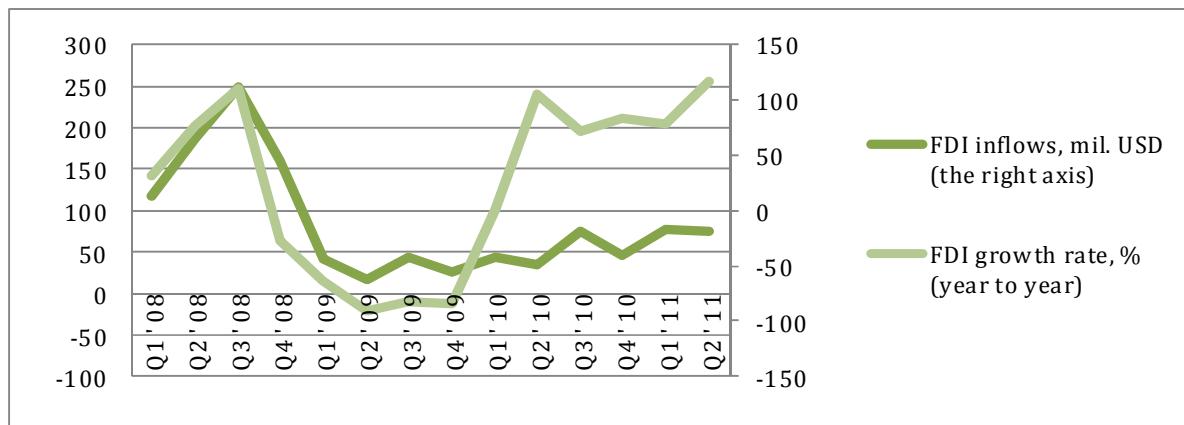
The positive balance of net international investment in the Republic of Moldova continued to grow during the second quarter of the current year, up by 354m USD (7.77 per cent) since the beginning of the year and amounting to 4,908m USD. The increase is due, on the one hand, to a slight fall in balance of other investments made by Moldovan residents and, on the other hand, to an 8.97 per cent increase in external liabilities.

The second quarter has continued the upward trend for both: FDI outflows and inflows, except for investments made in national economy in the form of other capital. Thus, in the second quarter, FDI outflows were 4 million USD, while FDI inflows accounted 74.48 million USD, showing an almost double increase compared to the same period of the previous year.

In the first half of the year, the outflows of foreign direct investments have grown approximately 3 times compared to the first semester of the previous year, after 91 per cent reduction during the same period of 2009. However, in absolute terms, their amount remains insignificant -only 6.9 mil.USD.

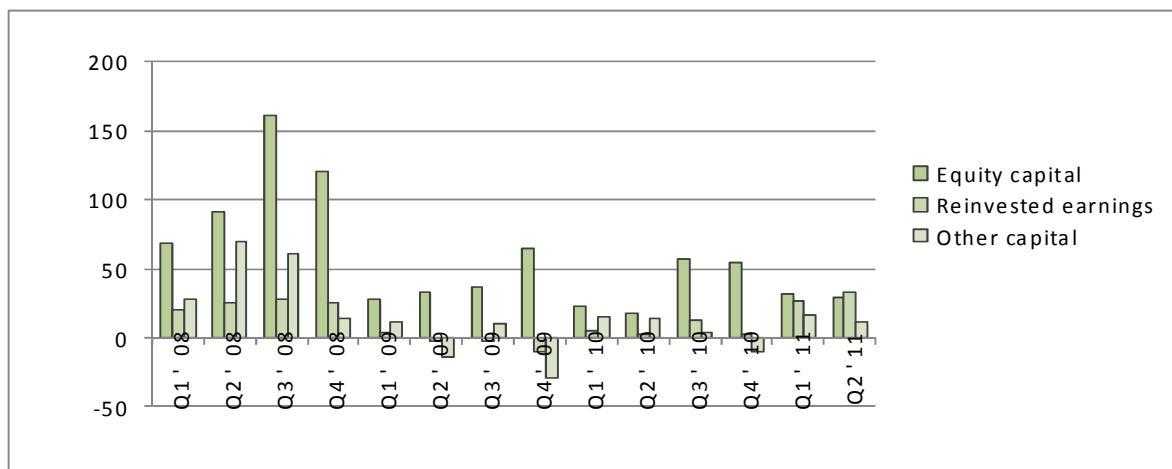
Foreign direct investment into the national economy during the first six months of this year amounted to 96 per cent of the level of I semester 2010. Although the growth dynamics are a good indicator of the continuous recovery of the investment situation in the Republic of Moldova, the low basis for these increases shows a still quite modest real amount. However, the inflow of FDI during this period – 152m USD – represents the maximum semester amount that has been registered since 2009.

Thus, it seems that the developments in the national economy that shows a progressive recovery after the crisis have boosted FDI inflows. Despite declining compared to the last semester of the previous year, investments in fixed capital rose during the first half of the year by 48 per cent compared to the same period of the previous year, reaching 60.82m USD.



**Figure 4.1. The quarterly evolutions of FDI inflows in absolute terms and growth rates**  
Source: The National Bank of Moldova

The increase in investments in the form of reinvested earnings also highlights the improvement in the economic environment. The value of FDI in the form of reinvested earnings amounted to 59.95m USD, which is an amount larger than the total amount of 22m USD registered in the 12 months of the previous year.

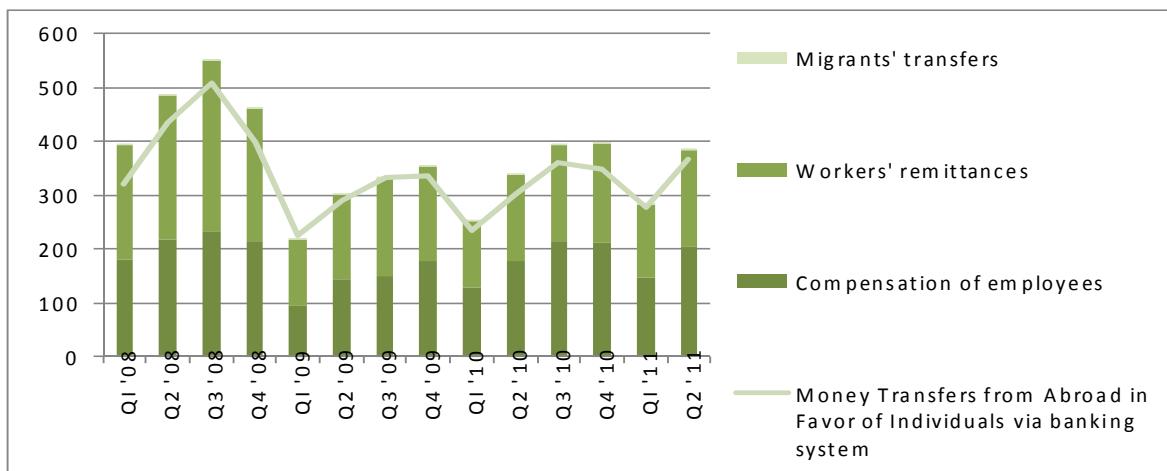


**Figure 4.2. The evolution of FDI inflows according to types of the capital, million USD**  
Source: The National Bank of Moldova

#### REMITTANCES IN THE REPUBLIC OF MOLDOVA

Remittances made from abroad in Q2 of this year, estimated according to balance of payments data, amounted to 384.87m USD, up by 12.77 per cent compared to the same period of the previous year. Although the remittances follow a steady recovery trend, still, their growth rate is far below the level of the pre-crisis period. Remittances from abroad amounted to 670.11m USD in the first semester, while in the first six months of the previous year their value was 596.4m USD.

The amount of money transfers from abroad to natural persons through the banking system in this period accounted for 367m USD, up 22 per cent compared to the same period of the previous year and by 33 per cent compared to the previous quarter. Thus, during the first half of the year, the amount of such transfers has been growing by 20 per cent compared to the previous year, accounting for 643m USD.



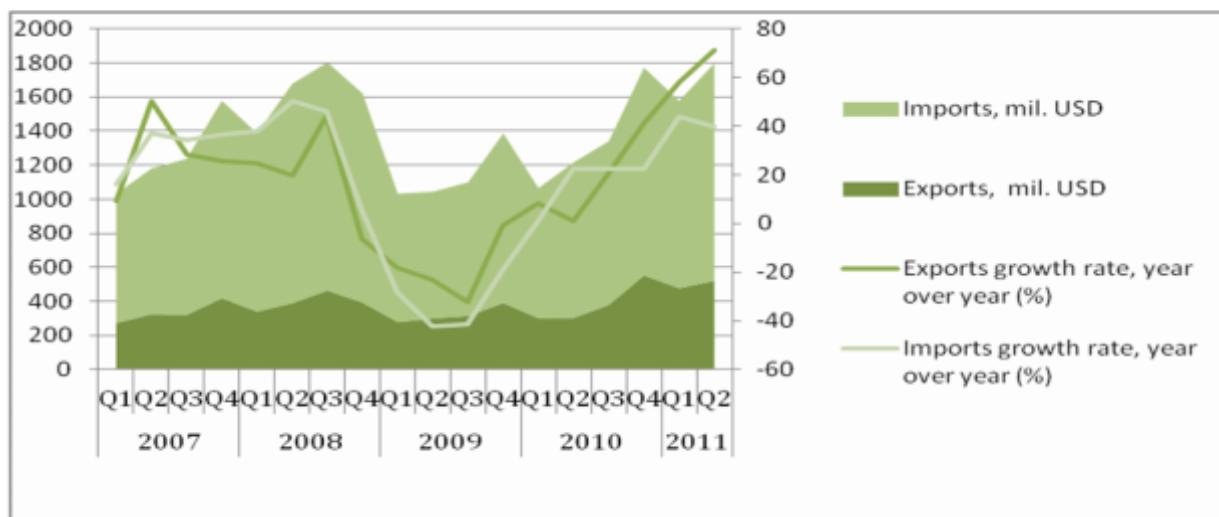
**Figure 4.3. The evolution of the transfers of the financial means from abroad by the natural persons through the banking system compared to the remittances into the Republic of Moldova**

Source: The National Bank of Moldova

#### EXTERNAL TRADE

In the second quarter of this year foreign trade amounted to 1798.2mUSD. Continuing the trend existing of the first quarter, and even exceeding expectations, exports grew by 71 per cent compared to the same period of the previous year and by 9 per cent compared to the first quarter, reaching 522m USD. At the same time, imports increased by 40 per cent and 16 per cent, reaching the level of 1,276m USD.

Thus, the aggregate amount of exports achieved during the first half of the year stood at a record level for the past five years – 1,000.5m USD, while the imports accounted for 2,375m USD, reaching and even exceeding the level registered during the first half of 2008. Despite the accelerated growth of the exports compared to the imports, the trade deficit has continued to grow, accounting for 1,374.8m USD, by 305.6m USD more compared to the same period of the previous year.



**Figure 4.4. The evolution of the growth rate of import-export flows, January-June 2011**  
Source: The National Bureau of Statistics

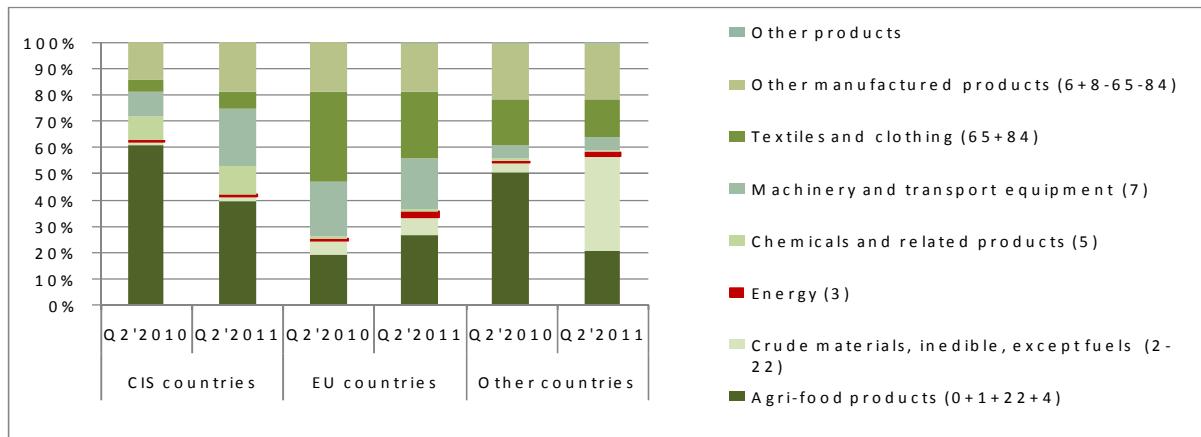
**Imports.** Imports amounted to 1.27bn USD during the second quarter, up 39.8 per cent compared to the same period of the previous year. Imports from the CIS countries continued on a recovery trend (46 per cent up on the previous year), especially in the case of the Russian Federation, Ukraine and Belarus, where imports grew by only 5 per cent during the same period of the previous year. Imports from the EU countries have also increased significantly (40 per cent up on the previous year), especially in the case of Romania, Germany, Italy, Hungary, France, and Poland. This group of countries continuing to maintain an important share - approximately 48 per cent - of the total amount of imports. Imports from other countries such as Turkey and China have also increased.

Manufactured goods imports accounted for 28 per cent of the total 39.8 per cent growth in imports over the period in questions. Among this class of goods, products such as transport machinery and equipment, including electric machinery, road vehicles, industrial machinery and specialized equipment for specific industries, industrial machinery and equipment with general applications; threads, fabrics, textile products from the EU and the group of other countries; iron and steel, especially from the CIS; various chemicals, including medicinal and pharmaceutical products from the EU and the group of other countries, played key roles.

Imports of energy products, including from countries other than those of the CIS and EU, have also grown significantly. The amount of this category of products during the analyzed period amounted to 236.2m USD (oil -157.2m USD), 55 per cent more than during the same period of the previous year. Growth in oil imports was determined by a 24.8% increase in the world price compared to December of the previous year, amounting to 815 USD/ton (in Russia, the price of the oil for export in June was 785 USD/ton, up by 28.7 per cent during the first half of the year).

As for the agri-food products, although the imports of fruits and vegetables from other countries and of the cereals from the CIS have slightly increased, their growth rate fell significantly compared to the previous year (25.6 per cent in QII 2010/ Q II 2009, 8.3 per cent in Q II 2011/ Q II 2010). This insignificant growth of the imports of agri-food products was determined by the favorable agricultural season of the two consecutive years. This allowed are reduction in the volume of imports of agri-food products, while imports of sugar fell by as much as 49 per cent, following a threefold increase in Q II of the previous year. Imports of tobacco have been also significantly reduced by 57 per cent. The data of the past five years indicate a strong negative correlation between growth in agricultural production and agri-food imports (the correlation coefficient being (-) 0.82).

Both agricultural production and the food and beverages and tobacco industry grew by 0.3 per cent, 2.2 per cent and 19.9 per cent accordingly.



**Figure 4.5. The structure of imports by groups of countries, January–June 2011,**

Source: The National Bureau of Statistics

Imports from EU countries increased from April to June 2011 by 40.8 per cent compared to the same period of the previous year (610.86m USD), being driven by an increase in imports of various manufactured products: transport machinery and equipment, wires and fabrics, medicinal and pharmaceutical products and others, as well as oil. At the same time, imports of tobacco and agri-food products have fallen, as a result of a reduction in the imports of fruits, vegetables and sugar.

Practically half of the 46 per cent growth in imports from the CIS countries in Q2 was driven by a 7.1 per cent increase in imports of mineral fuels, especially oil and electricity. An upward trend was also seen as regards the import of manufactured goods, e.g. iron and steel, road vehicles, electrical machinery and equipment and food products, especially cereals. At the same time, the imports of tobacco products decreased.

Imports from other countries fell by 31 per cent, reaching only 298.7m USD, being characterized by an increase in both agri-food products, especially fruits and vegetables, fish etc., as well as products manufactured, with the focus on such products like threads, fabric, paper and cardboard, various transport machinery and equipment and chemicals.

Imports grew by 41.7 per cent during the first half of 2011 compared to the previous year, amounting to 2,375.4m USD. The growth occurred as a result of increasing trade flows with the major partners in the EU and the CIS, in particular: the Russian Federation, Romania, Ukraine, Germany and Italy. The imports from other countries such as Turkey and China have also risen. Imports from these countries rose by 32.6 per cent, concentrating 71.7 per cent of the total amount of imports.

The structure of imports during this period was mainly dominated by energy products - 22.3 per cent and manufactured products - 62.6 per cent, which grew more dynamically than the agri-food products compared to the same period of the previous year. If during the first half of 2010, imports of energy products registered a negative trend, this year; this category of products saw an increase in imports of 10.8 per cent. There was also a significant increase in imports of various products such as: transport machinery and equipment, electric machinery and equipment, road vehicles, machinery specialized for particular industries, industrial machinery and equipment with general applications, as well as textile products: yarns, fabrics and other textiles, iron and steel etc.

**Exports.** The growth of exports during the second quarter was driven by a considerable increase of trade with the countries of the EU, in particular, Romania, Italy, Germany, Poland and the CIS countries, especially from Russia and Ukraine, by 77.6 per cent, and 73.6 per cent respectively, covering 89.7 per cent of the total amount of exports.

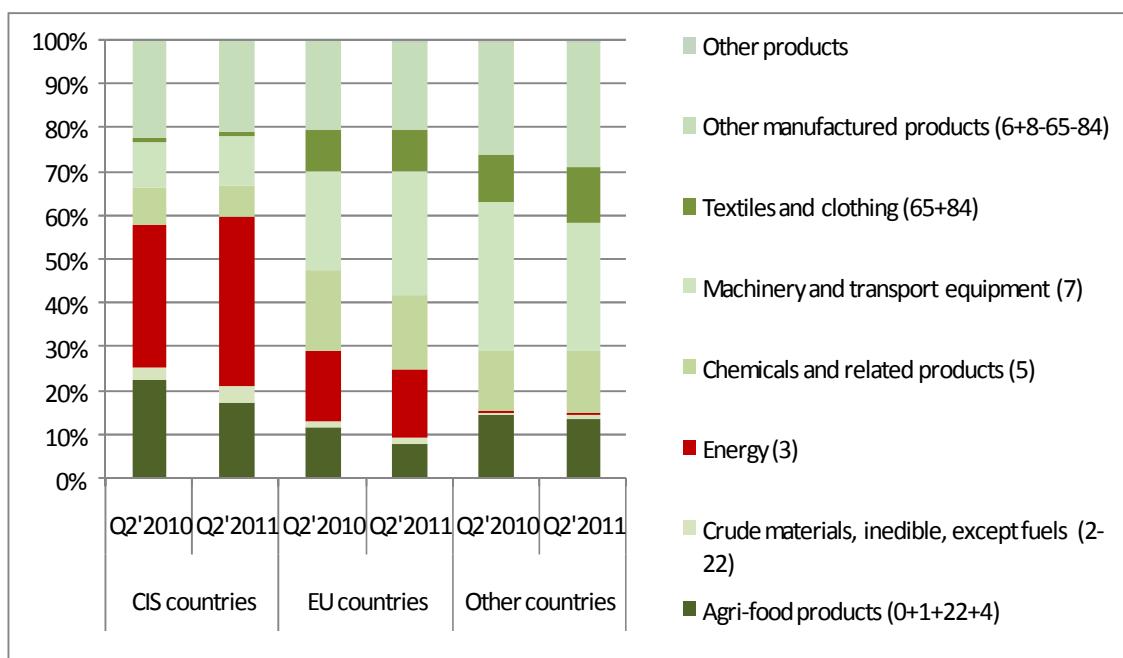
There was an increase during this period due, mainly, to the export of manufactured products, such as: transport machinery and equipment in the CIS and the EU, furniture and clothing to EU countries, threads and fabric, paper, cardboard and various raw inedible materials, metal ores and scrap metals, grains and oily fruits.

Oil exports also continued to grow during the second quarter. They amounted to 7.043m USD, registering an increase of nearly 8 times compared to the same period of the last year as a result of an increase by 4 times of the exported amount and of the export price by 93 per cent. The price of an exported litre of oil during the second quarter was 64.7 cents, while during the same period of the previous year the price was 33 cents. Oil exports amounted to 10.43m USD in the first semester, while last year, the annual amount was 5.85m USD.

Despite the fact that the export of agri-food products and the animals rose by 43 per cent compared to the same period of the previous year, when there was a decrease by 34 per cent, mainly due to an increase in the exports of fruits, vegetables, cereals and cereal products, the influence of this increase on the overall growth was modest, only 6.6 per cent. Exports of tobacco fell by 24 per cent, while the exports of beverages continued the downward trend for the second consecutive quarter -by almost 10 per cent.

The exports to EU countries during the analyzed period amounted to 255.2m USD, 111.4m more than during the same period of the last year. 61 per cent of this increase, which amounts to 87.7m USD, was driven by an increase in exports of grains and fruits, electric machines and equipment, clothing, furniture, ores, fats and fixed vegetable oils, vegetables and fruits, cereals. Oil and oil products are also among the products that registered a significant increase of exports. The amount of the oil products exported to the EU countries during this period was worth 5.925m USD, more than the general amount registered in 2010 (5.854m).

Exports to the CIS countries increased by 90.3m USD also, amounting to 212.7m USD. Exports of industrial machinery and equipment with general applications, road vehicles and other manufactured products such as threads, fabrics, and processed rubber also increased during this period. Exports of pharmaceuticals and essential oils have also begun to grow compared to the previous year. At the same time, exports of beverages continued to decline - by 16 per cent compared to the same period of the previous year. Except for some products, such as cereals, oily seeds and fruits, fruits and vegetables, which underwent higher rates of growth, overall, processed and unprocessed agricultural products experienced very modest growth during this period, while some of them even registered a decrease (live animals, oils, fats and waxes of animal or vegetable origin etc.).



**Figure 4.6.The structure of exports by groups of countries, January -June 2011,**

Source: The National Bureau of Statistics

***Box 4.1. Evolution of exports of agri-food products subjected to tariff quotas in trade with EU countries***

There was an initiation of exports during the first semester for some agri-food products subjected to annual duty free tariff quotas under the autonomous trade preferences granted to Moldova by the European Union. Meat products, dairy and eggs have not been exported to the EU for the last three years, but from the beginning of this year it seems that little by little, these products have begun to penetrate this market. Although in very small amounts, which remain well below the rate granted, there were still some exports of bovine meat, swine, sheep and goats, fresh, chilled or frozen -0.3 tonnes; meat and edible offal, fresh, chilled or frozen poultry - 0.105 tons; dairy products - 0.217 tons; poultry eggs in shell - 1,600 pieces. The main target market for these products was the United Kingdom.

Exports of maize, which last year exceeded the available quota by 36.8 per cent, continued the upward trend during the first semester, with their volume growing fourfold compared to the same period of the previous year.

At the same time, it seems that this year the quotas for other products such as spelt, common wheat and meslin, barley and white sugar will not be filled, because the export of wheat and meslin went down during this period compared to the same period of the previous year by 60.28 per cent, by 98.37 per cent for barley, and by 63 per cent for sugar. If quotas were completed last year for spelt, common wheat, meslin and barley by 10 per cent and 20 per cent respectively, the export of sugar has registered a significant decrease, reaching only 5.8 tons of the 22,000 tons of accessible quota.

Also, despite the fact that since this year the quotas have been increased for wine exports by 30,000 hectolitres, given that during previous years the quotas have been exhausted, a slight drop in wine exports has been registered in the first half of the year, by 0.5 per cent (More details on the export of wines can be found in box 4.2).

The remaining 54.1m USD were exported to other countries. Although there were significant increases in exports of metal ores and waste (by 18 times, their share in the total amount of exports to these countries going up from 3 per cent to 39.5 per cent), and of such products like telecommunications appliances and equipment for recording and reproducing sound and image, electrical machinery and equipment and spare parts for them etc. There was also an increase by approximately 18 times in the oil exports during this period, which amounted to 1.07m USD compared to 59.7 USD registered last year. At the same time, exports of food products, live animals, tobacco etc., declined.

Overall, exports increased by 64.9 per cent during the first semester of 2011 compared to the same period of the previous year and amounted to 1000.5m USD. The increase was driven by both the revival of exports to countries of the European Union (67.5 per cent), which decreased during the previous year by 2.8 per cent and by the growth of exports to countries of the CIS by 63 per cent. At the same time, this dynamic was mainly driven by the growth of exports to several markets: Romania, the Russian Federation, Italy, Ukraine, Germany, Poland, the Great Britain, and Turkey which led to export growth of 50.9 per cent and comprised 77.7 per cent of the total amount of exports.

There was a good dynamic as regards the export of both agri-food products and manufactured products during the first semester of the current year, an important influence on their growth being exercised by such products like oil seeds and fruits (9 per cent), clothing and accessories

(4.7 per cent), industrial machinery and equipment of general application (4 per cent), electrical machinery and equipment and parts thereof (4 per cent), furniture (3.8 per cent), vegetables and fruits (3.8 per cent), cereals (3.4 per cent), fixed vegetable fats and oils (3.5 per cent) etc.

Looking at the overall picture of the foreign trade of the Republic of Moldova during the first semester, especially in the second quarter, there is a trend that stands out and that would serve as an argument of the fact that the growth of exports of the Republic of Moldova during this period was largely by stimulated re-exports. The agri-food products, traditional for the Moldovan economy, had an insignificant influence on their growth; however, it appears that Moldova's exports begin to rely increasingly on manufactured products with a high value added, such as transport machinery and equipment, more than that, gradually increasing oil exports. As for the exports of transport machinery and equipment, although the industrial production in this sector registered a significant increase during the first half, still the developments of the last five years indicate a strong positive correlation between the shares of these products in the Moldova import and export. There was also a strong positive correlation for such products like edible fruits and nuts, tobacco, and pharmaceuticals.

As for the oil exports, although such a correlation has not been determined, however, it is well known that the Republic of Moldova does not have oil reserves and the oil business built on schemes that would produce significant profits stimulate the growth of their exports.

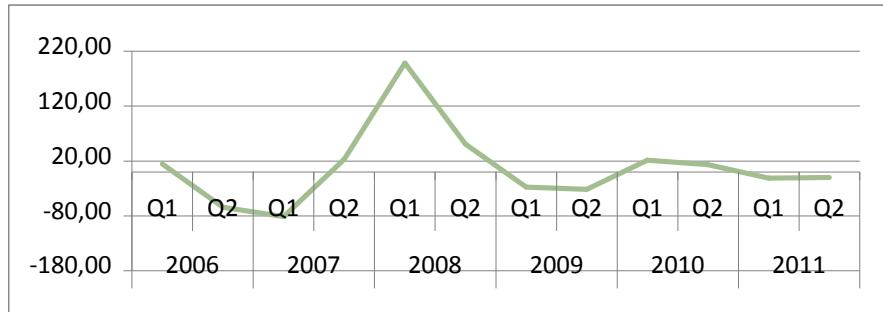
**Chart 4.3. The structure of the foreign trade of the Republic of Moldova,  
2010-2011**

	Quarter II				Semester I			
	Exports		Imports		Exports		Imports	
	2010	2011	2010	2011	2010	2011	2010	2011
<b>Total</b>	<b>100.0</b>							
<b>Agri-food products (0+1+22+4)</b>	40.9	31.9	15.8	12.2	42.7	38.2	16.2	13.1
<b>Raw inedible materials, except fuels (2-22)</b>	4.0	8.3	1.6	2.1	3.0	6.7	1.7	2.1
<b>Energy (3)</b>	0.3	1.4	16.7	18.5	0.4	1.1	20.7	22.3
<b>Chemicals and derivatives that are not specified elsewhere (5)</b>	4.3	4.9	14.6	13.8	5.8	4.6	14.1	13.4
<b>Transport machinery and equipment (7)</b>	14.2	18.8	22.6	24.1	13.8	16.5	20.1	21.9
<b>Textiles and clothing (65+84)</b>	20.5	16.9	10.8	7.8	20.3	16.5	7.5	7.2
<b>Other manufactured goods (6+8-65-84)</b>	15.7	17.7	17.9	21.5	13.9	16.4	19.6	20.2
<b>Other products</b>	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0

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

**Box 4.2. The situation of the wine market in the Republic of Moldova**

For two consecutive quarters already, exports of beverages continues to decline by 10 per cent, thus amounting during the first half of the year to 72.7million USD compared to 81.2 million in January-June of the previous year.



**Figure 4.7.The quarter evolution of the exports of beverages, spirits and vinegar (growing rythm, %)**

Source: The National Bureau of Statistics

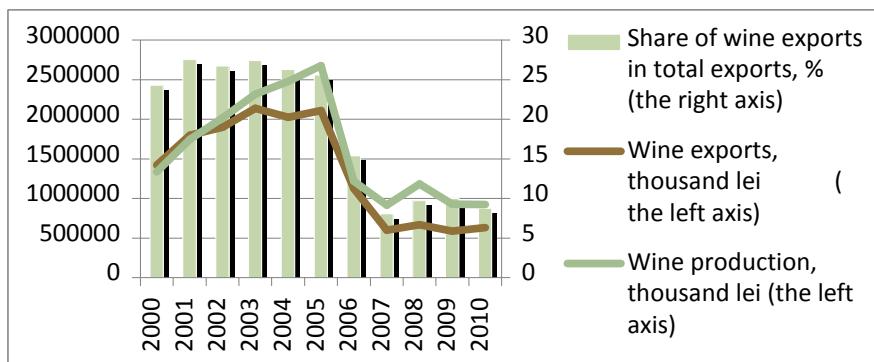
The decline was driven both by a 5 per cent fall in export volumes as well as a 14.5 per cent fall in unit value. The average price of a deciliter of exported wine was 10 USD during the first semester, less than in 2009 and 2010 - 13 and 11 USD accordingly. The largest fall in the wine exports, of 62 per cent, occurred as regards exports to Russia.

Wine exports, which accounted for a quarter of the total amount of exports at the beginning of the decade, now only make up 9 per cent of the total. Obviously, the technical barriers that the wine exporters face on one of the main markets – Russia – and which have become more pronounced since 2006, played a decisive role in producing this change. Although it is stated at present that practically all barriers have been removed and the path to this market has been freed for the national exporters, still, it seems that the problems have not been eliminated.

Thus, at the beginning of 2011, "Rospotrebnadzor" described as incompatible with the sanitary regulations 16 lots of alcoholic products from Moldova, among them eight lots of wines and eight lots of brandy in a total amount of 59,418,000 liters, the argument used being that according to which alcoholic products which do not comply with the sanitary norms are re-exported (<http://www.vinmoldova.md/index.php?mod=news&id=26330>). Although this may seem to be an insignificant amount, given the total volume of the wine exported to the Russian market during the first half of the year - 909.4 thousand deciliters, these actions, which come along with other actions carried on the Russian domestic market, such as license revocation for the wine distributors, including those with whom the exporters from the Republic of Moldova cooperate, suggest a hostile position of the Russian authorities concerning the Moldovan goods.

At the same, back to the claims that Moldova would re-export wine, according to Comtrade data, over the last 10 years the re-exports of alcoholic beverages, including wines reached in some years only 1 per cent (e.g. 2006, 2007).

We could, however, accept the reduction in the growth of real production of wines as another argument for slowdown in wine exports. As of 2001, there is a strong positive correlation between the growth of wine exports and wine production. A growth in production of 1 per cent results in an increase in exports of 0.7 per cent. Until 2006, they have registered annual average growth of 8 per cent and 15 per cent respectively, and as of 2006 the growth levels are 17 per cent and 14 per cent respectively.



**Figure 4.8. Dynamics of the wine export volumes and production, 2000=100**

The share of the EU countries in the total amount of wine exports went up from 1.6 per cent in 2005 to 8.9 per cent in 2010, the export quotas set in the ATP being surpassed by 54 per cent and, 40 per cent respectively during the last two years. Given these circumstances, the quotas for wine exports to the EU have been increased by 30,000 hectoliters. However, a slight decline in exports was registered in the first semester to the EU countries, in particular, as a result of the export price reduction. Thus, only 38.6 per cent of the quota available has been used during this period, while in 2009 and 2010, 69.5 per cent and 72.5 per cent respectively was used of the quota, which represented almost half of the total exports in those years.

In conclusion, we can say that the changes that have taken place on this market for the last five years by diversifying the retail markets occurred mainly "because of the needs, rather than voluntarily", and once the share of wine exports to Russia has been reduced during this period, the total amount of the wine exported fell by nearly two thirds. And this should be a good lesson for Moldovan exporters trying to focus on those markets that offer easier access through minimum quality requirements.

**Transnistria.** After a 20.5 per cent reduction in the current account deficit in 2009, this indicator has resumed an upward trend, reaching 643m dollars, or 24 per cent more than in 2009. This trend was driven by an increase of the trade deficit of the balance of assets (709m), despite a continuous reduction in the deficit of the balance of services (69.5m USD) and an increase in transfers into the national economy.

In the first semester of this year, the deficit of the current account was 125.2m USD, 16 per cent less than during the same period of the previous year. The reduction of the negative balance was caused by a deeper reduction of the imports compared to the exports of goods, as well as the decrease of the services in the light of exports growth. Thus, the deficit of the goods and services account deficit decreased by 10.6 per cent and, accordingly, 46.5 per cent compared to the same period of the previous year.

At the same time, the positive balance of the current account of increased by 6.4 per cent, following growth in non-current transfers, which amounted to 53.5m USD. The money transfers made to natural persons amounted to 37.2m USD.

**Chart 4.4. Transnistria's balance of payments – The current account (synthetic presentation), million USD**

	2007	2008	2009	2010	T1' 2010	T1' 2011	T1' 2011/ T1' 2010
<b>Current account</b>	<b>-328.7</b>	<b>-650.6</b>	<b>-517.5</b>	<b>-643.1</b>	<b>-148.9</b>	<b>-125.2</b>	<b>-15.9</b>
A. Goods	-404.6	-713.7	-535.7	-709.7	-168.1	-150.3	-10.6
Export	727	928.9	577.5	584.9	129.8	118.9	-8.4
Import	1,131.6	1,642.6	1,113.2	1,294.6	297.9	269.1	-9.7
B. Services	-57.9	-10.1	-92.6	-69.5	-15.7	-8.4	-46.5
Export	56.7	54.4	44.1	36.5	8.6	13	51.2
Import	114.6	155.4	136.7	106	24.3	21.3	-12.3
C. Revenues	-15.8	-46.2	-38.7	-28.6	-87	-13	-85.1
Entries	6.2	6.2	7.6	10.5	3.7	1.7	-54.1
Payments	22	52.4	46.2	39.1	12.5	14.7	17.6
D. Transfers	149.6	210.4	149.4	164.7	43.6	46.4	6.4
Profits	173.6	242.6	175.6	197.8	50.7	53.5	5.5
Payments	24	32.3	26.2	33.1	7.1	7.1	0.0

Source: The Republican Transnistrian Bank (<http://www.cbpmr.net/?id=109&lang=ru>)

**Chart 4.4: Transnistria's balance of payments – The capital and financial account (synthetic presentation), million USD**

	2007	2008	2009	2010	Q1 2010	Q1 2011	Q1 2011/ Q1 2010
<b>Capital and financial account</b>	<b>295.3</b>	<b>519.2</b>	<b>492.1</b>	<b>615</b>	<b>165.5</b>	<b>207</b>	<b>25.1</b>
A. Capital account	0.2	-	-	0.7	-	-	-
B. Financial account	300.9	543.8	489.4	613.9	173.3	216.6	25.0
Assets	71.4	60.6	-48.7	59.6	19.7	1.4	-92.9
Foreign direct and portfolio investments	17.8	0.9	1.3	0	0	-1.4	-1.4
Other investments	53.6	59.7	-50	59.6	19.7	2.8	-85.8
Commercial loans	-173	32.8	-30.9	23.6	-4.7	-13.6	189.4
Judgments and loans	43.3	33.5	-26	0	-3.7	4.5	-221.6
Currency and deposits	26.5	-6.6	6.9	36	28.1	11.9	-57.7
Other assets	1.2	0	0	0	0	0	-
Liabilities	229	484.7	538.1	554.2	153.6	215.2	40.1
Foreign direct and portfolio investments	10.8	23.1	57.5	90.9	2.7	5.7	111.1
Other investments	218.2	461.6	480.6	463.3	150.9	209.5	38.8
Commercial loans	40.4	19	-69.4	-46	-19.4	-5	-74.2
Indebtedness for the natural gas	201.6	296.8	435.8	523.1	140.9	179	27.0
Judgments and loans	90.1	148.5	143.3	-17.4	24.4	37.1	52.0
Currency and deposits	-112.2	-2.7	-29.1	3.6	5	-1.6	-132.0
Other liabilities	-1.7	0	0	0	0	0	-
C. Change of the reserve assets	-5.8	-24.6	2.7	1.8	2.7	1.8	-33.3
Other operations	-58	0	0	0	-78	-95	21.8
Statistical error	0	131.4	25.4	28	-16,6	-81,8	-

Source: The Transnistrian Republican Bank (<http://www.cbpmr.net/?id=109&lang=ru>)

There was a growth in the financial account surplus of 25 per cent during the period under review compared to the previous year, accounting for 216.6m USD. The indebtedness of the residents to the foreign entities amounted to 215m dollars, while the foreign assets of the residents continued to decrease, although more slowly, compared to first quarter of 2010, to 14m USD.

The debt for gas consumption continued to grow by more than a quarter compared to the same period of 2010 and amounted to 179m USD. It should be noted that the current debts of the Republic of Moldova to the Russian company Gazprom JSC as regards the gas deliveries, including Transnistria, exceed 2.3bn USD, of which 2,1bn USD belong to Transnistria.

**Foreign investments:** The investment activity in the country intensified during the first three months of the year, with both the direct and portfolio investments of the residents going up, amounting to 1.4m USD, the same being the case as regards the Transnistrian economy. Thus, the investment inflows during the respective period increased by more than two times, amounting to 5.7m USD. Most of the investments in the Transnistrian region, 5.7m USD, come from the CIS countries.

**The evolution of Transnistria's foreign trade during the first semester of 2011.** During the first six months of 2011, Transnistria's foreign trade had a general growth tendency, amounting to 1.032bn USD. The growth was due to an increase of imports of 19 per cent, amounting to 763m USD, while the exports fell by 14.7 per cent, or 269m USD.

The CIS group of countries with a share of 59 per cent was the main export partner of Transnistria, particularly the Republic of Moldova with a share of 35 per cent, Russia 17 per cent, Ukraine – 5 per cent. The list of other major export partners includes Italy (12 per cent), Romania (12 per cent), Germany (7 per cent), and Turkey (8 per cent). CIS also represents the main import partner with a share of 68 per cent, the main partners being Russia – 48 per cent, Ukraine – 8 per cent, Belarus – 6 per cent. Outside the CIS the list of the major import partners includes Germany and China. It should be noted that the imports from the Republic of Moldova to Transnistria were insignificant during this period, amounting to only 0.6 per cent of the total imports.

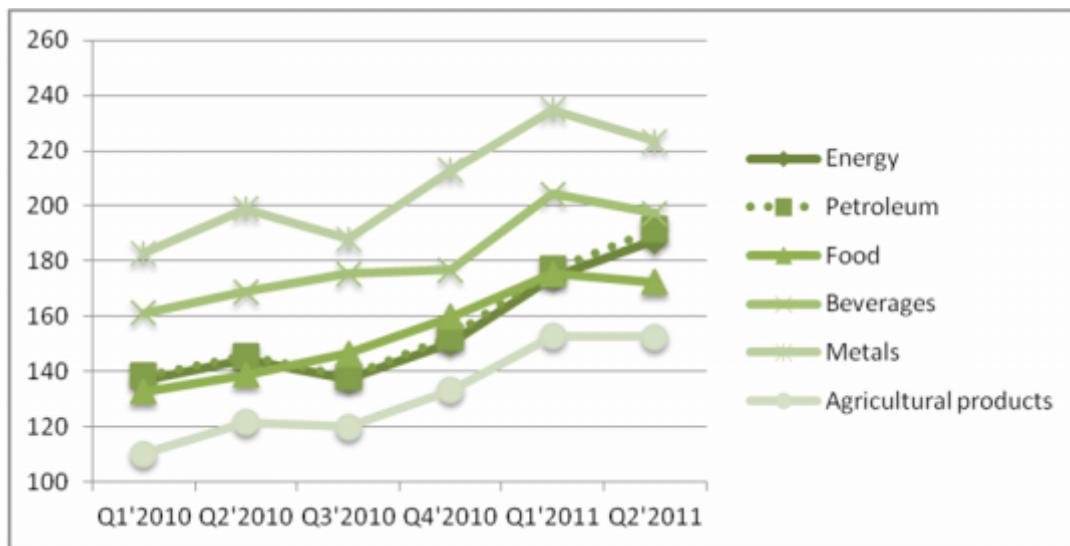
The share of the agricultural products is relatively small in the structure of both the exports and imports – 10 per cent and, respectively, 12 per cent. By contrast, a significant share in the structure of exports belongs to the energy and oil products – 33 per cent, as well as other manufactured products, such as the metal products – 15 per cent, textile products – 10 per cent, footwear - about 9 per cent, transport machinery and equipment- 6 per cent. Transnistria also imported large amounts of energy and oil products – 48 per cent, transport machinery and equipment – 11 per cent, textile products – 8 per cent, chemicals – 5 per cent.

#### ***Main trends and policies in the main states- economic partners of the Republic of Moldova***

After a gradual recovery of the world economy after the 2010 crisis that continued in the first quarter of this year, during which, according to the IMF, the world economy grew by 4.3 per cent, there was a gradual decrease in the second quarter as a result of the slow recovery in the developed economies, where the consequences of the crisis are still fully felt. Thus, under the present circumstances of the global economic development, the forecasts regarding the further developments have also changed. According to the same sources, the IMF, the slowing of growth in the developed economies, particularly the U.S. and Japan and the Eurozone countries especially Portugal, Ireland and Greece, will cause a reduction in the general trend of the global growth in 2011, estimated at a level of 4.3 per cent. These effects are, however, partially offset by accelerating growth rates in the emerging economies.

In many of the emerging economies, such as the Republic of Moldova, growth was higher than estimated earlier this year. An important role in this revival was played by the inflows of the foreign capital in these countries, FDI and remittances. As for countries that export agri-food and energy products, the incomes due to increase of the world prices for these products played this role. However, the increase of the prices for agri-food and metal products slowed down during the second quarter.

Unlike the energy products, including oil, which showed an upward trend during the last three quarters, the price index of the agri-food products and metals fell slightly in April-June 2011 compared to the previous quarter, but remained above the level registered at the end of 2010.



**Figure 4.9. World price indices of the primary goods, 2005=100**

Source: The International Monetary Fund

The main factors that have exerted pressure on global economic development during the period under review concern the difficult economic situation of Japan, an important global economic player, as a result of the natural disasters that marked it, as well as U.S. and EU financial instability, driven largely by the worsening of the external debt.

Economic developments in the main countries and trading partners during the first half of the year show a continuing, though slow, recovery, the situation being more difficult in the U.S., where there was a contraction of the developments of the main macroeconomic indicators.

**Chart 4.6. The macroeconomic situation of the main economic partners of the Republic of Moldova (% compared to the similar period of the previous year)**

		USA	EU	Romania	Russia	Ukraine
Real economic growth	Q1' 2010	2.2	0.9	-0.2	3.5	4.8
	Q2' 2010	3.3	2.3	0.2	5.0	5.5
	Q1' 2011	2.2	2.5	0.7	4.1	5.3
	Q2' 2011	1.5	1.7	0.3	3.4	
Consumer price indices	March 2010	4.9	2.0	4.2	6.5	11.0
	June 2010	2.3	1.9	4.3	5.5	6.9
	March 2011	5.8	3.1	8.0	9.4	7.7
	June 2011	7.8	3.1	8.0	9.4	11.9
Export	Q1' 2010	20.5	22.1	27.7	61.1	24.5
	Q2' 2010	25.4	16.3	22.3	43.4	41.4
	Q1' 2011	18.2	23.5	38.5	23.8	48.8
	Q2' 2011	17.7	27.1	34.5	38.7	36.9
Import	Q1' 2010	17.7	27.1	34.5	38.7	36.9
	Q2' 2010	20.7	16.2	20.4	18.8	20.6
	Q1' 2011	31.7	21.3	18.3	32.4	38.0
	Q2' 2011	18.7	23.6	25.5	41.9	56.9
Unemployment rate	March 2010	9.7	9.7	7.5	8.6	9.8 <sup>6</sup>
	June 2010	9.5	9.7	7.1	6.8	9.2
	March 2011	8.8	9.4	6.9	7.1	9.5
	June 2011	9.2	9.4	7.3	6.1	

Source: Data of the National Office of Statistics

<sup>6</sup>The unemployment rate in Ukraine is indicated according to the quarter average

**USA**

According to data of the Bureau of Economic Analysis of the U.S. Department of Commerce, the real GDP growth of the U.S. during the first quarter was lower than the preliminary estimate, accounting for 2.2 per cent compared to the previous year. In the second quarter, the real growth was 1.5 per cent compared to 3.3 per cent in the second quarter of 2010.

Real GDP growth during this period occurred under the positive influence of household final consumption, especially for the long-term assets, of the private investments in fixed capital and the net exports. The increase of exports of goods and services with growth that surpassed the increase of the imports by 7.2 per cent and 4.9 per cent, accordingly, had a positive effect on economic growth. At the same time, an increase in foreign trade flows, occurred at a pace lower than those recorded during the previous year. This meant both these effects were partially offset by negative developments in state and local government expenditures and private investment inventories.

In June, the consumer price index declined by 0.2 per cent compared to the previous month. The monthly evolution of the prices indicates a reduction in the growth rates. As of April, they increased only by 0.4 per cent, following an increase of 0.5 per cent in February and March. In May, the rate went down by 0.2 percentage points. The slowdown in the pace of growth rates during in the last three months was due to the evolutions of the prices of energy products, which showed even a decrease in May-June by 1 per cent and 4.4 per cent accordingly.

In June, the annual growth was 3.6 per cent. The increase of the price index for all the consumer products except food and energy, accounted for 1.6 per cent, the highest level registered since June 2010. The biggest increase was recorded as regards the prices of energy, up by 20.1 per cent, and while prices of food products increased by 3.7 per cent<sup>7</sup>.

The situation on the labor market indicates as well the tension existing in the American economy. After a slight decrease in the unemployment rate in the period from January to March, from 9 per cent to 8.8 per cent, it resumed its growth trend in April, rising again to 9 per cent. It has continued to grow during the entire semester II, reaching the level of 9.2 per cent in June.<sup>8</sup>

**EU**

The EU economy underwent a contraction of the GDP during the second quarter. Although an increase of 0.2 per cent was registered during this period compared to the first quarter, however, taking as basis the same period of the previous year, the growth was only 1.7 per cent, while the European economies showed during the first quarter aggregate growth of 2.5 per cent. The overall growth of the European economies is constrained by the difficult economic environment that is still faced by some countries, such as Greece, Portugal, and Ireland.

In June, the inflation rate compared to the previous period was on a falling trend in Europe -0.2 per cent. Price inflation has begun to slow down since May. The annual inflation rate was 3.1 per cent in June 2011. The largest increase occurred as a result of increased transport prices, so that in June, annual inflation accounted for 5.7 per cent, electricity – 4.8 per cent, alcoholic beverages - 4.1 per cent, food products – 4 per cent.<sup>9</sup>

<sup>7</sup><http://www.bls.gov/news.release/pdf/cpi.pdf>

<sup>8</sup><http://data.bls.gov/timeseries/LNS14000000>

<sup>9</sup>[http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-QA-11-009/EN/KS-QA-11-009-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-11-009/EN/KS-QA-11-009-EN.PDF)

The annual inflation rate in the main trading partners of Moldova in the EU was: Romania (8 per cent), Italy (3 per cent), Germany (2.4 per cent), United Kingdom (4.2 per cent), France (2.3 per cent), Poland (3.7 per cent), and Hungary (3.5 per cent).

The unemployment rate in the EU-27 remained at the 9.4 per cent level from March to June 2011. At the same time, with reference to June 2010, the situation appears to have improved slightly, the unemployment rate decreasing by 0.3 percentage points. While many countries have managed to partially consolidate the labor market situation, in other countries the unemployment rate continues to stand at double-digit levels and the situation became even worse compared to the previous year (June). Thus, for instance, in Bulgaria, Ireland, Spain, Portugal, Slovakia, the unemployment rate in June 2011 was 11.4 per cent, 44.2 per cent, 21 per cent, 12.2 per cent and 13.4 per cent.<sup>10</sup>

### **Romania**

The data available for the first six months show that the Romanian economy has gradually began to resume its positive growth that existed during the pre-crisis period. Thus, in the first quarter, the real GDP grew by 0.7 per cent compared to the last year and by 0.3 per cent during the second quarter.

According to the available data of the National Institute of Statistics of Romania the first quarter growth was driven mainly by external demand, which allowed the revival of industry and, respectively, increasing income taxes, while the final consumption and the GDP decreased.

During the first semester, there was an upward trend in the prices in the Romanian economy. The consumer price index in June 2011 was 99.71 per cent compared to May 2011 and 107.93 per cent compared to June 2010. The annual price increase of 7.93 per cent was due to the 9.81 per cent increase in prices of non-food products. The increase of prices of other food products was 7.74 per cent.<sup>11</sup>

The unemployment rate was 7.3 per cent, up compared to the previous quarter (6.9 per cent), but, however, decreasing compared to the corresponding quarter of the previous year.

### **CIS**

The developments that occurred during the first semester of this year talk about a rapid recovery in the CIS countries, with growth of 4.6 per cent during this period compared to the first quarter of the previous year. In this context, it is to be noticed that all the economies registered a GDP increase during this period although a very uneven one. There was, however, a weaker growth of the industrial production in the major CIS economies during the second quarter - Russia, Kazakhstan, Belarus, and Ukraine. The tightening monetary policy in these countries could be a cause of these developments. Overall, CIS industrial production increased by 6 per cent compared to the same period of the last year.

Inflation continued to rise, reaching 6.4 per cent, while the price index for industrial products grew even more, reaching 111.6 per cent in June compared to December 2010. The biggest price increase for industrial products took place in Belarus - 148.4 per cent, Kazakhstan - 120.7 per cent, Ukraine - 115.7 per cent.

<sup>10</sup>[http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-01082011-AP/EN/3-01082011-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-01082011-AP/EN/3-01082011-AP-EN.PDF)

<sup>11</sup><http://www.insse.ro/cms/files/statistici/comunicate/ipc/a11/ ipc06r11.pdf>

Strong growth in the CIS countries, which suggest an improving economy after the crisis had also as an effect the reduction of unemployment, which amounted to 6.3 per cent during the first half of this year, while in 2010 it reached 6.8 per cent during the same period.

### **Russia**

The Russian economy was on an upward trend during the first quarter, achieving real growth of 4.1 per cent compared to the same period of the previous year. A recovery of final consumption, especially of private consumption of 4 per cent occurred during this period, fuelled largely by imports. The amount of imports of goods and services in the first quarter underwent real growth of 23 per cent. Meanwhile, the volume of exports remained static.

According to the resources, the processing industry was the main generator of GDP growth in the first quarter, with electricity distribution also making a slight contribution. There was also a reduction in added value to the service sectors of social importance: education and medicine.

According to estimates by the Federal Service of State Statistics of the Russian Federation, GDP growth in the second quarter will reach 3.4 per cent compared to the same period of 2010.

The annual growth of the energy prices of 15 per cent and of agri-food products by 12.48 per cent caused an acceleration of inflation in June to 9.4 per cent compared to the same period of the previous year. At the same time, compared with May, there was a slowing in growth of energy prices - 1.7 per cent (5.9 per cent in May/April), while the prices for agri-food products even fell by 0.25 per cent.

A steady reduction in the unemployment rate from 7.2 per cent to 6.1 per cent has been registered from April to June 2011, reaching 6.6 per cent in second quarter. The unemployment rate reached 7.4 per cent during the second quarter of the last year.

### **Ukraine**

The growth of industrial production in the light of the revival of foreign demand and final domestic consumption led GDP growth in Ukraine of 5.3 per cent during the first quarter compared to the same period of last year. Investments in fixed capital grew by 12 per cent during this period, while in the first three months of the last year they fell by 12.5 per cent. Investments in fixed capital have been falling since 2008.

During April-June 2011, growth of industrial and agricultural production slowed slightly, which will probably affect GDP growth during the second quarter. At the same time, growing foreign trade flows, mainly of imports, illustrates that final consumption, which drives economic activity, has also increased.

After a slight decrease in inflation during the first quarter, down to 7.7 per cent in March compared to the same period of the last year, it began to rise again during the second quarter, registering an annual value of 11.9 per cent in June.

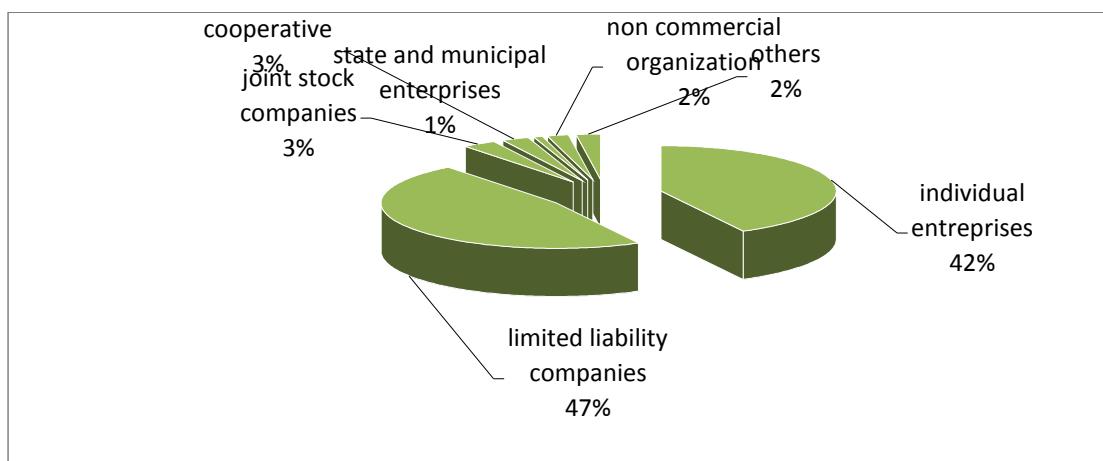
Despite the recovery trend registered in the Ukrainian economy, the situation on the labor market is difficult to assess: the unemployment rate has stayed relatively high during the first quarter at 9.5 per cent.

## Chapter V

### BUSINESS ENVIRONMENT

#### *The number of registered companies: classification according to the organizational-legal forms*

According to data provided by the State Chamber of Registration, there were 159147 legal entities and individual entrepreneurs registered on 01.07.2011. The number of the enterprises in the Register grew by 672 during the second trimester of 2011 or by 0.4 per cent (on 01.07.2011 compared to 01.04.2011). Looking at the number of enterprises in the Register, we can conclude that entrepreneurs prefer to register their business, particularly through two organizational-legal forms: limited liability companies (47 per cent) and individual enterprises (42 per cent). The share of the joint stock companies and cooperatives of all kinds (production cooperatives, consumer cooperatives and cooperative business) is 3 per cent. The share of state and municipal enterprises in the State Register is 1 per cent.



**Diagram 5.1. Companies registered according to the organizational-legal form, by 01.07.2011**

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

#### *The dynamics of the registered and expunged companies during the first semester of 2010-2011*

The number of the companies registered by the State Chamber of Registration grew in January-June 2011 compared to the same period of the previous year, the annual growth reaching 8.9 per cent. Thus, according to data of the State Chamber of Registration, 3560 new companies have been added to the state register in the first half of the year.

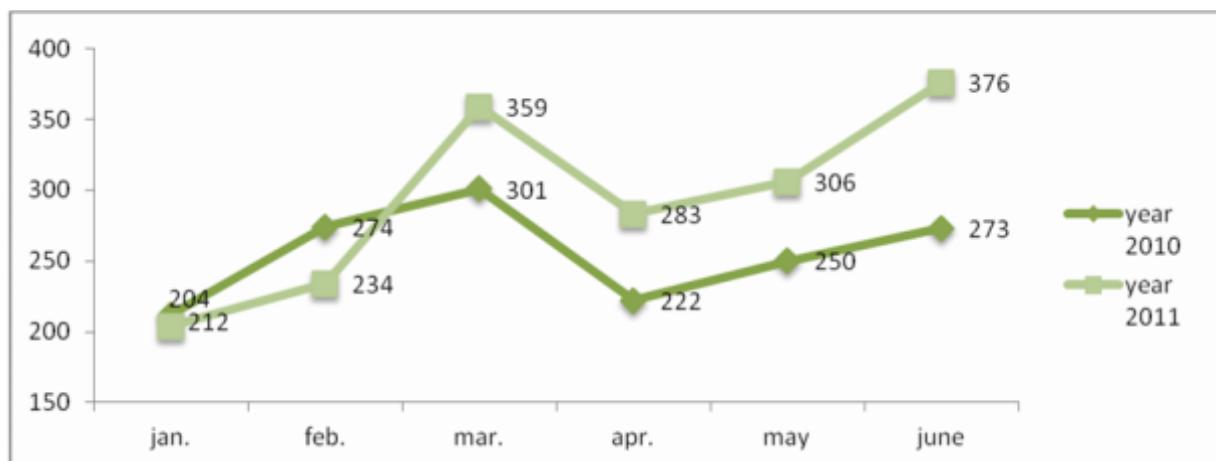
Chisinau territorial office registered 2028 new enterprises during the first semester of 2011, which accounts for 57 per cent of the total number of companies registered in January-June of this year. At the same time, growth higher than in Chisinau has been registered during the first semester of 2011 (compared to the same period of the last year) in the territorial offices (the index was 110 per cent in the territorial offices and 108.2 per cent in the Chisinau territorial office).



**Diagram 5.2. Evolution of the number of companies registered in January- June 2010-2011**

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

1762 companies were expunged in January – June 2011, 15 per cent more than during the same period of the previous year, 68.7 per cent of the expunged companies during the first semester of this year are outside Chisinau.



**Diagram 5.3. Evolution of the number of companies expunged in January-June 2010 - 2011**

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

The calculated indicator, which characterizes the net increase/decrease of the number of companies (recorded minus expunged) shows that a slight net increase of the number of companies occurred during January-June 2010 to 2011, with growth of 3.5 per cent. In the first half of 2011 there was an increase of 3.5 per cent in the number of companies included in the State Register compared to the same period of the previous year.

**Table 5.1. Dynamics of the companies registered in January - June 2010-2011**

years/months	Net increase/decrease	
	Number, un. (Registered companies – expunged companies)	Index, %
<i>2010, semester I</i>	1,737	-
<i>2011, semester I</i>	1,798	103.5
<i>Including:</i>		
January	359	174.3
February	408	129.1
March	367	99.5
April	308	97.8
May	200	71.7
June	156	61.9

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

#### ***Dynamics of the main indicators of business development in the period 2007-2010***

The analysis of the main indicators of business development for the years 2007-2010 was made to see the evolution of these indicators during the period before the economic and financial crisis, and, accordingly, during the period of coming out from the crisis.

According to data provided by the NBS, a slight, but steady increase in the number of companies took place in the years 2007-2010: from 40000 to 46700 companies. The annual growth of the number of enterprises was 10.6 per cent in 2007 and to 5.3 per cent in 2008. In 2009, when the macroeconomic indicators decreased significantly, the number of companies continued to grow, the annual growth rate being somewhat lower - 6.0 per cent. In 2010, compared with 2009, the annual growth rate of the number of companies registered a slight decrease (4.7 per cent). In 2007-2010, the growth rate of the number of enterprises was 17.04 per cent.

The average number of employees in companies, according to data provided by the NBS, remained almost unchanged in 2007-2008; while in 2009 a significant decrease took place (94.2 per cent compared to the previous year). Despite the growth of the number of companies, sales revenues and economy overall, a decrease in the average number of employees is also noticed in 2010. Compared with 2007, the average number of employees was on a downward trend (the index stood at 91.6 per cent).

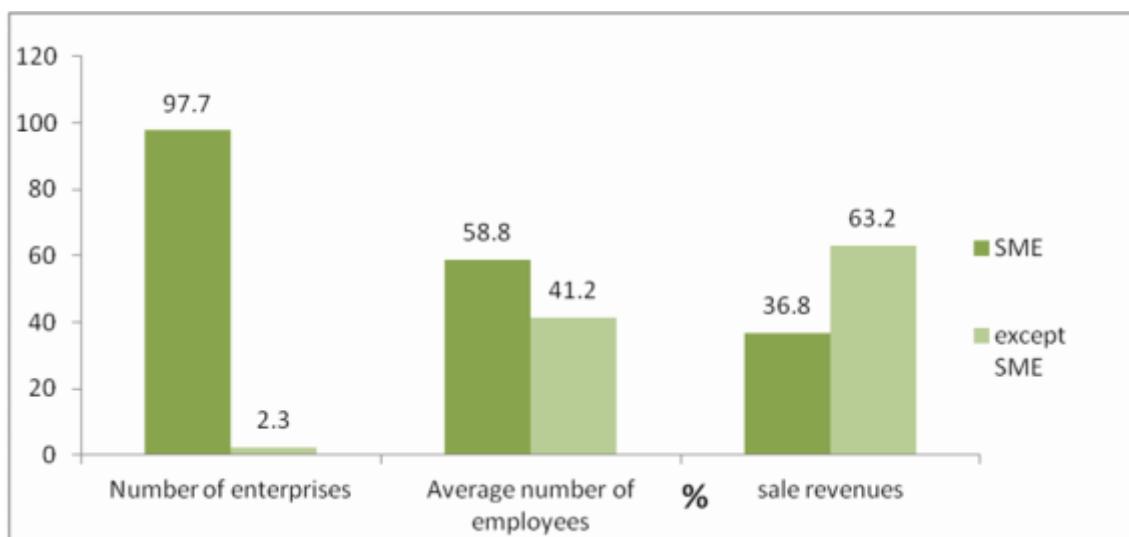
Sales revenues from the activity of the companies increased in the years 2007-2008 (an increase by 17.9 per cent), 2009 was a more difficult year for economic agents, reflected by lower revenues. Thus, a significant reduction in sales revenue of 16.3 per cent is noticed in 2009 compared to 2008. Compared to 2009 there is an improvement of the situation in 2010, when a significant increase in sales revenues is registered (index 121.2 per cent).

**Table 5.2. Dynamics of the main indicators of the companies' activity in the years 2007-2010**

	2007	2008	2009	2010
Number of companies, thousand un.	40.0	42.1	44.6	46.7
Indices, %	110.6	105.3	106.0	104.7
Average number of employees, thousand pers.	574.1	572.1	539.2	526.2
Indices, %	99.9	99.7	94.2	97.6
Sales revenues, million MDL	148,512.7	175,058.4	146,447	177,503.2
Indices, %	126.5	117.9	83.7	121.2

Source: calculated by IEFS based on the database of Moldova's statistical database: <http://statbank.statistica.md/pxweb/Database/RO/databasetree.asp>. Visited on 10.04.2011.

According to the official statistics, of the total number of companies reporting in 2010 on their current activity to the NBS, 97.7 per cent belong to the SME sector. 63.2 per cent of the sales revenue is collected by large companies (which account for 2.3 per cent of the total number of enterprises). Of the total number of employees of enterprises, 41.2 per cent are assigned to large enterprises, 58.6 per cent of the profits before tax of enterprises.

**Diagram 5.4. The share of large enterprises and SMEs in the total number of enterprises in 2010 on the main indicators**

Source: NBS data

An increase in the sales revenue in all sectors of the economy is noticed in 2010. The wholesale and retail trade dominates, accounting in 2010 for 46.3 per cent - more than the sales revenue generated by the industry and agriculture sectors combined. The services providing sectors (transport, communications) also represents a large proportion of the total sales in the economy.

In the years 2009-2010, the agricultural and constructions sectors registered the largest increase in sales revenues (by 46 per cent compared to 2009 in the agricultural sector and 27 per cent in the constructions sector accordingly).

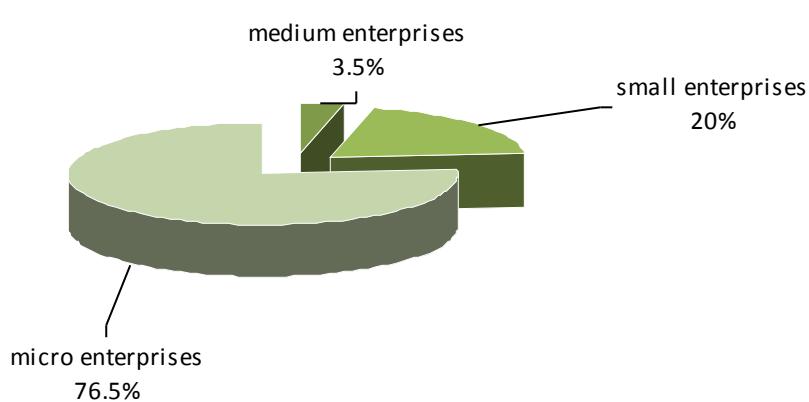
**Table 5.3. Sales revenues of the enterprises depending on their types of activity, 2009-2010**

	year 2009	year 2010
Total, million MDL	146,447	177,503.2
Agriculture, hunting and forestry	4,806.9	7,020.4
Processing industry	22,207.4	26,436.2
Electricity, gas and water	15,074.2	17,071.2
Constructions	6,451.8	8,242.2
Wholesale and retail trade	65,622.8	82,101.3
Hotels and restaurants	1,182.5	1,368.0
Transport and communications	15,301.2	17,805.7
Real estate transactions, rentals and activities delivered to the enterprises	5,773.7	6,639.3
Other activities	10,026.5	10,819.0

Source: NBS Data

#### *Dynamics of the main indicators of the SMEs development in the years 2007-2010*

**The structure of the SME sector.** The SME sector consists of microenterprises, small and medium enterprises. Of the total number of SMEs the most numerous are the microenterprises (76.5 per cent), small enterprises account for 20 per cent, while the medium enterprises represent approximately 3.5 per cent.



**Diagram 5.5. The structure of the SME sector in 2010**

Source: Moldova's statistics database:

<http://statbank.statistica.md/pxweb/Database/RO/databasetree.asp>. Visited on 10.04.2011.

**Modification of the main indicators of SME.** According to the NBS data, a slight, yet constant increase of the number of SME has been registered in the years 2007-2010: from 39,300 to 45,600 enterprises. In 2010, the dynamics of micro, medium and small enterprises followed different trends in the interior of the SME sector. Similar to 2009, the increase of the number of enterprises in the SME sector took place, firstly, due to the micro and small enterprises. Particularly, it was the small enterprises that distinguished themselves through high annual

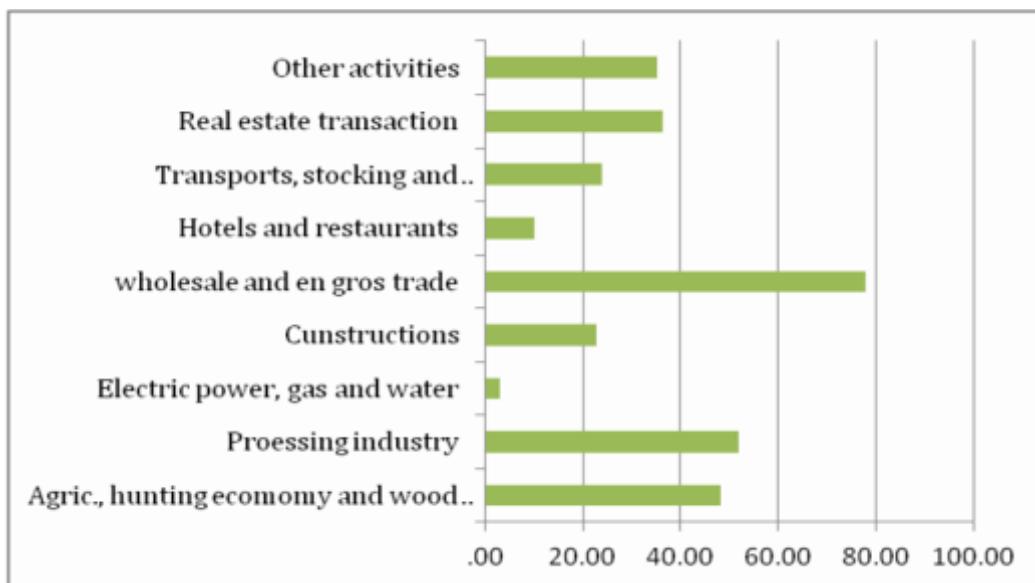
growth (10.5 per cent in 2010). On the contrary, the group of the medium enterprises registered in the years 2007-2009 a decrease in the number of enterprises (in 2009 the index amounted to 89.6 per cent), in the years 2009-2010 the index amounted to 99.8 per cent.

A decrease in the total number of employees in all the enterprises is noticed in the years 2009-2010 (the index amounting to 97.6 per cent). The annual rate of decrease amounted to 97.9 per cent during this period for SMEs.

A trend towards a fall in the number of employees has been registered in 2010 in all groups of enterprises, except for the small enterprises. The rates of decrease for the medium and micro enterprises amounted to 94.5 per cent and 94.7 per cent, while the small enterprises registered a rate of increase of 3.3 per cent.

The share of SME in the GDP in the years 2009-2010 increased from 28.9 per cent to 35.5 per cent (source: the site of the Ministry of Economy <http://www.mec.gov.md/sector/241/2113>).

The trade sector is the largest employer, with 25 per cent of the employees involved in SME in the formal sector in 2010. The processing industry sector and the agricultural sector are the second and, accordingly, the third largest employers in the SME sector of the country (16.8 per cent, and 15.6 per cent accordingly). Though a large number of workers are employed in the agricultural sector (15.6 per cent), their share in the total amount of sales revenues is a rather small one (7 per cent).

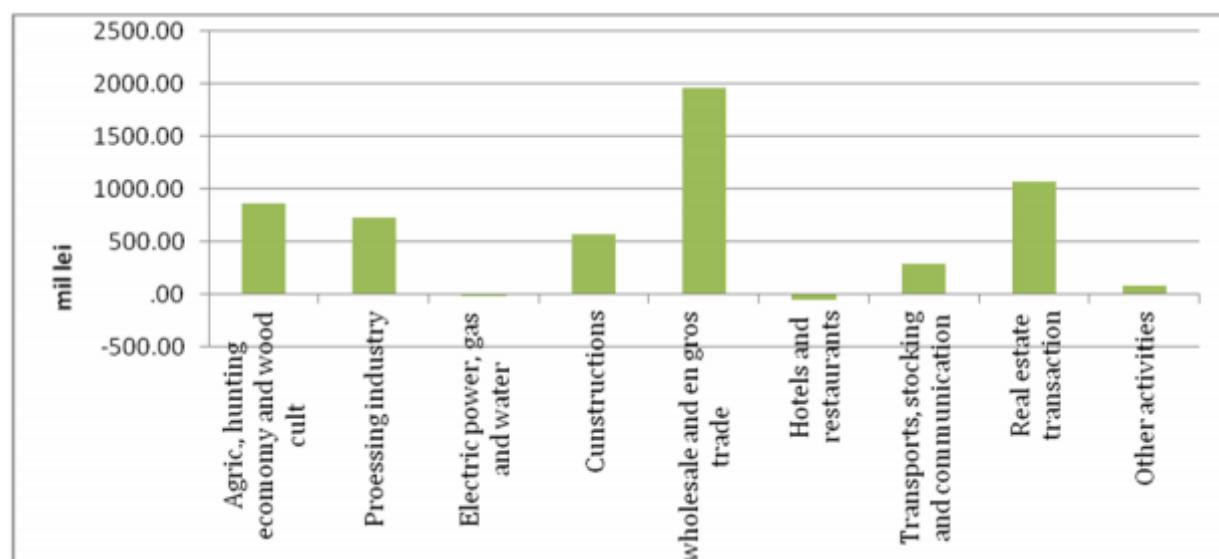


**Diagram 5.6. The average number of employees on activity types in SME, thousands, 2010**  
Source: NBS data

In the years 2009-2010, both in the SME sector and overall, profit has significantly risen, especially in the following sectors: processing industry (by 22.3 times and 2.7 times for the SME), real estate (by 2.9 times, by 1.9 times for SME), trade (by 3.1 times, by 2 times for the SME), and constructions (by 1.8 times, 1.9 times for the SME). A significant increase was registered for enterprises in the agricultural sector, the enterprises from the respective sector registering profit in 2010.

The services providing sectors (electricity, gas, water, hotels and restaurants) registered profit

in 2010, while the small and medium enterprises registered losses in these sectors, just like in 2009.



**Diagram 5.7. The sum of the profit/losses before taxation of the SME in 2010 depending on the main types of activity of the enterprises**

Source: NBS data

The sum of the profit (+)/ losses before taxation of the enterprises (including the SME sector) increased in the years 2007-2008. Moreover, in the SME sector, including the two groups of enterprises in the given sector (except for the small enterprises), a decrease in the amount of sales revenues was seen in 2008, but profit still continued to fall. In 2009, profits fell in all groups of enterprises, but rose again in 2010.

**Table 5.4. Dynamics of the profit (+)/losses (-) before taxation**

Indicators	Profit (+)/ losses (-) before taxation, million MDL							
	2007	Indices, %	2008	Indices, %	2009	Indices, %	2010	Indices, %
Total enterprises, including:	10,836.3	218.2	15,549.4	143.5	3,666.8	23.6	13,169.76	359.16
SME sector,								
of which:	3,777.5	216.1	5,483.2	145.2	2,243.2	40.9	5,456.9	243.3
Medium enterprises	1,486.0	253.1	1,847	124.3	725.6	39.3	1,931.5	266.2
Small enterprises	1,855.1	203.6	3,124.4	168.4	1,357.5	43.4	2,842.4	209.4
Micro enterprises	436.4	174.7	511.8	117.3	160.1	31.3	683.0	426.6

Source: calculated by IEFS based on the database of Moldova's statistical database: <http://statbank.statistica.md/pxweb/Database/RO/databasetree.asp>. Visited on 10.04.2011.

***Box 5.1. The business development perspectives  
(appreciation of the entrepreneurs)***

Aiming at analysing the current situation and identifying perspectives of the business development in the country, IEFS, with the support of the Ministry of Economy, carried out an anonymous poll in May 2011 among the entrepreneurs representing different sectors of the economy, with 107 respondents from 22 districts of the country, including Chisinau City, TAU Gagauzia.

Despite a worsening of the situation in the years 2008-2009, the majority of Moldovan entrepreneurs (78.5%) plan to develop their business in the next 2 years. Only 3.7% of the respondents do not intent to develop their business; 17.8% - faced difficulties in assessing the perspectives of their business development.

The respondents intend to develop their business in different directions. The majority of the questioned entrepreneurs (31.7%) plan to increase the production output and/or enlarge their list of products, 23.9% of respondents intend to develop their business by increasing the quality of the products/services; diversifying the production by initiating new types of activity – 20.8%; penetration of the new market segments (new buyers) inside the country – 16.6% of respondents. 6.6% of the questioned entrepreneurs plan to reorient their export on new foreign markets.

Compared to a poll carried out 5 years ago (2006), minor changes occurred this year as regards the directions of the business development. Of the minor differences, we mention the following: the share of entrepreneurs who plan to increase the quality of the products/services decreased (from 27.7% to 23.9% of the respondents), although it is namely the quality that is the main component part of the products competitiveness. At the same time, the share of entrepreneurs who use now a more complex business development strategy through starting new types of activity that needs more knowledge and more experience in the market conditions went down by 3.4 per cent (from 17.4% to 20.8%).

Just as was the case in 2006, the majority of entrepreneurs intend to use short-term development strategies, which are not always associated with an increase of the business competitiveness – the increase of the production output and assortment. A relatively small share of respondents intends to use strategies that will reflect or will lead to a sustainable increase of the enterprise competitiveness – quality improvement, export of the products etc.

For a detailed analysis of entrepreneurship and a forecast of the situation in the business environment, along with the indicators of the National Bureau of Statistics and data provided by the State Chamber of Registration, it is necessary to take into account the opinion of the entrepreneurs (Box 5.1).

#### ***Indicators of business development in Transnistria***

The general number of enterprises/organizations registered in the Unique State Register of Enterprises and Organizations from Transnistria amounted to 9467 units at the end of 2009. In the years 2005-2009 their number went up by 107.8 per cent. Some indicators, which characterize the work of the enterprises and organizations in Transnistria, are presented in Table 5.5.

**Table 5.5. The number and grouping of the enterprises/organizations in Transnistria at the end of 2009**

Indicators	
Number of enterprises/organizations, un.	9,467
Of which, according to their form of property, %:	
State and municipal, %	13.0
Private, including collective	71.5
Mixed without the participation of foreign capital	1.2
Mixed with the participation of foreign capital	2.5
Property of the public organizations	11.8
Of them according to the activity type, %:	
Industry	9.9
Agriculture	6.2
Transport and communications	1.8
Constructions	5.2
Trade and public catering, general trade activities	39.9
Of them: the number of small enterprise sector, un.	4,961

Source: Transnistria's statistic yearbook, <http://www.mepmr.org/pechatnye-izdaniya/statisticheskij-ezhegodnik-pmr>

The data regarding the development of the small enterprises in Transnistria are not comparable with the data of the Moldova's NBS. A different classification of enterprises by sector is used in Transnistria, a different criterion for attributing enterprises to the small business sector is used (organizations which do not have as a form of property state property and have less than 100 persons).

**Table 5.6. The main indicators of the small business development in Transnistria**

Indicators	By January 1 2010	By January 1 2011	In % compared to 2010
The number of reporting enterprises, un.	4,961	4,925	99.3
The average number of employees of the scripting personnel (without foreign cumulating workers), pers.	15,327	13,860	90.5
Sales revenue, million roubles	4,407.7	5,758.2	130.6
On types of activity			
- industry	401.0	480.4	119.8
- agriculture	129.8	158.2	121.8
- transport	119.2	157.1	131.7
- Constructions	409.3	347.3	84.8
- trade and public catering	3,031.7	4,123.9	136.0
- IT services	8.9	17.1	192.1
- general trade activity	75.6	119.6	158.2
The result of the financial-economic activity (profit/loss)	341.4	330.3	96.7

Source: "Report on the Social-Economic Development of the Moldovan Transnistrian Republic in 2010". Available on <http://www.mepmr.org/>

An insignificant fall in the number of small enterprises was noticed in 2011. By January 1 2011 there were 4,925 active enterprises in Transnistria, 0.7 per cent less than on January 1 2010. There is a decrease in the number of employees in the small business sphere. An enterprise provides jobs to an average number of 2.8 persons in 2011.

The sales revenues of the small business enterprises amounted to 5,785.2 million roubles by 01.01.2011 or by 1.3 times more than by 01.01.2010. The enterprises of the trade and public catering sectors account for an insignificant share of the revenues registered by the small business - (71.6 per cent).

The number of individual entrepreneurs working in Transnistria by January 1 2011 based on an entrepreneur's patent amounted to 12408, by 9.3 per cent more than in 2009. A large number of individual enterprises work in the trade and public catering sectors (72.4 per cent). The individual enterprises work in the following sectors: services (15.3 per cent), agriculture (8.5 per cent), and production (3.8 per cent).

## Chapter VI

### SOCIAL SECTOR

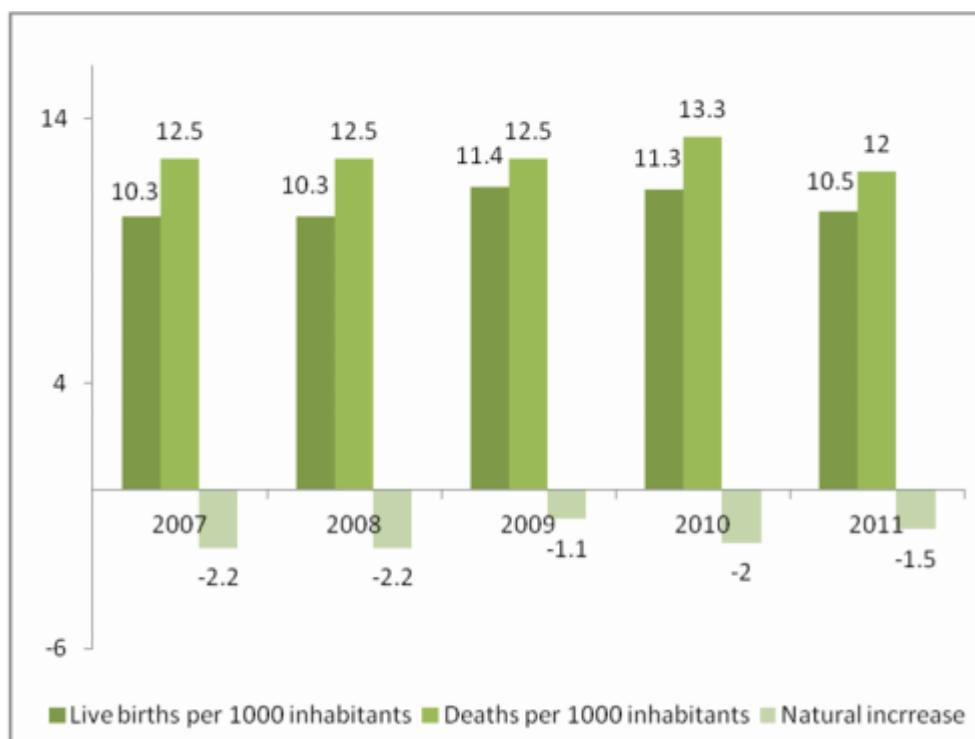
**Demographic situation.** Since January till June 2011 the number of live births was 1,862 persons, or 10.5 per 1,000 inhabitants. Compared with the same period of the previous year, the number of live births decreased by 6.8 per cent. The number of deaths was 21205 or 12.0 per 1,000 inhabitants. Compared with the same period of the previous year, the number of deaths decreased by 9.7 per cent. The structure of mortality by causes of death revealed that most deaths (59.3 per cent) are due to circulatory system diseases; malignant tumors are responsible for 12.9 per cent; digestive diseases for 8.6 per cent; accidents, poisonings, and injuries for 7.3 per cent; respiratory diseases 5.6 per cent; other causes 6.3 per cent.

#### Box 6.1. Comparative analysis

In all CIS countries, one of the main causes of death is circulatory diseases. This applies to countries with large population of older people as those are the most affected by these diseases. In Belarus, the number of people older than 65 years is 14.0 per cent of the total population, in Russia 13.0 per cent in Ukraine 16.0 per cent.

Source: "Казахстан и страны СНГ", № 2, 2011.  
Quarterly Magazine of the Republic of Kazakhstan Statistics Agency

In January-June 2011, the natural decrease was 1.5 persons per 1,000 inhabitants. Compared with the same period of the previous year, the situation has improved in this area (in the first half of 2010, the natural decrease was 2.0 persons).



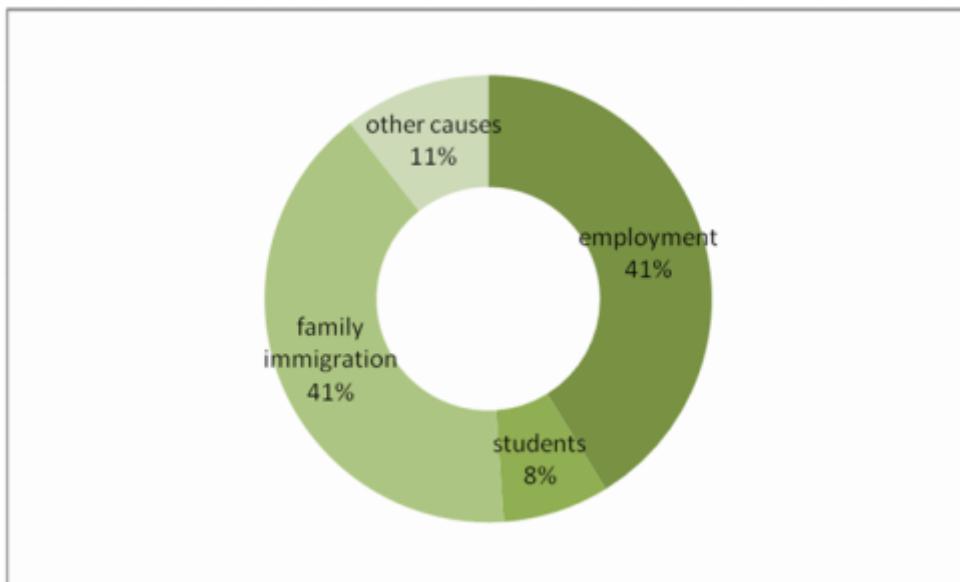
**Figure 6.1. Birth rate, death rate and natural decrease of population from January to June, period 2007-2011, per thousand**

Source: NBS

The number of *marriages* amounted to 9,637 and dropped compared to the same period of the previous year by 2.1 per cent. The number of *divorces* amounted to 5,565 and dropped versus the same period of the previous year by 0.4 per cent.

**The marriage rate** was 5.5 marriages per 1,000 inhabitants, compared to 5.6 in January-June 2010. The divorce rate was 3.2 divorces per 1,000 inhabitants, the same as in the same period of last year.

**Population migrations.** In January-June 2011, according to the Ministry of Internal Affairs, 948 foreign nationals and 317 repatriates have received permanent or temporary residence permits. In the structure of immigrants by purpose of visit, employment dominated making 41.2 per cent, family immigration 40.5 per cent, students 7.7 per cent, and other causes 10.6 per cent.



**Figure 6.2. Foreign citizens, by purpose of arrival, January-June 2011, %**

Source: NBS

By country of immigration, foreigners are divided as follows: Ukraine gave 181 persons; Romania 149 pers.; Turkey 99 pers.; Russian Federation 97 pers.; Italy 50 pers.; United States 30 pers.; France 29 pers.; Azerbaijan 18 pers.; Nigeria 14 pers.; Germany 13 pers.; Syria 12 pers.; other countries 256 persons.

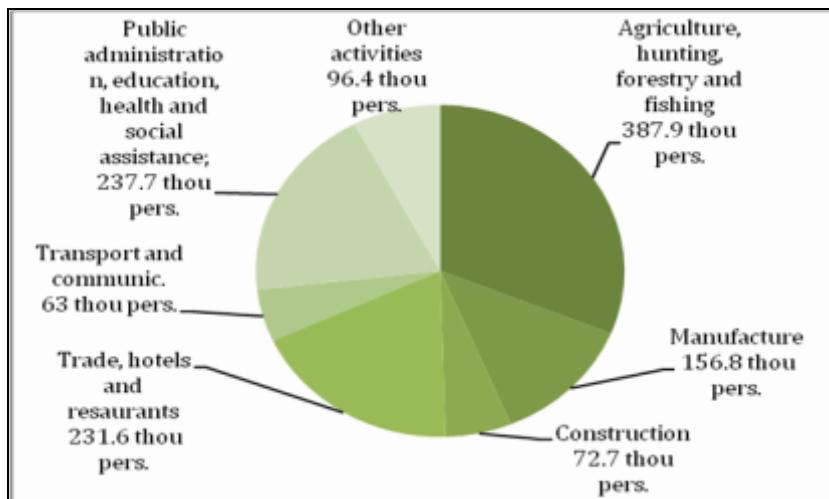
**Labor market.** In the second quarter of 2011, the *economically active population* was approximately 1,328,700 persons. The level of economically active population (ratio of economically active population to the total population) was 44.7 per cent.

#### Box 6.2. Comparative analysis

The economically active population in CIS countries in the first quarter of 2011 is estimated at 137 million persons (or about half the total population), including in Russia 75 m persons; Ukraine 22m persons; Kazakhstan 8.6m persons; Belarus 4.7 m persons; Azerbaijan 4.6 m persons. In most CIS countries, the employment rate varies from 92 per cent to 94 per cent. A significant portion of people in economic activities prevails in large and medium size enterprises: in Armenia, Kazakhstan and Tajikistan 26-40 per cent; in Ukraine 53 per cent; in Russia 67 per cent; in Belarus 70 per cent.

*Source: "Казахстан и страны СНГ", № 2, 2011.  
Quarterly Magazine of the Republic of Kazakhstan Statistics Agency*

The number of *employed persons* was approximately 1,246.1 thousand persons. The employment rate (ratio of employed population over 15 years of age to the total population in this age group) was 41.9 per cent.



**Figure 6.3.Employed population by economic activities in II quarter, 2011, thousands**

Source: NBS

The employed population was divided according to economic activity: 387,900 persons – agriculture, hunting, forestry and fishing; 156,800 persons – manufacture; 72,700 persons – construction; 231,600 persons – trade, hotels and restaurants; 63,000 persons – transport and communication; 237,700 persons – public administration, education, health and social assistance; 96,400 persons – other activities.

*The number of unemployed*, as defined by the International Labor Office, was 82,600 persons. *The unemployment rate* nationwide was 6.2 per cent. In men it reached 7.0 per cent and for women - 5.3 per cent. There are still significant disparities between the urban unemployment rate - 7.9 per cent and the rural - 4.7 per cent.

#### *Box 6.3. Comparative analysis*

The number of unemployed in the CIS countries, in accordance with the methodology of the International Labor Office, fell compared with January-March last year, according to the CIS Statistics Committee, and constituted in March this year 9.2m persons, or 6.7 per cent of economically active population, which is 11.0 per cent less than in January-March 2010 (10.4 m persons, or 7.7 per cent). The indicators of unemployment are significantly lower than the unemployment rate, defined by the International Labor Office method, because a substantial proportion of the unemployed prefer to look for a job on their own, without being registered. In late March 2011, in the CIS countries, 2.6 m unemployed, or 1.9 per cent of the economically active population, which is 17 per cent lower than for the same period in 2010 (3.2 m persons, or 2.3 per cent) are recorded in the employment services' register.

*Source: "Казахстан и страны СНГ", № 2, 2011.  
Quarterly Magazine of the Republic of Kazakhstan Statistics Agency*

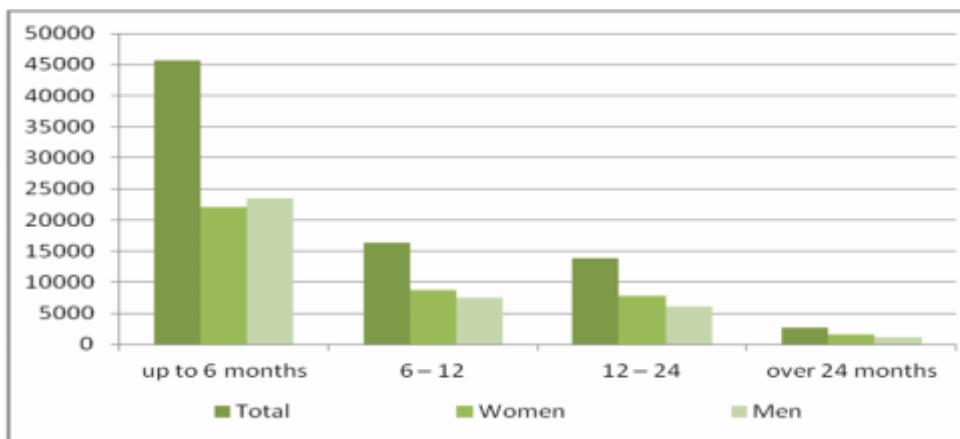
The *number of officially registered unemployed*, according to the National Agency for Employment, from January to June 2011 was 37,866 persons, including 18,391 women. Of the total number of officially registered unemployed – 6,730 persons were employed (including 3,917 women).

Of the total number of officially registered unemployed, 11,177 persons have worked previously (including 5,390 women), 9,463 persons returned to the labor market after a break (including 4,600 women), 17,226 persons are looking for a job for the first time (including 8,401 women).

The total number of officially registered unemployed divided according to studies: 1,642 persons - with primary education (including 4,600 women), 13,712 persons with secondary education (9 grades) (including 6,829 women), 7,630 persons with high school and general secondary education (grades 11-12) (including 4,280 women), 9,568 persons with secondary vocational education (including 3,472 women), 2,594 persons with specialized secondary education (colleges and former technicums) (including 1,488 women), 2,720 persons with higher education (including 1,568 women).

Officially registered unemployed divided according to age category: 7,460 persons in the age group 16-24 years (including 3,627 women), 5,929 persons - in the category 25-29 years (including 2,963 women), 16,961 persons - in the category 30-49 years (including 8,704 women), 7,516 persons - in the category 50-65 years (including 3,097 women).

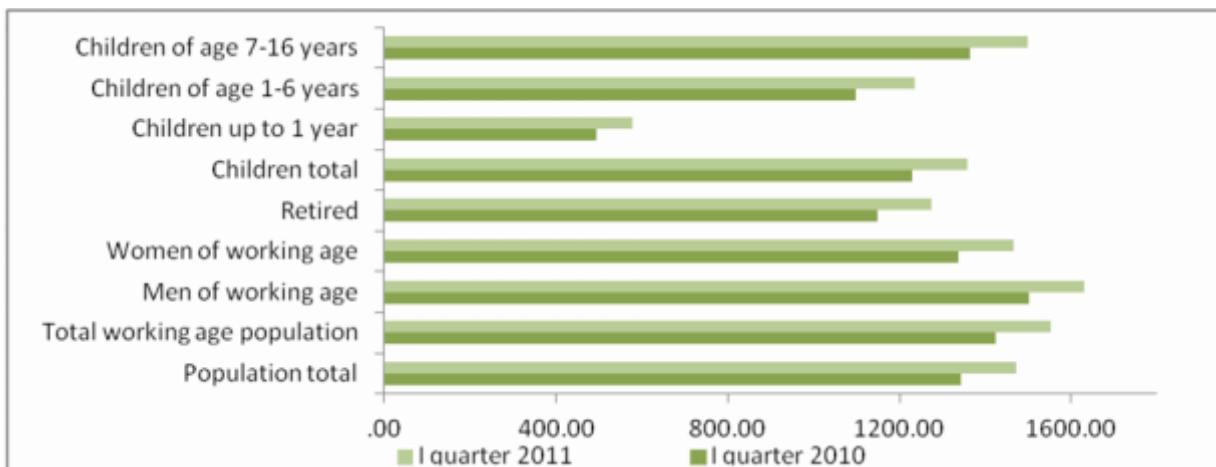
Distribution of persons by duration of unemployment: of the total number of unemployed registered at the beginning of the year, those registered at the beginning of this year constitute 78,585 persons (40,438 women and 38,147 men respectively); by unemployment duration of up to 6 months – 45,697 persons (22,153 women and 23,544 men); duration 6-12 months – 16,270 persons (8,774 women and 7,496 men); 12 to 24 months – 13,887 pers. (7,865 women and 6,022 men); over 24 months – 2,731 pers. (1,646 women and 1,085 men).



**Figure 6.4. Distribution of persons by duration of unemployment January-June 2011, pers.**  
Source: NEA

**Subsistence minimum.** The size of the subsistence minimum in the first quarter of 2011 was, on average 1471.3 MDL per person, increasing by 9.6 per cent compared to the first quarter of the previous year. The increase in the subsistence minimum was driven by both higher prices and the changes that occurred in the structure of household consumption expenditure, in particular the increase of share of expenditures for non-food goods and services.

By categories of population, the maximum amount of the subsistence minimum belongs to the working age population - 1551.0 MDL (compared to the previous year - 1422.4 MDL), and especially to men - 1631.3 MDL (compared with same period last year - 1502.7 MDL). The subsistence minimum for pensioners was 1275.4 MDL (1150.2 MDL in the same period of previous year), reaching 86.7 per cent of the average for the entire population.

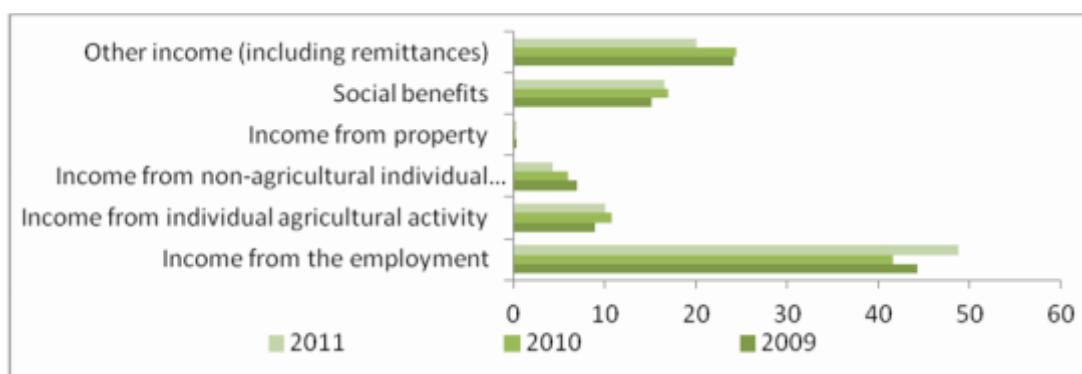
**Figure 6.5. Subsistence minimum, persons**

Source: NBS

The subsistence minimum for children reached 1358.7 MDL on average, depending on the child's age: from 577.6 MDL for a child up to one year to 1499.7 MDL for a child aged 7-16 years. Depending on residence, the subsistence minimum for the first quarter of 2011 is characterized by maximum values for urban areas - 1618.2 MDL, and, respectively, minimum values for rural areas - 1366.6 MDL. This gap is caused by differences in the composition of the food basket but also in the structure of consumption expenditure of households in urban and rural areas.

**Household disposable income.** In the first quarter of 2011, *household disposable income* was 1352.2 MDL (according to the Household Budget Survey) in average per person monthly, an increase of 10.6 per cent over the same period last year. In real terms (adjusted to consumer price index), household income increased by 4.2 per cent.

Sources of income are distributed by their contribution to the formation of disposable income: salary payments, which form the main sources of income - 48.8 per cent of total disposable income, an increase over the same period of 2010 by 7.2 percentage points.

**Figure 6.6. The structure of total disposable income in the first quarter, %**

Source: NBS

Another important source of income is social benefits, accounting for 16.5 per cent (a reduction of 0.5 percentage points over the same period of 2010). Revenues from individual agricultural activity is 10.0 per cent (-0.7 percentage points) of total disposable income. Revenues from non-agricultural individual activity decreased by 4.3 per cent (-1.7 percentage points). An important source of household income are remittances, whose contribution is 14.8 per cent, a reduction of 3.7 percentage points against the first quarter of 2010.

Depending on residence, the urban population's income was on average 661.7 MDL or 61.8 per cent higher than that of the rural population. In urban areas, the main source of income is employment, which provided population income in the proportion of 62.6 per cent (54.6 per cent in the first quarter of 2010) and social benefits - 12.9 per cent (13.8 per cent in the first quarter of 2010).

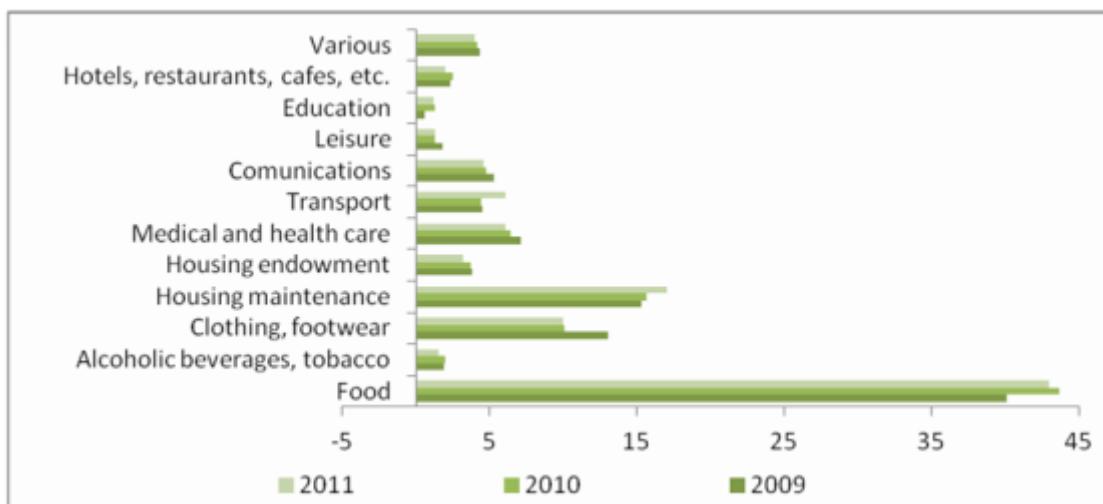
In rural areas, the most important source of income is still employment - 32.2 per cent, whose contribution to total disposable income is half that in urban areas. At the same time, income from individual agricultural activity has provided 20.6 per cent of total disposable income.

The rural population compared to urban one is dependent on a greater proportion of remittances coming from abroad, their share in disposable income was 20.4 per cent versus 10.1 per cent for urban population. In addition, the rural population takes a bigger share of social benefits: their contribution is 20.8 per cent compared to 12.9 per cent in urban areas.

In the structure of the population's disposable income money revenues dominate – 88.2 per cent, in-kind revenues amounting to 11.8 per cent. In absolute terms, money income reached 1192.8 MDL per person per month on average and in kind revenues – 159.4 MDL. Money income is 96.5 per cent of urban household income, and 78.3 per cent of rural income.

**Household consumption expenditure.** The average monthly consumption expenditures of the population in the first quarter of 2011 were, on average per person, 1421.1 MDL, an increase of 7.2 per cent over the same period last year. Revenues increased at higher rate than expenses – by 3.4 percentage points. In real terms (adjusted to consumer price index), the population spent an average of 1.1 per cent more, compared with the same period last year.

Most of the traditional expenditures are intended for the required consumption of food - 42.9 per cent (0.7 percentage points less than in the first quarter of 2010). For home care a person has spent on average 17.0 per cent of total consumption expenditure (+1.4 percentage points) and for clothing and footwear - 10.0 per cent (same level with the first quarter of previous year). Other expenses were divided: health 6.1 per cent (versus 6.4 per cent in the first quarter of 2010); transport 6.1 per cent (versus 4.4 per cent); communications 4.6 per cent (compared 4.8 per cent); housing endowment 3.2 per cent (versus 3.7 per cent); education 1.2 per cent (versus 1.3 per cent), etc.



**Figure 6.7. Structure of household consumption expenditures in Q1, %**

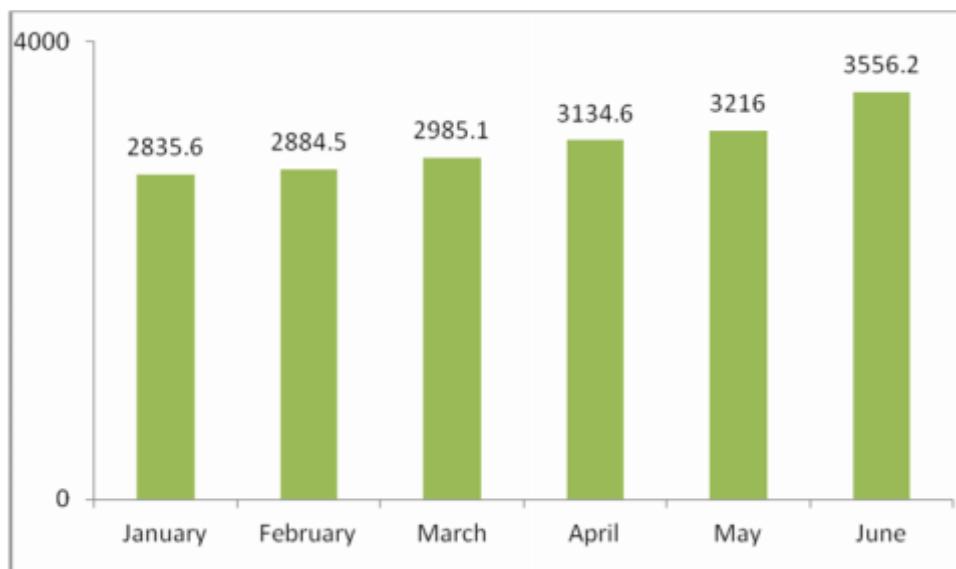
Source: NBS

On average, the consumption expenditure of the urban population accounted for a total of 1716.7 MDL per person per month, respectively 515.1 MDL or 1.4 times more than in rural areas.

In urban areas, to ensure food consumption, the population spent 40.5 per cent of monthly consumption expenditure (39.8 per cent in the first quarter of 2010) and in rural areas - 45.5 per cent (respectively 47.9 per cent). The urban population spends more on housing maintenance (19.2 per cent versus 14.7 per cent in rural areas), communication services (5.3 per cent versus 3.8 per cent), leisure services (1.7 per cent vs. 1.0 per cent) and hotels, cafes and restaurants (3.2 per cent vs. 0.8 per cent).

In the structure of the total consumption expenditure of the population, money expenditure dominates – 88.8 per cent, while in-kind expenditure accounts only for 11.2 per cent of the total. In urban households, in-kind expenses are 3.5 per cent of total consumption expenditure, which are usually the consumption cases of free food received from outside the household (family, welfare, etc.) and for rural households, 19.3 per cent of expenditure is derived from the consumption of products from individual agricultural activity.

**Remuneration of labor.** Gross nominal average salary, according to the NBS, in June 2011, was 3,556.2 MDL, an increase of 20.0 per cent compared to June of 2010 and of 10.6 per cent compared to the previous month (May 2011). The average monthly salary during the period January to June 2011 had a tendency to increase from 2,835.6 to 3,556.2 MDL.



**Figure 6.8. The evolution of the average monthly salary in January-June 2011, MDL**

Source: NBS

The real earning index for June 2011 to June 2010 (taking into account inflation) was 111.4 per cent. The difference, subject to the tax evasion, is as follows: in the budgetary sector the average wage in June was 3,979.1 MDL (39.7 per cent compared to June 2010), in the real sector – 3,362.5 MDL (11.4 per cent compared to June 2010).

By types of economic activity, the highest salary was recorded in the area of financial activity (1.9 times the national average wage in January and 1.8 times the national average wage in June), heat and electricity, gas and water (1.6 times the national average wage in January and 1.4 times the national average wage in June), real estate (about 1.2 times the national average

wage). The lowest level was recorded in fish (about 50.5 per cent the national average wage in January and 45 per cent the national average wage in June), in agriculture, hunting and forestry (54.4 per cent the national average wage in January and 50 per cent the national average wage in June).

According to the NBS, 20 per cent increase in average wage is determined mainly by over 60 per cent growth of the average wage in "education" (in the field of education the recorded salary was 2,395.7 MDL in January, and in June – 4,584.8 MDL). However, earning growth in education is exclusively granted by leave benefits: unlike last year these are not be distributed for the months of leave, but are included in the month of calculation. Leave allowances made up over 50 per cent of the salary of that activity (educational). In the total economy, the share of payments for the time not worked (annual leave) was 20 per cent.

#### ***Box 6.4. Comparative analysis***

Nominal average wage in March 2011 in all CIS countries has exceeded the level of the effective month of last year, its size having varied by country from 5% to 40%.

**Nominal and real indexes of average monthly wages in January-March 2011**

	Average monthly nominal wages compared with same period last year, %	Average monthly real wages compared to the same period last year, %
Azerbaijan	111.7	102.4
Armenia	105.5	95.0
Belarus	140.8	125.2
Kazakhstan	118.2	109.0
Kirghizstan	117.4	97.6
Russia	110.1	100.5
Tajikistan	121.1	108.0
Ukraine	119.9	111.3

Nominal average earnings in the capitals of CIS in February 2011 have exceeded nominal average earnings across the country: in Yerevan by 1.1 times, Minsk - 1.3 times, Astana and Bishkek - 1.4 times, Moscow and Dushanbe - 1.8 times, Kiev - 1.5 times. Higher salaries than the national average are being paid in the activities: "Finance", "Mining and quarrying", "Transport and communications". The lowest salaries in most CIS countries are in the areas: "Agriculture and forestry", "Health" and "Education".

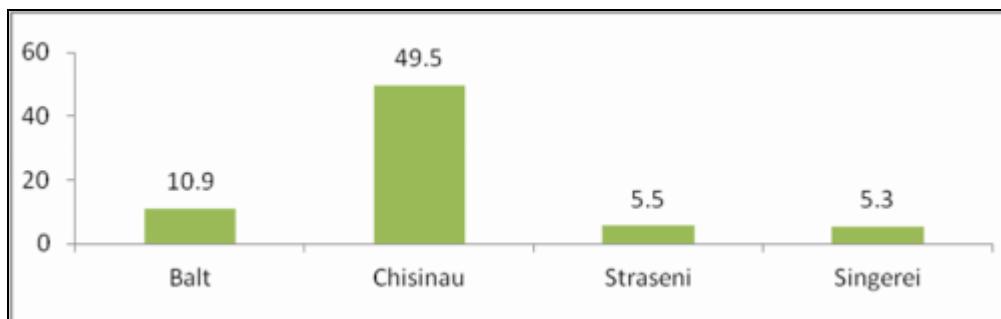
*Source: "Казахстан и страны СНГ", № 2, 2011.  
Quarterly Magazine of the Republic of Kazakhstan Statistics Agency*

**Healthcare.** According to preliminary information from the Ministry of Health, the population morbidity of some infectious diseases in January-June 2011 is characterized by a rise in cases of illnesses involving acute respiratory infections with multiple locations - 158,000 cases compared to 86,700 cases in January-June 2010. At the same time, there were more cases of varicella, about 6200 cases (3300 cases compared in January-June 2010), but fewer cases of influenza, hepatitis A, acute intestinal infections, etc.

On average per 100,000 inhabitants there are 239.7 cases of acute intestinal infections, 174.5

cases of varicella, 128.5 cases of influenza, and 4,436.6 cases of acute respiratory infections.

Most cases of acute respiratory infection morbidity were recorded in Balti (10,900 or 7300 cases per 100,000 population) and Chisinau (49,500 cases or 6300 cases per 100,000 population) in districts Straseni (5500 or 6000 cases per 100,000 population thousand), Singerei (5300 or 5700 cases per 100,000 population), etc.



**Figure 6.9. Cases of acute respiratory infection morbidity in January-June 2011, thousand**  
Source: NBS RM

Every third case of acute respiratory infection with multiple locations is recorded in children. Most cases of illness of children with these infections were registered in Chisinau – 26,000 cases and Balti – 7,300, in districts Straseni – 3,700, Singerei – 3,600, Ialoveni – 3,000, Causeni – 2,700 cases.

In January-June 2011 the number of carriers of human immunodeficiency virus (HIV) was 271 persons, 28 cases more than in January-June 2010. At the same time, there were 101 cases of HIV disease, most cases being registered in Chisinau and Balti, with 27 and 21 cases respectively, and Glodeni, with 11 cases.

**Poverty.** In 2010 poverty in Moldova underwent a significant decrease compared to previous years. The share of the poor, whose consumption is below the absolute poverty line, was 21.9 per cent, a fall of 4 percentage points compared with 2009. The absolute poverty threshold was on average 1015.9 MDL per month per person, up by 7.4 per cent from 2009, as the average Consumer Price Index was 107.4 per cent per year. The extreme poverty line was 549.4 MDL, while the share of population with consumption below this level constituted 1.4 per cent. Thus, about 734,900 persons had consumption below the absolute poverty line and about 46,300 persons – a consumption below extreme poverty line.

The absolute poverty gap or otherwise poor income gap relative to the poverty line in 2010 was 4.5 per cent, and the extreme poverty gap – 0.3 per cent. This means that each absolutely poor person has an average deficit of about 45.7 MDL to overcome absolute poverty, and each extremely poor person lacks some 1.6 MDL needed to get out of extreme poverty.

Regarding the severity of poverty index, which reflects the seriousness of poverty phenomenon, in 2010 this indicator continued the downward trend, up to 1.4 per cent.

Nationally, in 2010 the level of inequality decreased slightly. According to the Gini coefficient, inequality in Moldova was 0.305 compared to 0.309 in 2009. For example, in Russia in 2010 the Gini coefficient was 0.42 (according to the Federal Statistics Service of the Russian Federation), in the Republic of Kazakhstan - 0.278 (according to the Statistics Agency of Kazakhstan). Another indicator that reflects the level of inequality is the 90/10 distribution of the mean

consumption expenditure per adult equivalent. It also indicates a slight decrease in inequality in the country, and reports that the average expenditure of the richest 10 per cent of the population are about 6.3 times greater than of the poorest 10 per cent of the population. Regionally, inequality in villages and small towns grew, and in the big cities the difference between the welfare of the poor and the rich has declined.

The discrepancy between the level of living of the population in rural and urban areas remained as significant. However, after negative developments in the rural poverty rate registered during the years 2008-2009, in 2010 was established a reversing situation. Thus, if in 2009 in the villages 36.3 per cent of the population were living in poverty, now, in 2010 the share of poor people has decreased to 30.3 per cent.

At the same time, urban welfare generally increased, except in Chisinau and Balti, where the poverty rate remained at the level of 2009. In small towns poverty decreased from 19.7 per cent to 14.2 per cent in 2010.

The most vulnerable populations in terms of their risk of poverty are the traditional ones: households with numerous members and those consisting of many children, households living on income from agricultural activities and the elderly.

The underlying factors that have had a significant impact on the evolution of poverty in 2010, include: increasing agricultural output, agricultural price increases, implementation of reforms in social assistance, through directing social benefits, especially social assistance, to those most vulnerable layers of population in a more efficient manner.

**Social protection of population.** According to the National Social Insurance House, the number of *pensioners* registered at the social security bodies as of 1 July, 2011 were 627,400 persons that make 4,100 persons more than as of July 1, 2010. The average *monthly pension* established on 1 July, 2011 amounted to 875.6 MDL, increasing by 8.2 per cent since July 1, 2010, and the increase was 0.5 per cent in real terms.

#### **Box 6.5. Comparative analysis**

In March 2011, compared to March 2010, taking into consideration the official exchange rate set by the national (central) banks from the CIS countries, the average monthly pension set for age limit amounts in Belarus to 107 USD (March 2010 - 89 USD), Kazakhstan - 165 USD (125 USD), Tajikistan - 18 USD (14 USD), Uzbekistan - 58 USD (48 USD), Ukraine - 94 USD (88 USD), the basic pension amounts in Azerbaijan to 107 USD (93 USD), Armenia - 28 USD (20 USD), Kirghizstan - 21 USD (18 USD), Russia - 104 USD (87 USD).

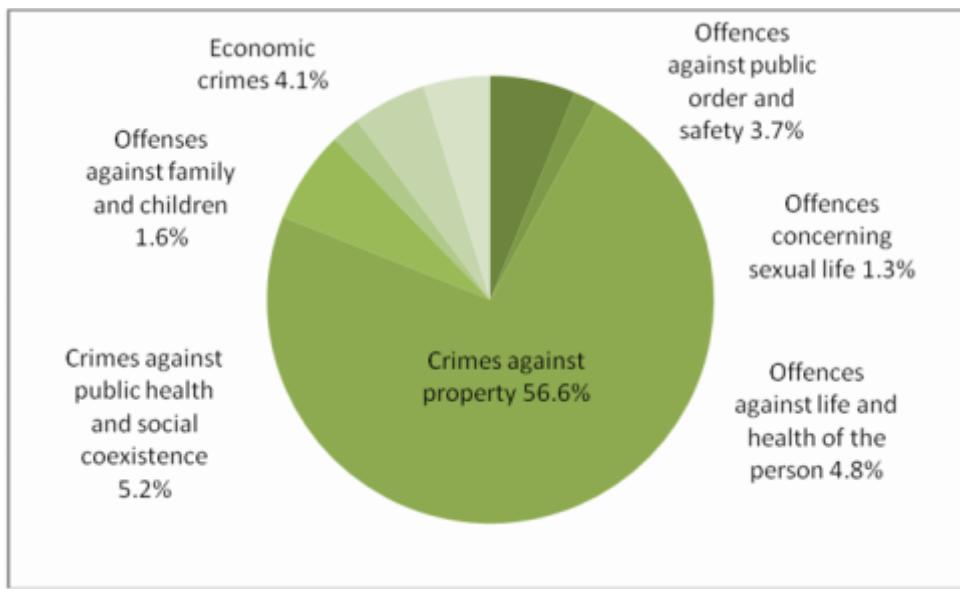
*Source: "Казахстан и страны СНГ", № 2, 2011.  
Quarterly Magazine of the Republic of Kazakhstan Statistics Agency*

**Offences.** According to the Ministry of Internal Affairs, in January-June 2011 16,400 crimes were registered, 5.8 per cent more than during the previous year. 66% of total recorded offenses were registered in urban areas. There are 46 recorded crimes per 10,000 inhabitants. The highest level of crime was registered in Chisinau and Balti, with 71 and 69 crimes per 10,000 inhabitants respectively, 1.5 times above the national average.

In January-June 2011 many economic crimes were recorded (24.1 per cent of the total), crimes against property (11.9 per cent) and against public order and safety (9.3 per cent). In the crimes against property category, the most common crimes are robbery, whose number increased 1.7 times, theft (18.2 per cent) and robbery (5.4 per cent). Also - manufacturing counterfeit money

increased 2.0 times and cases of trafficking in children (2.4 times); cases of hooliganism and smuggling (by 12.6 per cent and 4.9 per cent respectively). During this period, there were fewer cases of registered offenses against public health and social coexistence, and crimes against the life and health of the individual and against private sexual life.

37 crimes were committed using firearms, explosives or grenades. Of the total offenses in this category there were 10 cases of burglaries, 9 cases of hooliganism and 3 cases of intentional injury.



**Figure 6.10. Structure of offenses in January-June 2011, %**

Source: NBS RM

Against persons in January-June 2011 were committed 16,400 offenses, following which 230 persons have died, 19 people less than in January-June 2010. The main causes of death were road accidents, murder and intentional injuries.

### **TRANSNISTRIA**

According to the Transnistrian Statistics Agency:

**Population.** The estimated *population* of the Republic on 01.07.2011 was 515,600 persons. At the same time the population in urban areas was 355,800, and the rural population was 159,800 persons. The *natural decrease of the population* in January-June 2011 was 1421 persons. There were 2,336 live births, there were 3,757 deaths. *Infant mortality* in children under one year in January-June 2011 was 30 persons. The main causes of infant mortality are: the state that emerged in the prenatal period, poisoning and congenital anomalies. The fall in the *migration* of the population in January-June 2011 was 948 persons and compared with January-June 2010 it rose by 11.7 per cent. During the months from January to June of 2011 3,219 people *arrived* in the region, which is 106.9 per cent compared to the number of arrivals in January-June of 2010, of them children under 16 years - 601 or 18.7 per cent of the total arrivals 4,167 people *departed*, or 108.0 per cent of the number of departures in January-June 2010, including children under 16 years - 606 persons or 14.5 per cent of total departures. Of the total number of arrivals in the region 47.5 per cent are men (1,530 persons), the number of men departed amounts to 48.1 per cent (2,006 persons). During the months from January to June of 2011 in urban areas

2,101 people arrived, 3,101 people left, or 100.6 per cent and 103.3 per cent compared to January-June of 2010 respectively. In rural areas 1,118 people arrived and 1,066 people left (121.3 per cent and 124.1 per cent respectively). The number of *registered* marriages was 1,378 and, compared with January-June 2010 this was a decline of 7.5 per cent. The number of divorces reached 937, down by 8.0 per cent.

**Labor market.** From January to June 2011, the Transnistrian Employment Agency recorded 6,088 persons as job seekers, including 3,280 women (53.9 per cent of the total number of citizens registered). On 01.07.2011, the number of citizens registered with employment agencies who were not employed was 6,305 persons, of which 3,932 were women (62.4 per cent of the total number of citizens registered). From January to June of 2011 1,505 persons were employed through the Transnistrian Employment Agency, including 1,177 persons who were recognized as unemployed. In the period under review, vocational consultations were carried out with students: 170 group consultations, which totaled 2,907 people, and individual consultations - 670 people, which included 641 people; with adults: individual consultations – 4,317, which included 4,111 people. 361,000 rubles were spent on vocational training, including paying stipends – 212,400 rubles. 16,207,800 rubles were spent on paying unemployment benefits. The average unemployment benefit is 410.0 rubles.

**Salary.** During the period from January to June 2011, the *calculated average nominal monthly salary* per employee in the country (except for small entrepreneurship subjects) constituted 2,799 rubles (or, at the official rate of exchange of the Transnistrian Republican Bank – 273 USD), or 109.9 per cent compared to January-June 2010. The ratio of average monthly nominal wage and the minimum level of existence in June 2011 was 267.3 per cent. The average monthly salary in budget institutions was 1,863 rubles or 7.8 per cent higher than in January-June of 2010. In industry, the highest nominal average monthly salary in the months January to June 2011 was recorded for the workers in the following sub-sectors: electricity – 454 USD, which is 66.3 per cent more than the average wage in the country, metallurgy – 398 USD, or 45.5 per cent of average salary, other industries - 377 USD or 38.2 per cent more than the average wage. The lowest average monthly nominal wage calculated for January-June 2011 was for workers in the following sub-industries: wood processing industry - 194 USD, which is 29.1 per cent below the average wage in the country, the chemical industry - 280 USD, or 102.3 per cent of average salary, light industry - 288 USD or 5.4 per cent more than the average wage.

**Social protection of population.** The average number of pensioners in January-June 2011 was 136,500 people, of whom 132,100 pers. were receiving working pensions, and social pension – 4,500 people. The average size of pensions established was 972.76 rubles (working pension – 990.01 rubles, social pension – 462.95 rubles), which is 25.4 per cent higher than in January-June 2010. The average pension was 108.9 per cent of the subsistence minimum for pensioners, and 34.8 per cent of the average nominal wage.

**Offences.** In January-June of 2011 public order protection agencies registered 6,200 requests and reports on crimes, or 11.0 per cent more than in January-June 2010. 3,910 crimes were recorded, 22.8 per cent more than in the corresponding period of the previous year. Of these, 165 crimes were related to illegal arms trafficking, 100 to crimes committed with firearms, ammunition and explosives, 30 crimes against property, committed in particularly large proportions (foreign property theft). A total of 2,754 criminal cases were detected, including 1,812 which were sent to court.

## Chapter VII

### ESTIMATES AND FORECASTS

#### 7.1 DEVELOPING AN ARIMA MODEL FOR ANALYSING THE EVOLUTION OF REAL GDP IN MOLDOVA: ECONOMETRIC ESTIMATES AND IMPLICATIONS FOR POLICY<sup>12</sup>

*Apostolos Papaphilippou<sup>13</sup>*

##### 1. INTRODUCTION AND OVERVIEW

The article develops and estimates an Auto-Regressive Integrated Moving Average (ARIMA) model for Moldova's seasonally-adjusted quarterly real GDP estimates. It is part of a wider research effort to provide an assessment of the evolution of economic growth in Moldova to date and to draw some implications for policy design.

The article is organised as follows: Section 2 contains a brief description of ARIMA models and the methodology of developing and testing these models to support the analysis and forecasting of a particular time series. Section 3 discusses the motivation behind the research reported in the paper and the data series used. Section 4 contains the econometric estimates of the preferred ARIMA model, as well as its validation and an indicative forecast. Section 5 discusses Moldova's economic growth record to date and its likely sustainability and analyses briefly the need and justification for a change in the underlying growth. Section 6 concludes and suggests areas for further work. Finally the paper's statistical annex contains the data used in our econometric analysis.

##### 2. A NOTE ON ARIMA MODELS

ARIMA models are widely used for analytical and forecasting purposes. Though frequently atheoretical they have proved to be useful tools in order:

- To provide insight and analyse the data-generating process of a particular time series; as well as,
- To generate forecasts of the time series in question. In particular the forecasts generated by ARIMA models are frequently used as benchmarks: the generated forecasts are taken into account and are combined with other indicators and additional empirical analysis of the structural characteristics of the economy under consideration and its external environment.

**ARIMA** models stemmed from the work of Box and Jenkins (1970). They are linear models which incorporate two types of dynamic processes, namely an autoregressive process and a moving average process.

<sup>12</sup>The research reported in the article was done while I worked in the “Support to Strengthening Policy Management Capacity” project. Thanks are due to the State Chancellery and project staff and, especially, Mr Sorin Hadarcă, the project’s Team Leader, Ms Onorica Banciu, The Deputy Team Leader, and Mr Dumitru Caragia, the team’s Macro-Fiscal economist. I am also grateful to Ms Elena Basarab, Ms Elena Vatcarau, and Ms Valentina Gâdilica of the National Bureau of Statistics for their swift response to my questions regarding data-related issues, and Mr Iurie Torcunov of the Ministry of Economy for discussing aspects of macro-analysis and forecasting in Moldova. I am solely responsible for the views expressed in the article. The graphs and econometric estimates reported in the paper have been generated in EViews. Address for correspondence: apapaphilippou@yahoo.com

<sup>13</sup> The author holds a PhD in Economics from the University of Cambridge and has worked in 7 transition economies and Greece. His work in Moldova started in the Autumn of 1995 in a project supporting the Ministry of Economy to develop the *Moldovan Economic Trends* publication. He has subsequently served in several policy advice and capacity building projects in Chisinau.

In more detail, for a time series variable,  $y_t$ :

1. An Auto-Regressive (AR) process is one where the current value of  $y_t$  is a function of its own past values and an error term,  $u_t$ :

$$y_t = f(y_{t-1}, y_{t-2}, \dots) + u_t$$

2. A Moving Average (MA) process is one where the contemporaneous value of  $y_t$  is a function of past as well as contemporaneous values of the error term,  $u_t$

$$y_t = g(u_{t-1}, u_{t-2}, \dots) + u_t$$

The first step in developing an ARIMA model is to ensure that the time series that will be modelled is stationary, as it is well-known that a non-stationary time-series may give rise to spurious regressions. A time-series that follows a stationary process has the property that its mean, variance and autocorrelation structure is finite and constant over time.

Stationarity is tested through statistical tests, such as the Dickey-Fuller and Phillips-Perron tests. If the time series under investigation is not stationary then, following the Box and Jenkins methodology, the first difference of the time series is taken and the resulting time series is subsequently tested for stationarity. The differencing process is repeated until the resulting time series is stationary. The number of times the time series in question has to be differenced in order to arrive at a stationary series determines the order of integration of the ARIMA model.

An ARIMA model could be characterised by a vector of three numbers  $(p,d,q)$ , where:

- $p$  refers to the number of lags in the AR process in the model;
- $d$  refers to the order of integration (i.e. the number of times the time-series needs to be differenced to obtain a stationary series); and
- $q$  is the number of lags in the MA process in the model.

At the ARIMA model identification stage, the researcher seeks also to analyse briefly the property of the time series under investigation, including determining whether the dependent time series exhibits seasonality and identifying the order for the seasonal autoregressive and/or seasonal moving average terms.

The model's identification requires the exercise of informed judgement supplemented by diagnostic tools and tests. Graphs of the autocorrelation and partial autocorrelation functions are employed in order to facilitate the determination of the number of lags in modelling the AR and/or MA process in the specified ARIMA model. The autocorrelation and partial autocorrelation functions are summarised in the correlogram of the time series, which displays the autocorrelation and partial autocorrelation functions up to the specified number of lags. In particular:

- the autocorrelation function displays the coefficients of correlation between a time series and lags of the same series, while
- by partial autocorrelation we refer to the correlation between a variable and a lag of itself that is not explained by the correlations of all lower-order-lags.

It is well known that:

- A pure AR process is characterised by a geometrically decaying autocorrelation function, while the partial autocorrelation function drops to zero after a number of lags. The spikes in the partial autocorrelation function is indicative of the AR order to be introduced in the specification;

- For a pure MA process: the number of spikes in the autocorrelation function is indicative of the MA order to be introduced in the specification. An MA process is characterised by a geometrically decaying partial autocorrelation function and an autocorrelation function that drops to zero after a few lags.

If the correlogram of a time series is characterised by geometrically decaying autocorrelation and partial autocorrelation functions, this is indicative that a mixed AR and MA process may be the appropriate model.

Finally one of the aims of the ARIMA model identification and selection process is to arrive at a model that:

1. Is parsimonious, or as small as possible; while, at the same time,
2. Passes the diagnostic tests.

A parsimonious ARIMA model is desirable because:

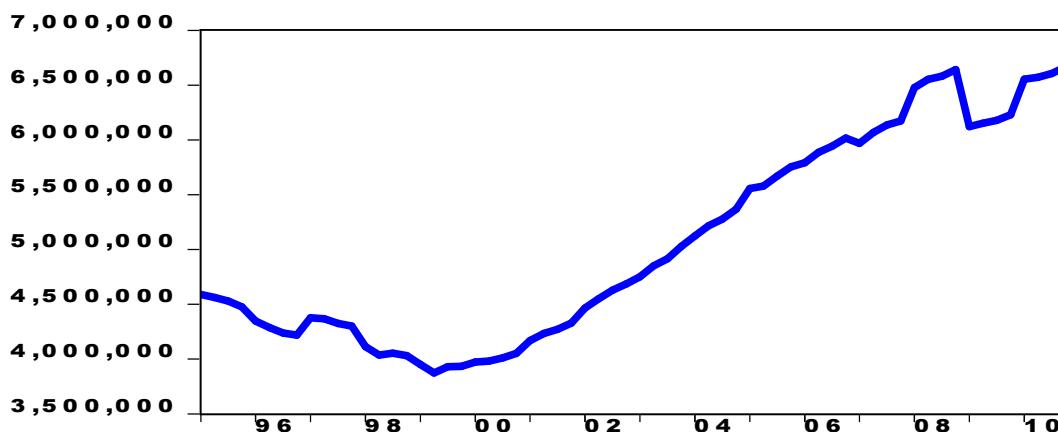
- Including irrelevant time-lags in the model increases the coefficient standard errors (and therefore reduces their t-statistics).
- Models that incorporate large numbers of time-lags, tend not to forecast well: these models are more likely fit data-specific features (thus explaining much of the random features in the data set rather than providing a better reflection of the underlying data generating process).

In the estimation and testing steps of the model development various descriptive statistics and statistical tests are employed to assist the analysis, model selection and validation. These include also information criteria used to compare different alternative specifications and balance the goodness of fit requirement, with the need for a parsimonious (i.e. simple) specification. Two of these, namely the Akaike Information Criterion and the Schwartz Information Criterion, are discussed and used in section 5 below. ARIMA models developed for forecasting purposes are also tested for their out-of-sample forecasting ability, an issue which is discussed further in section 4 below.

### **3. SCOPE OF THE RESEARCH AND DATA USED**

The motivation behind the research reported in this article has been to develop an empirical model that utilises the available GDP time-series of quarterly frequency to provide an assessment of the evolution of economic growth in Moldova to date by abstracting from the effect of seasonal influences on real GDP.

The time-series used in our empirical work is the seasonally-adjusted quarterly real GDP estimates whose evolution is depicted in graph 1 below. The estimates are compiled by the National Bureau of Statistics (2011). They exclude the Transnistrian region, are reconciled with the annual GDP estimates, and are expressed in average prices of the year 2000 (in MDL thousand).



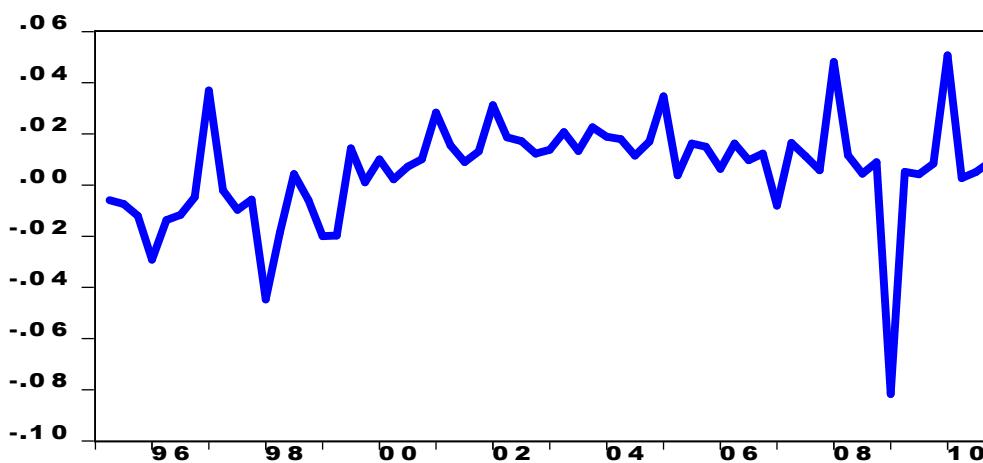
**Graph 7.1. The evolution of seasonally-adjusted quarterly real GDP  
(in average prices of 2000, MDL thou)**

Source: National Bureau of Statistics (2011).

Note: The actual estimates are also reproduced in the paper's Statistical Annex.

One the period from the third quarter of 1999 to the fourth quarter of 2008 inclusive Moldova experienced a period of sustained economic growth. Following the recession of 2009 the economy rebounded in 2010.

The series depicted in graph 1 and its natural logarithm are not stationary. Taking the first difference of the natural logarithm of the seasonally-adjusted GDP time-series results in the time series whose evolution is portrayed in graph 2 below. This is the series we will model as it satisfies the stationarity requirement: in particular the critical value of the Phillips-Perron statistic at the 1% level is -3.54, with the estimated value being -5.93, thus rejecting the test's null hypothesis of the existence of a unit root.



**Graph 7.2. The evolution of the first difference of the logarithm of the seasonally-adjusted GDP estimates**

The first difference of the natural logarithm is approximately equal to the rate of growth of the seasonally-adjusted real GDP estimates. The highest deviation occurs at the onset of recession in 2009q1.

The correlogram of the first difference of the natural logarithm of the seasonally-adjusted GDP estimates does not include any significant spikes, with the first lag being the more pronounced. At the same time both the autocorrelation and partial autocorrelation functions seem to be decaying (and not abruptly dropping to zero after a number of lags, as would be indicative of a pure AR or MA process).

Taken together these observations suggest that a mixed AR and MA process may be appropriate to model the underlying data generating process, with the first lag a natural starting point. This readily suggests a (1,1,1) model as a starting point for our ARIMA model's specification.

#### 4. ECONOMETRIC ESTIMATES

Our preferred ARIMA model is a (1,1,1) with the addition of a dummy variable to capture the largest deviation which occurred in the first quarter of 2009. The regression results in four decimal places are summarised below. The period of estimation covers a total of 62 quarterly observations over the period 1995Q3 to 2010Q4. Items in parenthesis represent statistics:

dlogGDP =	0.0159	- 0.0978 Duvl	+ 0.9290 AR(1)	-0.9789 MA(1)
	(6.70)	(-6.79)	(42.47)	(-57.20)

R<sup>2</sup> = 0.5396 Akaike Inf. Criterion = -5.6459

Adj. R<sup>2</sup> = 0.5158 Schwarz Criterion = -5.5087

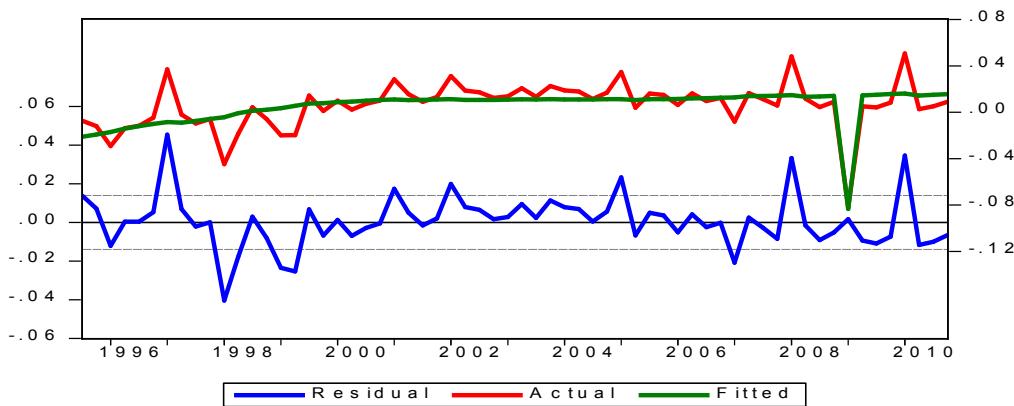
F-statistic = 22.661

It is notable that in the regression all the explanatory variables are highly significant. More specifically:

- The constant term, C, can be interpreted as the estimated trend growth over the period of the estimation.
- The dummy variable, Duvl, takes the value of 1 in the first quarter of 2009 and zero at any other quarter and captures the largest deviation.
- The AR(1) and the MA(1) terms represent the autoregressive and moving average terms of the ARIMA respectively.

Finally it is notable that the inclusion of the dummy variable improves the regression's overall fit considerably as it captures the largest deviation (and it is well-known that the non-linear least squares estimation method penalises particularly large deviations). However it should be added that in the (1,1,1) with no dummy variable all the remaining variables remain highly significant.

The estimated regression's actual, fitted and residual graphs are depicted in Graph 7.3.



**Graph 7.3. Actual, fitted and residuals graphs of the estimated ARIMA (1,1,1) model**

The fitted model illustrates the deceleration of growth over the period. Furthermore the estimated ARIMA (1,1,1) model:

- Fits the data well, and
- Satisfies the general requirement for a parsimonious (simple) model.

What remains is to investigate whether there is any better model within the class of ARIMA models which (i) Provides a better overall fit to the data; while, at the same time, (ii) Does not have a very complicated lag-structure (thus satisfying the requirement for a parsimonious model).

To do so we have run regressions for all the ARIMA (p,1,q) models with p = 0,...,4 and q=0,...,4 and summarised the results in table 4 below.

**Table 7.1. Selected summary statistics of the ARIMA (p,1,q) models with p = 0,...,4 and q=0,...,4.**

	Adjusted R <sup>2</sup>	Akaike Inf. Crit.	Schwarz Inf. Crit.
(0,1,1)	0.387308	-5.4369	-5.33485
(0,1,2)	0.384953	-5.41813	-5.28205
(0,1,3)	0.436163	-5.49041	-5.32032
(0,1,4)	0.436442	-5.47655	-5.27244
(1,1,0)	0.413178	-5.46886	-5.36593
<b>(1,1,1)</b>	<b>0.515814</b>	<b>-5.64594</b>	<b>-5.50871</b>
(1,1,2)	0.522698	-5.6454	-5.47385
(1,1,3)	0.514405	-5.61361	-5.40776
(1,1,4)	0.520736	-5.6125	-5.37234
(2,1,0)	0.416806	-5.44995	-5.31153
(2,1,1)	0.524769	-5.63958	-5.46656
(2,1,2)	0.524596	-5.62445	-5.41683
(2,1,3)	0.516312	-5.59274	-5.35051
(2,1,4)	0.515786	-5.57756	-5.30072
(3,1,0)	0.434054	-5.461	-5.28647
(3,1,1)	0.511419	-5.59301	-5.38358
(3,1,2)	0.508363	-5.57213	-5.32779
(3,1,3)	0.507417	-5.55593	-5.27668
(3,1,4)	0.509024	-5.54528	-5.23113
(4,1,0)	0.428012	-5.47273	-5.26145
(4,1,1)	0.477567	-5.5485	-5.30201
(4,1,2)	0.477689	-5.53425	-5.25255

**Note:** All the reported specifications include the dummy variable for the first quarter of 2009.

The full table should have also included the (4,1,3) and (4,1,4) models. They are, however, excluded as the roots of some of the regressors are too large (i.e. they are outside the permissible range as they lie outside the unit circle).

In more detail table 4 provides the estimates for each regression under three criteria, namely:

1. The adjusted R<sup>2</sup> (to capture the goodness of fit of the overall regression, while penalising for the addition of regressors that do not contribute to the explanatory power of the model; the specification with the larger value of the adjusted R<sup>2</sup> is preferred);
2. The Akaike Information Criterion (which is used to select among alternative specifications – with the regression specification with the smaller value preferred);
3. The Schwartz Information Criterion (this is an alternative to the Akaike Information Criterion used to select among alternative specifications, which, however, imposes a larger penalty for the addition of regressors – as with the Akaike Information Criterion, the regression specification with the smaller value is preferred).

It is notable that among all the models reported in table 4 several have a marginally higher adjusted R<sup>2</sup>, namely the: (1,1,2), (1,1,4), (2,1,1), (2,1,2) and (2,1,3) models.

However, in all these cases the additional explanatory variables are not statistically significant from zero. This explains why in all the cases the Akaike information criterion of the preferred (1,1,1) model is lower – as is, naturally, the Schwartz Information Criterion (which penalises for the addition of additional regressors). Therefore the (1,1,1) model is the preferred model taking into account all three criteria.

To recapitulate the developed ARIMA model is the best among the class of tested ARIMA models fitted on the time-series under investigation and illustrates the deceleration of growth over the period investigated.

### *An indicative forecast*

We refrain from testing explicitly the forecasting ability of the developed ARIMA model as:

- Testing the out-of-sample forecasting ability of a model is usually undertaken by leaving some observations at the end of our sample explicitly for this purpose. This is done by testing the out-of-sample properties of the same model estimated on the reduced sample (thus ensuring that the estimated coefficient estimates do not incorporate information included in the observations left out) and comparing the generated forecast with the actual evolution of the time series). However the end of our data sample was characterised by significant volatility due to the recession in 2009 and the strong rebound in 2010.
  - The main reason behind the development of our ARIMA model has not been to provide a tool for short-term monitoring and forecasting purposes. The aim was to provide insight into the evolution of GDP by abstracting from the seasonality effects in the series, and thus motivated the choice of the seasonally-adjusted series as the appropriate one for the investigation. Indeed if the objective was to develop a tool for the short-term monitoring and forecasting of the evolution of GDP in Moldova the unadjusted series would be preferable as:
1. the ARIMA could explicitly model the strong seasonality in the data; and

2. preliminary data are available in shorter frequencies and used for both monitoring and forecasting purposes.

We return to this issue in the concluding section of this working paper.

We nevertheless proceed to report the indicative out-of-sample forecast of growth for the period 2011q1 to 2012q4. The annual estimated rate of growth of real GDP is of the order of 5.2 percent for 2011 and increases to 6.6 percent in 2012. Judgement is, however, required to interpret these point estimates as the out-of-sample forecast is likely to become increasingly unreliable. In particular it should be emphasized that:

1. Our preferred model has not been developed or tested as a forecasting tool; and
2. Only the next period forecast uses the explanatory power of the MA term in the regression: this is because, for all subsequent periods, the dynamic forecast treats the estimated GDP as the actual estimate. Therefore the MA term for all subsequent periods equals zero, and the forecast is driven by:

- The AR term (which links the next period to the previous period); and
- The constant term (which captures the estimated trend over the whole estimation period). It should be noted here that, as an average over a period characterised by a slowing growth, this estimated constant term is likely to be an over-estimate with regard to the series future evolution under current trends. This holds especially within our estimated regression, where the largest negative deviation was captured through a dummy variable (which increased the value of the estimated constant term in our regression). In short the forecast generated by our model is likely to become increasingly unreliable as the forecasted period moves further into the future, as well biased upwards.

Indeed the earlier availability of the unadjusted quarterly GDP data, render the unadjusted series the natural choice for a model developed for short-term monitoring and forecasting, an issue we return in the concluding section 6 below.

## **5. ON ECONOMIC GROWTH IN MOLDOVA: RECORD TO DATE AND IMPLICATIONS FOR POLICY**

The developed ARIMA model illustrates the deceleration of growth over the period analysed. It also suggests that, in the absence of a change in the underlying data generating process and on current trends, economic growth will be of the order of 5-6 percent per annum.

A source of concern is that such an expected growth path is clearly inadequate given Moldova's economic situation and the country's current development needs and EU aspirations. Furthermore there is significant evidence suggesting that the growth acceleration that was experienced in Moldova over the last 10 years may not be sustainable.

### ***On Moldova's GDP per capita***

An indication of Moldova's existing development gap and its development needs may be provided by comparing Moldova's current (and projected) GDP per capita valued at purchasing power parity with a number of comparator countries.

Table 7.2. draws from the IMF's recent World Economic Outlook Update, and provides estimates and projections for 2010 and 2016, thus providing an indication of the likely evolution under

current trends. The comparator countries in the table comprise a number of CIS countries, neighboring transition countries that are more economically advanced at the moment, as well as the three Baltic states. Moldova is lagging behind all the other countries included in the table.

The estimates for 2016 suggest that, under current trends, and in the absence of a policy-induced acceleration of growth, Moldova's growth record is projected to remain modest and inadequate to cover even the existing gap with the other comparator countries listed in the table.

**Table 7.2. Estimated GDP per capita at purchasing power parity in 2010 and 2016**

Country	2010	2016
Albania	7,454	10,067
Armenia	5,110	6,712
Georgia	5,114	7,386
Macedonia	9,728	13,136
<b>Moldova</b>	<b>3,083</b>	<b>4,424</b>
Bulgaria	12,851	18,010
Romania	11,860	16,335
Ukraine	6,712	9,739
Estonia	18,519	25,145
Latvia	14,460	20,213
Lithuania	17,185	24,262

Source: IMF World Economic Outlook 2011

### ***On growth sustainability and the need for a change in Moldova's growth paradigm***

A growth accounting decomposition of the registered economic growth in Moldova indicates that it was largely attributed to an increase in the economy's Total Factor Productivity over the period and, to a lesser extent, to the growth in the capital stock due to new investment. In contrast the period was characterized by a downward trend in average total employment. Labour market conditions were influenced by the strengthening of the migration flows, and also reflected a shift of domestic employment away from agricultural sector employment. Indeed this shift of employment from the relatively low-productivity agricultural sector to higher productivity sectors may account for a part of the very substantial increase in the economy's Total Factor Productivity over the period.

The limits to the sustainability through time of Moldova's existing growth model become apparent when one takes into account the following factors:

- Looking backwards the initial conditions that prevailed at the onset of economic growth in the early 2000's, namely a depressed economy characterized by significant unemployment (or under-employment) of productive resources. With the onset of growth the economy has progressively moved closer to its production possibility boundary, where all resources are fully and efficiently employed. Conversely looking forward the possibility for catching-up by a more active utilization of existing capacity and the more efficient re-organisation of factors of production along alternative uses has been significantly reduced.
- The characteristics of remittances regarding their inherent volatility and their evolution

through time. Remittances are tied to the demand for labour in the host countries (and thus to the riskiness arising out of possible adverse developments in these countries and/or the continued access of Moldovan migrants to the labour markets of their host countries). Furthermore it is well-known that the volume of remittances may decline in the longer term, as the migration phenomenon becomes more entrenched, migrants relocate for longer time with their families, and migrant's ties with their country of origin may become less strong as time passes by;

- The inherent limitations imposed by Moldova's relatively small domestic market, and thus the limited prospects for the further growth and development of industries that are primarily serving this domestic market – mainly goods and services in the non-tradable sectors. In contrast a growth model increasingly relying upon the attraction of (domestic and foreign) investment and the growth in the economy's tradable sectors and Moldova's export industries will avoid the above-mentioned limitations regarding:
  1. The increasing non-availability of idle productive resources in the Moldovan economy (both capital and labour);
  2. The inherent riskiness of remittances (which stems from possible adverse fluctuations in the demand for labour in host countries and/or limits to the access of migrants to the host countries) and possibly the adverse evolution of remittances through time;
  3. The limitations imposed by Moldova's relatively small domestic market; and
  4. The already noted limited growth and development prospects under a "no policy change" baseline scenario.

Furthermore such a model will facilitate a sustained supply-side response by allowing the economy to concentrate upon areas where it may have comparative advantage. In doing so the economy will reap the gains from trade and specialization, as well as the positive externalities associated with investment, thus providing for sustainable domestic wealth and employment creation. More specifically investment has a number of well-known beneficial effects. Namely investment:

- Is a component of aggregate demand, and thus contributes to growth in the short term;
- Adds to the economy's stock capital (and thus to the economy's productive capacity and ability to grow in the future);
- Facilitates the introduction of new technologies in the economy -covering product and process innovation, and thus strengthens the productivity of the economy; and
- Promotes the strengthening of export links and facilitates market penetration for an economy's export industries.

For the case of Moldova these externalities are likely to be significant as:

- Moldova's record in attracting Foreign Direct Investment has been very modest; while
- There is evidence suggesting that there exists significant unrealized potential to attract FDI in Moldova. A paper by Demekas *et al* (2005) analyzing Foreign Direct Investment in Southeastern Europe and linking it to structural characteristics of the economy and a vector of

policy variables suggest that there exists significant unrealized potential to attract FDI in Moldova.

The Moldova 2020 strategic paper currently under development provides the opportunity to articulate a clear vision for sustainable growth and socio-economic development that is tailored to Moldova's current circumstances and reflects the country's aspirations.

The Moldova 2020 paper will complement, rather than replace, the more detailed medium-term Government programme by providing a longer-term vision and by placing emphasis upon the development of priority areas that diagnostic country studies indicate as critical for Moldova's successful growth and socio-economic development. This development strategy should be supplemented by processes

- Ensuring the maintenance of macro-stability and fiscal sustainability through time; and
- A sustained effort to facilitate market access for Moldova's export industries (thus facilitating the phased shift towards an increased reliance upon investment attraction and an export-led growth and development paradigm).

These efforts will succeed in generating resources for sustainable growth, employment creation and well-targeted poverty-reduction interventions, thus meeting in a comprehensive way the existing challenges towards a future of successful growth and prosperity for all the citizens of Moldova.

## 6. CONCLUSION AND SUGGESTION FOR FURTHER WORK

The motivation behind the analysis reported in this article has been to develop an ARIMA model as part of a wider research effort to provide insight into the evolution of Moldova's economic growth. The seasonally-adjusted time series of quarterly real GDP was the appropriate time-series for this exercise, as it allowed the analysis to abstract from the effect of seasonality which is particularly strong in the case of the Moldovan economy.

A natural area for further work will be to develop an ARIMA model for the original (i.e. unadjusted) quarterly real GDP time-series. Such a model will be particularly useful for monitoring and forecasting purposes given that:

1. It will explicitly model the strong seasonality that characterises the evolution of GDP in Moldova; and
2. It will be easier to update such a model and use it for short-term monitoring and forecasting purposes. This is because an ARIMA model fitted to seasonally-adjusted data relies upon data that are available with a significant time-lag (as the data need to be seasonally-adjusted and also reconciled with the yearly estimates). In contrast the preliminary estimates of the quarterly evolution as released over the year from the National Bureau of Statistics can be readily incorporated into an ARIMA model that is fitted to seasonally-unadjusted data, so as to improve the short-term monitoring of the evolution of GDP in Moldova and the generation of short-term forecasts.

As noted already forecasts generated by ARIMA models are frequently used as benchmarks and supplement the expert assessments of macro and sectoral developments and any other forecasts generated by structural models, such as the model upon which the forecast of the Institute of

Economy, Finance and Statistics is based upon.

### **References**

1. Box, G. and G. Jenkins (1970), Time series analysis: Forecasting and control, San Francisco: Holden-Day.
2. Demekas, D.G., Horvath, B., Ribakova, E. and Y. Wu (2005), "Foreign Direct Investment in Southeastern Europe: How (and How Much) Can Policies Help?", IMF Working Paper No. 05/110.
3. National Bureau of Statistics (2011), "Reconcilierea Calculelor Trimestriale ale Produsului Intern Brut cu Cele Anuale, 1995-2010", available at:
4. [http://www.statistica.md/public/files/publicatii\\_electronice/Conturi\\_nationale/Reconc\\_PIB\\_1995\\_2011.pdf](http://www.statistica.md/public/files/publicatii_electronice/Conturi_nationale/Reconc_PIB_1995_2011.pdf)

### **STATISTICAL ANNEX** **Seasonally adjusted quarterly real GDP estimates**

	I	II	III	IV
<b>Gross Domestic Product</b>				
<b>1995</b>	4,590,048	4,562,954	4,529,471	4,475,449
<b>1996</b>	4,346,860	4,287,696	4,238,060	4,218,154
<b>1997</b>	4,377,016	4,368,090	4,325,887	4,301,273
<b>1998</b>	4,113,283	4,037,259	4,054,497	4,030,700
<b>1999</b>	3,951,126	3,873,872	3,929,845	3,934,035
<b>2000</b>	3,973,606	3,982,558	4,011,396	4,051,995
<b>2001</b>	4,168,550	4,233,846	4,272,217	4,328,774
<b>2002</b>	4,466,096	4,550,079	4,628,880	4,686,237
<b>2003</b>	4,751,221	4,850,567	4,915,634	5,028,019
<b>2004</b>	5,123,905	5,216,592	5,276,877	5,367,250
<b>2005</b>	5,556,742	5,578,178	5,669,236	5,754,608
<b>2006</b>	5,791,324	5,886,140	5,943,434	6,017,225
<b>2007</b>	5,968,944	6,068,147	6,136,971	6,172,829
<b>2008</b>	6,477,245	6,553,462	6,582,587	6,641,806
<b>2009</b>	6,120,757	6,152,566	6,178,700	6,230,507
<b>2010</b>	6,554,328	6,572,233	6,605,664	6,665,744

Source: National Bureau of Statistics (2011).

Note: The table reproduces the quarterly seasonally-adjusted real GDP estimates as reported by National Bureau of Statistics. The estimates in the table exclude the Transnistrian region, are reconciled with the annual GDP estimates, and are expressed in average prices of the year 2000 (in MDL thousand).

## 7.2 FORECAST OF THE MAIN MACROECONOMIC INDICATORS OF THE REPUBLIC OF MOLDOVA (2011-2014)

We believe that the early IEFS forecasts on the national economic development remains valid and correct with some small deviations. After reviewing the estimates and forecasts of the IMF, the level of 7% of economic growth becomes a consensus. Despite the official conservative estimates, we consider that the previous forecast of IEFS - 7.4% will be achieved.

In the following years the pace of the economic growth will slow down. The deceleration of the rate of the economic growth is resulting from the effects of recovery and achieving pre-crisis levels in industry, construction and transport and resumption of investments in fixed capital. In the first half of 2011, due to the unrecovered potential compared with 2008, these sectors experienced highest growth rates. In the following years, the national economy will completely recover to pre-crisis levels. Further economic growth will be associated with new capabilities and new resources for growth.

### *The model assumptions are largely the same:*

Maintenance of the national currency appreciation trend during 2011 is one of the basic assumptions underlying the model, which was re-confirmed so far by real figures. The real exchange rate of the national currency appreciated by 4.75% against the USD during the second quarter.

The volume of remittances, captured by the data on transfers made through bank payment systems to individuals, increased by 20% in the first half of the year compared to the same period last year, accounting an amount of 643 million USD. The initial estimates for 2011 were suggesting a figure of 1309 million USD. Taking into account the risk associated with sovereign debts of the EU member States, we believe that a slowdown of the remittances growth rate can take place. Instead, transfers from the Eastern countries, especially Russia, should not be affected.

The model forecasts higher growth rates than the historical average. This is explained by the marginal productivity level (at low levels of capital endowment, the growth rates are higher due to positive returns on capital). Development of the national economy's sectors is expected to contribute to maintenance of the advanced rates of growth.

The inflation rate in the Republic of Moldova is higher than we expected, so some adjustments will be made to the end-year forecast. In particular, growth of the prices on minerals and agricultural products affected the consumer prices growth.

Developments during the first half of 2011 confirm the initial forecasts of the economic growth of more than 7%. At the same time, factors that cannot be quantified in the model, such as weather conditions and evolutions on the international markets, cause deviations from the initial estimates of trends in certain sectors of the national economy.

### *Agriculture*

The growth rate of agricultural production in 2011 was estimated at 6.8%. IEFS estimations from the beginning of the year were based on projections of international institutions that in 2011 the world food prices should grow by 24%. In fact, the world prices had increased by over 30% in the first half of 2011 compared to the same period last year (FAO-

Food Price Index increased by 39% and the World Bank Food Price Index by 33%).

Although the increase of international prices has had an influence on the agricultural production (during the first half of 2011, agri-food exports increased by 47 per cent) weather condition factors affect the agricultural sector. The drought that is affecting Moldova will enable the recovery of the agricultural potential.

Under these circumstances, we believe that the increase of the agricultural production will be lower than it was anticipated. The largest share of the agricultural production is valued in the second half of the year. Sugar beet, grapes, potatoes harvests and other, will have a major influence on the growth rate of agricultural production.

### ***Industry***

In the first half of the year, the industry performance meets the early estimates. Boosted by exports and investments, we believe that the growth of industrial production will reach about 8.5% by the end of the year.

### ***Expenditures GDP***

Domestic consumption maintained a high growth rate of 9.1% in the first half of 2011 compared to the same period of 2010. Basing on the initial estimations, in the case of preservation of the current rates of growth of remittances and other sources of income, consumption will increase by 13.9%.

Estimates from the beginning of the year happen to be more conservative in assessing the dynamics of national exports than the real evolution of the national exports. Due to a moderate recovery in the main trade partners, the demand for national products significantly increased. In the medium term, the low level of exports performance indicators might cause a slowdown of the trend. Even in conditions of attenuating exports growth rate in the second half of the year, the real evolution of exports for 2011 will exceed the initial forecasts.

Investment activity developed spectacularly in the first half of 2011. Good pace of economic growth and the interest rates reduction trend boosted investment. In the second half of 2011, the possible increase of the interest rates, as an effect of rising inflation and tightening monetary policy, could adversely affect investment activity. However, this influence will be offset by the accelerating effect of good rates of the economic growth. It will provide for keeping a high level of investment. So, the year 2011 will be characterized by an increased "appetite" for investment. Investment growth rate will exceed the estimates at the beginning of the year. At the same time, structural weaknesses will constrain the investment activity in the medium-term.

### ***Prices***

In the first half of the current year, propagation of the second wave of effects associated with the increase in oil products prices, unfavourable weather conditions, which did not allow for timely collection of harvest, and persistence of high prices on agri-food products on international markets caused the flip of the inflation development trend to an ascending one.

It seems that the aggregate evolution of determinants of inflation will support an accelerated price increase rates in the second half of 2011. The effects of stabilization of

oil prices on international markets will be less prominent compared to the impact of factors contributing to increased inflationary risks. These factors will be manifested through the following:

- ✓ further propagation of the second wave effects of higher prices for oil products in the third quarter, when main agricultural activities take place;
- ✓ Deterioration of the agricultural supply, due to unfavourable weather conditions, determining an increase of agri-food products prices;
- ✓ starting with the IV quarter, the increase of the average gas tariff resulting from the hike of gas import prices and spreading of related effects, will generate price increases in other sectors.

In this context, the year of 2011 may record a general rate of price increase exceeding the forecast from the beginning of the year and the inflation rate will close up to the level of 10%.

**Tabel 7.3. Evolution of main macroeconomic indicators, 2011-2013**

Indicators:	Unit of measurement	2011 Estimations at the beginning of the year	Changes
GDP (updated %)	%	107,44	Unchanged
Annual average CPI	%	107,2	Higher than estimated
Export of goods (updated %)	%	117,7	Higher than estimated
Import of goods (updated %)	%	117,4	Higher than estimated
Industrial production (updated %)	%	108,5	Unchanged
Agricultural production (updated %)	%	106,8	Less than estimated
Investment in fixed capital (updated %)	%	118,1	Higher than estimated
Unemployment rate		7,4	Unchanged

## POLICY NOTES

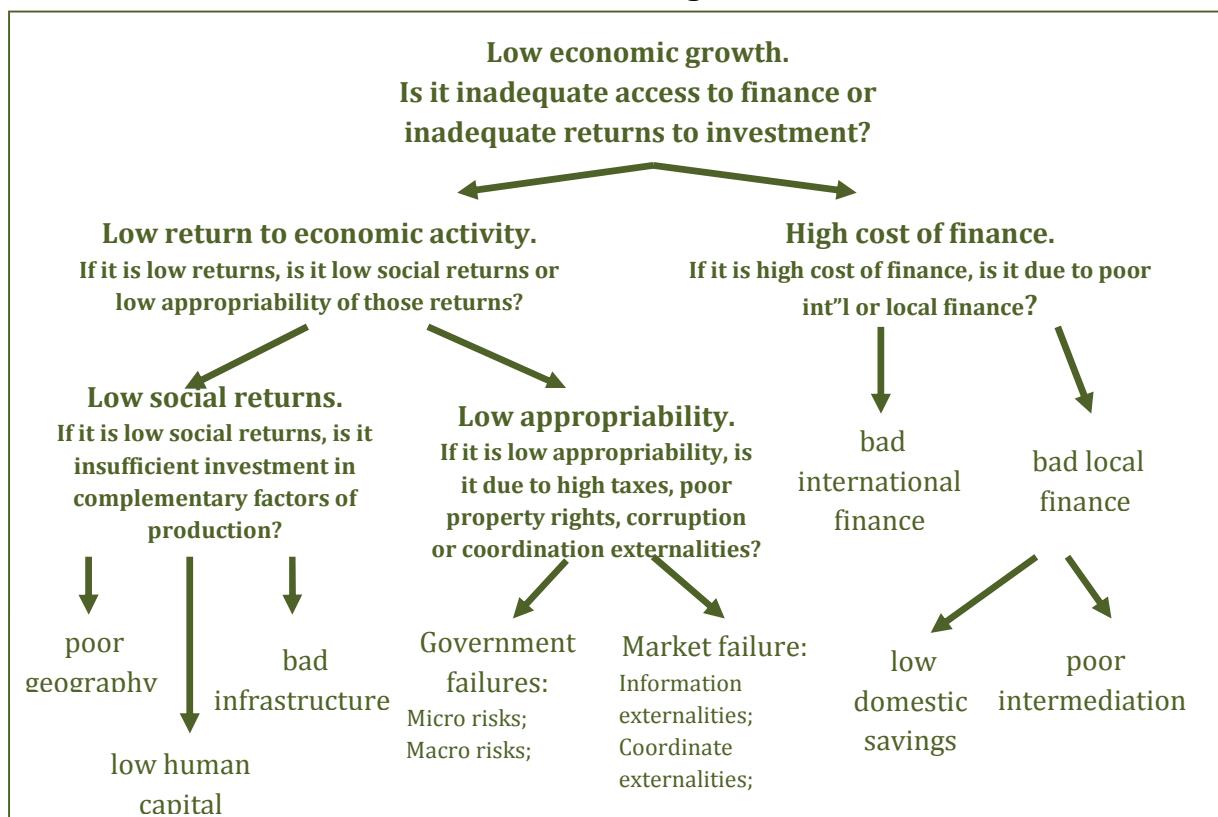
### WHAT ARE THE IMMEDIATE CONSTRAINTS TO ECONOMIC GROWTH IN MOLDOVA? COMPARATIVE STUDY

*Andrea Lorenzo Capussela  
Marcel Chistruga*

Twenty years after it gained its independence, the Republic of Moldova is still fighting for reforms and sustainable growth. In Moldova reforms have constantly been on the political agenda, but no success has been recorded in terms of changes. With some exceptions, the political class has not been able to assume the responsibility and costs of promoting fundamental changes. On the other hand, the absence of deep changes led to a situation where the national economy has accumulated structural and functional imbalances.

Currently we are in an interesting situation: Moldova has good growth rates, but the positive trend is not caused by internal factors and hasn't produced corresponding effects on employment. Consumption, financed by remittances, drives economic growth, and Moldova has limited internal capacity to generate an increase in the productivity and competitiveness of its economy. Any delay in achieving deep, liberalising reforms will trap the Republic of Moldova at its current development level, and impede its transformation in a fully-functioning market economy.

**Scheme 1. Growth Diagnostics**



The specialized literature is replete with analysis and models of economic growth and development. Some applicable to the Republic of Moldova, others irrelevant. In the past 10 years, a milestone in international practice in this area has been the work of Hausmann, Rodrik and Velasco, which describes a methodology for determining the most immediate constraints to growth and is based on "a basic, but significant classification." In short, this approach addresses the question of why growth is slow in a country's economy – whether this is due to low returns to economic activity or of limited access to finance – and makes it thus possible to identify some priorities for public policy.

This conceptual framework suggests the following areas of analysis (see the scheme above):

- Human capital constraints: Weaknesses in the public school system, social services or in the incentives for training services offered by the private sector.
- Infrastructure constraints: Deficiencies in public infrastructure, including road, rail, air, water networks, telecommunications and energy.
- Investment climate constraints: government policies, regulatory regime and its implementation, distorting incentives or weakening the stimulus to productive investment by private companies and individuals.
- Macroeconomic constraints: national policies that generate unstable or non-viable macroeconomic conditions and cause uncertainty for investors.
- Financial sector constraints: the financial system may be a constraint to economic growth if it imposes high interest rates to investors, if the interest rate spread is highly inefficient, or if the financial sector is unable (because of issues related to its structure, ownership, or capacity) to provide efficient financial services.
- Insufficient information or innovation: lack of information about prices and market conditions, poor dissemination of innovations, or insufficient stimuli for innovation.
- Natural capital: the geographical and environmental characteristics of the country may limit investment returns.

### **Summary of Conclusions**

In this note we will focus on the constraints to growth in the Republic of Moldova. Our analysis is based on the following studies, all using the same methodology:

1. "Preliminary Report of Analysis of Constraints to Economic Growth", study for the "Compact" Program in 2007, Millennium Challenge Corporation. D. Caragia, V. Bozu, I. Gotisan.
2. "Report on Analysis of Constraints to Economic Growth," Expert-Group study commissioned by the State Chancellery in 2010, [particip.gov.md/files/Analiza\\_constrangerilor\\_final.pdf](http://particip.gov.md/files/Analiza_constrangerilor_final.pdf).
3. "The Relationship between Constraints and Economic Growth" Program for young researchers, ASM, 2010.

In addition, this policy note takes into account also the last Country Economic Memorandum of the World Bank<sup>14</sup>.

---

<sup>14</sup>, "Moldova After The Global Crisis: Promoting Competitiveness And Shared Growth", World Bank, 4 April, 2011.

Under the framework of constraints' analysis, the reason for low profitability of the economic activity is the deficiency or social benefits or the low rates of return on private capital.

### ***Return on Social Capital***

Those three studies do not have a uniform position in this regard. The geographical position and the natural resources of the Republic of Moldova are not a major constraint to economic growth, at least in the short term. According to the analysis conducted by Expert-Group, natural resources like land and water resources are currently sufficient for the country's economic development and the risks brought by climate change are by no means the most critical ones, also in the light of international comparisons<sup>15</sup>.

Also the study prepared in 2008 for the "Compact" Program does not see natural factors as a critical constraint, although it admits that deficiencies exist. According to this research, access to markets will improve thanks to proximity to the EU, the availability of land and space for development is good and the effect of climate on the labor force is marginal. At the same time, climate and soil conditions lead to the rapid deterioration of the road infrastructure, and water resources may potentially become insufficient in the future<sup>16</sup>.

The third study which we analyzed contains the findings which are similar to those of the first two studies, but places greater emphasis on the scarcity of irrigation and water resources. With the recovery of the economy and agriculture in particular, the deficit of water resources will increase, and in the long term water scarcity may become a major impediment to the growth. Other key issues in this sector include the low capacity of the institutions in collecting sufficient revenue to cover the operating, maintenance and investment costs of water supply.

Thus, the availability of land does not present a major constraint, because Moldova has excellent agricultural soils that cover about 77 per cent of the country. Natural capital is therefore conducive to the development of the Republic of Moldova. The geographic position of the country is a moderate constraint, however compensated by the openness of its economy to external trade.

### ***Infrastructure***

All three analyses highlight the inadequacy of infrastructure, particularly of road transport. Although the overall length and density of the road network appear sufficient, especially in a comparative perspective, its quality is unsatisfactory. This causes increased costs for doing business and reduces the attractiveness of the Republic of Moldova to private investment<sup>17</sup>.

Besides road infrastructure, the study performed for the "Compact" program identifies three problems impeding the effective development of the **ICT** sector: the inefficiency of the telecommunications market; an underdeveloped ICT sector; the limited availability, and acceptance by citizens, companies and authorities, of electronic services<sup>18</sup>. Thus, although statistics show a satisfactory level of development, the sector is not delivering its full potential. This conclusion is found also in the Expert-Group study.

<sup>15</sup>"Report on the Analysis of Constraints to Economic Growth", study by Expert-Group,[particip.gov.md/files/Analiza\\_constrangerilor\\_final.pdf](http://particip.gov.md/files/Analiza_constrangerilor_final.pdf),p. 7

<sup>16</sup>"Preliminary Report on the Analysis of Constraints to Economic growth", D. Caragia, V. Bozu, I. Gotisan, p. 18

<sup>17</sup>"Report on the Analysis of Constraints to Economic Growth", study by Expert-Group,[particip.gov.md/files/Analiza\\_constrangerilor\\_final.pdf](http://particip.gov.md/files/Analiza_constrangerilor_final.pdf),p. 7

<sup>18</sup>"Preliminary Report on the Analysis of Constraints to Economic growth", D. Caragia, V. Bozu, I. Gotisan, p. 36

According to the study commissioned to Expert Group by the State Chancellery, other types of infrastructure are at an appropriate level, for regional standards. This finding is based on regional comparative indicators (Indicators of transition, EBRD). However, its authors believe that the position of Moldova in these rankings shouldn't hide the deficiencies in terms of energy supply and energy efficiency, problems with water supply and sewerage systems in rural areas.

We consider it is important to note that efficiency and cost issues associated with the use of energy resources were not identified as significant constraints; however, they do represent impediments for large companies that need to achieve economies of scale in order to develop and compete at the regional level.

The same conclusions can be found in the other two studies. It should be noted that, poor infrastructure generally reduces the mobility of factors of production, and the mobility of production factors influences their cost. Thus, differences in the prices of production factors are implicitly an indicator of regional differences in the availability and quality of infrastructure. Therefore, we believe that road infrastructure is not the only constraint, and that it is necessary to cast a broader look, which would include other facilities such as air transport, telecommunications, energy, water and the rail network. In the "Global Competitiveness Report 2010-2011" Moldova is given a mark of 3.1 in terms of the quality of infrastructure, on a scale of 1 to 7, and ranks 119<sup>th</sup> among 139 countries, holding one of the lowest positions in Eastern Europe and Central Asia<sup>19</sup>.

### ***Human Capital***

Shortcomings related to human capital are found by all three studies, although with different emphasis. The analysis conducted in the context of the "Compact" program, performed in 2008, finds that human capital is a major constraint. This is because the benefits yielded by having professional qualifications<sup>20</sup> are large and growing. Accordingly, the authors found that because a large number of emigrants holds tertiary education degree, Moldova has unused human capacities; yet, based on an observation of the relationships between years of study and wage levels, the authors exclude that human capital is currently a constraint. At the same time, however, the authors quote evidence showing that foreign employers offer higher remuneration for critical work skills, which, according to them, suggests that foreign companies have greater difficulty than domestic ones in finding on the labour market the set of skills and professional qualifications which they need.

The analysis performed by Expert-Group for the State Chancellery maintains that human capital is a constraint. The conclusion is based on the fact that there are major imbalances in the labor market: contrary to the findings of the study mentioned above, Expert-Group states that Moldova has a relatively skilled labor force, which, however, is not "used efficiently". According to empirical research carried out by international organizations, half of the employers think that the low level of labor skills is a major constraint to their work and, at the same time, that there is a low level of quality indicators in the education system in Moldova.

Concerning the shortcomings mentioned above, the third study, by ASM, notes these demographic trends in recent years: a reduction of population, plus a massive increase in the number of emigrants, and there has been a fall in the number of agro-industry specialists. The

---

<sup>19</sup> For most indicators included in the "Global Competitiveness Report 2010-2011" the analyzed indicators are qualified on a scale of values from 1 to 7 - expressing the worst condition of the analyzed indicator, and 7 is the opposite.

<sup>20</sup> The analysis was based on Mincer's relations.

quality and content of studies of the active population do not meet the labor demand in Moldova. Contrary to previous studies, ASM's analysis finds that the level of remuneration is low, while the remuneration of specialists with a high degree of skills is considered at levels comparable to those prevailing in the region.

These problems are confirmed by the Government's policy notes. The education system is inefficient, they maintain, showing a decline in the number of students unmatched by a corresponding decline in the already large number of teachers and non teaching staff, who are paid insufficiently. This is the result of the demographic decline, which continues because of low fertility rates and massive emigration, and obsolete rules, dating from Soviet times that allowed an unjustified increase in the number of teachers and non teaching staff<sup>21</sup>.

### ***Technological Innovation and Dissemination***

The report conducted for the State Chancellery finds that the share of expenditure associated with research and development relative to GDP is comparable with that of other countries in the region, but the problem is the inefficiency of much spending on research and development, which is largely associated with the dominance of ASM.

While domestic companies have a low degree of innovation, innovation is not yet critical for economic growth. As noted in the study, this is also confirmed by the share of technologically advanced exports.

The study produced within the "Compact" Program finds no serious constraint to growth for the Republic of Moldova in the field of innovation or the dissemination of new technologies. Rather, the results of this study show a quite good situation in terms of innovation and dissemination. The main conclusion is that, compared to other countries, exporters successfully diversify their products; the researchers point to the large number of new patents and to companies reporting positive innovation results<sup>22</sup>.

Also the third study focuses on the dissemination of new technologies, concluding that Moldova has shortcomings in this regard. Overall, Moldova's economy is based on the accumulation of production factors and not on innovation and the adoption of advanced technologies. It is for this reason that, with some exceptions, the economy fails to generate innovative and competitive products. Therefore, the conclusion is that deficiencies in technological innovation and dissemination are not presently a constraint, but could become one in the near future: inefficiencies do exist in the dissemination of technologies, and technology transfers currently yield poor results, and improvements of the situation require time.

### ***Low Appropriability***

The fundamental question, in this perspective, is why one leu invested in Moldova yields so little.

The analysis of the causes can be grouped as follows:

- macro risks, affecting financial, monetary and fiscal stability;
- micro risks, chiefly affecting property rights, corruption, taxation;
- market failure:

---

<sup>21</sup> Moldova. Policy notes. 2009, p. 15

<sup>22</sup>"Preliminary Report on the Analysis of Constraints to Economic Growth", p.52,[particip.gov.md /files /\\_constrangerilor\\_final.pdf](http://particip.gov.md/files/_constrangerilor_final.pdf)  
**analysis.**

- informational externalities;
- coordination externalities.

### ***Macroeconomic Risks***

The three studies we reviewed reach basically the same results: inflation and the trade deficit are a major problem for economic growth in Moldova. The study conducted for the State Chancellery notes that NBM's inflation targeting measures are expected to bear fruit in the medium term, and the trade deficit is largely covered by remittances from emigrants. This reduces the vulnerability of the economy to pressure deriving from the trade deficit, but also has a rather high cost: more precisely, this flow of remittances, which mainly finances consumption, causes the appreciation of the REER and has negative effects on the competitiveness of local products.

Indeed, a fall in remittances would directly hit economic growth in the Republic of Moldova, and continued reliance on this external source of financing is not a viable option. In the medium term the failure to orientate the national economy towards investment and export may damage the level and quality of development<sup>23</sup>.

### ***Microeconomic Risks***

The three studies show deficiencies in this respect. The study by the Expert-Group notes that the most problematic areas are: employment/labor availability, import-export activities and the protection of investors' interests.

The study for the "Compact" Program finds that the investment and business climate is improving, compared to the reference countries that have been selected, but licensing conditions, permits requirements, rigid labor regulations and insufficient judicial objectivity, harm Moldova's attractiveness to investment and the business climate. Deficiencies are found in the taxation system: not so much due to the tax rates, but due to the costs associated with preparing and submitting reports to the various competent bodies, which are a major impediment.

The study by ASM draws a harsher picture of the existing microeconomic risks, considering them one of the most important constraints to growth in Moldova.

The business climate has to some extent improved during the most recent years. The Government became reform-oriented, which favors a business-enabling environment, and improvements have been observed, including in easing foreign trade and reducing tax-related burdens. But reforms are slow and have little consistency.

Equally importantly, persistent problems related to the weak protection of property rights, corruption, excessive and inefficient bureaucracy and overregulation greatly reduce the positive effects of other reforms aimed at improving the business and investment climate. The roots of this problem lay in divergent degree and depth of implementation of different reforms. Greater consistency and a more synchronic approach to reform implementation could magnify the positive economic effects of each reform.

---

<sup>23</sup>"The Relationship between Constraints and Economic Growth" Program for young researchers, ASM, 2010.

In fact, it is chiefly due to political instability, corruption and excessive bureaucracy that the business climate in Moldova remains more unfavorable than in the other countries of the region. Efforts are ongoing to increase the independence of the judiciary, but the current provisions do not protect the courts from political pressures. Indeed, the quality of the judiciary does not assist Moldova's aspiration to give itself sustainable economic growth.

### **ACCESS TO FINANCE**

The studies conducted within the ASM program and by Expert-group conclude that access to finance is a major constraint to economic growth. The third study conducted in 2008 for the "Compact" program found that access to finance is not a constraint, but points out some problems in the financial system.

Overall, this study notes that the indicators of the banking sector are at an acceptable level, but also highlights structural problems related to:

- the legal framework,
- the absence of an office of credit history,
- opaque ownership relations.

This study finds that the financial system is not yet sufficiently developed, the local financial market is not mature and bank loans remain the primary source of funding for Moldovan companies. The main constraints of the banking system are: asymmetry in lending activity, limited supply of medium and long-term finance, as well as legal ambiguity in sector regulation.

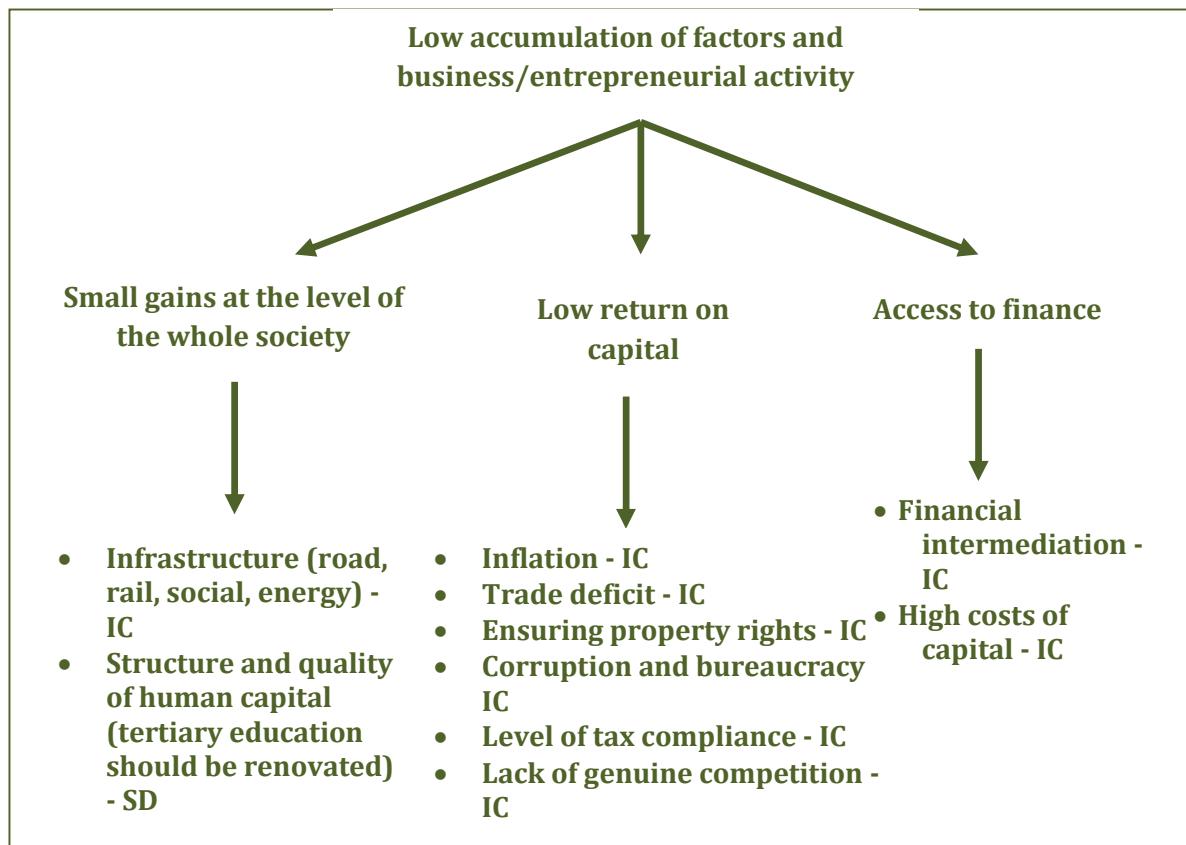
The other two studies reveal serious problems in this sector, because access to internal finance is inadequate and does not meet the needs of the economy (see also the third policy note of this issue). The main causes invoked by both studies are high interest rates (the highest rates in credits in the region), restrictive mortgage conditions, a high percentage of delinquent loans, lack of competition in the banking system, the limitation of available financial products, a poor legal and regulatory system, and limited access to international financial markets.

In other words, the causes of the problems observed in the financial sector of the Republic of Moldova are similar, if not even closely associated with, the microeconomic risks discussed above. We particularly refer to lack of competition and the weakness of the judiciary system, which provides insufficient support to the good functioning of the economy.

### **Conclusions**

The analysis of constraints to growth focuses on the reasons underpinning the decision of holders of capital whether or not to invest (Cobb-Douglas production function). Growth constraints analysis looks at those factors that are outstanding impediments to economic growth. Following this conceptual framework, we will outline below the constraints to economic growth in the Republic of Moldova.

### Scheme 2. Constraints Analysis for the Republic of Moldova



Note: CI- imminent constraint

SD - Structural Deficiency

The reviewed studies show a multitude of problems and deficiencies, and the most important question is to identify the most immediate binding constraints. We believe that at this stage of Moldova's development, the failure by the institutions to establish and enforce clear rules of the game for the whole society is the biggest obstacle to economic growth: constraints like corruption and bureaucracy, the weakness of property rights, and the lack of a proper competitive environment are those that chiefly prevent the emergence and development of an adequate and sustainable business environment.

To this primary constraint we add poor access to financial resources, because of high costs, lack of competition in the domestic financial market and limited access to international financial markets.

Theoretically, these two constraints should produce different symptoms: if the problem is access to finance, then interest rates should be high and with a chronic current account deficit; but if the problem is return on investment, we should see lower interest rates, and external resources that stimulate consumption but do not contribute to the productive capacity of the economy. We consider that both these constraints exist, and argue that they are the result of specificity in the structure of the national economy, which undermines the sectors/areas in which theoretically there should be or, in some cases, there is some improvement. Thus is the result of lack of essential and profound reforms in Moldova.

In other words, at the core of both constraints – microeconomic risks and inadequate access to finance – we observe very similar problems, all related to the weakness of the institutions

underpinning the economy. Thus, in a broader sense, we can see this as being practically one and the same constraint, with implications for both the financial sector and the business and investment climate.

An additional argument for choosing these constraints as the most binding ones is that a functioning market economy requires a number of basic conditions (liberalised prices and free trade, a functional legal system and guaranteed property rights; a well-developed financial sector; the absence of any significant barriers to entry and exit on the markets, and free competition, protected by the applicable legal framework; and a developed small enterprises sector) in respect of which Moldova still presents weaknesses, and which affect both appropriability of returns on capital and the availability of capital for investment. Accordingly, the next policy notes will focus on the business environment and access to finance in the Republic of Moldova.

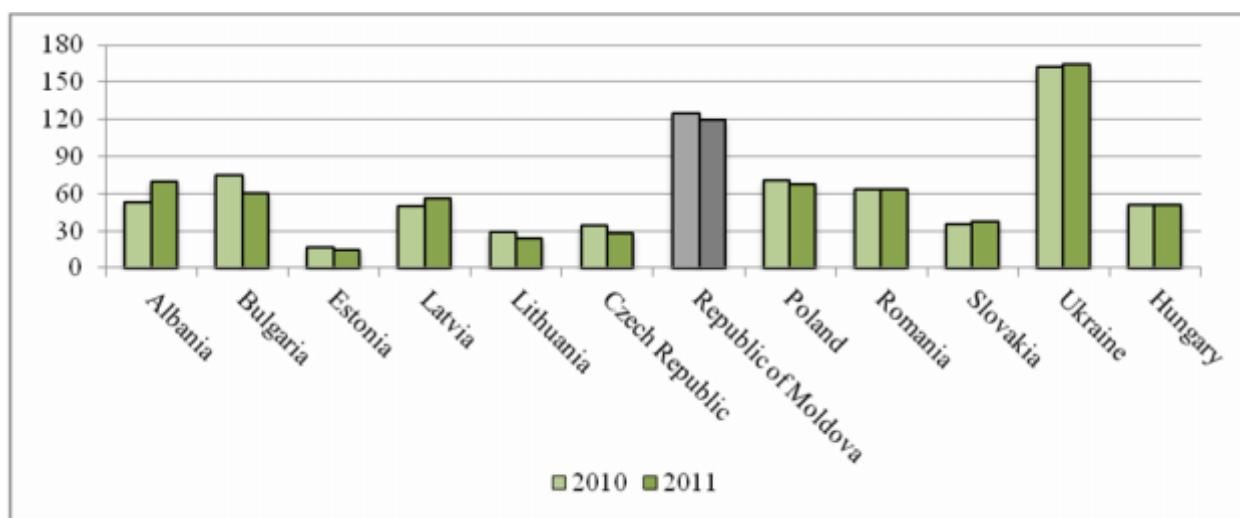
The elimination of the broader constraint discussed above should provide impetus to the sustainable development of the national economy, and therefore presents itself as a high policy priority. In this respect, we note that both pro-active policies and structural ones are conceivable. Typically, pro-active policies involve higher direct financial costs than the structural ones, and do not seem to have always produced satisfactory results in the past (due to the well-known problems of imperfection of information and risk of capture). Thus, from an abstract perspective, it would seem that structural policies could generally tackle microeconomic risks both more effectively and at a lower direct cost than pro-active ones, and that pro-active policies aiming to stimulate the development of specific sectors should be used with caution. Well-targeted pro-active policies seem more adequate for tackling financing-related constraints. We believe, for instance, that pro-active measures stimulating financial diversification could be a valid option for consideration; the PARE+1 program is an example, but other measures could be considered whereby public capital is channeled to the real sector through private investment funds or venture capital.

## THE WEAK BUSINESS AND INVESTMENT CLIMATE IS A MAJOR CONSTRAINT TO GROWTH

*Andrea Lorenzo Capussela  
Alexandru Fala*

Growth constraints analysis assigns a central role to the reduced profitability of capital in limiting economic growth. In turn, an important cause of the low profitability of capital is microeconomic risk. In fact, microeconomic risks largely lie the conditions that determine the quality of the business environment, and relate to: the permissiveness of the regulatory framework, the level of taxation, corruption, the quality of the judiciary. Basically, in the whole spectrum of the elements that form the business environment, with some exceptions, Moldova ranks lower than other countries in Eastern Europe. *This allows us to conclude that for Moldova, the inadequate business and investment climate is a constraint to economic growth.* The multiple factors that hamper investment and business activities cause the under-exploitation of the economic potential of businesses, thereby slowing economic growth and adversely affecting its quality.

A first indicator that reflects the overall quality of the economic environment is the *Economic Freedom Index*. This index aggregates various factors, reflecting their importance to economic activity. This index is developed by *The Heritage Foundation* and includes 10 chapters, focusing on the openness of the economy, the efficiency of government regulations, the rule of law and the level of competitiveness. The ranking of a state depends on its index value, which is valued on a scale from 0 to 100 (the closer the indicator is to 100, the greater the economic freedom of the country or area). According to *Economic Freedom Index 2011*, Moldova has a score of 55.7 and is ranked in the 120<sup>th</sup> place, between Malawi (119) and Senegal (121). Compared with other countries in the region, the Republic of Moldova occupies one of the lowest positions, outpacing only Ukraine. This shows that the implementation of reforms targeting these areas is proceeding more slowly in Moldova than in other countries in Eastern Europe.



**Figure 1. Ranking of the Republic of Moldova according to Economic Freedom Index, compared with other countries in Eastern Europe**

Source: <http://www.heritage.org/>

Overall, some improvement can recently be detected in the economic environment, due to progress in these compartments: foreign trade, fiscal pressure and monetary freedom. But also

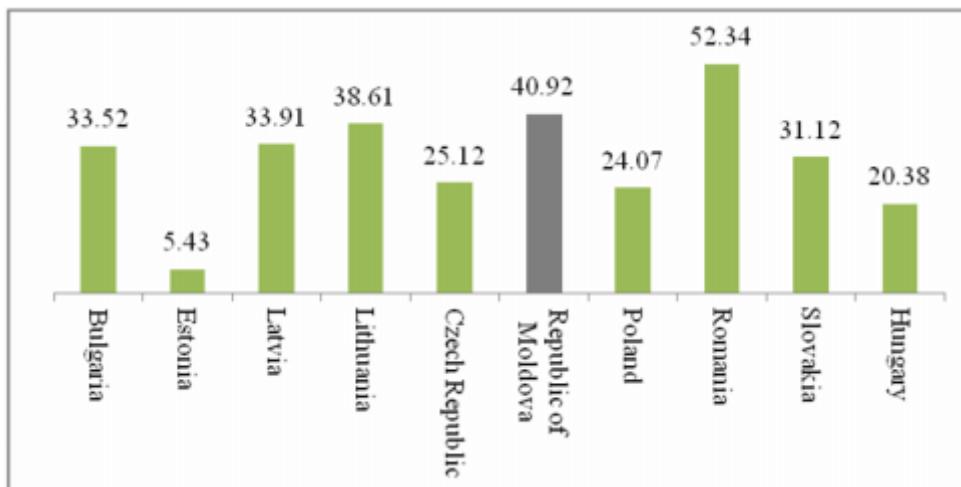
in these areas changes are slow and inconsistent. This can be explained by the fact that factors such as freedom of work (a score of 39) and investment freedom (a score of 35, although there is some improvement in this area) and freedom from corruption (a score of 33) limit the positive effects of economic changes in other fields.

**Table 1. Economic Freedom component scores, the Republic of Moldova**

INDEX COMPOSITION	YEARS		INDEX COMPOSITION	YEARS	
	2010	2011		2010	2011
<b>Business Freedom</b>	70.2	69.5	<b>Investment freedom</b>	30	35
<b>Trade freedom</b>	79.9	80.2	<b>Financial freedom</b>	50	50
<b>Fiscal freedom</b>	85.1	85.6	<b>Property rights</b>	40	40
<b>Government spending</b>	43	48.1	<b>Freedom from corruption</b>	29	33
<b>Monetary freedom</b>	67.5	77	<b>Labor freedom</b>	42.7	39

Source: <http://www.heritage.org/>

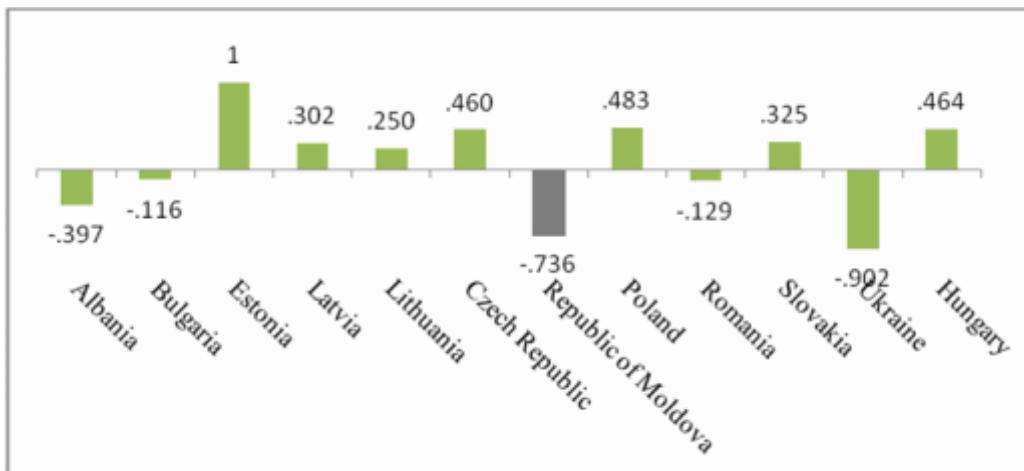
Corruption remains a major problem for business. Compared with other countries in the region, the level of corruption in Moldova is high: about 41 per cent of businesses in the Republic of Moldova consider corruption a major constraint to their development, a level that is much higher than in other countries in the region.



**Figure 2. The percentage of Firms Identifying Corruption as a major constraint, comparative aspects**

Source: Enterprise Surveys 2009, available at: <http://www.enterprisesurveys.org/>

In the Global Competitiveness Rankings 2011-2021, conducted on a sample of 142 countries, in the field of informal payments and bribes Moldova is ranked 102. At the same time, Moldova is not making much progress in reducing corruption. According to data for 2009, Moldova has a score of 0.74 on curbing corruption, on a scale of -2.5 to 2.5 (higher values correspond to better control of corruption) and, within the region, lies on par with Ukraine.

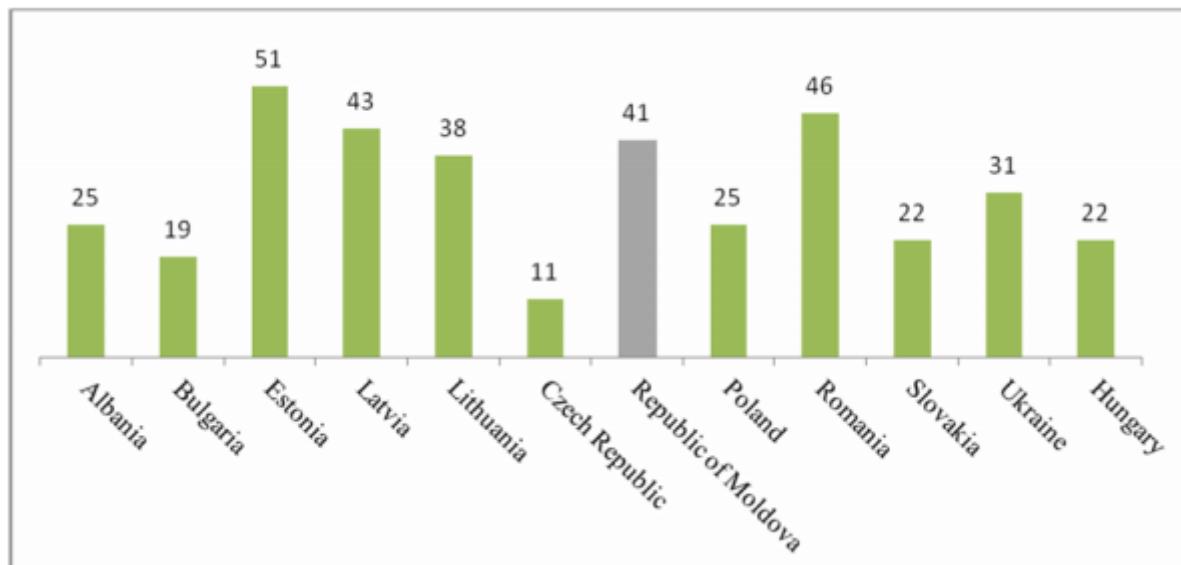


**Figure 3. Control of corruption in 2009, comparative aspects**

Source: The Worldwide Governance Indicators, World Bank

In this context, it is worth mentioning that according to the *Economic Freedom Index*, on property rights the Republic of Moldova has a score of 40, and the judicial system is characterized as being extremely inefficient: decisions of the courts take long and corruption is present. According to the *Global Competitiveness Report 2011-2012*, in the *independence of the judiciary* chapter, Moldova is ranked 132<sup>nd</sup>. Similarly, many investors consider that justice in Moldova is unreliable.

In Moldova, labor market regulation is rather rigid. The non-wage costs of employing a worker are high, and the dismissal of an employee is a difficult and lengthy procedure. Compared with other countries in the region, in terms of employment rigidity Moldova has a higher score (indicating reduced flexibility) than many, and ranks lower only of Estonia, Romania and Latvia.

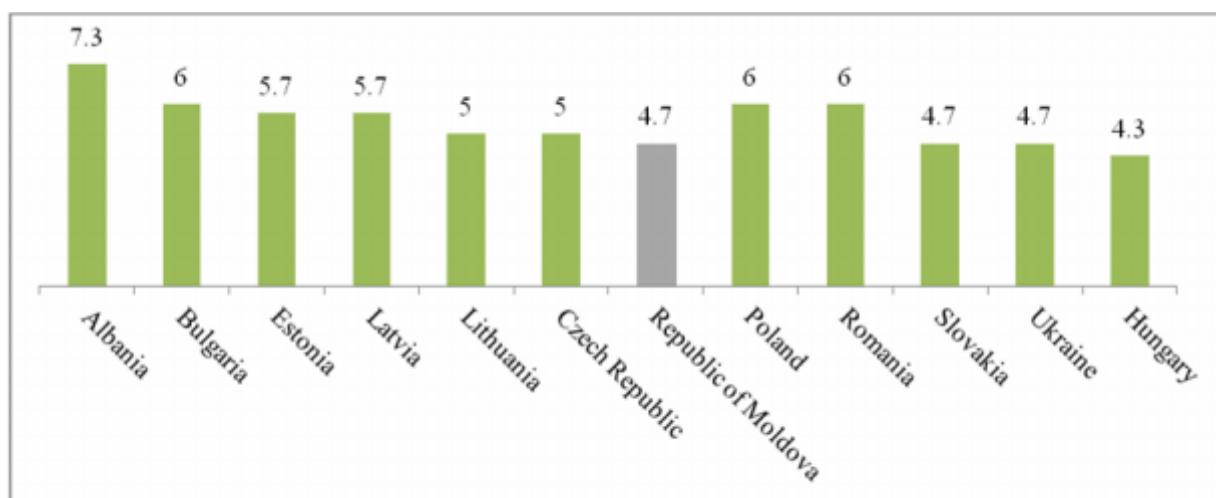


**Figure 4. Ranking score of the Republic for rigidity of employment index, comparative aspects**

Source: Global Competitiveness Report 2011-2012

Another serious problem related to the workforce is the low level of available skills. The degradation of the education system in the past 20 years and the migration of large numbers of specialists have caused a reduction in labor skills. Currently low-skilled labor has become a serious problem for business in Moldova. According to the *Transition Report 2010*, prepared by the European Bank for Reconstruction and Development, work skills are the most serious constraint to business in the Republic of Moldova. The seriousness of a constraint is highlighted by its deviation within the adjusted average of a broader list of 10 constraints: infrastructure, with three components: access to electricity, telecommunication and transport services; access to land; labor skills; fiscal management; labor market regulation; duties; licensing; justice; corruption and the level of crime. A greater positive deviation is a more serious constraint to business. For the Republic of Moldova, qualified labor has a deviation of 0.25 (the highest level, compared to other constraints), followed by access to land 0.14 and infrastructure 0.07.

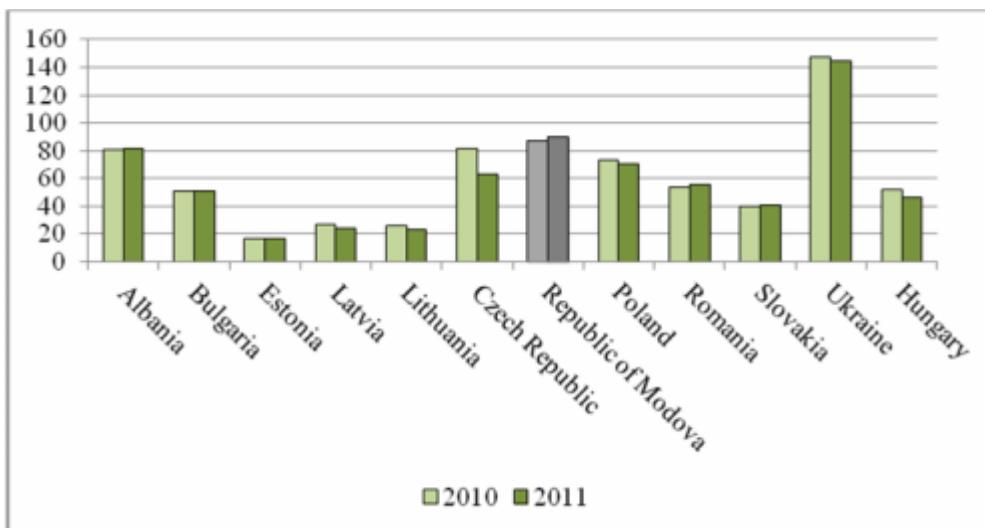
Although there is some improvement in investment activity, the low score for investment freedom indicates the complexity of the issues facing investors. This is confirmed by the investor protection index, which shows low values for Moldova compared to other countries in the region. The investor protection index gives scores between 1 and 10 (a higher value corresponding to an increased level of investor protection).



**Figure 5. Investor protection index, comparative aspects**

Source: <http://www.doingbusiness.org/>

The government is trying to implement reforms in this area, which would provide a more enabling environment for business. However, only the first phase of a broad regulatory reform ("Guillotine 1") was implemented, while the implementation of the second phase was delayed, and other regulatory optimization projects are being implemented too slowly. The World Bank *Doing Business 2011* study shows that the position of the country in the world ranking is falling, from 87<sup>th</sup> in 2010, down to 90th, which places Moldova in one of the last positions among the countries of Eastern Europe. This confirms that the reforms in Moldova are too slow compared with the other countries analyzed.



**Figure 6. Ranking of the Republic of Moldova according to "Doing Business 2011," comparative aspects**

Source: <http://www.doingbusiness.org/>

The Doing Business 2011 study reveals that important issues that adversely affect business activities in the Republic of Moldova are the conditions for import / export and for receiving permits for construction.

Particularly burdensome for businesses are export-import operations, because the time and costs associated with cross-border operations in Moldova are higher than in other countries in the region. For a small country, which does not have a sizeable domestic market, this could be an impediment to economic development. The same impediment may hinder the transit of goods across the country, thus limiting the expansion of related services, especially transport.

**Table 2. Conditions necessary for conducting export-import operations, comparative aspects**

COUNTRY	EXPORT		IMPORT	
	Time, days	Cost,	Time, days	Cost,
Albania	19	725	18	710
Bulgaria	23	1551	21	1666
Estonia	5	725	5	725
Latvia	10	500	11	801
Lithuania	10	870	10	980
Czech Republic	17	1060	20	1165
Republic of Moldova	32	1765	35	1960
Poland	17	884	25	884
Romania	12	1275	13	1175
Slovakia	17	1530	19	1505
Ukraine	31	1560	36	1580
Hungary	18	1225	17	1215

Source: <http://www.doingbusiness.org/>

In the case of construction permits, we are in a particularly bad position in terms of the number and duration of procedures. Obtaining permits for construction, too, places the Republic of Moldova in a not very advantageous position in comparison with other countries in the region.

**Table 3. Conditions for obtaining building permits, comparative aspects**

COUNTRY	NUMBER OF PROCEDURES	TIME, days
<b>Albania</b>	24	331
<b>Bulgaria</b>	24	139
<b>Estonia</b>	14	134
<b>Latvia</b>	24	186
<b>Lithuania</b>	17	162
<b>Czech Republic</b>	36	150
<b>Republic of Moldova</b>	30	292
<b>Poland</b>	32	311
<b>Romania</b>	17	228
<b>Slovakia</b>	13	287
<b>Ukraine</b>	22	374
<b>Hungary</b>	31	189

Source: <http://www.doingbusiness.org/>

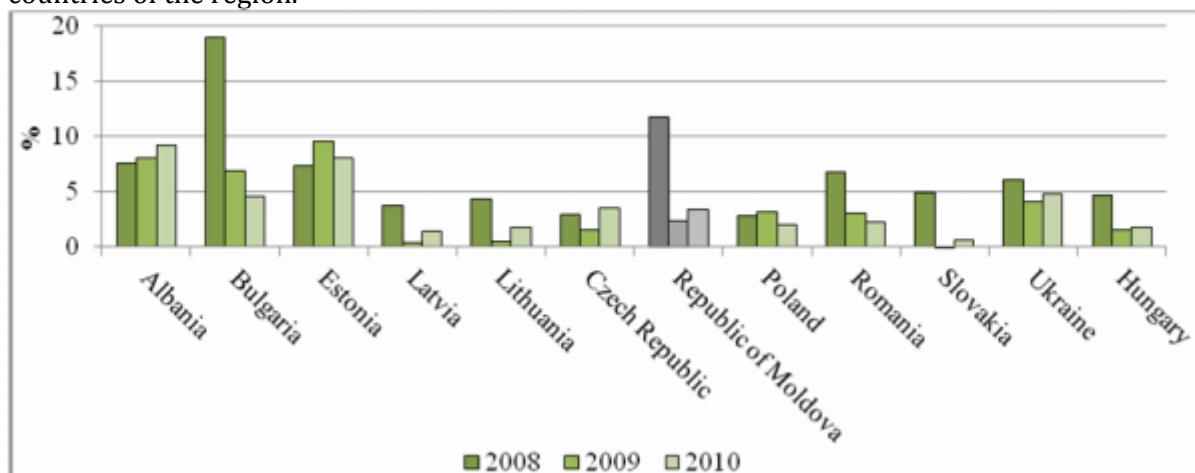
Another problem faced by enterprises in Moldova is the low intensity of competition in its markets. Low competition in the several sectors of the national economy, as well as limited progress in countering anti-competitive practices, place the Republic of Moldova in a disadvantaged position. According to the *Global Competitiveness Report 2011-2012*, the Republic of Moldova is at the bottom of the table in areas reflecting the level of competition:

- ✓ rank 104 - *intensity of competition*;
- ✓ rank 111 - *presence of market dominance*;
- ✓ rank 123 - *anti-trust policy efficiency*.

*Global Competitiveness Report 2010-2011*, in addition to corruption, also highlights other important difficulties faced by business:

- ✓ *policy instability* (19.5 per cent of respondents);
- ✓ *access to finance* (10 per cent of respondents);
- ✓ *bureaucracy of public institutions* (9.2 per cent of respondents).

The extensive problems business faces are causing an increased reluctance on the side of foreign investors to invest in Moldova. However, of the data and indicators concerning foreign investment in Moldova should be analysed with caution. The share of foreign direct investment flows (FDI) in GDP recorded in Moldova is comparable with the levels observed in other countries of the region.

**Figure 7. The share of FDI in GDP, comparative aspects**

Source:<http://www.unctad.org/>

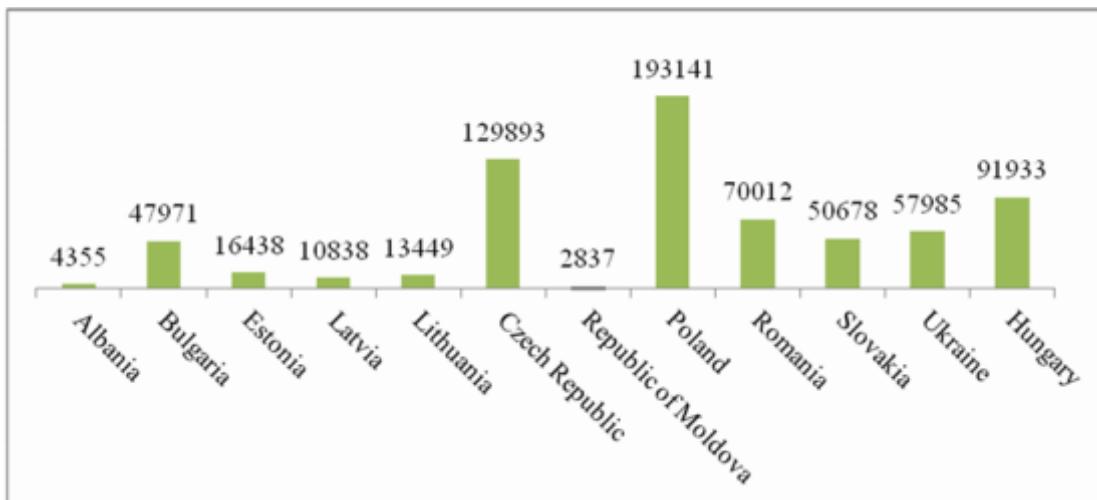
More relevant is a comparison based on FDI per capita. For Moldova this indicator is the lowest among the other countries in Eastern Europe. As a result, we have a rather large share of FDI relative with GDP, but in per-capita terms it is extremely modest.

**Table 4. FDI per capita, comparative aspect**

COUNTRY	FDI PER CAPITA, USD	COUNTRY	FDI PER CAPITA, USD
Albania	1359	Republic of Moldova	794.2
Bulgaria	6401	Poland	5045.9
Estonia	12256.7	Romania	3258.4
Latvia	4812.4	Slovakia	9278.1
Lithuania	4046.4	Ukraine	1275.8
Czech Republic	12379	Hungary	9208.3

Source: <http://www.unctad.org/>

To explain this apparent inconsistency, we would note that in the Republic of Moldova the relatively high share of FDI flows in GDP is due more to the low volume of GDP than to a high volume of FDI. In fact, the cumulative volume of foreign investments in Moldova is the smallest compared with the countries analyzed and puts our country at the end of the table.



**Figure 8. FDI stock in 2010 (million dollars), comparative aspects**

Source: <http://www.unctad.org/>

## ACCESS TO FINANCE - CONSTRAINT ON ECONOMIC GROWTH IN MOLDOVA

*Andrea Lorenzo Capussela  
Marcel Chistruga*

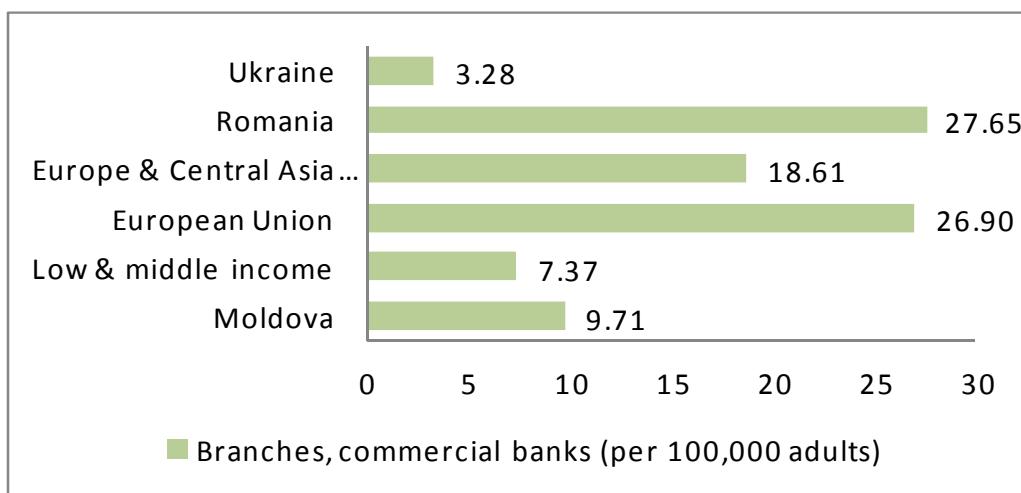
One of the inherent constraints revealed by further analysis is poor access to finance. One of the seven pillars on which the National Development Strategy 2012-2020 is going to be based addresses this problem. The analysis complements existing studies, highlighting other issues identifying the constraints and causes associated with access to finance in Moldova. The findings of the study were discussed and presented at the Working Group "Accessible and Inexpensive Finance", held by the Ministry of Economy.

In general, the problem should be seen both in terms of access to domestic finance and to international financial markets. In turn, the poor access to domestic financing is associated with the following two reasons: a lack of competition and the high costs of financial resources. At the same time, access to external financial markets is subject to country risks, investment climate and exchange rate risk.

If we are seeking sustainable economic growth, Moldova needs to boost the **investment performance** to a level that is at least higher than in other countries of the region. To achieve this, several actions that would allow the development of the financial system are needed.

### Access to domestic finance

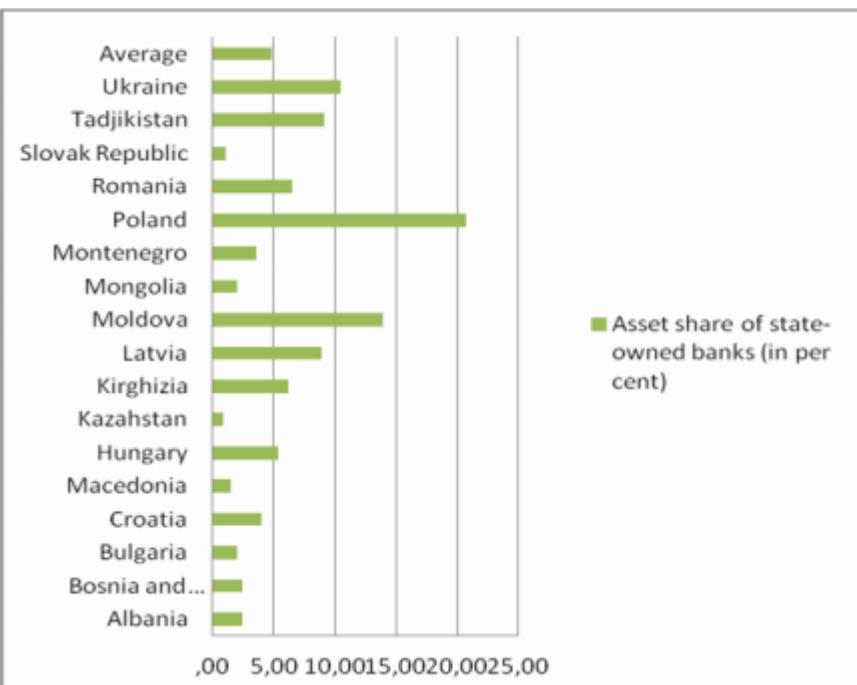
Currently, there are 15 finance and banking institutions operating in Moldova, of which 9 were foreign-owned in 2010. The total number of banking institutions (branches, representative offices) increased from 388 in 1999 to 1160 in 2010. The banking sector is growing continuously and is largely adequate in comparison with countries in the region, but weak compared to EU countries.



**Figure 1. Bank branches per 100,000 adults**

Source: according to World Bank Database

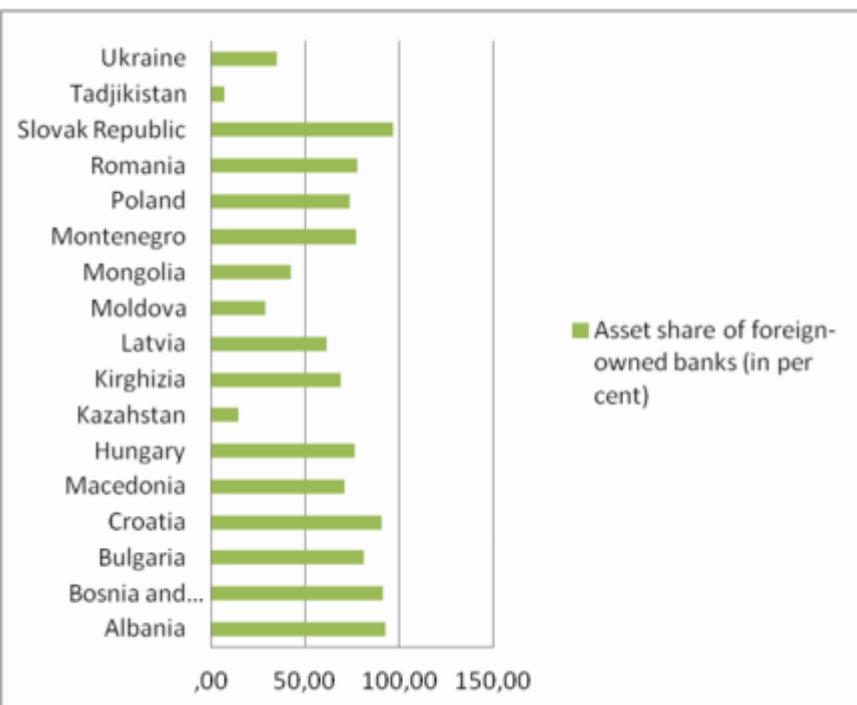
The banking system in Moldova has a relatively large share of state-owned banks. The state currently has a relatively small presence in the region; if we exclude Belarus, the average for countries in the region is 6.1 per cent of total assets, while in Moldova the figure is 13.4 per cent.



**Figure 2. The share of state-owned bank assets**

Source: According to International Financial Statistics database

At the same time, the share of foreign-owned banks by total banking assets was 28 per cent on average in 2004-2009, rising to 31.6 per cent in 2010. This deficiency is confirmed by the OECD study "Competitiveness and Private Sector Development in the Republic of Moldova"; with the exception of Belarus and Azerbaijan, all CEE countries have an average of 88 per cent.



**Figure 3. The share of foreign-owned bank assets**

Source: According to International Financial Statistics database

The first six banks in Moldova hold about 70 per cent of bank assets and total loans to the economy. Although corresponding to the region average, the concentration index (CR-4-Herfindahl-Hirschman Index HHI) of the market shows a high relative degree of banking market concentration in Moldova

**Table 1. Banking sector concentration indexes 2009-2010**

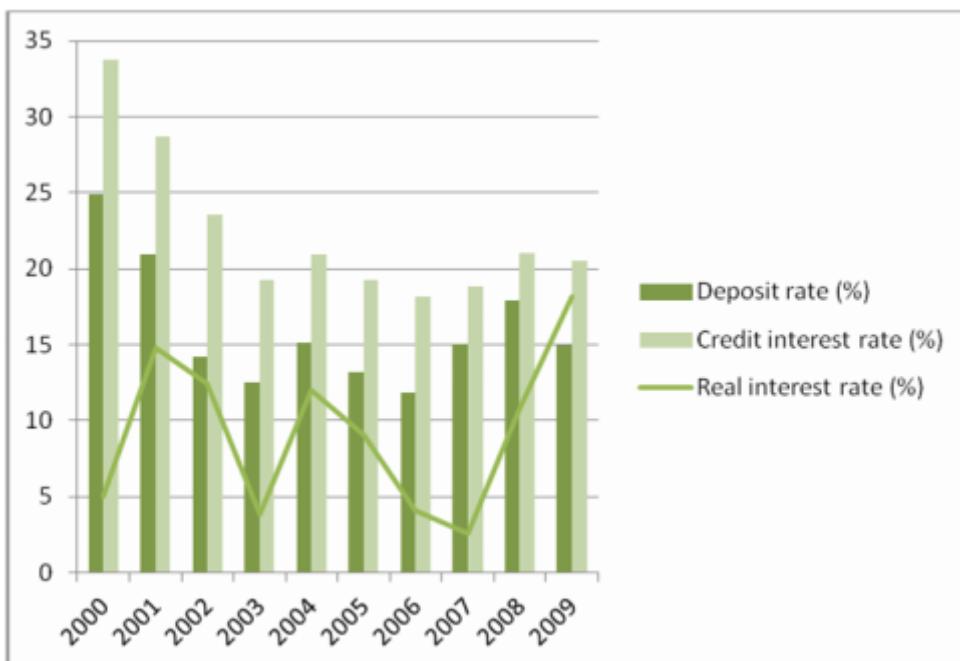
No.	Indexes	2009	2010
1	CR-4, per cent	59	60
2	HHI, points	1172	1210

Source: Calculations based on data provided by the National Bank of Moldova.

The *concentration indicators* of this segment of the market (CR-4 and HHI-Herfindahl-Hirschmann) show that in 2010 a level of 1210 points was recorded, so the banking market is characterized by a *moderate degree of concentration*, which potentially allows a satisfactory level of competition.

**High cost of finance.** Real interest rates on loans and deposits have shown declining trends during the years. Thus, the balanced developments of the interests would mean a constant supply of finance to the real sector, that would support a uniform growth of the economy, gradually and without major fluctuations.

Considering all of the above, one can have a wrong impression.



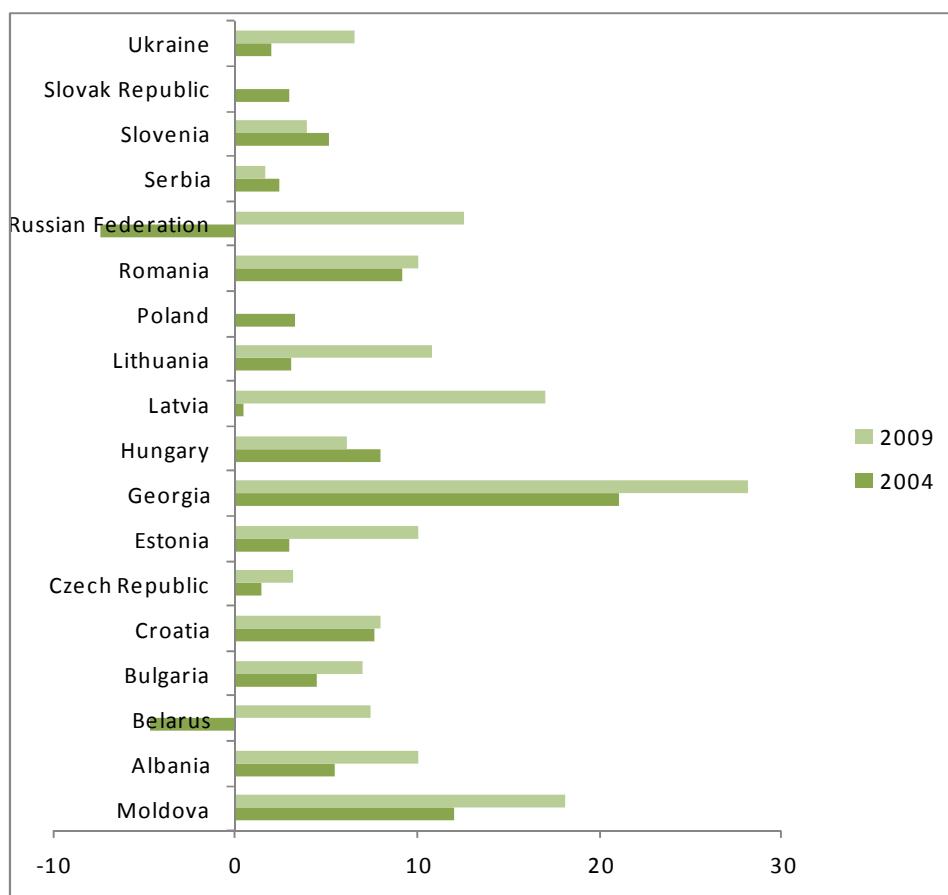
**Figure 4. Evolution of real interest rates on loans and deposits**

Source: according to World Bank database.

The need for and insufficiency of access of the real sector to finance is captured by the Global Competitiveness Report 2010-2011, where most respondents mentioned the access to finance as a particularly acute problem for business development in Moldova. The same situation is

found in the Doing Business Report 2011, the section Access to credit in the Republic of Moldova of which shows a 2-step drop in ranking to the 89th position of all countries analyzed. A similar situation is presented in BEEPS survey, where issues related to access to finance have been identified by the interviewed businesses.

High cost of access to credits is associated with inflation. Loans to the economy are made at higher interest rates than the cost of funds and at levels that are not below the inflation rate. Compared with the level in the region, the interest rate on loans in Moldova, both in nominal and in real terms, is at a high level. Partly due to a high inflation rate, Moldova has one of the highest rates of interest in the region. With the financial sector development, a negative consequence of high interest rates may be the stimulation of speculative pressures, with consequences for exchange rate stability.



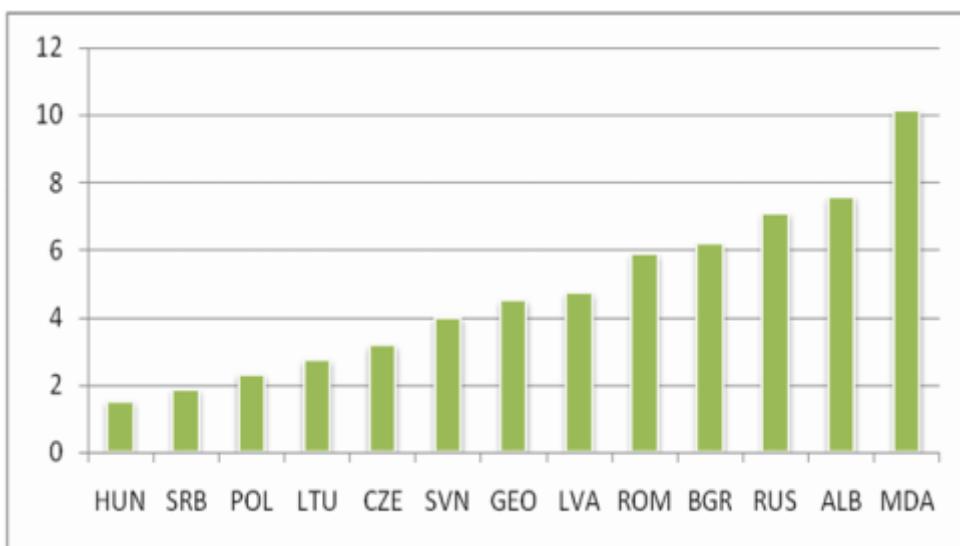
**Figure 5. Regional interest rates, nominal values**

Source: According to International Financial Statistics database

Excluding the inflation rate, thus a part of the macroeconomic policies, the reasons for high real interest rates derive from the structure and particularities of the financial market. On the one hand, the causes are associated with corporate management and administration on the financial market, and, on the other, with elements that are not related to administration within the system, such as the regulatory framework, market structure, diversity of financial products, access to foreign markets, etc.

In this respect, the high interest rates are the result of risk premiums and the amount of collateral. Compared with countries in the region, both the risk premium and the size of

collateral are some of the largest in the region. The risk premium is the difference between interest rates on loans provided to best customers and the interest rates on state securities and bonds. Basically, this difference highlights the share retained by the bank to insure against the risk of default. The insecurity, uncertainty and the quality of the business environment is reflected in the size of the risk premium. It should be noted that there are other factors that influence the size of the risk premium, and these factors are related to risk assessment and the level of competition in the banking system. In this regard we associate the causes of high risk premium with microeconomic risks identified through a growth constraints analysis and discussed in the two previous policy notes of this publication. Implicitly, we support the idea that microeconomic risks are the major problem for the Republic of Moldova. Elimination of this constraint should have an impact on the cost of financial resources as well.

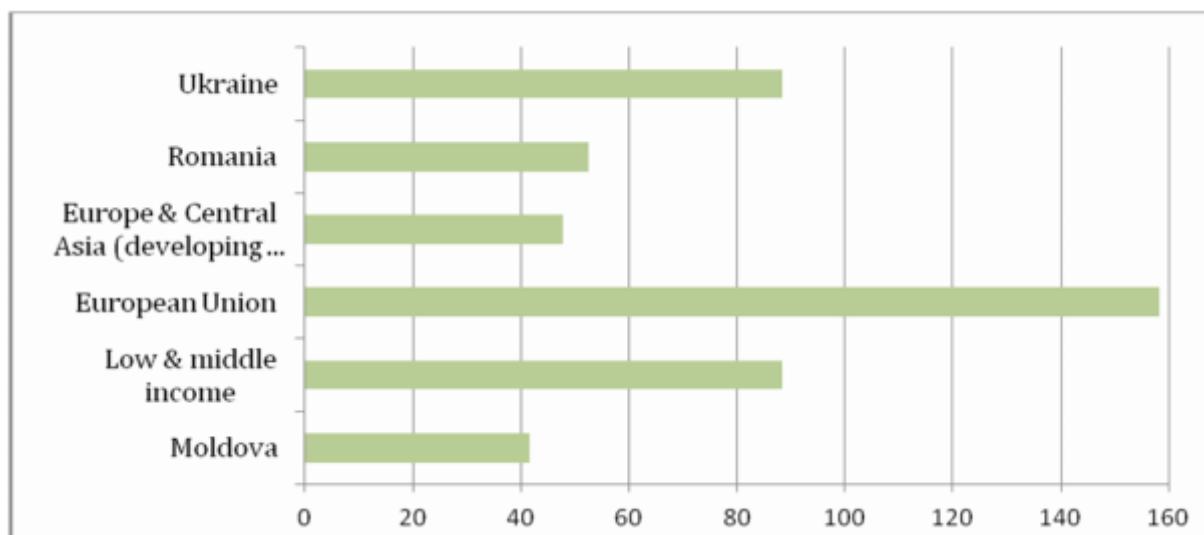


**Figure 6. Risk premium (average of the last 10 years)**

Source: according to World Bank database

Volatility and uncertainty in the local business environment is offset in the banking system by increased collateral requirements. The size of the collateral is identified by BEEPS as a problem for business in seeking credit. In Moldova the size of collateral is over 130 per cent of the loan amount.

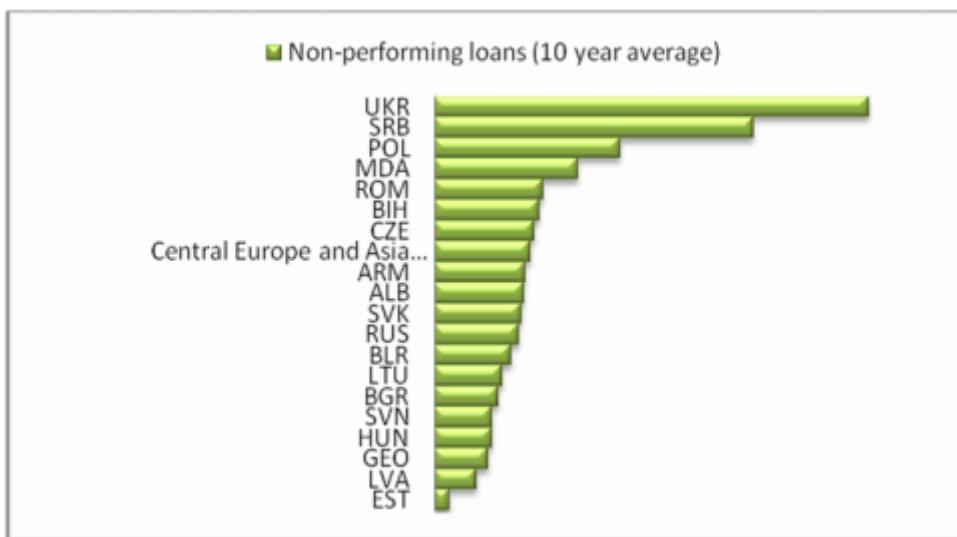
**Credit dynamics.** In the last five years the banking system recorded a positive performance in terms of bank profits and level of capitalization. This performance is partly due to an increase in provision of loans. For instance, in 2008 the balance of loans taken increased by over 20 per cent compared to 2007, the consumption credits also recording an increase. While before 2004, there was reluctance on the part of banks to grant consumption credits, the situation has clearly recovered since 2005. The share of this type of credit increased from 3.6 per cent in 2008-2009 to over 10 per cent of bank loan portfolios, this upward trend materialized in the coming years with growth rates of over 12 per cent. In fact, average credit growth in the economy over the last five years has been 17 per cent. Compared with countries in the region, the increase recorded in Moldova is a strong performance. However, national credits are below average credit to GDP among the countries in the region. While the EU countries credit the real sector of the economy with a share of over 100 per cent of the GDP, Moldova has a share of loans to the same sector of only 23 per cent (average of the last 10 years).

**Figure 7. Loans to the real sector, per cent GDP**

Source: According to International Financial Statistics database

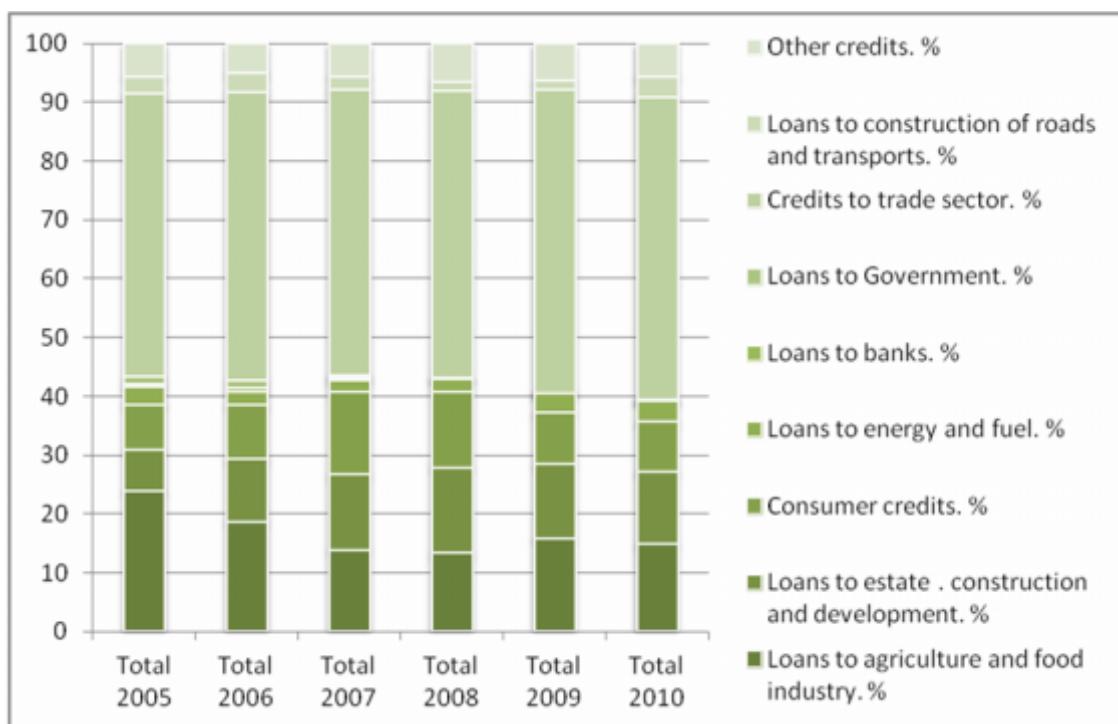
Although expensive, the statistics for recent years have shown a rapid increase in lending, but at the moment volumes are insufficient to cover the needs of the economy. The rate of loans against GDP in other countries in the region is higher than in the Republic of Moldova. Countries like Slovakia, Hungary and Estonia are leading the ranking, even Ukraine outranked Moldova.

Characteristic of the banking sector, compared with countries in the region, is a **high degree of non-performing loans**. Although in 2011 this indicator fell from 17.8 per cent to 9.3 per cent, the national banking system is constrained in its lending operations. This situation is partly explained by external shocks it has suffered in recent years, especially those associated with export operations, which led to a decrease in reliability in the economy. In the last 10 years average non-performing loan levels in the economy have reached extremely high levels. Therefore, the causes can be reflected by the quality and volatility of the local business environment, but also by the practices of credit banking system (mostly without providing risk management measures, but also corporate governance practices).

**Figure 8. Non-performing loans granted, comparative analysis**

Source: According to International Financial Statistics database

The structure of loans shows that most loans are issued to industry and trade. Given the weight of these two sectors, both in GDP and in the VAB, we consider that most loans were channelled to trade. A small fraction of the total loans go for the development of productive capacity of the economy. Under these conditions the SME are particularly disadvantaged, facing an acute lack of funding. Loans issued to households represent 20 per cent of total loans, which is below the regional average achievement. Under such conditions, it is particularly SMEs that are affected. According to the BEEPS questionnaire they are in acute need of financing. The prevailing trends in the structure of loans reveals a major problem, as it disproportionately finances trade, and little capital is available for the start or development of new business ventures or for investment enhancing their productivity; this issue, of course, must be seen together with the maturity structure, discussed below, which has partly coincident causes and similar effects. Can, in other words, any kind of economic growth be internally generated in the absence of financial resources to either open or develop an SME?



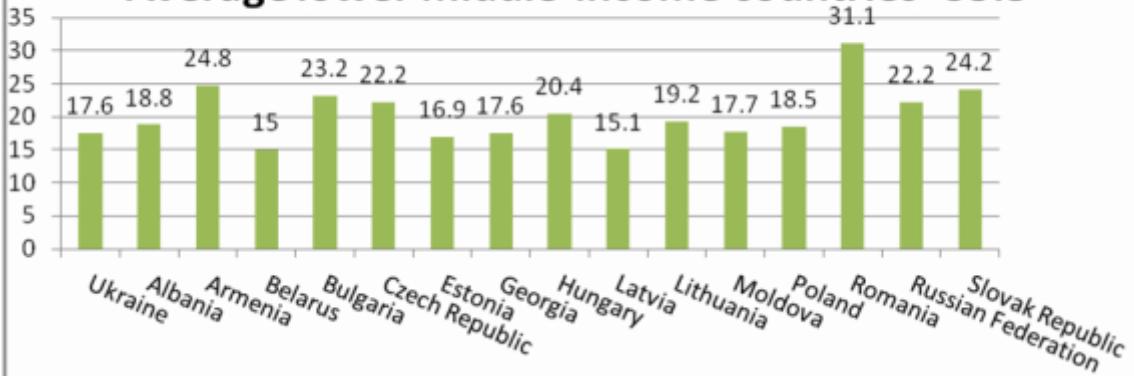
**Figure 9. Loans structure**

Source: According to annual data of the National Bank of Moldova.

**Savings Rate.** The high volume of transfers from Moldovans who work abroad and wage growth resulted in increased household savings, and thus an increased savings rate. However, because of the slow pace of structural reforms and the lack of remittances' targeting policies, the channeling of these massive inflows of currency for productive purposes failed. The positive effects of remittances have been superimposed over the negative. These led to appreciation of the Moldovan MDL which in turn has stimulated consumption of imported goods, but has damaged the external competitiveness of local products.

An increase in savings in recent years compared with countries in the region and worldwide is insufficient. According to the World Bank's classification, there are 56 medium and small income countries, and average savings in these countries accounted for 35.3 per cent of GDP, compared to only 17.7 per cent of GDP in Moldova.

## Average lower middle-income countries=35.3



**Figure 10. Savings to GDP, % of GDP**

Source: World Development Database, <http://data.worldbank.org>

Another feature of the structure of loans and deposits in the Republic of Moldova is a disproportionate **degree of maturity**. Most deposits are short-term deposits and most loans are long-and medium-term. The largest share of deposits, about 55 per cent, belongs to deposits in local currency and about 45 per cent in foreign currency.

**Table 2. Structure of loans and deposits**

<b>Deposits' structure by maturity (per cent)</b>	2007	2008	2009	2010
Bank deposits in foreign currency with a term less than one year	96.5	96.5	96.5	92.5
Bank deposits in foreign currency with a term more than one year	3.5	3.5	3.5	7.5
Bank deposits in national currency with a term less than one year	89.4	95.0	95.9	92.4
Bank deposits in national currency with a term more than one year	10.6	5.0	4.1	7.6

<b>Loans' structure by maturity (per cent)</b>	2007	2008	2009	2010
Bank loans in foreign currency with a term less than one year	26.7	31.1	28.1	26.7
Bank loans in foreign currency with a term more than one year	73.3	68.9	71.9	73.3
Bank loans in national currency with a term less than one year	41.5	39.2	40.6	32.3
Bank loans in national currency with a term more than one year	59.4	60.8	59.4	67.7

Source: according to NBM data

In consequence, the gap between the maturity of loans and deposits is a factor influencing the possibility of lending to long-term investment projects. Thus, besides the fact that the financial system and especially local banks do not have internal capabilities to manage long-term investment projects (10-20 years), the structure of deposits does not allow long-term lending. Most deposits are placed for a period shorter than one year and in national currency.

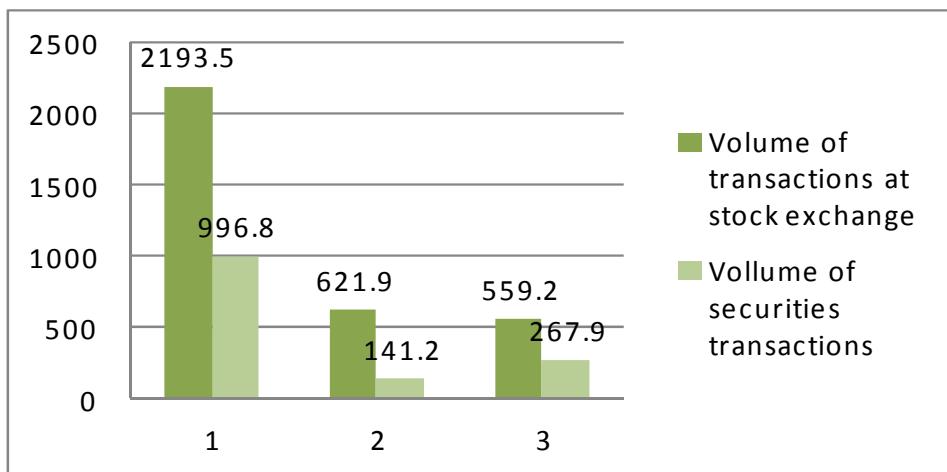
An alternative to the banking sector is **the microfinance sector**. Analysis of the microfinance sector shows that, although it accounts for about 2.0 per cent of GDP, the rate of penetration of microfinance services remains a poor indicator at the national level. The microfinance loans provide lending services which are accessible and affordable for small and medium enterprises and socially vulnerable groups throughout the country, as a priority in rural areas. In 2010 5.1

per cent of the economically active population of Moldova has benefited from microfinance loans, down from 12.1 per cent compared to 2009 and less than 2.6 times the similar indicator for Bosnia and Herzegovina, the microfinance sector of which is representative of Central and Eastern Europe. However, on account of its high interest rates and low coverage, the microfinance sector has marginal relevance; its share in total loans and credits to economy is very small, and empirical data shows that the banking system retains a monopoly on the provision of loan finance: currently, there are no alternative funding sources in Moldova.

**The securities market** in Moldova has the characteristics of an emerging market: a small number of issuing entities, low liquidity, a lack of public investments, a low number of investors, and reduced integration into international financial markets. The range of financial instruments issued and traded on the domestic securities market is limited to ordinary shares, and there is no interest in attracting investment through placement of corporate bonds.

During 2010 there was a similar trend to that of 2009, with investors taking a cautious approach towards securities market opportunities.

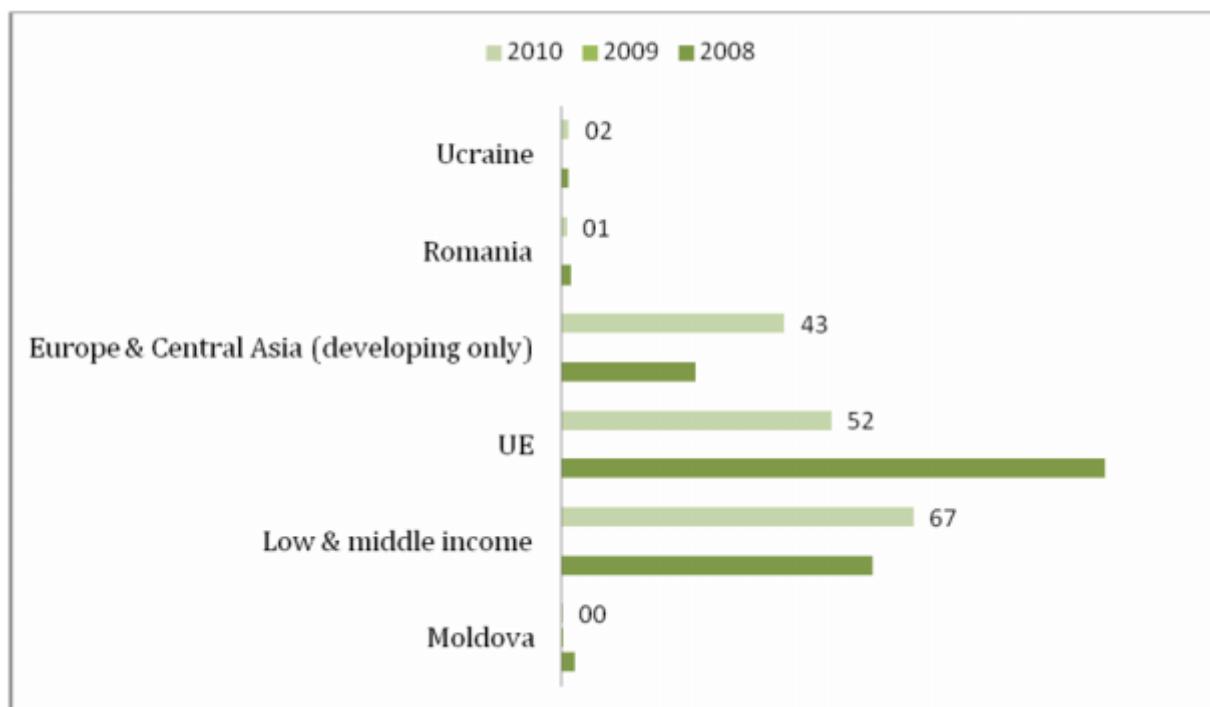
In 2010 the secondary securities market recorded a decline of 10.1 per cent compared to 2009 due to a lower volume of non-stock market transactions.



**Figure 11. Volume of securities transactions**

Source: according to NCFM data

The development of key segments of the nonbank financial sector in Moldova, the capital market, the participation of **pension funds and of insurance companies in the financial market** remain far behind countries in the region and countries in Southeast Europe. The low liquidity and high degree of fragmentation of market infrastructure resulted in insufficient determining of the cost of financial instruments and their underdevelopment. The mentioned weaknesses limit the activity of institutional investors, creating significant risks for their development. The experience of economic crisis highlighted serious shortcomings and it is obvious that necessary reforms are needed both to provide immediate funding to support economic growth and to ensure the stability of the nonbank financial system. In this respect, a timely opportunity could be offered by a possible future reform of the pension system, which might prove necessary in the relatively near term for reasons of fiscal sustainability: in this context, the possible creation of new institutional investors (the pension funds, on which any reform is likely to rely upon) could both open a new source of financing for domestic companies and favour Moldova's integration in the international financial markets.

**Figure 12. Stock trading volume, per cent of GDP**

Source: According to International Financial Statistics database

An indicative feature of the level of stock market transactions is the volume of stock transactions. Compared to other countries, it is virtually nonexistent. Most stock market transactions are not intended for the acquisition of funds. The nature of these transactions is associated with the change of ownership of traded companies.

Access to domestic finance is a major constraint for the economy and economic growth in Moldova. The Banks are guided by the establishment of interest rates based on macroeconomic indicators, especially inflation<sup>24</sup>, by the saving rates and the economic and financial situation of each banking institution. Thus, one of the causes of high costs of capital is the low degree of financial intermediation, reflecting the level of development of the banking system and of financial market as a whole.

A special aspect is the lack of competition<sup>25</sup> and of alternative economy financing instruments, and on the other hand, structural inefficiency of the banking system. The most obvious symptoms are the large volume of delinquent loans<sup>26</sup> and the high level of risk premiums. These last issues, combined with the gaps and deficiencies of state institutions, influence the size of the collateral, which is considered to be an impediment to accessing finance.

There are virtually no alternatives to the banking system. The non-banking sector is largely underdeveloped, providing credits mainly to the rural sector and individuals; the share of loans to GDP does not exceed 1-2 per cent<sup>27</sup>. Purchase of financial resources through capital markets and microfinance sector is not a relevant option at the moment.

<sup>24</sup>NBM Material for GL "Accessible and Non-expensive Finance."

<sup>25</sup>Relatively high concentration of the banking system, oligopolistic market. MET no. 1, [www.iefs.md](http://www.iefs.md)

<sup>26</sup> OECD Report "Competitiveness and Private Sector Development in the Republic of Moldova"

<sup>27</sup> See details in NCFM materials for the WG "Accessible and Non-expensive Finance."

## Access to international financial resources

Moldova's net external debt against GDP has tended to decline over the past five years. Both in the public sector and compared with other states, the real sector of the national economy is practically absent from the international financial markets, for which it is assigned a low financial maturity and high interest rates. The country risk rating is high. International financial assessment agencies such as Moody's Investors Services and Fitch IBCA which provide country risk ratings according to the evolution of key macroeconomic indicators still assign low ratings for Moldova. For instance, Moldova has the lowest financial ranking in the region as assessed by Moody's Investors. However, the country ratings assigned by different agencies vary. Fitch IBCA has changed the rating of the Republic of Moldova in terms of credits from "stable" to "positive", as result of economic growth and stability and adopted fiscal discipline. At the same time, Fitch reaffirmed the rating given to Moldova for long-term external liabilities in foreign currency and local currency at 'B-' and "B".

Moldova is not financially integrated at the international level. Domestic companies are not listed on international stock exchanges. The most dynamic in relations with the international financial market are banks and microfinance companies, but also some subsidiaries of the foreign companies. The volume of these transactions is negligible in comparison with countries that benefit from financial integration. Under the conditions of a more pronounced development of international financial markets and low interest rates in these markets, it is essential for Moldova to access these resources.

### Domestic companies listed on international stock exchanges.

<b>Low and middle income countries</b>	<b>17506</b>
<b>EU</b>	<b>11865</b>
<b>Europe and Central Asia (developing countries)</b>	<b>3233</b>
<b>Romania</b>	<b>1663</b>
<b>Ukraine</b>	<b>236</b>

## Conclusions and recommendations

We believe that the most important constraints of access to finance can be grouped as follows:

- ***poor financial intermediation,***
- ***high costs of financial resources,***
- ***relatively high requirements for collateral,***
- ***weaknesses in state institutions.***

**Poor financial intermediation** can be addressed through several measures. First, since it is the only option for the procurement of financial resources in the domestic banking system. It is necessary to enhance the competition both within the banking sector and between the banks and other financial intermediaries. This sector is currently represented by more than 10 institutions and thus has characteristics of an oligopolistic market/monopoly.

Increasing diversification of financial instruments and financial market would help increase financial intermediation. New products and structures would boost the absorption of excess liquidity and create financial instruments that would meet the needs of the economy. Support of the non-banking sector would create additional competitive pressure on the banking system.

Given the high financial costs and underdeveloped financial markets, the access to international markets would also become a mobile for domestic investment. The financial opening would bring cheap and varied resources, but also the practices and knowledge transfer.

### Measures:

- Streamlining the activity of credit bureau.
- Improving corporate governance.
- Stimulating the creation of new financial instruments and financial market development
- (Creation of venture capital, cooperation with insurance companies and stimulation of capital market transactions, etc.).
- Development of collective investment institutions, private pension funds and life insurance funds.

Another constraint is the **cost of financial resources**. The most important reason for this constraint is related to macroeconomic stability, especially inflation. To ensure a low interest rate there must be a budget, and the foreign balance and inflation must be decreased. The problem of inflation is widely debated in society, and the actions of the NBM are directed towards its reduction.

The savings rate and risk premium (which we associated with microeconomic risks, as highlighted in the previous policy note) are two other causes of the high costs of financial resources. The stimulation of the savings and deposits rates by creating tools for maintaining these resources on the long term would enable a more effective and balanced management of risk, thus reducing the risk premium.

The effects of high interest rates have an influence on the structure of lending as well via a process of credit rationing. It is safer to credit the trade because of lower lending costs and the safety associated with this type of activity.

Another implication is associated with "credit rationing" or the rationing process by financial intermediaries to streamlining funding resources. Given the high cost of credits, the safer loans with a high probability of returning the loan do not accept a higher interest rate because of profit implications. Usually, less risky investment projects have lower profit rates compared with the riskiest. In this respect, high interest rates restrict access to less risky business. This phenomenon has implications for non-performing loans, but also for the collateral requirements imposed by financial intermediaries.

### Measures:

- Achieving and maintaining price stability;
- Stimulating securities transactions;
- Increasing guarantees for deposits;
- Increasing competition in the financial market;
- Developing alternative payment instruments (for example - credit cards).
- Measures to improve the quality of the legal system (on both regulation and enforcement);
- Measures to increase the intensity of competition in the real sector.

Exaggerated collateral **requirements and** procedures for obtaining a credit. The uncertainty

and quality of the business environment result in exaggerated measures being applied by the banks to protect themselves. At the same time, when most of the collateral is land and real estate, the markets are underdeveloped. Therefore we believe that actions must be directed to:

- Land market and real estate market development;
- Mortgage market development;
- Stimulation of the activity of credit bureaus;
- Implementation of alternative methods of risk assessment (e.g. audit);
- Stimulation of non-banking sectors.

The last constraint which has been highlighted refers to **state institutions' deficiencies**. No matter how well organized and diversified the financial market will be or what the country's macroeconomic results are, without catalysts that ensure cohesion of all these elements, the financial system will not work. Clearly, the role of the catalyst has to be taken over by state institutions, which have a duty to create and maintain an environment beneficial to sustainable economic growth. Of the range of problems that must be addressed in the restructuring of state institutions, we refer to the most important for access to finance. Guaranteeing property rights, insolvency and general procedures, and the quality of the legal constraints are key issues that generate access to finance for the local business environment.

#### **Measures:**

- Developing a functioning market economy and its institutions;
- Improving income reporting and tax compliance;
- Measures to improve the quality of legal acts.

## POVERTY IN THE REPUBLIC OF MOLDOVA

*Anatolii ROJCO, PhD  
Oxana LIVITCHI, PhD*

According to the officially approved methodology in the Republic of Moldova on poverty assessment, there is extreme (food) and absolute poverty. The extreme (food) poverty line is calculated based on an evaluation of food consumption costs of providing daily human consumption of 2,282 kcal (which is calorific value of the subsistence minimum food basket). The absolute poverty line is determined by adding the minimum costs for non-food products and services to the extreme poverty line. In 2010, the extreme poverty line was 549.4 lei, and absolute poverty 1,015.9 lei. The extreme / absolute poverty rate is defined as the share of people whose consumption is below the extreme/absolute poverty line in the total population.

In 2006-2010 the extreme poverty rate fell from 4.5 per cent to 1.4 per cent, i.e. by 3.1 percentage points or 3.2 times. The absolute poverty rate in this period fell from 30.2 per cent to 21.9 per cent, i.e. by 8.3 percentage points or 1.4 times (Figure 1). However, poverty has evolved every year in different proportions. After the poverty rate fell in 2007, in 2008 it rose. In 2009 – it fell slightly, while in 2010 there was a significant fall in this indicator. In 2010 the absolute poverty rate was 21.9 per cent and fell 4.4 percentage points from the previous year, or 1.2 times.

The poverty gap is the term for the income deficit in relation to poverty threshold. The extreme poverty gap fell from 1.0 per cent in 2006 to 0.3 per cent in 2010, or 3.3 times, and the absolute poverty gap from 7.9 per cent to 4.5 per cent, or 1.8 times. This tendency is also characteristic for the severity of poverty, reflecting the complexity of the evolution of poverty. The severity of extreme poverty in 2010 was 0.1 per cent and that of absolute poverty was 1.4 per cent.

Thus the rate, gap and severity of extreme poverty do not reach very high levels, which shows that the phenomenon of extreme poverty in Moldova is not present. For this reason, poverty profile analysis is carried out only by absolute poverty indicators.

**The evolution of the poverty rate depends on the place of residence of the household.** In large cities, the poverty rate during the years 2006-2009 has gradually fallen: from 20.6 per cent in 2006 to 7.0 per cent in 2009, or 2.9 times. But, compared to the previous year, in 2010 there was a certain increase - up to 7.3 per cent, or 0.3 percentage points. The cause of this change was a fall in labor income, which contributed to reducing its share in the disposable income structure: from 65 per cent in 2009 to 61 per cent in 2010. A certain role in increasing the poverty rate belongs to remittances from abroad for households located in large cities. The increase in the level of the poverty line has contributed to increased household consumption inequality in large cities. While in 2009 the least-well-off 20 per cent population contributed 9.5 per cent of total consumption expenditure, in the year 2010 they contributed just 9.2 per cent. On the other hand, in 2009, 37.9 per cent of total consumption expenditures were concentrated among the richest 20 per cent of households, and by 2010 this level had risen to 40.0 per cent. Thus, on average for all households, consumption growth was highest in the best-off households.

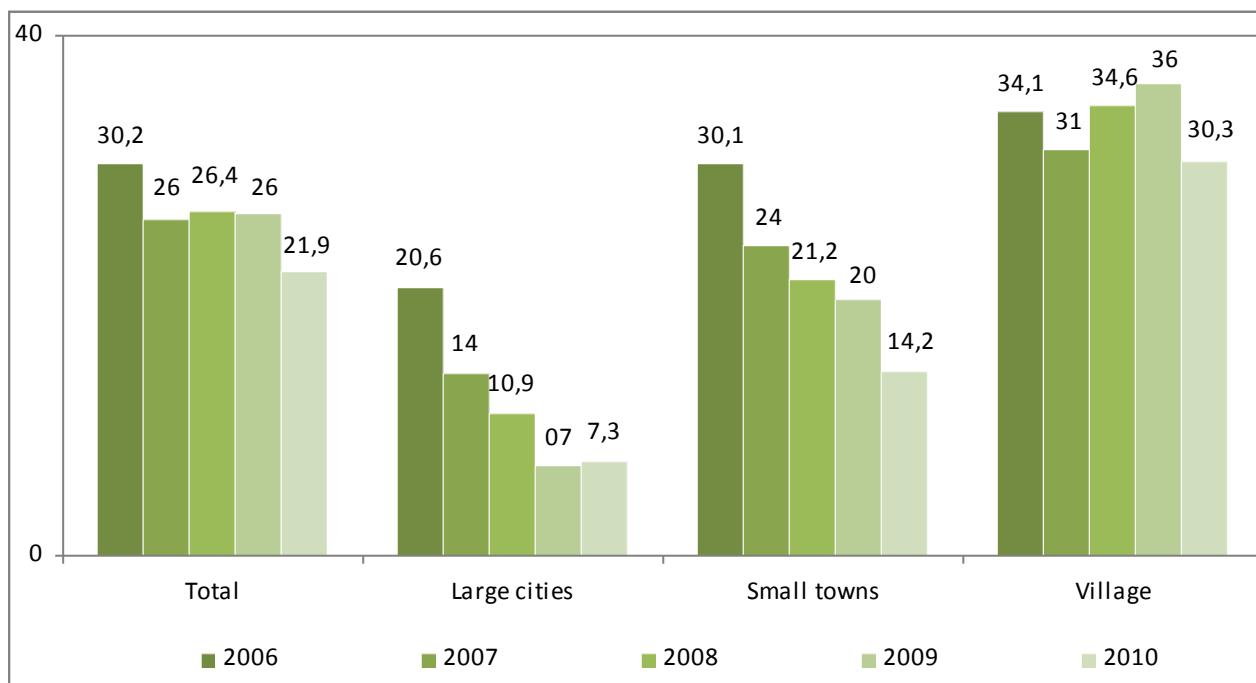


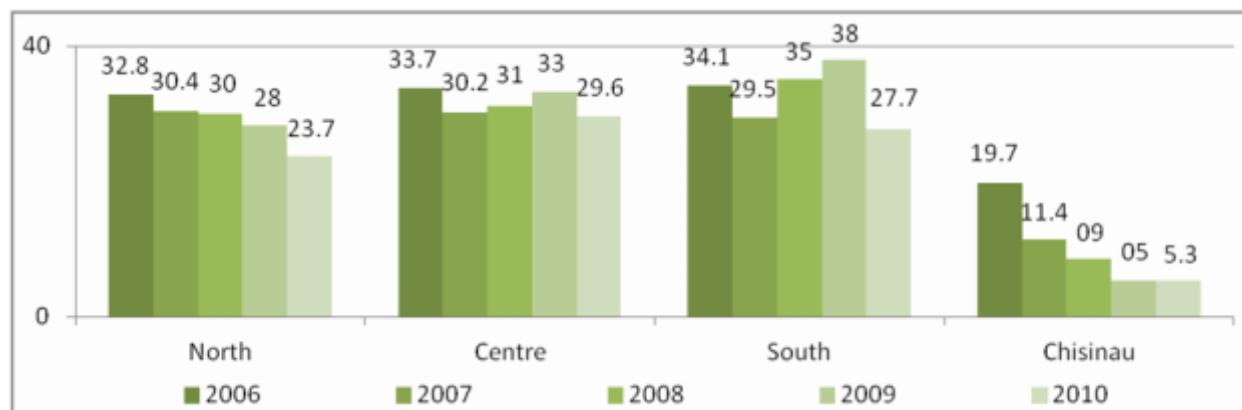
Figure 1. Absolute poverty rate for 2006-2010, %

Source: NBS

In small towns, the rate of absolute poverty is on a clear falling trend: from 30.1 per cent in 2006 to 14.2 per cent in 2010, or 2.1 times. Poverty levels in small towns were the lowest compared to big cities, but poverty reduction has been achieved consecutively, year after year.

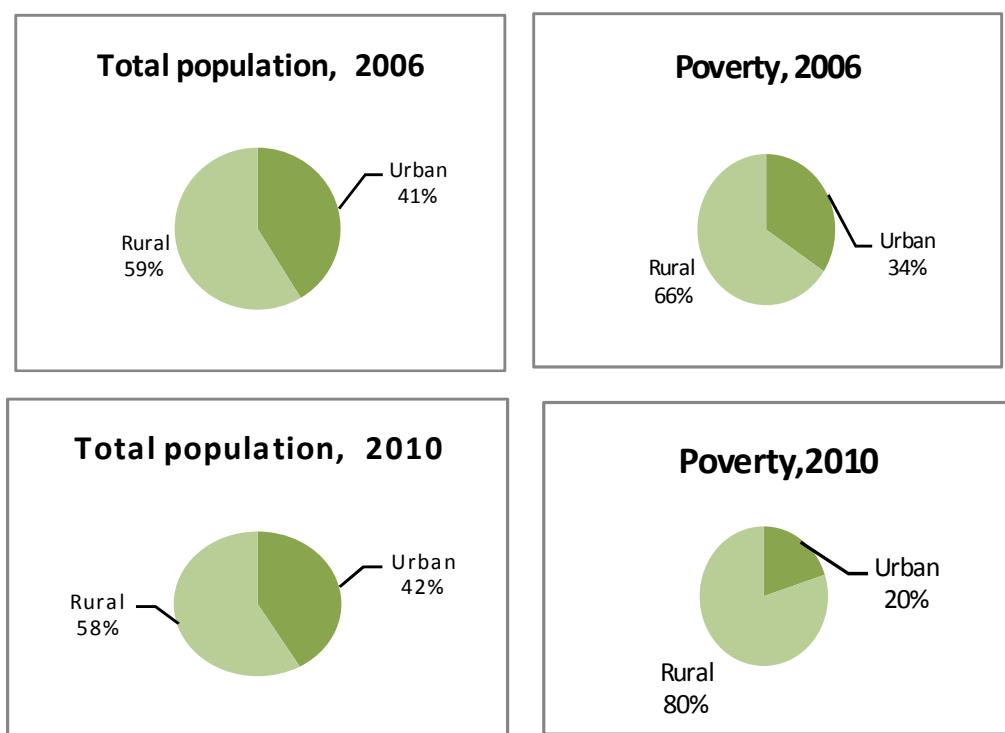
In rural areas, after poverty rates rose between 2008-2009, there was a significant reduction, constituting 30.3 per cent, which is 6.0 percentage points or 1.2 times less than compared to 2009. This was driven by increased disposable income and consumption in rural households. By 19.3 per cent the average income per capita of individual agricultural activity increased due to increased agricultural output and higher prices. Employment income has also risen. The income from remittances has risen by 16 per cent, which ranks second (after income from work) in the structure of disposable income of rural households. Social payments also make a contribution to the growth of household wealth, including social assistance. While in 2009 only 1.2 per cent of rural households received social assistance, in 2010 their share was 3.4 per cent.

**There is a crucial differentiation in the regional profile of the poverty rate.** In 2010, the highest poverty rate was registered in the Center (29.6 per cent), followed by the South (27.7 per cent), then the North (23.7 per cent) and Chisinau (5.3 per cent) - Figure 2. In the first three statistical areas the poverty rate exceeds the national average (21.9 per cent). But this zonal ranking of poverty rate level was not always like this. As to reducing the level of poverty rate, in different years the following statistical areas were ranked in the first three positions: in 2006 - South, Center, North, in 2007 - North, Center, South, in 2008 - South, Center, North in 2009 - South, Center, North. Compared with 2009, the highest reduction in the level of the poverty rate was for the South - 10.3 percentage points (or 1.4 times), which in 2010 placed the region in second place in the hierarchy of regional poverty. The poverty rate in the North was cut by 4.6 percentage points (or 1.2 times), in the Centre by 3.6 percentage points, or 1.1 times. Households located in Chisinau were most likely to fall into a state of absolute poverty. In 2010, the level of the poverty rate in Chisinau was 5.3 per cent, remaining the same as in 2009.



**Figure 2. Poverty rate in Moldova by areas for 2006-2010, %**

**Poverty in Moldova is dominant in rural areas and has a clear tendency to increase.** In 2006, out of the total number of poor in the country, 65.7 per cent, or almost two thirds, lived in rural areas, while 34.3 per cent, or less than one third were in urban areas (Figure 3). Meanwhile, in the population structure of the country, the rural population represented 58.7 per cent and the urban population 41.3 per cent. In 2010, the population structure has changed slightly, but the distribution of poverty between cities and villages has become more oriented towards rural areas. Of the ten poorest districts in the country, only two are from urban areas and eight are from rural areas.



**Figure 3. Distribution of poverty in "city-village" profile, %**

Source: NBS

The risk of being in a state of poverty depends largely on household characteristics.

**Households that are large in size have the highest risk of being poor.** The level of the poverty rate for households with five members is 35.0 per cent, which is 1.7 more compared with that for households with two members (Figure 4). It should be mentioned that compared with 2009, the risk of being in a state of poverty for these households fell by 6.7 percentage points, or 1.2 times. A high risk level is characteristic of households composed of one person (usually, these are pensioners who live alone). One in five households of this type is poor. At the same time, specifically such households have undergone the largest decrease in the poverty rate: from 29.7 per cent in 2009 to 20.0 per cent - in 2010, or 1.5 times.

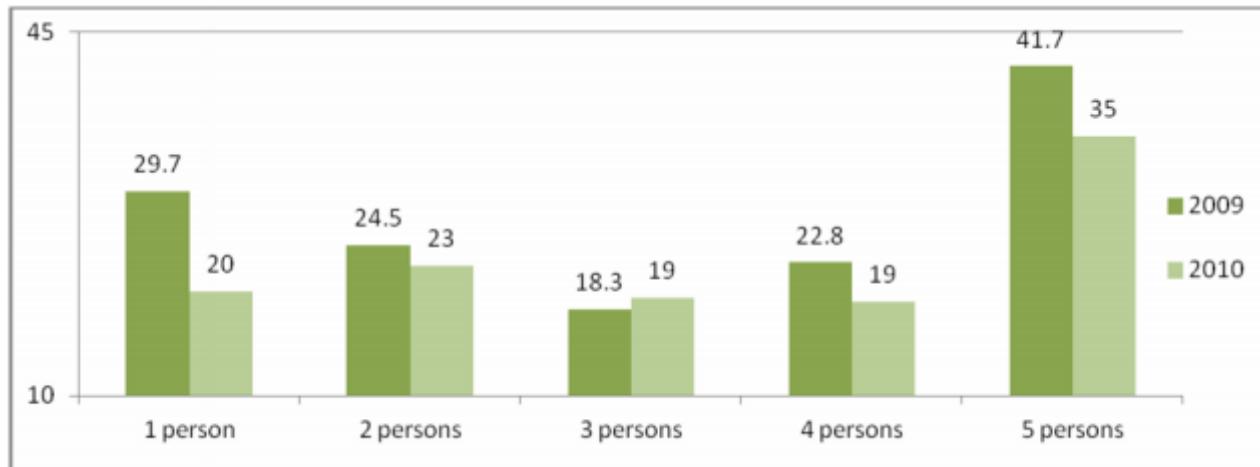


Figure 4. Poverty rate by household size, %

Source: NBS

**Poverty risk increases with increases in the number of children.** The arrival of one child in the family already increases the risk of poverty and every fifth household with one child is poor (Figure 5). The highest poverty rate is characteristic of households with three or more children (39.1 per cent), which is twice that for households with one child. Compared with 2009, the poverty rate declined for all households with children. For households with three or more children the reduction was 11.7 percentage points, or 1.3 times.

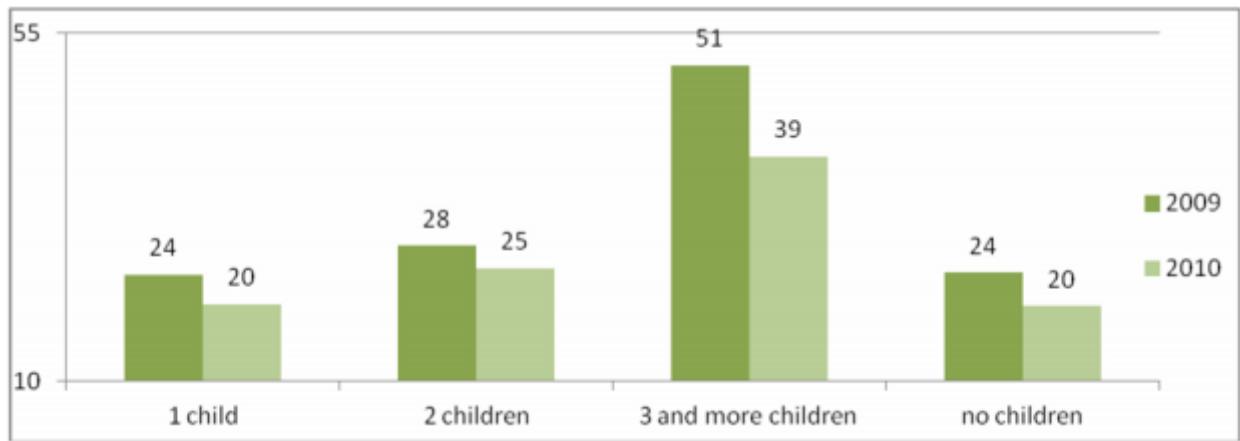
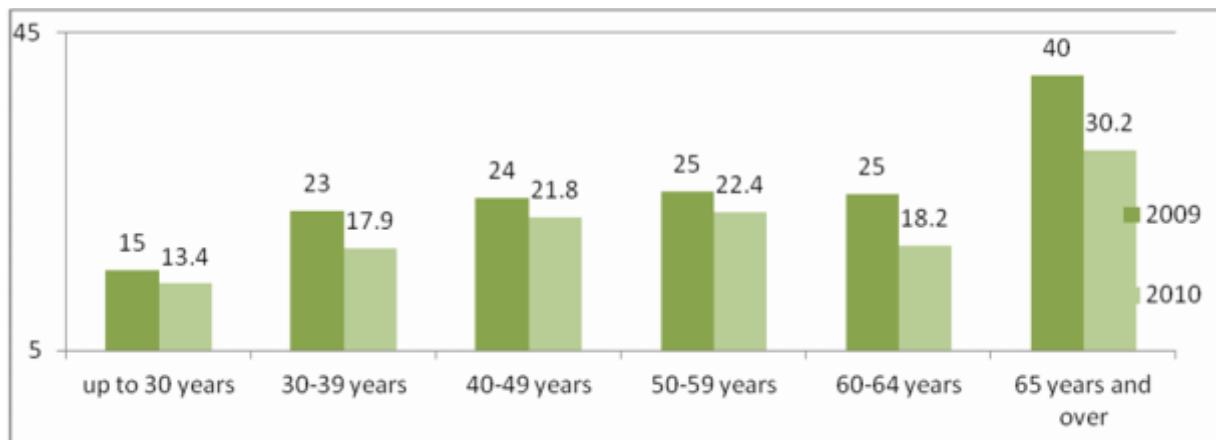


Figure 5. Poverty rate by the number of children in the household, %

Source: NBS

**The higher the age of the household head, the higher the household risk of poverty.** In households where the head is aged over 65, the poverty rate is 30.2 per cent, which is 2.2 times more than in households whose head is aged 30 (Figure 6). The trend of a rising poverty rate

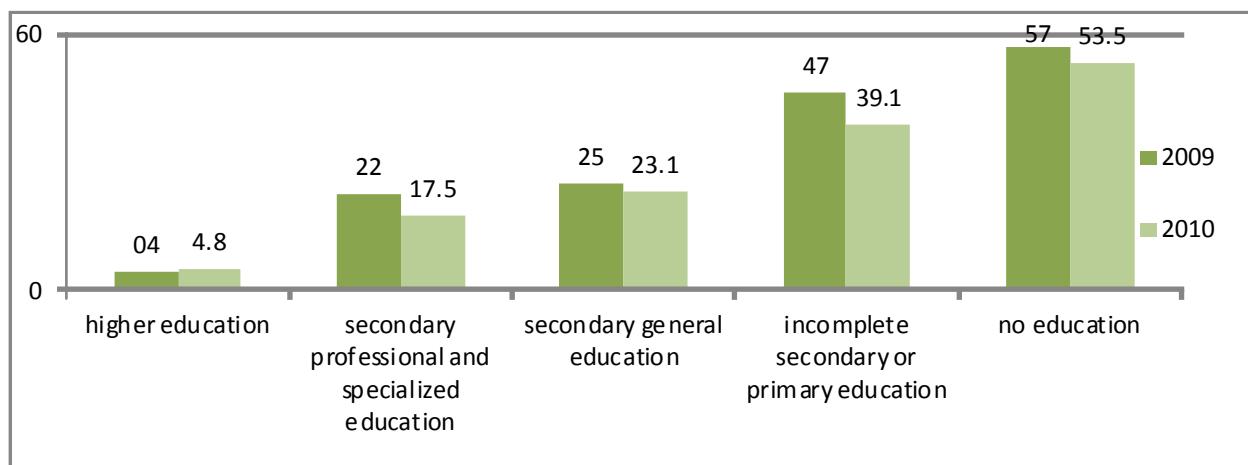
with an increase in the age of the household head is different if the age is 60-64 years. Compared with 2009, the largest reduction in the poverty level was for households whose heads were aged 60-64 years (1.4 times) and 65 and over (1.3 times).



**Figure 6. Poverty rate depending on the age of household head, %**

Source: NBS

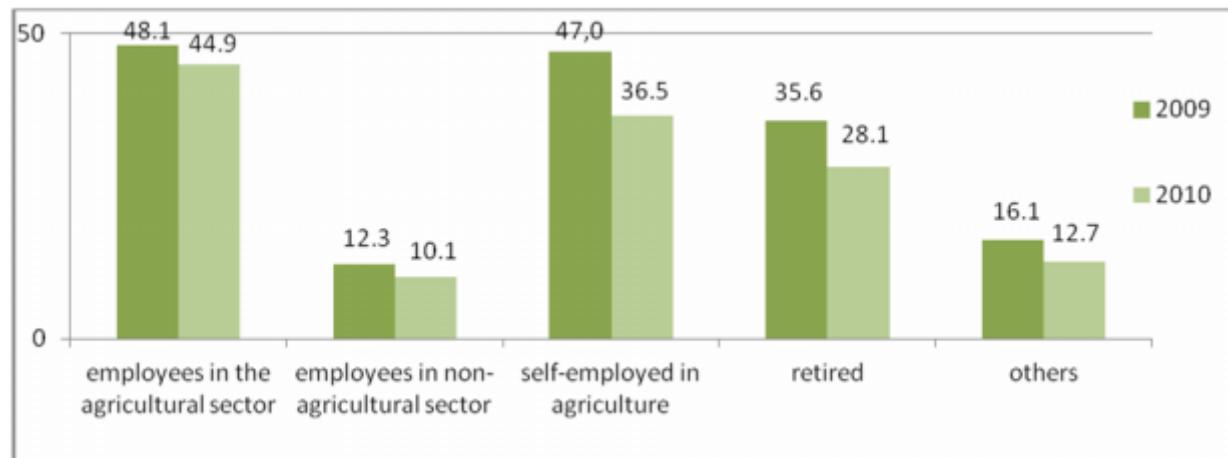
**The risk of poverty is greatly reduced with increasing levels of education for the household head.** The poverty rate of households whose head has no education, is 53.5 per cent; over half of these households are poor (Figure 7). If households are headed by persons with incomplete secondary or primary education, then their poverty rate is reduced to 39.1 per cent, or 1.4 times. The household poverty rate for households whose head has general secondary education, is 23.1 per cent, and for those where the head has professional and specialized secondary education 17.5 per cent. Those households are at the lowest risk of being poor are those whose head has higher education. For them the poverty rate is 4.8 per cent, i.e. 3.6 times less than households whose head has secondary professional and specialized education, and 11.1 times less than households headed by persons without education.



**Figure 7. Poverty rate depending on the level of education of the household head, %**

**The risk of poverty depends on the socio-economic status of the household head.** The highest risk of poverty is for households headed by workers in agriculture and those self-employed in agriculture. Their poverty rate is 44.9 per cent and 36.5 per cent respectively, 2.0

times and 1.7 times more than the national average (Figure 8). The lowest level of poverty risk is for households, whose heads are non-agricultural employees - 10.1 per cent, which is 4.6 times less than households headed by workers salaried in agriculture or self-employed in the agricultural sector, and 4.8 times less than households headed by workers in agriculture.



**Figure 8. Poverty rate depending on the socioeconomic status of the household head, %**  
Source: NBS

### Conclusion

1. In the Republic of Moldova there is evidence of a clear trend towards a reduction in the level of poverty. In 2010 the 21.9 per cent of the population was poor, 4.4 percentage points less than the previous year, or 1.2 times less. The number of the poor was 735,000 persons, of whom 588,000 lived in rural areas.
2. The gap between the level of poverty in urban and rural areas has increased and became significant. After the increase in the rural poverty rate in years 2008-2009, its value has fallen in 2010 by 1.2 times. However, while in 2006 the poverty rate was 1.7 times higher in villages than in cities, in 2010 this difference had risen to 4.1 times. The extent of poverty in rural areas has risen. While in 2006, 66 per cent of the total poor in the country lived in villages, in 2010 this figure was 80 per cent. Of the ten poorest localities in the country, only two are from urban areas, and eight are from rural areas.
3. The highest risk of poverty, as in previous years, is typical of households with many members, large families, households with heads aged over 65 years, families headed by persons without education, households whose heads are employed in agriculture and those self-employed in agriculture.

## STATISTICAL ANNEX

	<b>Q II 2009</b>	<b>Q II 2010</b>	<b>Q II 2011</b>	<b>S I 2009</b>	<b>S I 2010</b>	<b>S I 2011</b>
<b>NATIONAL ACCOUNTS</b>						
Gross output, million MDL	31389	35800	41224	57784	64389	73732
GDP, million MDL	14992	17222	19843	28118	31720	36628
GDP growth, %	93.21	114.87	115.22	97.71	112.81	115.47
<b>Resources</b>						
Agricultural production (the same period of the previous year = 100), %	1.8	7.8	2.1	2.1	6.4	3.3
Industrial production (the same period of the previous year = 100), %	-24.7	8.2	9.8	-24.4	6.9	9.3
Services (the same period of the previous year = 100), %	-4.6	5.4	7.2	-3.4	3.4	7
Added value (the same period of the previous year = 100), %	-7.4	5.1	7.1	-7	3.6	6.9
Net taxes on products (the same period of the previous year = 100), %	-14.6	13.5	5.2	-11.7	16.8	10.8
<b>Expenditures</b>						
Final consumption (the same period of the previous year = 100), %	-7.5	5.4	8.7	-8.2	3.6	9.1
Gross capital formation (the same period of the previous year = 100), %	-58		-4	-59	50.8	7.2
Gross fixed capital formation (the same period of the previous year = 100), %	-36.9	13.7	27.1	-36.7	0.2	26.4
Exports of goods and services (the same period of the previous year = 100), %	-10.4	3.4	46.2	-12.5	4	39.1
Imports of goods and services (the same period of the previous year = 100), %	-27.3	18.9	23.7	-27.7	10.4	24.7
<b>SOCIAL AND DEMOGRAPHIC INDICATORS</b>						
The economically active population, thousands pers.	1358.1	1349.6	1328.7	1269.6	1237.2	1221.43
Employers, thousands pers.	1275.3	1255.1	1246.1	1182.7	1138.9	1124.5
Unemployed (ILO), thousands pers.	82.8	94.5	82.6	86.9	98.3	96.93
Activity rate, %	45.9	45.5	44.7	42.9	41.7	41.2
- urban, %	47.9	48.3	49.6	47.3	46.9	46.9
- rural, %	44.5	43.3	41	39.7	37.8	36.9
Employment rate, %	43.1	42.3	41.9	40	38.4	38.0
- urban, %	44	43.5	45.7	43.4	42.1	42.4
- rural, %	42.4	41.4	39	37.5	35.7	34.7
Unemployment rate, %	6.1	7	6.2	6.9	8.1	8.0
- urban, %	8	10	7.9	8.3	10.5	9.8
- rural, %	4.6	4.5	4.7	5.7	5.8	6.2
<b>PRICES AND EXCHANGE RATES</b>						
<b>CPI and its components</b>						
Growth rate of CPI (the same period of the previous year = 100), %	-0.9	7.9	7.1	1.1	6.9	6.6

## MOLDOVAN ECONOMIC TRENDS

	<b>Q II 2009</b>	<b>Q II 2010</b>	<b>Q II 2011</b>	<b>S I 2009</b>	<b>S I 2010</b>	<b>S I 2011</b>
Growth rate of food prices (the same period of the previous year = 100), %	-8.3	6	7.8	-4.6	4.8	6.6
Growth rate of non-food prices (the same period of the previous year = 100), %	-1.2	8.4	5.1	-0.4	7.4	5.3
Growth rate of service prices (the same period of the previous year = 100), %	10.7	9	8.6	12.4	7.9	8
<b>Production prices.</b>						
Growth rate of industrial production prices index (the same period of the previous year = 100), %	-4.2	8.4	6.3	-3.8	8.5	5.5
Growth rate of construction prices (the same period of the previous year = 100), %	-12.4	2.9	9.4	-	-	-
Growth rate of agricultural production price index (the same period of the previous year = 100), %	-	-	-	54	18.4	19.8
<b>Exchange rates</b>						
Growth rate of nominal exchange rate MDL/USD, %	8.8	13.2	-8.3	1.9	15.8	-6.2
Growth rate of nominal exchange rate MDL/EUR, %	-5.3	6.1	3.6	-11	15.2	-1
Growth rate of real exchange rate MDL/USD, %	8.7	6.8	-11.5	0.3	10.6	-9.6
Growth rate of real exchange rate MDL/EURO, %	-4.2	-0.1	-0.7	-11.4	9.2	-4.7
<b>FISCAL AND MONETARY INDICATORS</b>						
The revenues of public national budget, million MDL	5858.2	6817.4	7524.5	10833	12399.8	13646.5
The expenditures of public national budget, million MDL	6853.5	7253.9	8368.6	12910.8	13705.1	15009.1
Total government debt (stock at the end of period), million MDL				12936.4	18005.1	18991.7
Deficit of the public national budget, million MDL	2077.8	1305.3	1362.6			
Bank assets (stock at the end of period), million MDL				36586829.4	39653431.7	44837379.7
Bank liabilities, million MDL				29749716.3	32546028.2	37354219.4
Bank equity (stock at the end of period), million MDL				6837113.11	7107403.4	7483160.28
Loans (stock at the end of period), million MDL				1093.6	2247.7	28833.4
<b>Loans structure</b>						
Loans to agriculture and food industry, %	14.26	16.0	15.03	13.73	15.885	14.895
Loans for real estate, construction and development, %	13.575	12.3	11.78	14.0775	12.245	11.8
Consumer credit, %	11.48	8.3	8.17	11.925	8.4	8.175
Loans to energy industry and fuel, %	2.14	3.0	3.73	2.06	3.105	3.69
Banks loans, %	0.07	0.1	0.05	0.0325	0.07	0.055
Loans to Government, %	0.115	0.1	0.04	0.1225	0.055	0.05
Loans to industry / trade, %	50.2	52.0	52.78	50.2125	52.34	52.6
Loans for roads construction and transportation, %	1.495	2.46	2.8	1.4375	1.915	3.06

## MOLDOVAN ECONOMIC TRENDS

	<b>Q II 2009</b>	<b>Q II 2010</b>	<b>Q II 2011</b>	<b>S I 2009</b>	<b>S I 2010</b>	<b>S I 2011</b>
Other loans, %	6.64	5.83	5.52	6.405		5.605
Deposits (stock at the end of period), million MDL	3716.6	3231.2	29033.5			
<b>Deposits structure</b>						
Deposits of individuals, %	63.51	63.88	66.07	63.34	63.70	65.335
Corporate deposits, %	28.37	31.30	31.74	28.3	31.04	32.45
Deposits of natural persons and legal entities, %	61.43	62.97	66.75	62.1	58.50	66.7
Currency deposits, %	55.45	50.41	47.71	52.5	51.46	47.99
<b>Monetary aggregates</b>						
M0 (stock at the end of period), million MDL	6600.5	8812.7	10486			
M1 (stock at the end of period), million MDL	10167.8	13498	16077.6			
M2 (stock at the end of period), million MDL	17792	21802.3	26417.7			
M3 (stock at the end of period), million MDL	29059.7	32951.3	39522.1			
Monetary base (stock at the end of period), million MDL	9506.8	10470.6	13402			
<b>Open market operations</b>						
Base rate, %	10.5	7	8	11.2	6.3	8
CNB (average daily stock), million MDL		3435.8	3446.7		3169.8	3615.2
Interest rate for overnight deposits, %	2	4	5	2	3.3	5
Overnight deposits (average daily stock), million MDL	208.3	408.6	198.8	123.7	625.0	287.6
Interest rate for overnight credits, %	13	10	11	13.7	9.3	11
Obligatory reserve rate, %	56	0	0	43.9	0	0
<b>Profitability indicators</b>						
Return on assets, %	0.47	1.78	1.75			
Return on equity, %	2.51	9.94	10.32			
Efficiency index, %	143.55	169.38	166.32			
<b>Liquidity indicators</b>						
Ratio I, %	0.64	0.62	0.72			
Ratio II > 20. %	31.46	34.81	31.77			
<b>Deposit interest rates</b>						
In MDL, %	16.6	7.14	7.44	18.28	8.11	7.465
In currency, %	9.17	3.34	3.53	10.20	3.43	3.465
<b>Credit interest rates</b>						
In MDL, %	21.25	17.04	14.61	22.18	17.20	14.7
In currency, %	13.02	10.31	8.84	13.27	10.36	9.025
<b>EXTERNAL ACTIVITY INDICATORS</b>						
Value of total trade, million MDL	1044.80	1217.10	1798.20	2078.3	2283	3329.7
Value of exports, million MDL	300.90	304.40	521.92	580.60	606.90	1000.53
Value of import, million MDL	743.90	912.70	1276.20	1497.70	1676.10	2329.10
Net exports, million MDL	-443.00	-608.30	-754.20	-917.1	-1069.2	-1328.5
The coverage of import by export, %	40.45	33.35	40.90	38.77	36.21	42.96
Value indices of exported goods (the same period of the previous year = 100), %	77.1	102.4				
Unit value indices of exported goods (the same period of the previous year = 100), %	86	100				

**MOLDOVAN ECONOMIC TRENDS**

	<b>Q II 2009</b>	<b>Q II 2010</b>	<b>Q II 2011</b>	<b>S I 2009</b>	<b>S I 2010</b>	<b>S I 2011</b>
Volume indices of exported goods (the same period of the previous year = 100), %	90	102				
Value indices of imported goods (the same period of the previous year = 100), %	57.8	122.7				
Unit value indices of imported goods (the same period of the previous year = 100), %	85	102				
Volume indices of imported goods (the same period of the previous year = 100), %	68	120				
<b>Regional trade</b>						
Export						
CSI, million USD	112.3	122.5	212.8	207.3	238.1	388.6
European Union (EU-27), million USD	159.7	143.7	255.2	313.8	297.5	498.3
Other countries, million USD	28.9	38.2	54	59.5	71.3	113.6
Import						
CSI, million USD	237.5	250.9	366.6	560.2	538.2	777.8
European Union (EU-27), million USD	351.5	433.8	610.8	625.1	739.7	1056.2
Other countries, million USD	154.9	228	298.8	312.4	398.2	541.4
Trade balance						
CSI, million USD	-125.2	-128.4	-355.6	-352.9	-300.1	-620.9
European Union (EU-27), million USD	-191.8	-290.1	-244.8	-311.3	-442.2	-424.1
Other countries, million USD	-126	-189.8	2030.4	-252.9	-326.9	2665.7
CSI, million USD	142.2	146.7	174.5	229.6	266.1	301.1
European Union (EU-27), million USD	136.8	99.4	125.5	309.9	258.6	296.4
Other countries, million USD	55.9	53.2	54.2	113.2	111.5	133.1
FDI flow, million USD	16.6	34.2		59.11	77.51	116.67
FDI stock, million USD	2595.93	2691.65		5168.95	5369.82	6007.11
Remittances, million USD	301.87	341	384.87	522.07	596.40	670.11
<b>Trade indicators of main economic partners</b>						
Exports						
USA, million USD	251303	314972	370821.30	497650.9	611832.9	721823.6
Extra-EU (27), million USD	366889	426611	542452.71	699490.518	833279.641	1044781.43
Romania, million USD	9586	11724	15769.62	18151.44	22662.33	30896.45
Russian Federation, million USD	68113	97400	135520.00	125378.00	189640.00	249211.00
Ukraine, million USD	9023	12756	17464.00	17327	23093	32837
CIS, million USD	98100	141000	194200.00	182230	269965	359200
Imports						
USA, million USD	373317	491894	574251.60	738191.10	931506.20	1097244.30
Extra-EU (27), million USD	392803	475963	601315.04	790653.37	938322.454	1171740.91
Romania, million USD	12940	15308	20095.20	24375.6838	29081.0576	37279.8914
Russian Federation, million USD	43929	58167	82429.00	82412.00	103877.00	146996.00
Ukraine, million USD	9995	13793	19837.00	19774.00	25589.00	38332.00
CIS, million USD	76775	97295	121890.00	145025	174880	229500
Net exports						
USA, million USD	-122014	-176922	-203430.30	-240540.20	-319673.30	-375420.70
Extra-EU (27), million USD	-25914	-49353	-58862.34	-91162.85	-105042.81	-126959.48
Romania million USD	-3354	-3584	-4325.58	-6224.2399	-6418.7232	-6383.4395
Russian Federation, million USD	24184	39233	53091.00	42966	85763	102215
Ukraine, million USD	-972	-1037	-2373.00	-2447.00	-2496.00	-5495.00
CIS, million USD	21325.00	43705.00	72310.00	37205.00	95085.00	129700.00

## MOLDOVAN ECONOMIC TRENDS

	<b>Q II 2009</b>	<b>Q II 2010</b>	<b>Q II 2011</b>	<b>SI 2009</b>	<b>SI 2010</b>	<b>SI 2011</b>
<b>Unemployment rate</b>						
USA, %	9.1	9.5				
EU, %	8.8	9.6	9.5			
Romania, %	6.3	6.8	6.8			
<b>BUSINESS ACTIVITY INDICATORS</b>						
Number of registered enterprises	1609	1591	1629	3873	3269	3560
Number of liquidated enterprises	897	745	965	1826	1532	1762

**Responsible for the edition: Marcel CHISTRUGA**

Editor: Iulita BIRCA

Editor: Tatiana PARVAN, Andrian SCLIFOS

Designer: Alexandru COVAS

Editor address: Editorial Complex, IEFS, MD-2064,  
Chisinau, 45, Ion Creanga str., tel.: 50-11-30, fax: 74-37-94  
web: [www.iefs.md/complexul-editorial/](http://www.iefs.md/complexul-editorial/); e-mail: [bircailuta@mail.ru](mailto:bircailuta@mail.ru)

Bun de tipar: 25.10.2011. Tirajul 300 ex.

Coli de tipar conv. 11,14. Com. 22.  
Complexul-Editorial al IEFS, 2011