

Center for Economic Policies of the IDIS „Viitorul”

Economic Statewatch: quarterly analysis and forecast

Issue 2

Quarter 2, 2005

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REMERCIEMENTS / SPECIAL THANKS

This issue of the Economic Monitor: Analyses and Quarterly Predictions was performed by the Center for Economic Policy of the Institute for Development and Social Initiatives “Viitorul”. We want to thank Veaceslav Ioniță, Alexandru Net, Victor Sula, Igor Munteanu, Gheorghe Turcanu and Sergiu Serduni, who brought their contribution to the elaboration of this study. We also want to thank Dan Lavric and Viorel Chivriga for the kindly provided comments and extremely useful contributions.

The Center for Economic Policy of IDIS “Viitorul” expresses its gratitude towards the Open Society Institute from Budapest for their moral and financial support that made possible the appearance of this series. We owe our thanks to all the external experts who provided relevant comments to the present report.

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Center for Economic Policy at IDIS “Viitorul”

ACRONYMS AND ABBREVIATIONS

In this issue we have made use of the following specific acronyms and abbreviations:

| | |
|---------|---|
| CEE | – Central and Eastern Europe |
| CIS | – Commonwealth of Independent States |
| CSIR | – Centre for Strategic Investigations and Reforms |
| SSD | – Statistics and Sociology Department of Republic of Moldova |
| EGPRSP | – Economic Growth and Poverty Reduction Strategy Paper |
| ES | – Economic Statewatch: quarterly analysis and forecast |
| FDI | – Foreign direct investments |
| HBS | – Households' Budget Survey |
| ILO | – International Labour Organisation |
| IPP | – Institute for Public Policies |
| MDL | – Moldovan leu (the national currency of Republic of Moldova) |
| ME | – Ministry of Economy |
| MF | – Ministry of Finances |
| MLSP | – Ministry of Labour and Social Protection |
| NBM | – National Bank of Republic of Moldova |
| H | – half of the year |
| Q | – quarter of the year |
| e | – estimate |
| f | – forecast |
| aaer | – average annual exchange rate |
| apc | – annual percentage change (rate between end of the current year on end of the previous year) |
| aapc | – annual average percentage change |
| aa | – annual average |
| pp | – percentage points |
| “CBTMR” | – “Central Bank of Transnistrian Moldovan Republic” |

CONTENTS

| | |
|-----------------------------|----|
| MAIN INDICATORS | 6 |
| BRIEFING | 9 |
| POLITICS | 13 |
| AGRICULTURE | 29 |
| INDUSTRY AND SERVICES | 34 |
| FOREIGN TRADE | 42 |
| MONETARY | 46 |
| PUBLIC FINANCE | 50 |
| PRICE | 56 |
| HOUSEHOLDS | 61 |
| LABOR MARKET | 65 |
| TRANSNISTRIA | 72 |
| INTERNATIONAL | 74 |
| STATISTICS APPENDIX | 78 |

MAIN INDICATORS

(Transnistrian region not included)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|-------|--------|--------|--------|--------|--------|--------|
| Output | | | | | | | |
| GDP, million MDL, current price | 9,122 | 12,322 | 16,020 | 19,052 | 22,566 | 27,297 | 31,992 |
| GDP / capita, USD, aaer | 465 | 321 | 354 | 408 | 459 | 543 | 765.6 |
| Real GDP, apc | -6.5 | -3.4 | 2.1 | 6.1 | 7.8 | 6.3 | 7.3 |
| Real industrial output, apc | -15 | -11.6 | 8.0 | 13.7 | 10.8 | 16.0 | 5.0 |
| Real agricultural output, apc | -11.6 | -8.4 | -3.3 | 6.4 | 3.4 | -13.6 | 20.4 |
| Gross fixed capital investment, % of GDP | 22.1 | 18.4 | 15.4 | 16.7 | 16.3 | 17.1 | 15.6 |
| Households | | | | | | | |
| Available income per capita per month, MDL | 118 | 133 | 186 | 241 | 322 | 422 | 491.4 |
| Real available income, apc | -19.6 | -18.7 | 6.1 | 17.7 | 26.5 | 17.4 | 3.5 |
| Real retail trade, apc | -14.2 | -29.6 | 27.4 | 15.1 | 34.3 | 21.1 | 11.0 |
| Prices | | | | | | | |
| Consumer price index, aapc | 118.3 | 143.7 | 118.4 | 106.3 | 104.4 | 115.7 | 112.5 |
| Food/agricultural produces prices | 111.3 | 144 | 123.1 | 106.1 | 102.8 | 120 | 113.1 |
| Industrial/non-food produces prices | 120.7 | 135.6 | 112.5 | 107.9 | 108.2 | 111.5 | 111.9 |
| Services prices | 134 | 155.6 | 111.6 | 104.5 | 104.4 | 112.6 | 111.6 |
| Labor market | | | | | | | |
| Population, thousand | 3,652 | 3,646 | 3,639 | 3,631 | 3,623 | 3,612 | 3,386 |
| Employed in economy, thousand | 1,642 | 1,495 | 1,515 | 1,499 | 1,505 | 1,356 | 1,316 |
| Unemployment rate, ILO methodology | 9.2 | 11.1 | 8.5 | 7.3 | 6.8 | 7.9 | 7.8 |
| Average monthey salary, lei | 250.4 | 304.6 | 407.9 | 544 | 692 | 891 | 1104 |
| Real wage, apc | -23.0 | -12.5 | 2.2 | 21.2 | 21.1 | 15.0 | 10.2 |

Main indicators (continuation of the table)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---------|---------|---------|---------|---------|---------|---------|
| Foreign trade and balance of payments | | | | | | | |
| Exports of goods and services, apc | -24.8 | -23.5 | 5.5 | 14.5 | 18.3 | 21.1 | 24.8 |
| Import of goods and services, apc | -14.2 | -36.1 | 22.3 | 11.2 | 18.1 | 34.6 | 26.5 |
| Goods and services turnover, million USD | 1,655.8 | 1,035.4 | 1,248.9 | 1,467.4 | 1,813.2 | 2,193.0 | 2,760.5 |
| Current account,% of GDP | -19.7 | -4.0 | -9.4 | -7.3 | -6.2 | -7.4 | -3.2 |
| Net FDI, million USD | 74.4 | 38.8 | 127.5 | 148.5 | 110.4 | 39.4 | 50.0 |
| Earned abroad income, million USD | 99.7 | 90.1 | 126.2 | 183.7 | 239.1 | 258 | 450 |
| Public finances | | | | | | | |
| Consolidated Budget revenues,% of GDP | 29.8 | 25.2 | 25.6 | 22.7 | 22.5 | 24.3 | 23.5 |
| Budget balance,% of GDP | -3.3 | -3.2 | -1.0 | 0.0 | -0.5 | 1.6 | 0.2 |
| Domestic public debt,% of GDP | 17.2 | 15.5 | 12.6 | 12.6 | 12.5 | 10.7 | 11.6 |
| Foreign public and governmentally guaranteed debt, % of GDP | 49.1 | 65.9 | 79.3 | 64.5 | 59.4 | 51.5 | 29.2 |
| Energy arrears,% of GDP | 19.6 | 35.5 | 24.6 | 19.4 | 18.1 | 15.9 | 11.1 |
| Financial indicators | | | | | | | |
| Monetary base, apc | -5.5 | 41.3 | 29.8 | 27.9 | 31.1 | 17.0 | 38 |
| Foreign reserves, million USD, end of the year | 141.5 | 180.5 | 222.5 | 228.5 | 269.6 | 302.3 | 470 |
| Official exchange rate, annual average MDL / USD | 5.37 | 10.52 | 12.43 | 12.87 | 13.57 | 13.92 | 12.3 |
| Interest on MDL loans,%, aa | 30.1 | 35.5 | 33.3 | 28.5 | 23.1 | 19.2 | 21 |
| International economy | | | | | | | |
| Global GDP, apc | 2.8 | 3.7 | 4.7 | 2.4 | 3.0 | 3.9 | 4.8 |
| Weighted GDP growth of main trade partners (2/3 of exports) | -2.7 | 2.5 | 5.3 | 4.0 | 2.8 | 3.8 | 3.5 |

Source: SSD, NBM, forecast by ES

Transnistria, selected indicators

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Regional GDP, million USD | 448 | 332 | 281 | 199 | 250 | 309 | 405 |
| Regional GDP, apc | -34.6 | -30.1 | -20.9 | 10.0 | -2.7 | 18.1 | 16.2 |
| Industrial output, apc | -6.3 | -3.8 | 16.5 | 9.0 | -18.7 | 21.4 | 47.0 |
| Population, thousands (estimated) | 660.0 | 658.0 | 651.8 | 633.6 | 630.1 | 621.8 | 616.5 |
| Retail trade and services, apc | 29.9 | -18.3 | 11.9 | 23.1 | 18.4 | 7.6 | 7.3 |
| Investments in fixed capital, apc | -30.6 | 34.6 | 3.8 | 15.6 | -32.7 | -14.7 | 70.0 |
| Exports, million USD | 339 | 258 | 328 | 378 | 243 | 433 | 535.1 |
| Imports, million USD | 587 | 417 | 489 | 541 | 450 | 530 | 758.3 |
| Consumer prices index, aapc | 180 | 240 | 190 | 127 | 111 | 133 | 120.4 |

Source: "CBTMR", CISR, estimates by ES

BRIEFING

GDP increased by 7.3% in 2004, the main factor of growth being the households consumption expenditures. Thus, in comparison with the last year, agriculture brought a significant contribution to the GDP increase, recovering from the 2003 recession, which was caused by the cautious weather conditions. Net exports have also increased with a negative sign in 2004. This trend that will unfortunately maintain for the next year also.

According to the trend that can be followed in the Q1'2005, when a slow down of the increasing rhythm in the majority of the sectors of the national economy can be noticed, including consumption that registered an acceleration over the last years, we forecast a 6% GDP increase for 2005. The households consumption expenditures will increase by 15%. The negative value of net exports will continue its accelerated increasing rhythm, contributing by -10.2 p.p. to the GDP increasing rate.

2004 Trends

AGRICULTURE. After a 10-year continuous recession, agriculture started very slowly registering modest increases in the majority of branches beginning with the year 2001. Nevertheless, it remains weekly equipped, weather - dependent and works at a low capacity of intensive production. Though the year 2004 registered a 20.4% increase rate, the total increase over the last 5 years was only equal to 11%, which makes us ascertain that we actually witness a stagnation of the agricultural production. In lack of a real financing, this stagnation risks to continue. The only branches that successfully develop are poultry, wine growing and sugar beet cultivation. The national program regarding the renovation in the wine growing sphere, which was approved in 2002, is already starting to give results, and the protectionist policy in the sugar industry stimulates the economic agents to invest in the development of sugar beet cultivation.

After years of recession, agriculture registers a slight growth that may be qualified as stagnation

The evolution in the tobacco production makes us acknowledge that this branch is under the process of disappearance from the national economy.

INDUSTRY AND SERVICES. After the growth in 2000, the year 2004 registered a sudden slow down in the increasing rhythm of the industrial production, being equal to 6.9%. The main factor of this slow down was the very small increase in the food and beverages industry 3.3%, branches that hold the largest weigh in the country's industry.

The slight growth of only 3.3% in the food and beverages industry have influenced the sharp slow down of the increasing rhythm in the industry as a whole

In our opinion, the excessive involvement of the state in economy, barriers imposed to the economic agents, the appreciation or maintenance of the Lei exchange rate, which has a negative impact over the exports, led to the fact that our industry, which has just begun to show raising signs, enters a stagnation period.

The privatization of the car and equipment industry, the investments performed over the last years, the search for new markets, have all brought to a sustainable growth in this branch over the last years, but it holds just a slight weight in the national economy at the moment.

While industry ceased to increase, services continue developing, registering a 19.4% increase in 2004, being influenced by telecommunications (24%) and constructions (61.8%).

FOREIGN TRADE. The foreign economic activity has registered a 28.6% increase in 2004, but this raise was conditioned mostly by the massive increase in imports, which had a rhythm much higher than exports. As a result, the negative trade balance has reached the highest quota -788 mil USD.

A positive moment is a cause of widening the Moldova foreign trade area, though the main partners continue to be the CIS countries, with a rising trend towards the European partners.

A development of Iohn production and reexport activities is noticed In Moldova.

MONETARY POLICY. Due to the massive involvement of the NBM in the currency market in order to equilibrate the exchange rate and to decrease the excesive Lei appreciation in 2004, the monetary issue M3 has increased by 37.7% and the M2 indicator by 42.7%.

In 2004 the trend of savings in national currency has outlined. So that the balance of deposits made in Lei increased by 85%, while the deposits in foreign currency only by 14.8 per cent.

Due to the large inflows of foreign currency from outside the borders, even under the conditions of a massive involvement of the NBM, the average exchange rate constituted 12.33 MDL=1 USD, a factor that has negatively influenced the exports of economic agents of the Republic.

The sterilization policy actively promoted by the NBM in 2004 allowed for the diminishing of the inflational trends, and at the same time it caused the increase in rates for credits in economy.

In Q1'2005 an essential reduction of the NBM involvement on the currency market is noticed, under the conditions when the market fluctuations do not exceed the established limits. This shows a maturity and stabilization of the market.

PUBLIC FINANCES. In 2004 the rhythm of increasing the budgetary income registered a slow down, due to missing 3 important income sources: NBM incomes, incomes from privatization and foreign grants. These losses were compensated by the over planned accumulations of the VAT (+593 mil LEI) which became the main income source to the state budget. Unlike other years, the state budget rectification was performed only once in 2004. This fact shows an improvement in the budget planning. The state budget increased by 16.5%, but it was for the first time in the last years executed at a 97% level at the incomes chapter.

PRICES. After a stabilization in 2001, inflation accellerated more than twice in 2003, and in 2004 it constituted 12.5%. The inflation was mainly influenced by the increase in prices for food stuffs 13.1%, that contributed by 6 p.p. within the non-alimentary products, that registered an 11.1% increase. The rise in administrative prices hold an increased contribution to the dynamics of inflation: medical care – by 23.9%, telecommunications – by 23.8%, water supply and sewerege services – by 23.3%, and also oil – by 23.2%, transport services – by 20.0%.

LABOR MARKET. In 2004 the trends of worsening the employment indicators continued, in spite of the registered economic increase. The 2004 population census showed that the real labor resources are less than the resources estimated by the SSD. The economic active population of the Republic of Moldova constituted around 1483 th persons in 2004, registering a 3% decrease compared to the 2003 year level. The largest weight in the structure of active population is held by the rural population 54.9%, whose activity has a seasonal character, and, realistically speaking, does not represent a total employment. Around 40% of the total number of employees work in the budgetary system.

VAT became the main source of income in the state budget. Its quota will exceed 65% in 2005

The increase in prices for the food stuffs was the main cause for the increase in inflation

The population's activity rate reduced by 49.7% in comparison with the 75% -in 1996

Forecast

AGRICULTURE. We expect a 6% increase in the agricultural production, the main factor being the increase in the vegetables production by not less than 7.5%, conditioned both by the enlargement of areas sowed with cereals, as well as by the favourable weather conditions. The increase in the zootechnical sector will be around 2.5%, being influenced by the growth in the poultry production, and especially of the eggs production. Meat and milk production will continue decreasing.

INDUSTRY AND SERVICES. The increasing rhythm of the industrial production will reach 7% in 2005, being negatively influenced by the wine industry that holds 18% of the branch and registered a 7% decrease in Q1'2005. This decrease will be partly compensated by the positive evolutions of the car production and equipment industry, that registered a 16.3% increase in Q1'2005 and also by the services sphere that will register a annual 10% increase, in our opinion.

FOREIGN TRADE. The negative trend of increase in the trade balance deficit will continue maintaining for 2005. The trade balance deficit increased 1.8 times during the first 2 months of the year, which makes us believe that it will exceed 850 mil USD at the end of the year.

The agricultural products will remain dominant in the structure of Moldavian exports. The rise in imports will be influenced by the energy imports and also by the foreign direct investments.

MONETARY POLICY. We believe that the monetary issue M3 will increase by 34% in 2005, while the M2 indicator will increase by 32%. The average rate of interests to the credits in lei will diminisv reaching the 19% level.

Due to the fact that the maintaining of a low level of inflation is a priority for the NBM, the national currency will un significantly appreciate to the end of the year. In spite of the fact that MDL has unsignificantly depreciated in the first months of the year 2005, the annual average rate will constitute 13.2 MDL=1 USD

PUBLIC FINANCES. According to the Q1'2005 trends, when the budget execution at the incomes chapter exceeded by 12% the incomes established for the given period, we can observe that the incomes chapter of the budget will be executed at 110%.

The negative trend of the last years, when the VAT weight registered a continuous increase, will also maintain over the year 2005. We consider that the VAT will not be less than 65% of the total budgetary incomes, being formed mainly by the import goods. This state of facts shows the deplorable situation in the national economy and the lack of a sustainable growth so much conveyed over the last years.

PRICES. In spite of the NBM policy to stop the inflation rate, it will reach 14.5% in 2005. Likewise the past years, this increase will be supplied mainly by the increase in price for food stuffs and energetic resources.

LABOR MARKET. By paradox, the economic growth of 2004 did not engage a similar increase in the volume of employment; and the number of unemployed together with the weight of non-active population has continued growing. This trend will maintain for the year 2005.

We expect the average nominal salary to increase by 27% in 2005, while the real salary will only increase by 4.6%, due to the significant level of inflation. The recent evolution denotes a decrease in the gaps among incomes on sectors of the national economy. We forecast a 25% increase in agriculture, the branch with the lowest incomes, while we expect a 9% increase in the financial sector, where the biggest incomes are earned.

The vegetables production and the poultry are the main factors of increase in agriculture

Car and equipment industry have a promising development

The Lei rate will maintain at 13.2 LEI=1 USD

Inflation will constitute 14.5% in 2005.

The gaps among incomes on branches of activity will diminish in 2005

Risks

***The actions of Russia
intimidation will
influence negatively
the Moldova foreign
trade***

The stagnation in agriculture may become a major impediment to the industrial growth that is mostly concentrated in the agricultural production processing.

The recent actions of the Russian Federation, who is the most important importer of the Moldavian products, to intimidate the Moldavian exports may have pretty serious consequences for our economy. Though until the present moment the use of administrative barriers within the economic relationship with Moldova did not have a major effect, still the future trends have a pretty alarming configuration. The main risks are: the introducing of diverse technical and administrative barriers on a permanent base, as well as the increase in price for energetic resources.

In the following years twice more persons will enter the labor market compared to the number of the persons who will get dismissed, due to the "demographic explosion" at the end of the '80 beginning of '90. This entrance will be realised on the background of the slow down in the increasing rhythm of the national economy, as well as due to the low employment level of the able - aged population. All these will continue leading towards the labor force exod.

Highlights in this issue

For how long will last the current 'conditioned cooperation' between the power and opposition in Moldova?

Programs and slight accomplishments in the renovation of the vineyards and plant growing

What impedes the industrial development in Moldova?

Trends concerning the world prices on petrol

Rate of employment towards GDP growth

Perspective of the wine experts in Russia, after the liberalization of the Russian markets

POLITICS

Politics under pressure of time

For how long will last the current ‘conditioned cooperation’ between the power and opposition?

The elections ended in March 2005 allowing the Communists to retain a good share of their power. At first sight, the elections in the Republic of Moldova followed a very different paradigm from that of Ukrainian and Georgian ‘rose’ or ‘orange’ revolutions. The geopolitical dilemma – east vs. west - became a decisive factor in validating the March 2005 elections contrary to the prior dilemma of “democracy” vs. “autocracy”. Being threatened by the revolutionary trends conducted in Georgia and Ukraine, the leader of the CPRM, V.Voronin, opted for and temporal agreement with his earlier political rival parties, and the price of ‘peace’ was to strengthen a national-wide partnership for the EU integration of Moldova and a gradual modernization of the ruling party. Thus, undertaking the risk, the agreement allowed him to regain his position of the President with minimal mutual loses.

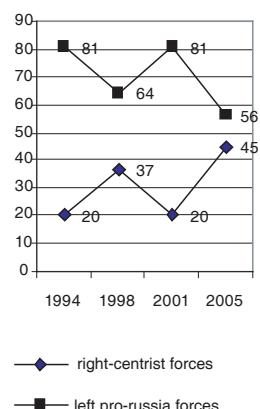
Some parties choose a conditioned vote for Vladimir Voronin, in order to avoid potential post-electoral conflicts that, according to their opinion, could be destroying for the future evolution of economic reforms in the Republic of Moldova¹. Those impeding the election of a communist president blamed the authorities on the fraudulent election process, trying to invoke the public opinion toward repeated elections. But, given the fact that the opposition lacked charismatic leaders, the main target of the election of March 2005 in the Republic of Moldova was simply to obtain the political power.

Further, the establishment of a concentrated government led by the previous prime minister exhausted the entire forces of the opposition and returned the public opinion from the violations accumulated in elections. The joint release of OSCE /European Commission followed by the recognition of validity of the elections by the EU and USA rejected the probably of the second scenario. Becoming weaker, the opposition divided itself into two parts: one “constructive” and the other “non-constructive” part, conventionally tagged according to their participation or non participation in the process of reestablishing the current President to his position.

This post-electoral agreement between the governing party and part of the opposition generated waves of speculation. Especially, these speculations refer to the threats that opposition could disappear as a concept in Moldova and that negotiation between the governing party and the opposition will shift from the legal field to the “dark side” of the ‘behind-door’ negotiations. Meanwhile, The CPRM maintained his power but suffered considerable losses mainly because (1) its relative share in elections declined (in 2005, for CPRM voted 711,700 citizens compared to 794,800 in 2001), (2) its number of seats in Parliament has contracted (46.1% compared to 50.1% in 2001), (3) Communists have lost some regions usually seen loyal (South and Center of the country), although it is also true that the CPRM heavily invested in a project to regenerate the voters’ basis, (4) CPRM is willing to be perceived as a ‘left-centrist’ party, trying to capture votes from its direct competitor – Democratic Moldova Election Bloc, risking to loose its left-oriented electors.

¹ Pursuant to Constitution of RM, the President need 61 votes to be elected. CPRM obtained only 56, but a total of 75 of deputies voted, the “constructive” opposition supplying 19 votes for Voronin.

Like in Ukraine, the recent elections in Moldova involved a lot of geopolitics...



Although the Communists remained in power, it would be wrong to say that the opposition finished out of the boat. The CPRM has assimilated numerous political objectives of the opposition and promised to follow them strictly (EU integration and consolidation of the rule of law institutions). As a result, the opposition obtained much more seats in the Parliament in 2005 than it held in 2001, and this happened despite the internal problems inside the parties and limited resources for mass-media. Requiring the public to view their agreement with the governing party as premises for a constructive cooperation, the opposition preferred not to undertake totally the political liability, but only to 'guideline' the governing party by the means of consulting and interventions on various aspects of domestic and foreign policy of the country.

Thus, the opposition parties consisting of Christian-democrats, democrats, social liberals designed a new format of tactical mutual consulting based on a comparative advantage principle. The "cooperation" excluded however the AMD (ex-MDB) from any political arrangements. The political structure established in the Parliament is described by many deficiencies, but also by merits on the other side, taking into account that it is hard to succeed in a framework portrayed by the suspicious public opinion, questionable sovereignty, and a country that is almost excluded from the international flows and suffers from systemic poverty. All these structural problems could not be solved in the circumstances of a dysfunctional state or in the middle of a political war among elites of the Republic of Moldova.

Post electoral outlook

***To be "pro-european"
is not to be
"european"***

Post-electoral evolution proved the forecasts for the "gradualists", who abstracted the elections in Moldova from stereotypes of the revolutionary trends of the region. Despite of the winning the elections, the CPRM witnessed that it lost some important instruments of its discretionary power. The political leaders of the party said they want Moldova to become an associated member in EU but this target will require many sacrifices. Among the most important sacrifices are the abolishment of the current name of the ruling party and of ideology, as well as to deny some of its power on administrative and economic resources.

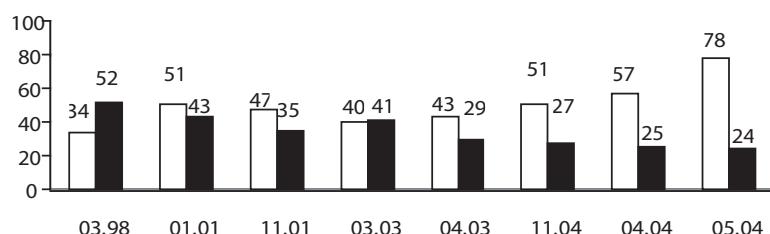
But, there is a small paradox in the current platform of political cooperation in Moldova. Although it emerged as a consequence of geopolitical factors, and that even the trigger of change in the minds of the CPRM leadership was also a tribute paid to the changes of the regional context, its success will highly depend on the parties' ability to solve divergences related to domestic affairs. Another paradox of the post-electoral evolutions resides in the fact that the differences between the "constructive" and the "non-constructive" opposition parties started to dissolve. Despite of the cooperation among the parties, the CPRM maintained some its "basic instincts" that continued to be the target for the opposition's critics during 2005.

The first divergences appeared shortly after the conditional elections. The first political declaration adopted by the legislative body even during the first session (March 24, 2005)² grounds the priorities of the domestic and foreign policy of the country. It states that the "further development of the Republic of Moldova cannot be ensured only through the consistent and irreversible promotion of the strategic course towards the European integration, peaceful and democratic resolution of the Transnistrian problem, effective functioning of democratic institutions and ensuring of national minorities rights." The same day all the political parties in the parliament launched a declaration on political partnership for the European integration of Moldova.

² "The declaration of political partnership in order to attain the objectives of economic intergration"

Many people viewed this declaration as a plausible manifest of the alliance between the “left” and the “right” forces, but the negative vote while the incumbent Prime Minister sought confirmation in office disputed this argument. Some of political analysts still insist on the idea that the political liability in the Parliament is on behalf of the governing party together with the parties entering the post-electoral agreement, however none of them doubt the fact that only the governing power decides all the political questions. This is because the political regime in the Republic of Moldova did not change significantly: the decision making process is exclusively in the hands of the President, while overseeing attributions of the legislative are rather inconclusive.

Figure 1. Dynamics of the pro-european aspirations 1998-2005 (IPP)



An important focus is the problematic situation in the local mass media, independence of the justice, independence of the local authorities and the use of public institutions for purposes to serve only the governing party. It will be wrong to consider that having a pro-occidental foreign policy is enough for the country. It would be equally wrong to consider that democracy enhancement lies exclusively in the rhetoric of human rights activists or demarches of the Foreign Ministry of Moldova.

Strengthening democratic decision making mechanisms should be the primary focus, before any of the EU - declared statements of the Moldovan officials will become credible in Brussels or other European capitals. Namely the domestic policies are the criteria on which the relations with the EU are determined. Next to the solution of the domestic policies, the solution of the transnistrian problem will be found. It was wrongly talked about the Republic of Moldova as about a region where the fate of the continuous social cataclysms is equally shared among the population and the political persons.

“Decision-making” and “risk-taking”, or about the priorities of the governing

About the ‘continuity’ in governing

Confirmed with only 56 of votes of the CPRM fraction in Parliament, the old-new Prime-Minister, Vasile Tarlev, had to put in practice the best of achievements of the post-election agreement between the ruling party and the ‘constructive opposition’. Selecting the pro-EU target as the main objective for post-electoral trajectory of governing, the new cabinet has to resolve a far more difficult agenda than it is prepared for. The Parliament confirmed the executive’s top-priorities, which include³: modernization

The ‘continuity’ is a key word of the new Cabinet of ministers in Moldova, but it is not exactly that the opposition expected from a new Government ...

³ Chișinău, April 19, 2005 (INFOTAG)

of economy, reintegration of country's territories, a better quality of life, consolidation of society, EU integration. The prime-minister V. Tarlev was thus expected only to reiterate the objective earlier announced by the President: EGPRSP implementation (1994-1996, Law nr.398 of 2.dec.2004), EU-RM Action Plan (1995-1997), signed up in February in Brussels, expanding the mid term plan for budget spending, accomplishment of the program "Moldovan Village", execution of the program related to informational education of society, elaboration and implementation of the national program of reduction of the bureaucracy.

As a first step, the Prime-Minister announced his readiness to apply quickly Presidential indications, aiming at 70% cut-offs of the civil service personnel, followed by an abrupt liquidation of all departments auxiliary to ministries. The president's policy indications could not rise optimistic responses in the Government. First of all, because the approach employed in this case denotes the aberrant nature of the current political regime in Moldova. No analysis was presented in advance, which prompted various civil servants to interpret the indications of the President as they would mostly refer to the local/district administration and not to central government, as such, derouting the true meaning of the presidential's advice. This proves that the current governance is based on a very simplistic approach of pre-modern management on "manual" directives, sent from the 'top' of the totally dependent to the subservient institutes and structures. Many times the purpose of these directives are simply misleading, so the public authorities find it difficult to implement or even seek to avoid them at best.

No prior impact analysis on 70% cut offs demanded from the Cabinet has been provided ...

The practice of the last years proved the fact that any hierarchical job cut results, at the end of the day, only in a larger bureaucracy. A study conducted in March 2004 reveals the fact that the policy of mechanical reduction of employees / public job-cuts in local / rayon administrations led to an increase of 38% in the number of public clerks and a growth of 19% in the number of clerks within the regional counsels⁴. Next to it, no one of the "authors" of the latest 2003's territorial-administrative reform did provided any explanation on the fact that the expenses for maintaining districts increased. No space for analyzing the costs and benefits of this highly politicized reform was allowed at all. Few of the politicians harbouring their decision to install rayons cared about the negative impact the re-centralization of the public finance had on the situation of the local finances.

Despite the leaders of the opposition appreciated the program announced by the "freshly named" prim-minister, they expressed their lack of trust regarding the implementation of the program by him and his team⁵. Vasile Tarlev is conscious about the fact that his decisions and the results of his actions will be closely monitored and judged on their true merits, including by the 'new allies' of the President Voronin. That is why he will try to hide any unsolved problem under the carpet of "less urgent" issues, but at the same time this does not warrant the fact that the old-new governance of Tarlev will be more efficient and less populist than is was during 2001-2004. The public surveys reflected the fact that the prim-minister's image improved during the last years, even during the times when the state policies were badly perceived by the population. Will be Tarlev successful to repeat the same performance in 2005?

⁴ March 19, 2004, Updating costs-benefits analysis of the latest territorial-reform in Moldova, IDIS/BCI

⁵ PPCD declared that it does not fully trust the new Cabinet (V.Cubreacov). AMN declared that the program is only descriptive, with no quantifiable actions (S.Urechean). PD declared that CPRM will get enough votes, so they will not approve the program of the cabinet.

Poll results do not support the opinion according to which the prime-minister could serve as a "gripping power" to Mr. Voronin or to enhance image of the CPRM, but rather that Tarlev's popularity is much backed by the rating of V. Voronin. That is why the social problems challenging the cabinet will not affect much Tarlev's image but rather Voronin's image. Similarly to the governors installed in Russia by President Vladimir Putin, citizens perceive clearly where the real political power comes from in Moldova. The lack of clarity on role of the public institutions generates permanent abuses. These abuses appear as conflicts of interest, the use of public resources for unjustifiable reasons, corruption and violation of the law by some economic groups which are protected by political backgrounds.

The Republic of Moldova is weakened by the corruption that penetrates the public institutions and the private sector, bringing advantages to the economic and political elite, nourishing an environment of expanding poverty. Interesting remarks could be drawn from the IT-Moldova reports revealing that, 'in 2000 the main cause of corruption was related to the contradictory and difficult legislation, while in 2003-2004, respondents underlined that among the causes of corruption were in fact a "tradition to bribe", 'particular traits of the system', that clearly points out to the phenomenon of the institutionalization of corruption – as another local tradition⁶.

The high exposure of the public sector toward the corruptive actions educates a public which does not make any distinction between corrupt people and state officials. On the other side, these phenomena require large financial resources to be wasted in order to educate the new clerks while tend to live the system while if treat them as objects of its overall irrational bureaucracy. Although the country obtained substantial foreign support for development of the private sector, the public sector remained largely unreformed, and 'untouched' by reforms⁷. The lack of progress is regularly explained by lack of strategic vision, policy stagnation, over-politicization of the executive's mandate, as well as limited capacity to govern. At the beginning, the reforms in the public sector were understood as consisting only of job cuts and budget deficits reduction techniques but not consisting of quality enhancement in the decision process.

The budgetary constraints and not the aspiration to higher performances played the major role in reforming the public sector. The weak evolution of the reforms in the public sector could be proved also by the lack of any debates regarding the models to boost efficiency at public institutions, lack of the dialog between the State and society regarding the suitability of public services. As well as in 2003, the reform of the central administration in 2005 is rather the output of non systemic political behavior, without a long term strategic vision of developing the entire public sector. More than half of the population is not satisfied about the quality of the governance and does not trust to the public institutions⁸. Thus they try to avoid them, increasing the tolerance of corruption and becoming sceptic toward any positive results of the governing. The population does not believe that the public institutions are able to solve strategic task⁹, overweighting the role of persons ruling the institutions¹⁰.

1) Functional – undefined roles,

2) institutional

– reduced capacity, formal or weak structures, bureaucracy and low motivation

3) Political – political reasons prevail in the process of policy implementation, recruitment, organization of the public authorities...

The absence of a true commitment to words public sector reform in Moldova generates a weak capacity to implement effective policies.

In 2002, more than 1/3 of businessmen and 35% of respondents witnessed they are ready to bribe to get the needed governmental services...

⁶ Corruption Justice TI, 2002

⁷ Human Development Report 2003, UNDP

⁸ See also the Barometer of the Public Opinion, October -November 2004, of the Institute of the Public Policies, www.ipp.md.

⁹ Also 9% rely totally on the Government, 8% in Parliament, 5.4% in Justice, 2.5% in political parties and 3.8% in police (compared to 43.9% in the church). The barometer of IPP, February 2005

¹⁰ resident favours a huge trust - 20.3%. Idem

The weak reforms in the public sector initiated during the last ten years are explained usually by the fact that the state and the public authorities did not pay enough attention to the new requirements of the market economy and to the pluralist democracy. These factors were combined with a poor management, scarce human and financial resources and low motivation of the public clerks. The reduction of the income tax and augmentation by three times of the pensions are brave promises but the improvement of business environment and modernization of the economy requires more than intentions. The policy of "guillotine" launched before elections did not bring expected results¹¹.

Many groups responsible for the implementation of the Law related to the normative environment of entrepreneurship (adopted on 7 feb. 2005) examined in May 2005 only 218 of the about 1115 normative acts drawn by about 41 authorities of the Government. We remind that there is only one month left till the end of the period established for the finalization of the Register dedicated to the revision of the normative acts related to entrepreneurship. We also worry about the quality of the investment environment and on the solidity of the economic legislation. Another example relates to the weak quality of the law and judiciary system, which is highly sensitive to the political factors. The laws are amended quite often and the legislative instability hampers the investment climate, as well as the well functioning of the public institutions¹². At the end of 2004, about 500 of laws and more than 15,000 of projects of law were waiting for ulterior processing.

About the quality of democracy

Starting with 2001, the Republic of Moldova witnessed a significant downturn in the development of democratic institutions¹³. Following the Putin's authoritarian 'pattern' of conduct, President Voronin strove to consolidate his monopoly on the whole structure of power of the state. Thus, he used with no limits the police, secret services, the fiscal and other public institutions for purposes far from the minimal criteria of objectivity and effectiveness.

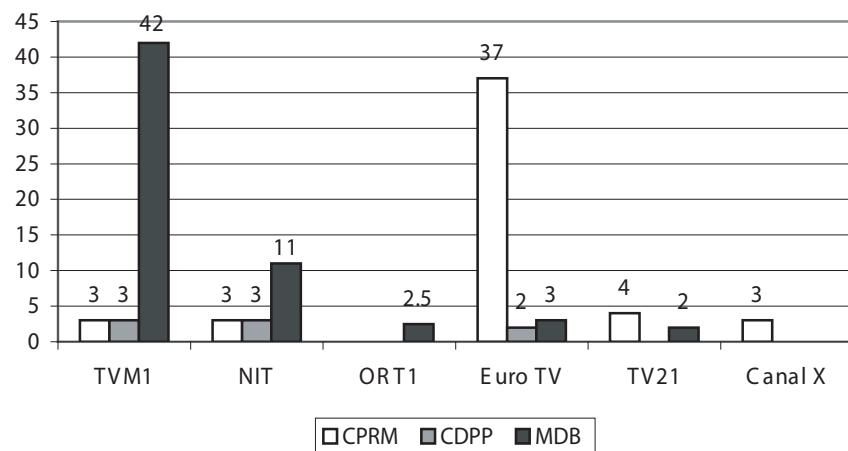
Undertaking full political control over the Gagauz territorial autonomy represented only the first step to limit the independence of the local authorities within the entire Moldova. Even before the local elections of 2003, the central power imposed the reform back to districts, aiming to reduce the influence of the opposition parties in the regions, and in particular, eliminating the civil servants perceived as "unloyal" to the governing party. The leaders of the CPRM applied the model of "administrative democracy" (Putin's model) in order to eliminate their political rivals, even when their policy provoked mass protests, limitation of mass media, abolishment of the local autonomies - all these actions leading to a significant degree of hyper centralization.

¹¹ Chișinău, Mai 16, 2005 (INFOTAG).

¹² In May 2004, about 322 amendments were adopted during 2001-2003 based on 23 Laws. About 80%-90% of the Laws were prepared and presented in the Parliament by the Government. The most frequently amended Laws were: Budget law – 68 amend. in 3 years, Criminal Code – 32 amendments, Administrative Code – 55 times, Civil Code – 13 amendments, Code of Criminal Practice – 27 amendments. Source: Democratic Audit, conducted in 2003-04 in the Parliaments of Moldova, Bulgaria and Georgia (IDIS, IRIS, CIPDD).

¹³ New Freedom House Study Reveals Growing Democracy Gap in Europe Russia Displays Further Setbacks. NEW YORK, May 24, 2004; Report of the Bureau of Democratic Institutions and Human Rights, OSCE/BIDDO on the local elections of 2003, <http://www.osce.org/odihr/index.php?page=elections&div=reports&country=md>

*Figure 2. Political Parties presented negatively in the TV news,
05.03-04.04*



CPRM succeeded to avoid the fulfillment of the recommendations of the Parliament regarding the transformation of the state-owned company "Teleradio - Moldova" into a public company. And to a certain extent it succeeded to create a false representation that the Company become more independent. As a result, the governing party reestablished the state censorship and eliminated the "unsuitable" journalists¹⁴. According to a study accomplished by the Freedom House at the beginning of 2005, the Republic of Moldova was ranked the 137th (65 points), close to Mauritania and Zambia, down from the 127th rank held in 2004. According to Freedom House only the three Baltic states are considered to have a free mass media among the ex-soviet republics. While Georgia being ranked 116th and Ukraine 124th, they are considered companies with partially free mass media¹⁵.

Moreover, many foreign organizations (Article XIX, Reporters sans frontiers), repeatedly warned Moldova's central authorities about the emerging risks and of the devastating censorship in mass media as well as about the limited access of the population to information.

That is why the current cooperation between the governing party and the opposition is a needed premise, but not sufficient for consolidating the democracy if the stipulations of these cooperation agreements are not disclosed to public. The major TV and radio channels (Moldova 1 and Radio Moldova, NIT) continues to sustain exclusively the CPRM¹⁶, while the opposition is still highly condemned in the news. The online political debates regarding the actual political issues were not met, even during elections. CPRM remains the number one favorite in the wiring of programs of the largest National Public TVM1 and the private channel NIT. The monitoring accomplished by an independent survey center revealed the fact that the debates held at PRO TV and Euro TV Chisinau were more pluralist and interactive as compared to other public channels. It is obvious that the propaganda towered the governing party continues.

¹⁴ Reporters sans frontiers, Annual report on Moldova (2004), The Declaration of the Media Group within the Pact of Stability, July 30, 2005

¹⁵ Monitor Media #2, May 14, 2005

¹⁶ Report No.5, 05.03–05.04.05: Independent Journalism Center, Center CIVIS, API, and The Global Campaign for Free expression "Article 19".

The foundation of the common platform where the governing party and the opposition cooperate ended with a conditioned cooperation agreement. The fears of CPRM about lower election results (46.1% in 2005 vs. 50.1% in 2001) and revolutionary trends in Ukraine and Georgia determined the governing party to enter the cooperation. This cooperation was hard to imagine several months prior the elections. Further, in order to preserve its electorate, the CPRM will have to adapt its rhetoric, its decision making process and the internal procedures to the European standards.

Some of the political analysts consider this process almost impossible to accomplish. The first major obstacle is related to the weak propensity to instill democratic traditions, due to the fact that the legacy of its god-fathers had nurtured so far only dictatorship and full discretionary powers to the leadership of the party.

On the other hand, CPRM is still linked to many other nostalgic parties of the USSR aiming to re-build it, in an explosive 'cocktail' with other Marxist-Leninist targets¹⁷. The past rigid ideologies and the rapid promises to change to European aspiration brought much confusion among the adepts of the party and public persons loyal to the party during the last elections (2001, 2003, and 2005)¹⁸. Thus the change of party's principles toward Europe will most probably distort the image of party leaders among their conventional voters.

Thus the loyalty of the leaders of the CPRM could be disputed and CPRM could be considered as a traitor by many nostalgic old-aged groups of the population. Despite of the victory in 2001, some of the groups of the "radical left" side established separate parties, accusing the CPRM of violation of the original Marxist-Leninist principles¹⁹. Their accusation was stimulated by worse relations with Russia maintained by the CPRM. The groups started in 2004 and could follow in 2005 to oppose to the pro-European aspirations declared by the leaders of the CPRM. The economic and political barriers established by Russia could be also a result of the chaos within the CPRM.

On the other side the situation alike is met at other political persons that during ten years was requiring the abolishment of the CPRM, but entered the alliance with CPRM in 2005²⁰.

The most illustrative is the CDPP which succeeded clearly at these elections. The electorate of the CDPP is a dynamic and a stable one, the CDPP's electorate is mainly composed of the youth and, as result was more suppressed by the governing party. Gaining only 9.7% (as compared to 8.2% in the 2001 elections) the CDPP need internal restructuring in order to succeed in the current political changes in the Republic of Moldova.

The other political fractions merged into the MDB (liberals, social-liberal,

¹⁷ In 1995, the CPRM joined the Union of Communist Parties in 1995, and declared the firm target to rebuild the USSR.

¹⁸ The Rating of the President Voronin was of 63% in February 2005, compared to 38% of S.Urechean, the leader of the centrist opposition (38%), followed by the prime-minister V.Tarlev (47%) and speaker E.Ostapciuc (35%).

¹⁹ Chișinău 22.04.04 Info-Prim

²⁰ As a result of the Putch of August 1991, The Communist party of the USSR was brought out of the low in all the ex-soviet republics. After winning the elections of March 1994, the leaders of PDAM considered „undemocratic” the abolishment of a party, no matter what the ideology is. Thus the Parliamentary decision about the prohibition of communist party was abolished. The CPRM involved more than 3,100 members, grouped in about 165 party organizations which were distributed to 35 district committees.

democrats) during 2004 but did not reach the estimated results. Contrary to CDPP, the MDB— the largest parliamentary group of the “centrist” opposition, obtained about 28.4% of votes and 34 of seats in the new Parliament. Despite the aggressive electoral campaigns of the rivals (CDPP, CPRM) and the unfavorable pre-election surveys, the MDB entered the new Parliament with divergences among its party leaders.

Even during the first session of the Parliament, the group PD (Diacov) and PSL (Serebrian) left the MDB and rejected possible alliance under the present leadership of Urechean. In spite of the fact that PSM and the social-democrat group of the ex-alliance of Braghis did not succeed to form new Parliamentary groups, both groups belong only formally to the Moldova Democratica Bloc. Shortly after the elections, the leaders of MDB announced they intend to reform the party to take into account the interest of all the involved fractions / groups. But, will they be able to resolve the internal divergences among its group before it has not yet disappeared as a viable post-election construction? What kind of trajectory will be then embraced by this coalition once it get to be known mainly as a ‘potpourri’ group, rather than a liberal, social-liberal or social-democrat fraction? Will it simply become a political movement (the same as the Movement for a Democratic and Prosper Moldova) created during 1997-1999 under the ex-president Lucinschi?

In fact, there are three main barriers to this project to come into reality. The main barrier and probably the most important relates to the image of their “pro-Moscow” party, acquired in the 2005 elections. The second relates to the fact that the acting MDB leader Urechean has exhausted in fact its ‘emanating energy’ which could attract other groups to join this initiative. The third barrier relates to the permanent ideological divergences inside the bloc, especially the divergences between individual leaders of the BMD, in particular between the antagonizing Braghis and Urechean but all between Untila and Diacov, Serebrean and Urechian, etc. The fact that Dumitru Braghis was nominated as the BMD candidate in the recent partial local elections had generated many speculations and internal debates, which forced Braghis finally to announce that he will run as an independent candidate, although backed by his party colleagues. Partial election results will prove that his rationales were right in fact.

The elections for the position of mayor of the Chisinau Municipality could have extreme results. The new mandate for mayor could be a complete one if the CPRM will succeed to provide a candidate that will satisfy the opposition. If the candidate provided by the governing party will not satisfy the opposition, then we could observe permanent conflicts among the capital’s authorities and Parliament during the session autumn-winter 2005. Unfortunately, the partial elections are not able to solve the efficiency problem in the Municipal Counsel. Despite the cooperation among the governing party and the constructive opposition, they continue to battle for the executive power in the capital. As a result, new topics of divergences appeared between the governing party and the opposition. Here the approach of the CPRM only intensifies the divergences, because the approach consisting of the utilization of administrative resources and elimination of competition became a practice of the CPRM during elections. Thus, the partial election (projected for July 10, 2005) for the most important position in the capital is a serious test for the CPRM which named the current Ministry of Finance, Zinaida Greciannîi, as a candidate for the mayor.

Also the mayor’s decision to leave the city hall in a favor of a deputy mandate in 2005 provided more chances to the governing party to obtain the executive power in the capital after the parliamentary and presidential elections. There are many causes leading to this decision and they may

believe that the parliamentary immunity will end the penal wars, initiated earlier by CPRM against its direct competitors. At the same time, if the CPRM wins the municipal elections – this could lead to a total concentration of the power in the hands of one party (CPRM) and, in such situation, there is a high risk that the governing party could refuse to accomplish the declarations assumed with singing the agreement with the opposition. Also the fate of the opposition would be also questionable if the CPRM will obtain all the powers in Moldova.

Forecasts:

The political life in Moldova will be described by significant twists during the next several months. The hot topic of debates will be mostly related to the future of Transnistria and the quality of governance in Moldova. The feeling of international exclusion of the Moldovan population may increase if public will remain alienated from the implementation of the major policy initiatives in particular to the format of decisions unveiled by the EU-RM Action Plan. The driver of the current left-right alliance will continue to look for a favorable solution of the transnistrian conflict, and the implication of the Westen actors will help the achievement of this solution. If the EU, USA, Ukraine and Romania will become more Moldova's aware about thair tremendous role in these political circumstances authorities will gain a feeling of foreign support.

The Plan of Action EU-RM will meet however different problems regarding the sharing of implementing and evaluation responsibilities inside Moldova. Declaratively, Moldova's integration into the EU became the only game in town, but only the quality of the executive policies and ulterior monitoring over the reformative legislation could ensure the success of the overtaken promises. The relative political stability established after the elections of 2005 will be tested by the parties' abilities to fulfil their promises overtaken after elections. And this will happen because of the lack of communication and consensus between the governing party and the opposition as well because of foreign influences. The economic barriers imposed by the Russian Federation will motivate further the political leaders to accept a pro-occidental foreign policy, as well as to accept a more hostile position toward the Tiraspol's authorities.

If Russia's promises to establish differentiated tariffs for Moldova will become valid, as response, the Republic of Moldova will have to revise the tariffs for the transition of the gas to Balkans. The higher Russian tariffs will affect all population of the RM, including the Russian speaking population, which could provide incentives for them to participate more actively in the consolidation of the independence of the RM. Additionally the effect will be felt by the businesses in Moldova as well as by the Moldovan population working in the Russian Federation.

Thus, the reduction of the foreign exposure is a major target of the current governance, especially the exposure concerning the dependence on the Russia's energy resources and markets. Also a target of the current governance should be the warning of UN and EU about the effects of the Russian barriers; moreover that Russia does not fulfil its international

obligations. For instance, Moldova could require damages for the illegal disposition of Russian troupes, ecological damages, as well as damages related to the support that the Russian Federation provided to the separatist regime of Transnistria.

The punishment applied to RM by the Russian Federation is likely to bring harmful effects on the national economy, and on the rating of the governing party. As a result we will observe the appearance of different political groups trying to reinitiate the dialogue with Russia. At the same time, the groups of interest from the Russian Federation could try to influence some persons inside the CPRM. Though, the probability that the CPRM will experience an internal reform is quite low, because the reform will normally create disagreements that could destroy the party. On the other side, the lack of reform inside the CPRM will prove incentives for the opposition to reinitiate the political battles and will motivate the occidental institutions to look different relation ways to replace the governance. The West will continue to support the maintenance of good working relations between the governing party and the opposition because of rational motivations and not because of the charisma of the CPRM's leader. We could also expect a soft style of governing (without rude violations) of the CPRM, but this style of governing will not be reflected when it well concern the control of the social policies, mass media freedom and political control over civil servants. They will propose different short term administrative "games" that will have no long term effect and will not provide solutions to the current problem of the country: poverty, corruption, dependency on imported energy resources. This short term administrative games will become the targets of the opposition's criticism and will add confusions in the relationship with the EU.

What are the interests of the international players in Transnistrian part of Moldova?

Transnistria: a „no-man”s land”?

The EU representative Adriaan Jacobovits de Szeged (23 March, 2005) confessed 'the EU has no specific plans on how to solve the transnistrian conflict. He emphasized however that he will support any ideas that would enhance the mediation efforts of this issue. Of particular concern for the EU became recently the hot-top 'democratization' agenda for Transnistria, a poorly understood concept, quite ambiguous in the Ukrainian Plan, and equally equivocal in the strive to organize free and democratic elections in the break-away region, without replacing the repressive structures of the separatist regime.

On the other side, Russian Federation has shown already its opposition to the EU and US more active role in the conflict resolution, announcing a wide variety of sanctions against Moldova in response to Chisinau intentions to isolate economically the transnistrian regime. The isolation is pretended to take the form of control along the Moldovan - Ukrainian frontiers, the refuse to participate at the negotiations dominated the Russians, and viewing the Russian troupes as captor of the region. The support of Russia is much responsible for the so-called independence of the Transnistria. The hostility

Moscow will continue to remind Moldova about the lost chances to federalize the country in 2003 and will continue to exercise its pressure.

The post electoral agreement between the governing party and the opposition was totally unexpected in Moscow, but Moscow learn fast.

of the leaders of the antagonistic regime can not hide the panic generated by the election of March 2005, and the post-electoral agreement.

The representatives of the Russian Federation stress on the no interference from the Occident countries in the mediation of the conflict. Russia is conscious that the implication of the outside parties in the arbitration of the conflict will reduce the Russia's power in the entire region. Additionally could be distinguished that fact that Russia changes his pressures from the military approach into economic barrier toward such countries like Georgia, Moldova that accuse Russia of imperialism and interference in domestic affairs²¹.

For example, in April 2005, the Russian government restricted the imports of fresh meat from Moldova and announced they will supply the natural gas to Moldova at world prices. The shipments of natural gas by the Gazprom to Moldova are growing at 10% yearly and are valued at \$20 million monthly. Moreover, Russia points to immediate payment for shipments²². As currently the gas is shipped at \$80/m3, the Russian corporation announced they will raise the price to \$100 per cubic meter in 2006 and this price will be a record price among the ex-soviet countries. At the same time, Gazprom continues to supply the natural gas to the transnistrian region without requiring any payment. Up to date, the value of the shipped and not paid gas approaches \$1 billion.

Many analysts agree that the dislocation of 14th troupes of Russia from the transnistrian region is not only a matter of spending, but also a matter of faith. This will be equivalent to an expansion of EU/NATO²³. Russia firmly refuses to follow the engagements overtaken at Istanbul and Porto regarding the dislocation of its troupes because the problem does not involve only the relocation of munitions and military forces, but the entire demilitarization of the separatist region. These troupes are estimated at 18,000 militants, which represent permanent security threats. After the failed tentative to federalize the Republic of Moldova (in November 2003), the Russian Federation changed its strategy and political style toward Chisinau. The change materialized in rude political declarations and economic barriers imposed to Moldova.

Declaring its intention to modify none of the point in the current form of negotiation, the Russian Federation tries to destroy Moldova's aspirations toward the occident. The Russian mass media blurbs about a planned strategy of the Ministry of the Foreign Affairs of Russia together with the National Security Committee and business persons to blok the Moldova's exports to Russia. Moreover Russia relies on the international criminal regime like Transnistria, Abhazia and Shouth Osetia and probably motivates them to prepare military interventions and limit the aims of Chisinau and Tbilisi to international community. Russia intensified the privatization of its owned economic units on the left border of the transnistrian region, controlling the situation in the region by subsidizing the current leaders of the separatist regime. Russia looks to intensify the conflicts on the countries involved in GUUAM in order to delay the moment when Russia will recognize its status of a "loosing world power".

In April 2005, a series of meeting of the so-called Ministries of foreign affairs of the unrecognised regimes of Transnistria and Abhazia were

²¹ The Term „ liberal empire” was inspired from Anatolii Ciubais, the President of RAOES

²² “Gazprom” holds 50% stake in “Moldova-Gaz” (35.3% held by the Government of the RM, 13.44% - to the committee for property management of Transnistria, remaining – to private persons).

²³ Dan Dungaciu, Transnistria: the post-electoral focus of the RM, conference of May 11-12, 2005, Chișinău

held with the top-ranked officials of Russia. We would like to remind that this type of consultation appeared for the first time in 2000 as a mutual assistance project related to military cooperation. One of the purposes could be the interference and establishments of impediments to the GUUAM cooperation. Russia continues to consider GUUAM dangerous for its strategic regional interests and some Russian political scientists recommend even a larger support to the criminal regimes in order to create impediments in the evolution and development of GUUAM.

It is obvious that the recent economic sanctions will affect the economic growth of the Republic of Moldova and these destructive actions should be used to block the access of Russia to WTO. The long term damages to the state budget will have to be cured by the redirection of Moldovan exports to other international market (EU, USA and Asia). Meantime, the authorities from Chisinau made considerable efforts to change the perception of the world toward the regional conflict and tries officially to invite the EU, USA and Romania to participate as mediators in the arbitration of the conflict as well as to pressure the Ukraine that could decide a lot in the solution of the transnistrian problem. In fact, this was the light motive of the GUUAM summit held on April 22, at Chisinau and joined presidents and officials of Georgia, Ukraine, Azerbaijan, Moldova, Romania, Lithuania, OSCE and USA. On April 22, 2005, at the GUUAM summit, the Ukrainian president Victor Iushchenko presented the seven steps that could lead to the solution of the conflicts.

Despite the new administration from Kiev opted for a pro-occidental movement of the entire society, the pro - russian groups are still powerful and exercise a significant influence upon the decisions of the new administration. The seven steps regarding the mediation of the transnistrian conflict proposed by the Ukrainian president Iushchenko at the GUUAM summit were far from what Chisinau expected.

After long bilateral talks and consultations, Chisinau decided to respond with a Declaration that would require that all the plans provided by the third parties to be firstly accepted by the Republic of Moldova. We could suppose that this initiative will irritate the Moscow authorities and will disorientate the Kiev officials. It is known that two governmental committees participated at the elaboration of the "seven steps" regarding the mediation of the transnistrian conflict. The first one was ruled by the Minister of Foreign Affairs of Ukraine, Boris Tarasiuc and the second was led by the Secretary of the National Security Council Petr Poroshenko and their divergences are well known. During the month of May 2005, Petr Poroshenko succeeded to undertake the "transnistrian" files off the custody of the Tarasiuc.

Thus, in Vinitza (May 16-17) he presented a well prepared plan as compared to that of Iushchenko. Although the non-interference of Ukraine is still questioned. The plan contained 3 implementation phases, each designed for 6 months. Pursuant to the plan, the parliament of the Republic of Moldova should adopt the principles of the transnistrian region, followed by election in the supreme council of the region, under the control of OSCE and third countries mediating the conflict. Shortly after elections, a mixed group of Moldovan and transnistrian deputies should elaborate the law regarding the status of the region that followed to be adopted by the Parliament of the Republic of Moldova, supported also by guaranties of the mediating parties (Russia, Ukraine, OSCE) and the observers (USA and EU).

The plan stipulated also the foundation of an Arbitrage Committee responsible for mediating the litigations to appear during the development and application of the law regarding the status of the transnistrian region. The Ukrainian proposals generated contrarian reactions from the Chisinau²⁴. It

²⁴ Chisinau, Mai 24, INFOTAG

Ukraine is willing to gift a unique opportunity to create conditions for its implicit recognition to the administration of Transnistria.

Ukraine requires EU, OSCE, CE, Russia, USA and other states to participate at the monitoring of these elections.

We appreciate the EU's and USA's intentions to contribute to the solution of the transnistrian conflict.

is clear that Moldova wants a really motivated Ukraine to participate at the mediation of the conflict, but at the same time wants to focus the attention of other mediators toward the solution of the conflict. This is because the Kiev proposals contain a lot of conceptual and technical drawbacks that could not satisfy the Chisinau authorities.

Among the rudest errors is the fact that the plan stipulates the elaboration of the status of the region based on the previous agreements (including the Memorandum of 1997 drawn by Primakov as well as other agreements signed in the past) trying to follow the prior mediation approaches. This model was also met in the case of Autonomic Republic of Crimea. The Ukrainian plan does not stipulate the dislocation of Russian military forces and the transnistrian separatist authorities, what is the major cause of the conflict. Further, their proposal to organize democratic elections in this region is problematic, as well as the elimination of Romania from the mediation process.

It is also true that Moscow relies an the spitted euro-asian identify of the Ukrainian elites, seen as a hub for the separatist survival in a past-conflict perspective.

Chisinau can not totally deny the proposals, otherwise it will frustrate the mediation parties. Namely, this subjective factor is highly exploited by the group of Poroshenko. He is not satisfied of the agreement signed between the prime-ministers of Ukraine and Moldova, Timoshenko and Vasile Tarlev, respectively, regarding the common customs along the transnistrian frontier. The foundation of a strict and efficient frontier regime is closely related to the military cooperation between Moldova and Ukraine. It is obvious that Moldova relies a lot on the Ukraine's pro-European aspirations as these aspirations were accepted as strategic principles after the Kiev revolution. It is also true however that Moscow relies an the spitted euro-asian identify of the Ukrainian elites, seen as a hub for the separatist survival in a past-conflict trajectory in Moldova. Some analysts consider it would be better if Moldova have not relied on Kiev to design the proposal. At least there were illusions of support from the Kiev in the mediation process. However these proposals revealed the fact they were influenced by the Kozak Plan 2003.

The President of the Republic of Moldova mentioned that a project of law was elaborated regarding the transnistrian region during April 2005. The draft proposes the establishment of the autonomy within the constitutional law of the Republic of Moldova. The document stipulates the existence of a local parliament, of local budget and administration, local symbols but refers to common banking system, army, customs and foreign affairs. However, it would be possible to apply these proposals only if the current authorities will be eliminated.

Moldova and EU

The solution to the transnistrian conflict is a priority of the Plan of Actions EU-RM, signed during February at Brussels. After that Moldova intends to require EU to evaluate its suitability toward the European principles²⁵. It is also possible that these efforts to fail due to weak domestic accomplishments in the Republic of Moldova as well as due to failing of the referendum regarding the European constitution (in France and Netherlands).

We should mention also that EU manifested its interest in maintaining stability of the democratic institutions and enforcing the market economy in the RM. Having no chances to reach the countries that should be integrated in 2007, the Republic of Moldova could prove that it is able to develop domestically, collecting the opportunities that EU offers thought the plan of the EU Policy on Neighborhood. Next to the principle of differentiation, the EU will apply the principle of progress, meaning that the EU will provide new cooperation opportunities as long as the destination countries will

²⁵ Interview with Andrei Stratan, Minister of MOF, June 18 (Interfax), 2004

support the course of reforms. Thus, being a small country, Moldova could easily benefit from these opportunities.

The active participation of the EU at the mediation process of the transnistrian conflict should happen together with the Moldova's intentions toward integration. Even if the Republic of Moldova will remain inside the Wider Europe – Neighborhood policy, it should stress on the signing of a European Agreement of Association in 2007. Depending on the results of the Plan of Actions EU-RM, RM could require evaluation of its status. To accomplish this target, RM should integrate the Copenhagen principles into its domestic policies. Moldova should require the opening of the euroconsulates to benefit some citizens (officials, businessmen, scientists) to get easier visas and to improve the course of domestic changes.

The freedom of movement should complement a better access to European markets as well as better migration policies according to the directives of the Justice and Home Affairs. From the economic viewpoint, RM should benefit from the asymmetric opening access to the common European market. On the other side this will provide incentives to the businesses from the transnistrian region to relocate to Moldova and unfold affairs under the legal system of the RM. The consolidation of the State of the Law and the essential role of the society in the monitoring of the democratic reforms is a premise for the accomplishment of the Plan of Actions EU-RM.

The adherence to EU is often viewed as a strategy to survive, which is widely exploited by the political groups with no deep understanding on the entire integration process. Despite the fact that the process of European integration depends much on the support of the EU itself, the main catalyst of the integration are the citizens of the RM, that could stimulate the developments of its institutions and liability of the state. The "constructive ambiguity" promoted by the EU as an instrumental principle toward the un-integrated countries involves the access to the un-integrated countries to different community principles and benefits, excluding the access to European institutions. Wider Europe – Neighborhood policy stipulated also that, despite the prior efforts, Moldova is not among the countries with a pro - European vision (because of Russia)²⁶. EU will offer different types of concessions in exchange of promoting domestic democratic reforms in the RM. The Plan of Actions is much grounded on the Partnership and Cooperation Agreement but neither RM nor European Commission evaluated in details the results and efficiency of the Partnership and Cooperation Agreement, TACIS, etc.

Forecasts

The elections of March 2005 brought significant changes on the political field of the Republic of Moldova, materialized by the promising cooperation and consensus regarding the national interests, the approach toward the EU and the transnistrian conflict. It is obvious that the solution of the conflict will not be achieved thought the past approach of negotiation dominated by Russia.

Transformation of the dialog into multilateral negotiation and the larger roles of EU and USA in the mediation will enhance the chances of finding the consensus regarding the conflict. It is also probable that Russia will recognize the regime from

²⁶ EU Commission, Wider Europe – Neighborhood: A New Framework for Relations with our Eastern and Southern neighbors, COM (2003) 104 final, 11 March 2003

Tiraspol but not to avoid the loose of its influence in the region.

Chisinau should further firmly stress on the dislocation of the Russian troupes from the transnistrian region, using the international conventions in this purpose and its sovereign rights recognized inclusively by Russia in the political treaty of October 2001. The next step to fight against the problem in the region is to establish mixed Moldovan-Ukrainian customs.

The Chisinau authorities should reorganize the efforts together with the neighbor states like Romania and Ukraine as well as with the states following the same fate as the Republic of Moldova (Georgia, Baltic countries). Also the role of GUUAM will be increasing. Moldova needs the political support of EU in the mediation of the transnistrian conflict. But the implication of EU will appear only after Moldova will prove its strategic targets as Romania and Ukraine did.

The post-election political agreements between the ruling party and the 'constructive opposition' revealed that political elites in Moldova are in a process of reassessment of their system of coordinates and values. This specifically target also the validity of the euro-atlantic dimension for Moldova is supposed to increase the strategical relevance for the country, as well as the number of additional leverages in resolving the 'security exclusion' of the country. The signing of a NATO-RM agreement will considerably enhance the chances of the solution and security of the RM, and equally it will provide essential incentives to adjust the security structures into conformity with the well-known standards and criteria for their organisation. At the same time, the NATO collaboration will provide incentives to EU to closely revise the problems of the RM. However the individual plan should not be only adopted, but also followed and implemented, but the problem resides in the domestic legal processes of the Republic of Moldova and high divergences among the governing groups.

The monitoring of domestic policies, high responsibility of the decision makers are the vital to the success and fight against the stagnation. Even more, the RM should learn promptly the experience of the east European countries during the last ten years regarding the national security.

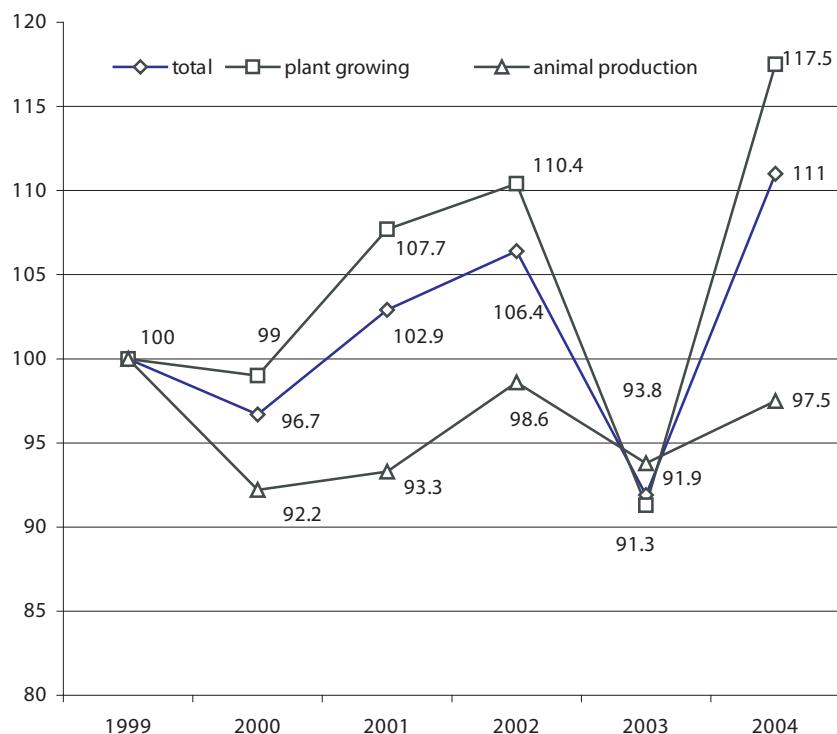
The regional cooperation and development of the comparative advantages are included in the strategy of RM, a strategy that RM should adapt continuously, taking into account the pro-European aspiration. The cooperation with NATO and adherence to EU in 2007 should be the main targets in order to succeed firstly in the dialogs with our neighbors like Romania. The cooperation with Romania will bring solution to energy problems, diplomatic assistance during the dialogs with NATO, EU and OSCE as well as internal management problems like public administration, justice, standardization, etc.

AGRICULTURE

In 2004, the agriculture registered a significant increase compared to 2003, due to favorable climacteric conditions, but this augmentation only compensated the drastic decline of the 2003. Thus the volume of agricultural production in current prices reached the level of 12601 million lei. In comparable prices the increase represent 20.4% compared to the previous year. This augmentation was determined firstly by the 28.7% increase in plant growing and by 4% in the animal production.

In 2004, the agriculture registered a significant increase compared to 2003, due to favourable climacteric conditions

Figure 3. The evolution of agricultural production



We want to remark the fact that the increase of agriculture for year 2004 is superior to that registered by National Economy as a whole. As the GDP growth for the respective period was 7.3%, agriculture contributed with 3.4 percentage points to the entire GDP growth.

In 2004 the agriculture registered some structural changes. Thus the weight of vegetal production in total agricultural production increased from 67% in 2003 to 71% in 2004. We appreciate the increase in the contribution of agricultural enterprises to the global agricultural production, which constituted 32% in 2004 compared to 25% in previous years. The decline in the weight of the individual farms in agricultural production denotes a consolidation period.

The growth of global agricultural production by 20.4% in 2004 vs. 2003 is determined by the increase in production of cereals and vegetables, grain, corn for grain, sugar beet and milk, each one generating a global agricultural production of 15.4%, 4.3%, 0.7% and 0.8% respectively.

The positive evolution was offset by the declines in the production of fruits, sun - flower and vegetables. Together they led to the decrease of global

Positive changes in grains, corn, sugar beet

...and declines in the production of fruits, vegetables, and sun-flower

production by 2.1%, 0.9% and 0.5% respectively. In 2005 the agricultural production will continue to increase but with lower growth rates, because the main conditions assuring the growth are climacteric conditions. We forecast that the increase will exceed 6%.

Plant growing

In 2004 the production increased by 28.7%.

The year 2004 was a successful year in this sector. As compared to 2003, it was registered 28.7% increase in the volume of production. The increase was possible due to the essential augmentation of volume of cereals and vegetables (by 6 times), sugar beet with 38.1%, soy beans (by 2 times). A feature of this year is a major 32% decline in the harvest fruits, 15% decline in sun - flower and 13% in vegetables.

The increase of cereals and vegetables beans production was determined as by qualitative factors as well as by quantitative factors. Thus the average / hectare harvest was 24.3 in comparison to the average from the decade. Simultaneously the surfaces increased by 150 thousand hectares or 44%.

Qualitative changes in sugar beet growing...

The increase in the harvest of sugar beet was possible (excluding climacteric factor) mainly due to the changes in technological process of growing. This change resulted in an increase of the average harvest per ha to 86 quintals. We consider that the efforts of the both sugar farmers and producers also contributed to the positive results. Regarding soy beans, the increase was possible due to augmentation of sow surfaces with 56% and of productivity by 27.4%.

The decline in the production of sun flower and vegetables is explained by the reduction of surfaces by 23% and 12% respectively. We appreciate positively the reduction of areas allocated to the sun flower because the intensive growing during the last years led to soil deterioration. Also sun flower is a corn that has a reduced added value.

In spite of the fact that there is no industrial production of nuts, this product held 20% in the total export of vegetal output

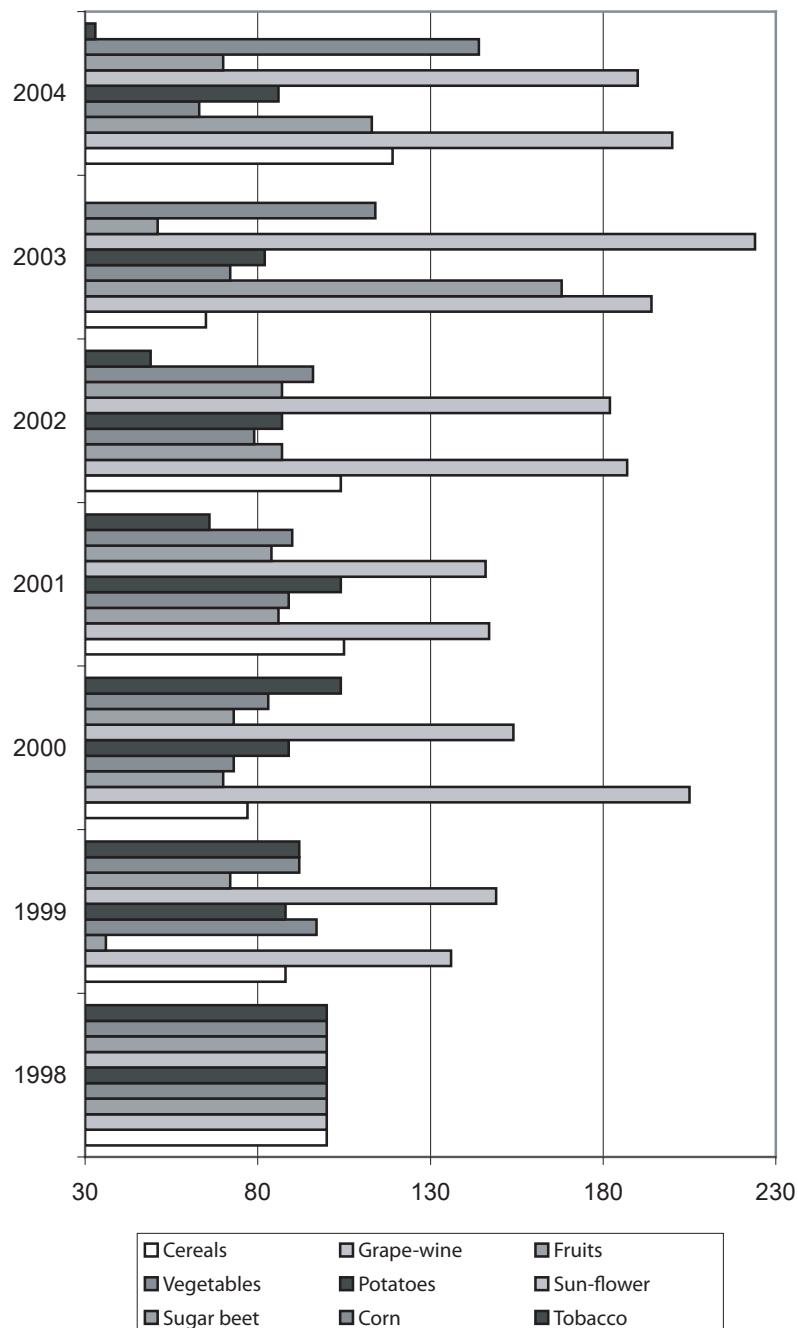
The decline of production volume of fruits is caused by the 29% decline in the average harvest of and by 4% fewer surfaces. The productivity of nuts remained at the same level of the previous years. Although these plantations were insignificant about 5% but the revenue from exports in 2004 was practically equal with those from exports of juice and represent 20% from the total of exports of vegetal production. Despite the previous forecast to productivity enhancement was of only one percent. Although these plantations are insignificant about 5%, collections from its export in 2004 equaled with those of juices and represent 20% from total export of vegetal production. There were no substantial changes in products of strategic interest for Moldova as grape-wine and contrary to the initial forecast the augmentation was only 1.1%.

In 2004 it was observed that there were no structural changes regarding the surfaces with crops bringing higher valued added, like tobacco, vegetables and potatoes.

The production of tobacco follows a permanent downtrend...

The situation in the tobacco production is highly problematic. The downturn in the surfaces during the last ten years and low productivity led to diminution of the production volume of more than 3 times, from 25.3 thousand tones in 2000 to only 8 thousand tones in 2004. However, a positive fact is that about 87% of production derives from the agricultural enterprises and only 13% from the farmer growing. Additionally the agricultural enterprises are responsible for 85% of the production of the sugar beet, 66% of cereals, 59% of the sunflower and 53% of the fruits production. At the same time the individuals hold the major share in the production of potatoes of about 95%, 78% in corn and 72% in grape wine production.

Figure 4. Production of main crops, thousand tones, 1998=100



Source: SSD

Forecasts

We expect a 7.5% growth in the production of vegetables for 2005 due to the following favorable factors: 1) larger cereals surfaces, 2) a sufficient seed from the both quantitative and qualitative viewpoints, 3) the favorable forecasted climacteric condition. But the positive trend will be offset by problems regarding the access and prices for gasoline.

Plans and accomplishments regarding the development of production of grape wine and fruit

According to the development plan of grape wine and development of wine industry for the years 2002-2020 a complete renovation of plantations is foreseen. Thus 100 thousands ha are supposed to be renovated, or about 5 thousands ha annually only for the industrial sector. The Statistics reports for the last three years states that there were planted more than 6 thousands ha, 3.7 of which in 2004. The accomplishments lag the plans despite of the profitability of the branch, the investors' interest and governmental support. One of the causes is the insufficiency of financial resources. The fund for viticulture disposes relatively sufficient amounts, but the mechanism the funds are granted limits the intentions of the farmers to enlarge the surfaces. Thus at the end of the first quarter of the current year only one third of the assigned subventions were allocated. Generally, we could make positive long term forecasts given the high investors' interest toward grape wine growing. The fruit production is currently in a more problematic as here negative trends are observed.

During the last five years the surfaces reduced by more than 21 thousands ha or by 16%. In this period only 4.1 thousand ha were planted. The program of development of fruit production till 2020 stipulates the annual plantation of about 4.5 thousands ha as well as in the case of viticulture, but the budgeted funds for this are inferior. For 2005, about 10 million lei are budgeted as subventions for the fruit production development and 65 million lei for the viticulture. The high competition on the juices market, the inefficient organization of plantations and the inferior quality leads to lower overall efficiency in the fruit production and to a lower interest toward this type of business.

Animal production

The high volume of milk production was attained due to a better productivity of cattle

The animal production increased by 4% in 2004 compared to the previous year. Growth rates were met in different domains: milk production, meat and eggs production. The results are highly explained by the excellent results in plant production.

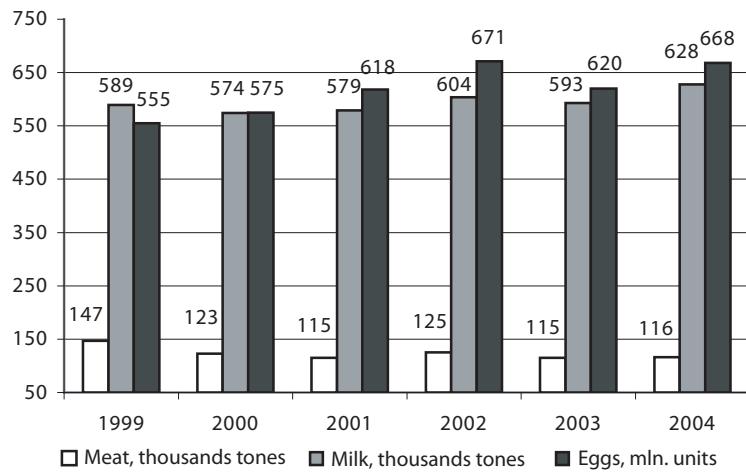
The high volume of milk production was attained due to a better productivity of cattle. Thus the milk production increase by 5.8% in 2004 compared to the prior year. Moreover this was attained despite of fewer cattle, which varied between 89% and 95% of the level of 2003. We expect further productivity enhancement in the milk production.

The production of poultry farms is upward

The meat production posted only 0.7% increase. The growth was mainly assured by poultry which increased by 11% compared to 2003, thus reaching 34 thousand tones. The share of poultry in the total meat production reached a record level of 29%.

The production of poultry farms offset the negative trend in the number of cattle and pigs, which was by 12% and 9% respectively lower in 2004 compared to 2003. This was mainly the cause of bad climacteric conditions met in 2003. Due to the short reproduction phase, the number of pigs regained the positions of 2003 by the end of 2004.

Figure 5. Animal production



Source: SSD

The number of horses is constant at 78 thousand for the third year. We believe currently we are at the peak concerning the number of horses and a downtrend should follow. This proves once again the problematic agriculture and the lack of transportation means in the agriculture.

We registered developments regarding the eggs production. In 2004 the growth in eggs production was of about 7.8% compared to the unfavorable prior year. Effectively, the 2002 level was reached – a peak during the last 5 years in eggs production. As well as during the last years, the animal production was mainly on behalf of individuals that held more than 90% of the total animal production. Only in eggs production the agricultural enterprises provided 35%. Given the current situation, our long term forecast are not so optimistic.

The individuals operate at maximum regarding the animal production. Moreover, given the current trends in the countryside (migration to towns and abroad, the aging population) we could observe even negative evolution in some years. We consider that the state support is need for the long term growth in this domain. There is a high need of consolidation of production. Another big problem is the environmental problem related to the current pattern of animal production (individual growing). The concentration of cattle in villages led to deterioration of quality of drinking water. As the savage hills are the main surfaces the cattle is grown on, the mass slaughter of cattle happen during the years of poor climacteric conditions thus leading to highly fluctuating results.

Forecasts

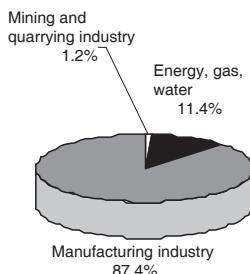
We consider the animal production will post 2.5% growth rate in 2005. This will be mainly on behalf of the poultry and eggs production. The milk and meat production could remain at the same levels as in the previous year.

We worry about the large number of horses as transportation means in the agriculture.

Thus a consolidation of the production process is needed in order to assure a long term growth

INDUSTRY AND SERVICES

The low growth rate of industrial production in 2004 continues also in 2005



In 2004 industrial production posted a modest increase of 6.9% assured mainly by the manufacturing industry, the main industrial sector, that registered the largest growth in the sector of about 7.7%.

Although the expectations of the Government are rather optimistic for year 2005 we consider that the growth of industry wouldn't be higher than 7%, being influenced by the growth in manufacturing industry with 7% and by services with 10%.

General trends

In 2004 was observed the downturn of the growth rate of industry, the tendency that continues also in 2005.

The manufacturing industry that has over 85% from the total industry registered a modest increase of 7.7% but food and beverage industry only 3.3%, this determined the low growth rate of the industry.

Table 1. Growth rate of Industrial Production Volume, %

| | 2003 | 2004 |
|---|------|-------|
| Volume of Industrial Production | 13.6 | 6.9 |
| Mining and quarrying | 25.1 | 17.5 |
| Manufacturing Industry, inclusively: | 15.1 | 7.7 |
| – Food and beverage Industry | 15.9 | 3.3 |
| – Production, processing and preserving of meat and meat products | 17.9 | -17 |
| –Processing and preserving of fruits and vegetables | 63 | -22.7 |

Source: SSD

The increase of the industrial production index registered during 2004 is the smallest one during the last four years

After crises from 1998, when Moldavian exports (see FOREIGN TRADE) dramatically decreased, that conditioned the stagnation of industrial production, the national economy started to flourish by the year 2000. During the last four years the industrial growth rate was permanently stable and high, registering annual growth rates of 8% in 2000, 14% - 2001, 11% - 2002 and 13.6% - 2003.

In the first three months of the current year the industrial production increased with 3.2% compared to 16.7% during the similar period of the 2004 and with 12.8% in 2003. This negative tendency will lead to the fact that the industrial production growth in 2005 will remain at the same level of the previous year and will not overpass the value of 7% yearly. This sector will encounter impediments in penetrating foreign markets as well as maintaining the domestic and international market shares.

In the midterm, the evolution of this sector will depend on companies' reorganization and modernization, attraction of modern technologies which will contribute to the increase of quality and competitiveness of domestic products. This is hardly to reach without the creation of a favorable investment climate and liberalization of economy. Thus the moderate tendency of production growth will persist.

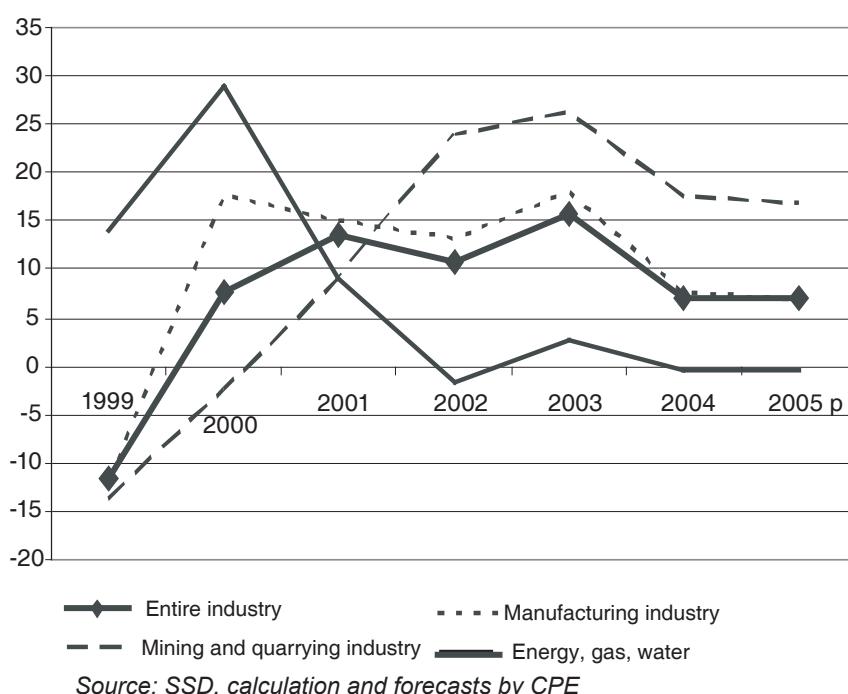
What are the impediments of the industrial development in Moldova?

The slowing down of industrial growth rate in Republic of Moldova generated a series of questions that reduce to: what is happening with Moldovan industry?

In the strategy of governing regarding the durable development of country's economy, the main objective must be the assurance of a high rhythm of industrial growth. But we can observe that the trends are completely different.

In our opinion, such an evolution is explained by the following factors: (1) the excessive state intervention in economy; (2) the imposed barriers to economic agents; (3) the lack of a favorable investment climate as for foreign investors as well as for remittances from abroad that represent a considerable investment potential and would permit the modernization of national companies; (4) appreciation or stabilization of national currency which has negative impact on exports; (5) state support to selected public companies that distort the principles of market economy.

Figure 6. Evolution of national industrial sectors



The growth index of energetic and warm, gas and water sector for 2005 will be in diminution and will constitute -0.5%.

Table 2. Growth rate in the main economic sectors

| | 2004 | 2005p |
|--|------|-------|
| Food products and beverages | 3 | 2 |
| Tobacco products | -5 | 16.2 |
| Textile, ready-made cloths, fur and leather cloths | 17.4 | 7.8 |
| Wine industry | 7 | 5 |
| Machinery, equipment and metal processing | 14 | 8 |
| Publishing, printing and reproduction of informational materials | 5 | 9 |

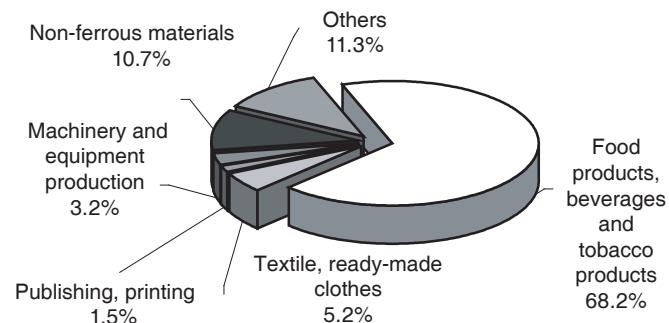
Source: Calculation and forecast CPI

We forecast a reduction of annual growing rate in the majority of subsectors of the industry, excluding tobacco, publishing which have insignificant weights in the national economy.

Manufacturing industry

Manufacturing industry, as a basic branch of the national industry, had an increase of 7%. This modest increase was influenced by the slow growth rate in the food and beverages industry, which represent 65% from this sector and registered an annual growth rate of 2.2%²⁷.

Figure 7. The structure of manufacturing industry on subsection, 2004



Source: SSD

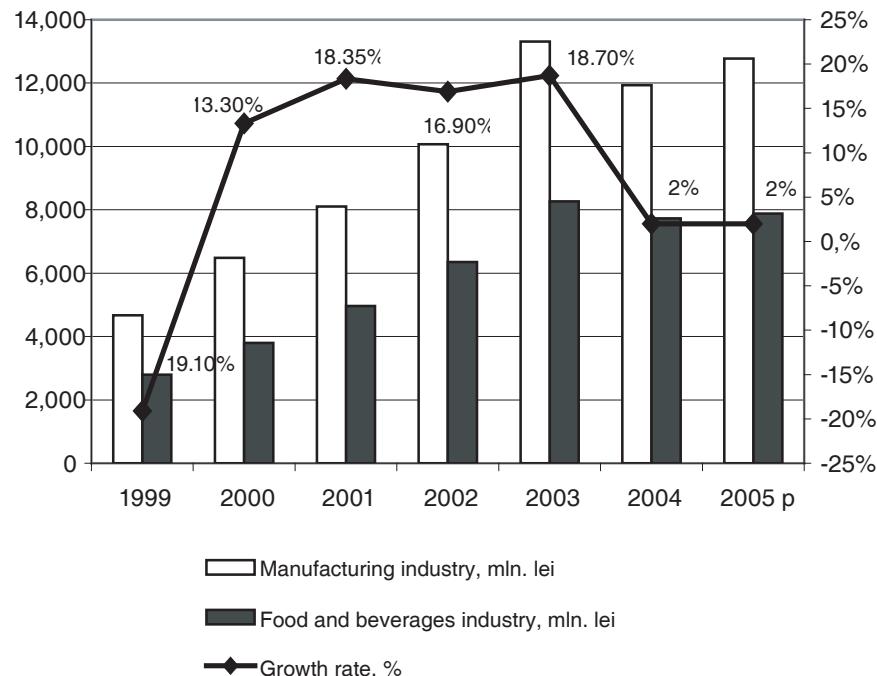
²⁷ At April 1, 2005, the enterprises of the food industry of Moldova processed 2803 tonnes of canned fruits and vegetables, which represent only 43% of the first quarter of the prior year. This is explained by the fact that the food processing companies activated only at Soroca, Cupcini and Orhei and are specialized only in the production of juices and concentrates. In 2004, the enterprises of the food processing industry produced 2.2 thousand tones of concentrated juice, almost half of the past years volume.

The lower performance in the juice production will influence the export of the respective groups.

Food and beverages industry

The negative trend of the year 2004 in the food and beverages industry emphasized in first quarter of 2005 when the growth rate in this sector decreased to 2.3%²⁸.

Figure 8. Growth in the food and beverages industry



The low growing rate of food and beverages output will determine a low growth rate the entire industry

According to our opinion there are no vital premises leading to a larger production volumes in the food and beverages industry, that is why for the year 2005 we forecast a similar performance of 2% as it was in the previous year.

Wine industry

Wine production companies holding 18% in the total output, posted 7% decline during the first quarter of the year compared to the respective quarter of 2004. This determined the decrease of 1.5% in the entire branch. The wine and derivative products (distillates) are the second important source of foreign currency collections after remittances from abroad (see the chapter of FOREIGN TRADE). This represents approximately a quarter of total collections from the export.

The total wine output suddenly decreased compared to the level of wine product of the middle 80's, but the total area of grape-wine reduced with over 40% (see CHAPTER AGRICULTURE). The main causes are: (1) the anti-alcoholic policy promoted by Gorbachev; (2) the lack of necessary tools and knowledge for grape-wine growing on the unconsolidated agricultural lands; (3) the lack of the state policy on the one hand and of subventions on another hand which will really contribute to the amelioration. The total

²⁸ Especially the main types of activity: production of beer (by 26%); flour-milling industry (by 25%); distilled alcoholic drinks (by 24%); prepared animal feed (by 17%); milk derived products (by 16%); cacao, chocolate and sugar products (by 12%); bottled water and soft drinks (by 2%)

production stabilized last years, even registering uptrend. The weight of bottled wine increased reaching on average 63% during last three years.

Although Moldova remains the greatest wine supplier on the Russian market, Moldovan wines lost its market share from 57% in 1999 to 45% in 2003.

The principal barriers that the wine production in Moldova is confronting are:

- Increased competition in Russia – the tradition market of Moldovan wines as well as changes of demand structure on this market, consumer preferences and demands;
- Lack of a competitive strategy of domestic wine promotion abroad;
- The uniformity of wine quality and its permanent improvement are not assured, the unstable focus on package without improving product quality.

In order to solve the above problems it is necessary to take the following steps:

- Diversification and renewing of wine sorts which will satisfy the demand of the most capricious consumers;
- Creation of a new image of Moldovan wines highlighting the quality and innovation spirit;
- Companies' assurance with qualitative raw materials and training of farms and agricultural households, more active state support (not only passive measures of fiscal subsidies)
- Branch modernization with new equipment and technology, personnel training, facilities on equipment import (VAT exemption);
- Conditions of collaboration with financial sector, adoption of new laws which would facilitate the investments in this branch;
- Administrative facilities, including repatriation of currency from wine sales;
- Adoption of European standards of quality certification and creation of additional laboratories.

In our opinion, there are no sufficient premises for a higher growth rate in the wine production and development in the near future. As a consequence, the growth rate will not exceed 5% in 2005.

Tobacco processing

Tobacco processing sector had a significant decline of 27% in 2002 followed by an increase of 10% in 2003 and by a decline of 5% in 2004.

The causes of low performance in this sector are: (1) climacteric conditions; (2) reduction of the production areas; (3) difficulties regarding the export and new markets penetration; (4) privatization and reorganization of the state owned company "Tutun CTC"; (5) application of old technologies of tobacco growing, (6) orientation on the cheap and poor quality tobacco segment.

We consider that the year 2005 will be a favorable one for this sector and tobacco will post 16.2% growth. The governmental program regarding the development of this sector will bring some results only if investments are facilitated and technology is implemented leading to improving production.

After a continuous decline from the last years, tobacco branch will register the biggest growth rate in the entire industry in 2005.

Production of machinery, equipment and metal processing

In 2005, this subsector will have the same growth rate as it has during last 5 years. Production of machines and equipment posted an increase of 9% in 2004, but in the first months of 2005 the growth rate reached 16.3%.

We consider that production of machines, equipment and final products from metal will have an increase at least 8% due to privatization and penetration of new markets, especially European Union,. This augmentation will be sustained by enlargement of the product lines, export increase, quality improvement and building sector enlargement.

Textiles, ready-made clothes, fur and leather articles

Although textile products and clothes manufacturing had a good evolution in 2004, showing an increase of 15% and 17% respectively, in the first months of the year 2005 it posted a decline of 1.7%. Carpet production has a continuous increase registering in first quarter of the year 2005 an increase of 21%, but clothes production 12.5%.

This industry shows significant reorganizations of the major companies. National garment articles face strong competition vs. the imported ones and many times are in unfavorable positions. A big part of final output is exported, while raw materials, equipment, know-how and models of clothes being brought by investors. The advantage and attractiveness of ready-made garments industry is relatively cheap and professionally prepared labor force.

Carpet industry records a dynamic development.

Another characteristic of this branch is that the largest part of the output is sold in lohn which usually brings a low value added. However, the majority of the developing countries passed through such periods of development.

We believe that positive tendencies of the first quarter 2005 will continue. Thus we could obtain an increase by 7.8% of textile, ready-made garments and fur and leather articles sector.

Publishing, printing and reproduction of informational materials

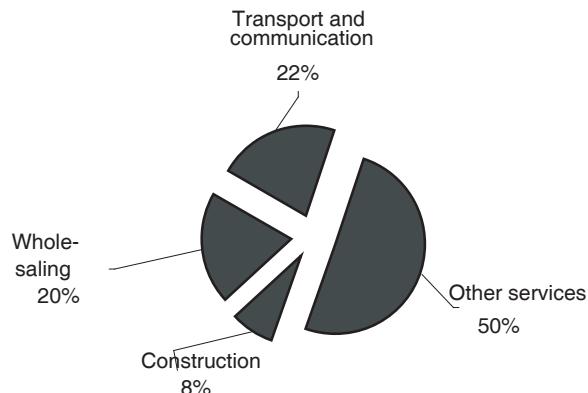
This sector registered an important increase last years, thus in 2001 the increase represented 40%, in 2002 – 39%, in 2003 – 27%. But in 2004, the growth of this sector was only 5%.

The small size of market on the one hand and the lack of new markets on another hand, led to a market saturation and higher competition. Two main factors that will determine the development of this sector will be quality, high technologies and economic efficiency. We estimate a growth of 9% for year 2005 due to investments in technology and competitive advantage of this industry toward the nearest countries. Also we consider that this branch will continuously develop if adequate marketing strategies applied.

Services

Services provided to population continued to grow in the first months of year 2005 however the growth rate decreased reaching only 5.7%.

In the structure of the provided services to population, over 90% represent utilities, post and telecommunication, transports, catering services, education, health and social assistance.

Figure 9. The structure of services sector, 2004

Source: SSD

Table 3. Real growth of value added, %

| | 2004 | 2005p |
|-----------------------------|------|-------|
| Transport and communication | 24.0 | 18 |
| Wholesaling and retail | 14.3 | 10 |
| Construction | 61.8 | 24 |
| Other services | 14.9 | 4.4 |
| Total | 19.4 | 10 |

Source: SSD, Calculations and forecast CPI

Official registered agents (have 88.4% from the total services) rendered services by 5.3% more compared to the similar period of 2004.

Physical entities (individual entrepreneurs) furnished services to population by 8% more in the Q1 of 2005 compared to similar period from 2004.

The growth rate of services will reduce and will represent only 10% in 2005. This growth rate will be supported by substantial increase in constructions, transport and communications.

Transport and communication

Rail, auto, fluvial and air transport companies carried out by 10% more in 2004 as compared to 2003. The railway transport held the largest weight in the volume and distance of transported merchandise. For the year 2005, it is observed a significant decrease of the volume of transported merchandises on the railway, the main cause being the cancellation of handling operations in the railway stations on the left side of Nistru and Bender.

The volume of communication services registered an increase during the year 2004. The volume of services of fixed line commutation increased by 15.9% for intercity calls and by 26.6% for international calls.

The both mobile providers will concentrate on furnishing of high quality services and extension of coverage area that currently exceed 80% for each provider.

The saturation of wireless communication will lead to changes in the strategies of providers: from the extensive strategy to the intensive. Here a great role will play the implementation of new technologies.

Despite the current situation, we expect an increase of 18% in transport and communication sector for the year 2005. The decrease of the growth rate will be due to the lower growth rate of industry, this one having a complementary interdependence.

Construction

Construction sector registered the greatest performance of the last 5 years. This sector developed due to construction and launch of some retail centers (Metro, Jumbo, Green Hills) as well as the increasing number of residential real estate. The demand for new residential estate was supported by remittances from abroad.(see the chapter MONETARY POLICIES). The high growth rate of construction, which will approach 24% in 2005, will contribute to consolidation in the services sector. Thus its share will increase from 7.7% to 8.2%.

Wholesales and retail

Wholesales and retail sector is very dynamic posting many changes in the last 5 years. This sector increased by 14.3% in 2004 representing a weight of 20% from services.

We forecast an increase by 15% in 2005 due to higher imports (see the chapter FOREIGN TRADE) and due to remittances from abroad which encourage and stimulate a consumption behavior.

The import of goods prevails in the trade structure, the tendency that will persist in the future.

Table 4. Retail trend

| | 2001 | 2002 | 2003 | 2004 | 2005p |
|--|---------|----------|----------|----------|--------|
| Retail, thousands lei | 7,612.4 | 10,753.4 | 14,537.0 | 17,427.6 | 20,913 |
| – compared to previous year, real figures | 114.8 | 134.2 | 118.2 | 111.0 | 110,0 |
| Services provided to population, thousands lei | 3,404.4 | 4,221.7 | 5,298.9 | 6,912.4 | 7950 |
| – compared to previous year, real figures | 121.2 | 111.8 | 113.3 | 104.8 | 115 |

Source: SSD, forecasts CPE

The sales of goods and rendered services increased 5 times vs. 1999. The increase of retail volume favors the creation of new shopping spaces and stores each of them increasing by 10% in 2004.

The growth rate in retail declined substantially

The large share of disordered trade in total retail will considerably decline in the next years in the favor of an organized trade, which currently holds 48%. This will happen due to the following factors: (1) increase of population welfare (see the chapter HOUSEHOLDS) will produce changes in consumption preferences and increase of demands of consumed products; (2) huge investments into retail spaces and stores as the result of the first above-mentioned factor.

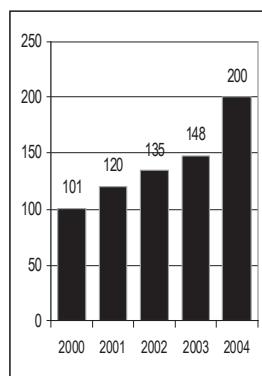
FOREIGN TRADE

Foreign Trade activity is rapidly developing mainly due to huge increase in imports

Rate of exports/ imports coverage will continue to diminish and in the end of 2005 will be less than 50%

There is observed increase of EU-countries share in Moldova's foreign trade, but it was mainly caused by EU enlargement

The value of goods processed in Moldova, USD



2004 is remarkable for increase in the foreign trade unbalance that is caused by internal consumption growth and changes of consumers' preferences. As a consequence foreign trade increased by 28.6%, although this increase is explained mainly by imports' growth prevailing the growth rate of exports. These tendencies will continue in the following few years and as a consequence we consider that in 2005 it will take place continuous growth of trade balance deficit that will achieve the level of \$850 mln.

General trends

Commodity circulation between Moldova and other countries showed an enviable growth in 2004 and we consider that it will achieve the level of \$3.5 bil. in 2005. But increase in Moldova's exports is followed by more evident increase in imports that negatively affects Moldova's trade balance. In 2004 only 55.6% of imports were covered by exports, but in 2005 this coverage rate will reduce to less than 50% thus Moldova will face increase of trade deficit in the following 3-5 years.

We can also observe the tendency of widening of Moldovan foreign trade area, but the main partners will still remain CIS-countries, but there is observed a tendency of increasing of European zone-partners' share.

Rapid growth of foreign trade with EU countries is mainly caused by EU enlargement. New European Union members nowadays become the main development engine of EU that will positively affect intensification of trade relations with these countries and "Old Europe". Acquisition of Moldovan companies by foreign investors created new conditions under which Moldovan enterprises begin to work under conditions when they receive raw materials, delivered by the owner, process it into finished products and then the owner takes these products for selling outside Moldova. (SEE CHAPTER SERVICES AND INDUSTRY).

There exists a negative effect in this case – low value added, but it is compensated by low risk level activating on international market that is assumed by foreign partner. Status of the country that operates using Lohn will help Moldova to face increasing international competition entering new and untraditional markets.

Another tendency we can trace in Moldovan foreign trade is re-export development that gives possibilities for Moldovan companies to grow. Another positive impact of this development tendency is observed in modification of foreign trade structure: increase in finished products exports and acceleration of raw materials imports. We consider that in 2005 these relations will dominate in the sphere of foreign trade development and will positively influence Moldovan exports growth.

In order to stimulate economic agents – exporters the government of the Republic of Moldova has to implement the following measures:

- Introduction of defensive policy having as a goal decrease of imports impact upon Moldovan economy
- Improvement of investment climate
- Support of initiatives and proposals in the sphere of international collaboration
- Elaboration of recommendations and elimination of restrictions in the sphere of exports regulation

Export

In the first 3 months of the current year we can observe increase of exports only by 6.9% comparing to the same period of the previous year and represents the worst exports growth rate since 2001 in the first 3 months of the year. In our opinion the main factors that negatively influenced exports growth rate are: (1) decrease of industrial production rate of growth in the end of 2004, (2) problems on Russian market for the main group of goods exported. Because of tendencies of slight industrial production growth, registered in the first 2 months of the current year(+4.5%), we forecast decreased growth rate of exports growth during the following months.

We can mention reorientation of Moldovan exports from traditional CIS-countries market to European market. But nevertheless Russia is the main consumer of Moldovan goods and represents country with that Moldova has the highest value of positive trade balance. In 2005 the main share of Moldovan exports will be represented mainly by agricultural products, but there is observed tendency of diminution of this group in total exports. Growth of Moldovan exports will be supported by growth of textile products exports.

GRAIN: Introduction of Universal commodity exchange in the Republic of Moldova on the first stage became a good instrument of Moldovan exports development, but the position of the state concerning the introduction of "rules" according to which almost all transactions with foodstuffs should be contracted in the framework of Commodity Exchange become an obstacle and we consider it will decrease the speed of exports' growth. (SEE AGRICULTURE CHAPTER).

Foodstuffs: During June-July of the current year Russia imposed a ban on agricultural products (fresh ones) imports, and we cannot be sure about the situation's quick solution. Introduction of these barriers can provoke losses for Moldovan enterprises, because in recent years there were observed huge investments in this sector of agriculture and these exports contain high level of value added. Although these interdictions can play a positive role in the long run cause national producers will have to process these products into finished goods (ex.- canned vegetables). In addition Agreement on free trade between Moldova and Ukraine and agreements with Belarus will allow to lessen current complicated situation with exports of foodstuffs (fresh).

We consider that in 2005 there will be increase in exports of foodstuffs, tobacco (SEE INDUSTRY AND SERVICES CHAPTER), that is confirmed by increase of investments in these areas. We can also mention growth in foreign long-term investments in wine industry, but the effect of these inflows will be observed only in the following years. Increase of this group of products exports in EU is supported by the orientation towards production of pure ecological products. There is observed nuts exports growth.

ANIMALS: For years Moldova was an exporter of animal goods, but nowadays we've got an opposite situation, when Moldova becomes a real consumer of imported animal goods. The situation created is conditioned by increased costs of animal goods production in Moldova. Government has to propose and to implement a clear policy in this sphere, oriented to protection of national producer. We consider Moldova will continue to loose its positions in this area during this year that is also affected by EU enlargement and introduction of defensive import barriers in the countries that traditionally represented market for this group of products (Romania, Russia).

Foodstuffs will continue to occupy the main share of Moldovan exports

Slow industrial production growth rate will cause decrease in exports' growth rate during 2005...

**Being an exporter of animal goods
Moldova became a net consumer of animal goods imported**

Import

In the first 3 months of the current year there is observed an increase in imports only by 28.9% comparing to the same period of the previous year. Especially thanks to increase in imports of energy resources (31.7%) and equipment (60%).

Growth of imports can be explained by purchasing power of the population increase and economic growth that were the factors that conditioned imports of energy resources, raw materials and equipment. Because of the fact that national producers cannot cover internal demand, capital inflow from Moldovans working abroad growth affects imports growth and increase in trade balance deficit.

The main trade partners in 2005 will remain CIS countries. We forecast rapid increase of raw materials imports' share in total imports that represents a positive factor. Moldova can benefit from re-export operations. Moldova has a possibility to become a "factory" that will be supplied by raw materials, then raw materials processing takes place and finished goods are exported. We consider that mineral resources imports will grow and its share in total imports will also be increased.

Thus trade balance deficit in 2004 was caused especially by growth in imports of products, essential for national economy's development and accelerated increase in consumption oriented goods.

We consider that 2005 will be remarkable by substantial growth in energy resources that will be also influenced by increase of their prices on global market (see PRICES CHAPTER).

Also we expect increase in capital import, represented by foreign direct investments (FDI). Because of undeveloped securities market and lack of transparency of enterprises management FDI represent the main and the most effective way of money investments in the Republic of Moldova. (SEE MONETARY POLICY CHAPTER).

One of the main importers of Moldovan goods remains Russia. Trade balance with Russia represents a positive amount cause Russia remains to be the main market for Moldovan foodstuffs, but we consider that in 2005 this positive trade balance will decrease by almost 20% due to growth in Russian raw materials imports on one hand and trade barriers imposed by Russia on another will result in decrease of Moldovan exports growth. In 2004 trade balance deficit with Ukraine constituted \$371.5 mln, Ukrainian statistics proposing us this figure in amount of \$592.5 mln. In the short run we forecast growth of negative trade balance with Ukraine, because Ukraine is the main supplier of raw materials and consumption oriented goods. In medium run (1-2 years) we can talk about slight decrease of trade balance deficit (Moldova vs Ukraine) thanks to signing in May 2005 of free trade Agreement.

Table 5. Evolution of Exports and Imports

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------------|------|------|------|------|------|------|------|------|-------|
| Exp CIS | 116 | 112 | 71 | 59 | 109 | 125 | 101 | 121 | 118.6 |
| Exp other countries | 90 | 106 | 76 | 103 | 93 | 114 | 132 | 125 | 132.0 |
| Imp CIS | 115 | 93 | 73 | 55 | 107 | 131 | 120 | 145 | 129.4 |
| Imp other countries | 154 | 135 | 103 | 59 | 150 | 107 | 114 | 129 | 124.3 |

Future prospects of wine exports in Russia after the liberalization of Russian wine market

In the first term of 2005 export of foodstuffs beverages and tobacco increased by 4.9% comparing to the same period in 2004 and as a consequence we can observe decrease of this group's share in total exports. Nowadays wine industry in the Republic of Moldova is rather instable that is because of high dependency level of this branch on exports.

In 2005 Russia introduced new system of excise-duties calculation on alcoholic beverages. This factor caused some delays in wine export operations towards Russia. At the same time Russia declared beginning of liberalization in the alcoholic beverages importers' licensing process in 2005. In spite of the fact that Russian National Association of alcoholic beverages producers oppose elimination of this licencing, Russia is pressed by OMC for liberalization of licencing process. But sooner or later Russia will have to liberalize licensing process that will lead to sharper competition on Russian wine market. As a result Moldova will partially lose its share in wine products imports on Russian market and in addition it can negatively influence volume of wine products' exports.

MONETARY

In 2004 the National Bank has effectuated several major interventions on the foreign exchange market in order to stabilize the exchange rate and to decrease the excessive appreciation of national currency. As the result of such actions we identify an increase in monetary aggregates M3 and M2 by 37.7% and 42.7% respectively. The stock of credits in economy has increased by 22.2%, the stock of deposits in national currency has increased by 85% at the same time the stock of foreign exchange deposits has increased only by 14.8%. The average currency exchange rate has constituted 12.33 MDL = 1 USD.

We consider that in 2005 the monetary aggregate M3 will increase by 34% and the aggregate M2 will increase by 32%. The average interest rate for loans in national currency will decrease and attain the level of 19%. The average currency exchange rate will constitute 13.2 MDL = 1 USD.

General Trends

The decrease of inflation rate is a priority objective of NBM that will lead to continual appreciation of national currency

The main declared objective of the National Bank is to attain and maintain the stability of national currency, through creation of conditions based on market economy principles on national money, loans and foreign exchange markets. At the same time NBM seeks to achieve a set of contradictory goals such as: maintaining the inflation low, preserving the stability of national currency in order to protect the exporters, to maintain low rates for credit resources and at the same time to rise the internal reserves in order to be able to face the external debt, the declared goal in Monetary policy for 2005 is to attain the amount of foreign exchange reserves that will permit to cover 3 months of imports.

A factor that complicates the simultaneous achievement of above mentioned goals are the foreign exchange injections originated from the incomes of Moldova's citizens working abroad. The massive interventions of the NBM on the foreign exchange market, which pursued the stability of the national currency, have brought to increase of the monetary mass and as a result have stimulated the increase of inflation. The NBM's sterilization policy was pretty influencing and permitted to decrease inflation but at the same time has pushed up interest rate for loans in economy.

Loans

The balance of credits have increased by 23% in 2004

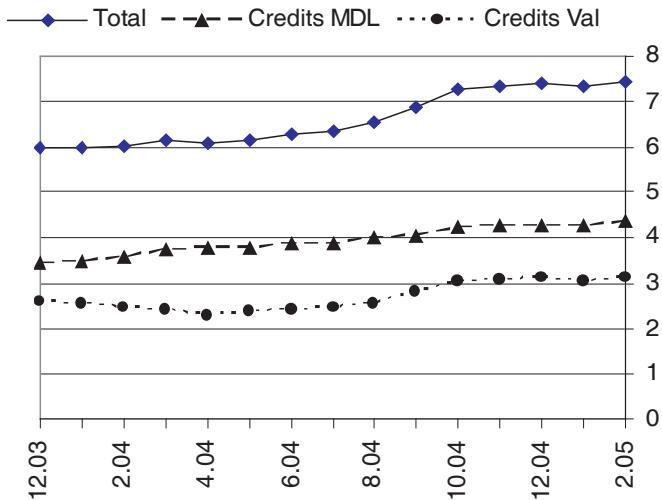
The balance of loans in 2004 had a rising trend, presenting an increase of 23%. The first 4 months of 2005 have been marked by a decrease of the balance of foreign exchange credits. We explain that by a seasonal decrease of activity based on imports that was also accentuated by an appreciation. January 2005 has shown a general decrease of credits in economy that was caused by a massive decrease of balance of foreign exchange credits, February at its turn have presented an increase of 123 thousands lei (1.7%), this increase was caused by increase of both credits in national and in foreign currency.

NBM's active policy on the loans market will the decrease of interest rate for loans offered by commercial banks

In first three months of 2005 we observed a tendency of decreasing interest rates for credits MDL, in February the average interest rate for credits in MDL have constituted 20.88% and presented a decrease of 0.28 pp comparing to January. Average interest rate for credits in foreign currency have insignificantly decreased by 0.03 pp comparing to previous period and attained the level of 11.26. We explain the decrease of interest rate for credits in MDL by the surplus of national currency on the money market. Also we have to mention the clear sign from the NBM which has decreased the interest rate for pawn facilities with 2 pp, now at the level of 14%, interest rate for overnight loans have been fix at the level of 15% (decreased

by 2 pp) We consider that such measures will cause a decrease of interest rate for loans granted by commercial banks.

Figure 10. Loans in economy



Source: NBM

Corporate bodies have remained the main Clients of commercial banks, in February 2005 the share of companies in total loans in MDL CONSTITUTED 92.7%, at the same time we can mention that the share of companies have decreased by 0.7 pp – comparing to same period of the previous year. We explain this by the intensification of the natural process crediting (consumer loans), which was influenced by a rapid increase of the private spending (see Households). Recent modifications in mandatory reserves for uncovered loans from 30% to 5% will create conditions for appearance of new contestants on the consumer loans market, all that will bring to development and increase of consumer loans market.

We consider that by the end of the 2005, the interest rate for loans offered in MDL will decrease under the level of 20.5%, at the same time the average interest rate for loans in foreign currency will maintain at the level 11.4%. These tendencies will be supported by the excess of national currency and moderate sterilization actions of the NBM.

Balance of Payments

Moldova balance of payments as in previous periods is characterized by commercial unbalance. In first 9 months of the 2004 the current account has attained the level of 59.83 mln. USD. Comparing to the same period of the 2003 the commercial deficit have increased by 35.51 mln.USD.

The main negative factor that determined such a result was the deficit of the goods and services balance, which constituted for 9 months of 2004 – 538.14 mln. USD, presenting a substantial increase comparing to same period of the previous year (+32.1%). The increase of gap between imports and exports of goods and services can be explained by a more rapid increase of imports +28.1 and respectively +25.8% for exports (see International Trade)

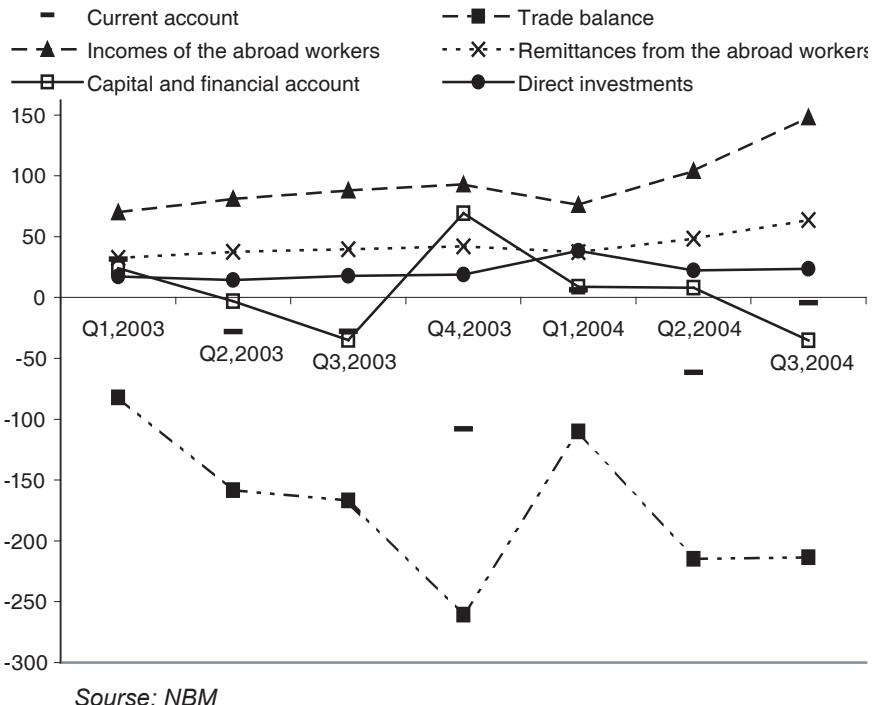
Current incomes and transfers have covered the commercial deficit at the level of 88 percent, the main impact had the incomes of cormorants

The essential decrease in obligatory reserves for uncovered loan, will cause a mass development of consumer crediting

In 9 months Of 2004 the deficit of the balance of goods and services have attained the level of 538 mln. USD.

abroad that accounted in 9 months of 2004, 328 mln. USD and the foreign remittances in the sum of 149.2 mil USD.

Figure 11. Evolution of balance of payments components



Source: NBM

Capital and financial account have attained the level of 43.9 mil USD for 9 months of 2004. We can observe the intensification of direct investments including foreign investments which accounted an increase of 51% comparing to same period of previous year (see International Trade). It is important to stimulate direct investment, and to guide the incomes fluxes from foreign remittances in the production sector of the Republic.

Foreign Exchange Market

In the first quarter of 2005 we observe a low dynamics of activity on foreign exchange market, comparing to previous year it grew only by 6%. We can mention a decrease of NBM's activity on inter-bank segment, so if in December 2004 NBM have effectuated pretty significant interventions on inter-bank market (40% from all transactions on inter-bank market was performed by NBM), but starting with January 2005, NBM interventions have decreased and constituted 13.02% in march 2005.

Due to the fact that NBM's proprietary goal is to maintain low inflation, national currency will appreciate insignificantly till the end of the year. Although in first months of 2005 national currency have insignificantly depreciated. We consider that this decrease was cause by several factors:

The effects of the massive interventions of NBM on the foreign exchange market 2004. As a result the reserves of the NBM have achieved a record level for last years and at 31.12.2004 it attain the level of 470 mln. USD. But in 2005 NBM have significantly reduced its intervention.

The legislative modifications, which have prolonged the time for repatriation of the currency, a factor which had a significant influence in the short-run.

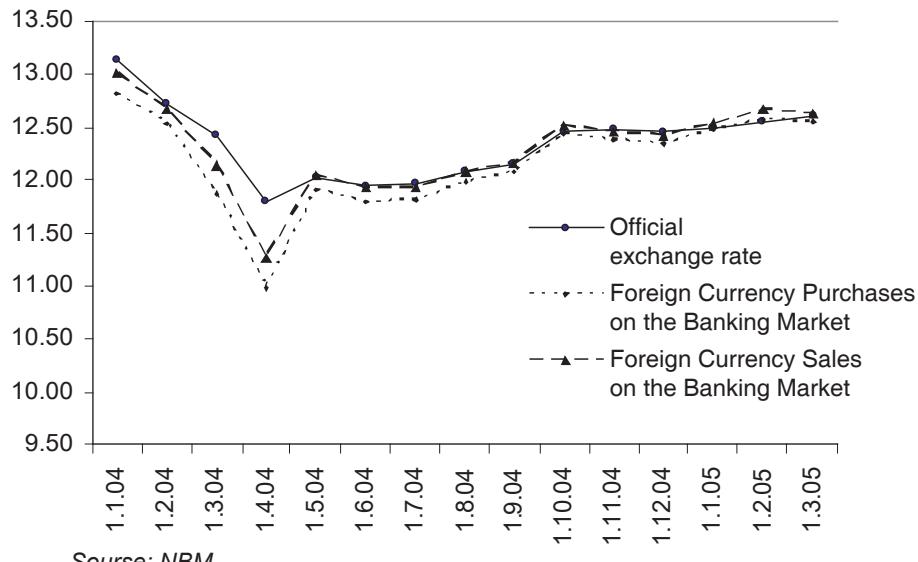
There was a slow dynamics of activity on foreign exchange market in the first quarter of the year 2005.

At 31.12.2005 NBM's reserves attaine a record level of 470 mln USD.

We consider that the average exchange rate will be 13.2 MDL = 1 USD, at the same time NBM will continue to interfere on the foreign exchange market, and the NBM reserves will grow to 550-570 mln. USD by the end of 2005.

The cash foreign exchange market is maintaining its tendency, the offer of currency from population is high, and the demand is low, there has changed the structure of offered currency: the offer of USD have increased

Figure 12. Evolution of foreign exchange rate USD-MDL



Source: NBM

comparing to January 2005 by 25%, at the same time the offer of EURO have increased by 75%. We explain that by increase of the number of Moldovan citizens working in Euro zone, and the offering by the international money transfer companies of transferring in Euro.

Monetary Aggregates

In 2004 broad money M3 increase by 38%, thus surpassing the levels of increase of previous years – 31% and 36% in 2003 and 2002 respectively. We consider that this indicators represent the result of the NBM's policy for 2004 concerning the diminishing of the pressure of foreign currency over national one.

The modification of the money in circulation brought to decrease in M3 and M2 at the beginning of the year and a slight increase in M3 by 2% for February.

At the same time we can mention that NBM has created a new instrument on monetary market – the certificate of National Bank, yet another factor is the increase of reserve of commercial banks at NBM, all that is sign of intensification of sterilization measures by NBM.

Taking to consideration recent evolutions, we consider that at the end of 2005 broad money M3 will increase by 34% and will attain the level of 15704.33 mln. MDL, also M2 will increase by 32% and will attain the level of 10740.84 mln. MDL. This increase will be determined by foreign currency influxes, which will push national currency to appreciate and will determine NBM to interfere on foreign exchange market, another factor will be the economic development and the necessity to finance business. We consider that NBM will be able to attain the goals stipulated in monetary policy for 2005.

In 2004 broad money M3 increased by 38%

There is an intensification of sterilization measures effectuated by NBM

PUBLIC FINANCE

General trends

The growth of the state budget met in 2004 was half of the growth rate in 2003...

During 2005, the most significant change in public finance related to the fact that special items were added to state budget, such as investment credits, special funds and special financial resources belonging to public institutions.

The decision to introduce such budget items derived from the strategy of consolidation and enhancement of the public finance, designed by the Ministry of Finance.

The fact that the state budget was rectified only once was another positive issue recorded during 2004. This proves the flow of continuous enhancements in budgetary planning process. After many attempts to restore the relations with the international financial organizations, the results were not achieved even in 2004. Therefore, the state budget was not fueled with 277 mln lei with external debt as earlier projected.

The growth of the state budget met in 2004 was half of the growth rate in 2003, approaching only 16% year-over-year, after 34% registered one year earlier. Moreover, this growth was mainly achieved due to increase in VAT collections.

The structure of the budgetary spending maintained almost constant during the last years, where social oriented spending held more than 50% of the total. The major change was met in healthcare spending, where spending rocketed 2.6 times. Additionally, significant advancements were recorded in spending for science, research and development, for these items the budget spending increased from 45 mln lei in 2003 to 115 mln lei in 2005.

Budget planning for 2005

Starting with 2005, the state budget contains the extrabudgetary funds of the public institutions...

Starting with 2005, the stat budget is designed based on a new concept. Thus, next to the traditional items of budgetary income and spending, the extrabudgetary incomes of the public institutions were introduced. That is why the budgetary income for 2005 is close to 7,724 mln. lei, and 1053 mln lei of which represent income deriving from special collections.

From the spending viewpoint, about 1610 mln lei are designed for special purposes in 2005. Because of many attempts to restore the relations with the international financial organizations, the concept of "income from grants" was modified for the 2005 state budget. As result, additionally to the item "grants for budget maintenance" of 144 mln. lei, the item "grants for investment projects" totaling 182 mln lei was added. This change improves the chances to execute state budget regarding the international grants.

In 2004, they collected VAT by 593 mln lei more than previously planned. For the current year, about 3.8 bln lei are considered, but we think this figure is below the figure we will have at the end of 2005. This fact make us believe that the budgetary income is underestimated.

During the last years, the state budget was specially designed so that incomes to exceed spending, the spread being directed to repayment of external debt. Nevertheless, this practice will cease in 2005 because the item about the "grants for investment projects" was added.

Execution of Budgetary Income

The growth in the state budgetary income slowed twice in 2004. Therefore, the income side of the budget was executed at 5477 thousand lei, which is by 776.2 thousand lei, or 16.5% more compared to 2003.

While the entire consolidated budget was executed at 102.8%, the income side of the state budget was executed at 97%. The main factors determining the changes and evolution of the income side of the state budget were:

The growth in exports generated higher than expected VAT reimbursements (of about 300 mln. lei).

The profits of the National Bank of Moldova were much under the previous planned figures (5.8 mln. lei compared to 158.8 lei planned).

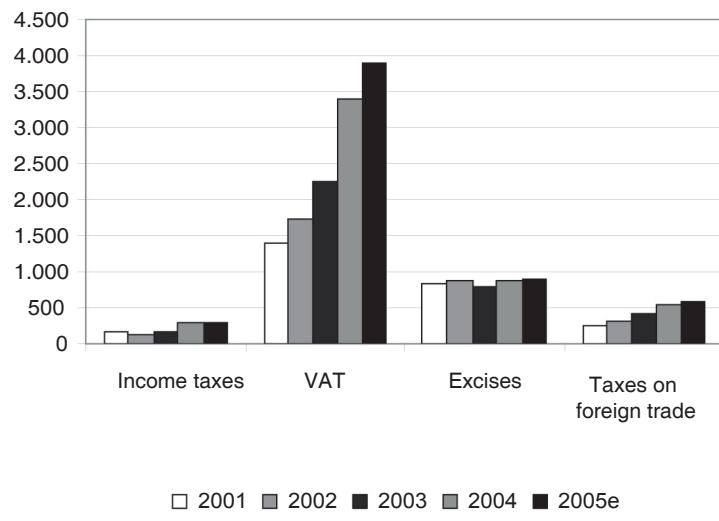
The permanent growth in the share of VAT collections in the total budget income is problematic for the national economy

Only 11.5 mln. lei were received from external financing compared to 289 mln. lei previously projected to be obtained from this source.

The negative impact of the above-mentioned factors was offset by the larger than expected VAT collections. About 593 mln. lei of additional VAT funds were collected in 2004 over to previously 3.7 bil lei planned.

The incomes of the State Fiscal Service posted continuous growth during last year. In 2004, these incomes augmented 5.1% percent points, reaching 53.7% in total budget incomes. Because of the high growth in imports (SEE ALSO FOREIGN TRADE), the customs income increased 55.4%. The share of VAT in total public incomes increased as well from 45% in 2001 to more than 65% in 2005.

Figure 13. The main income groups in the State Budget, 2001-2004



Source: Ministry of Finance

The current income structure underlines a difficult situation of the national economy, the lack of defined and understandable economic policy, as well as the lack of long-term potential for economic development.

Budget spending

There is a tradition that the state budget to be adopted with a surplus. This is mostly explained by the fact that external financing was included in budget incomes, despite Government doubted its execution. Moreover, during the last years the collected budget incomes exceeded the projected. For 2004 instead, situation changed. The income side of the state budget was executed at 97.8% and the majority of its income items were in line with previously planned figures.

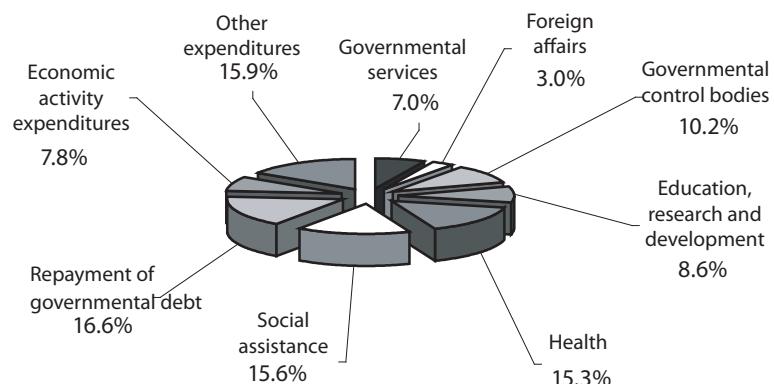
The investment spending are diminishing

The healthcare spending posted the most spectacular annual growth.

This cannot be said about spending items. The fact that many spending items were not executed highlights the obvious priorities of the Government. For example, the capital spending item was executed at only 53%.

Additionally here should be added the fact that most of the capital investments are accomplished by the public institutions and not shown in the state budget as they are financed from the extra budgetary funds of these institutions. This could be proved by the 2005 state budget, where these extra budgetary funds of the public institutions were added

Figure 14. The Structure of State Budget Spending



Source: Ministry of Finance

Pursuant to the Governmental targets, more than 50% of the budget spending are social oriented. In 2004, the healthcare spending increased 2.6 times and posted the most substantial growth rate. This trend is to be maintained during 2005, but the growth rate will diminish and for 2005, the healthcare spending will reach 1.1 bln lei.

Additionally, during the last two years the spending for research and development increased twice. For 2005, they will constitute 115 mln. lei. We believe the state budget will remain a social oriented budget during the next years and the spending structure will not change significantly.

We consider that a certain improvement could be met in capital investments spending, because a new methodology was introduced, regarding the calculation of midterm spending. As a result, we foresee increase in budgetary capital spending for the next years, both on the quantitative and qualitative sides.

The outlook of a real estate tax.

Each Governing faced difficulties when deciding how to tax the taxpayers and not affect the electors.

This dilemma is more than actual today, as significant changes are needed regarding the taxation of real estate. The proposed tax changes are revolutionary, and, if not managed with care could turn in mass disagreements with the Governing.

While significant VAT collections are indirect taxes and not felt by the taxpayer, the real estate tax is a direct tax, and is directly perceived from the physical and legal persons owning the estate. Namely, this direct payment generates sizeable psychological consequences.

For example, a family living in the countryside pays thousands of lei annually in VAT form. However, big problems appear when the local authorities require them to pay 30 lei as real estate tax.

The experience of collecting such tax emphasizes some interesting issues: population does not understand the meaning of this tax, there is no tradition to pay real estate tax. As a result, the local authorities encounter considerable problems when collecting such taxes.

Despite of the problems, a reform is needed on this field. In 2004, the investments in real estate were about 5 bln lei. However, this growth in value was not reflected in growth of real estate tax collections.

The first amendments regarding the taxation of real estate were simply technical issues. Thus, the tax was divided in tax for buildings and tax for land. This difference will disappear for the future years. Additionally the amendments could touch the proliferation of a single tax in agriculture.

The second amendment in real estate taxation regards the object of taxation. The tax will be applied on real estate, including lands, but the calculation of tax will start from the market value of the taxed estate.

Because of this amendment, the collection of real estate tax should grow by approximately 5 times.

Another feature of the real estate tax is that the tax is collected by the local public authorities and will remain totally in local budgets. The higher collection will improve significantly the financial situation of local authorities. Moreover, the funds will enhance their financial independence and improve the local autonomy, the last target being a direct commitment of the Republic of Moldova toward European Union.

The disappointing side relates to the fact that the legislation does not stipulate clear definitions of this tax at local levels, the broad definition of the tax being left to regional commissions. This step does not match with the principles of local autonomy.

Thus we consider it is vital that the broad definition of this tax to be part of the Law. Moreover, according to international practice, this tax is collected at the first level or at the level of city halls.

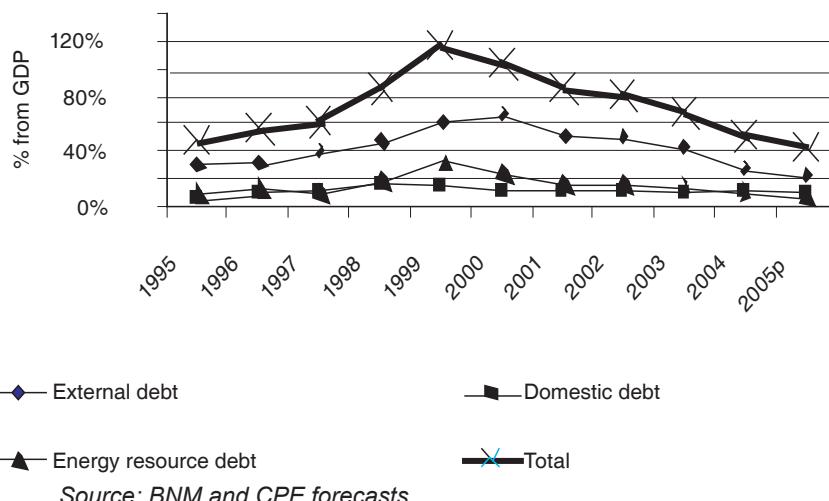
Public debt

For the first time the public debt reduced in nominal terms, as well as% of GDP

In 2004, the public debt decreased for the first time since independence of the Republic of Moldova reaching 16.600 mln. lei, compared to 19.210 mln. in 2003(taking into account the annual exchange rates). This decline appeared as a result two major reasons: (1) reduction of the debt and installments for energy recourses, (2) appreciation of national currency. Thus, we can argue that the appreciation of national currency of the Republic of Moldova led to a reduction of 1 700 mln. lei, or 65% in the total debt reduction during 2004. The rate of the public debt relative to GDP followed a downtrend to 52% in 2004 from the peak of 11.5% of GDP in 1999.

This downturn relative to GDP is determined by both reduction of the debt guaranteed by Government as well as lower installments for prior debts related to energy resources. Furthermore, GDP posted significant nominal growth rates ranging from 20% to 35%. This nominal growth, coupled with a strong exchange rate of the MDL leads to essential debt reduction.

Figure 15. Evolution of public debt as% of GDP



Source: BNM and CPE forecasts

The apparition of local currency is the main factor diminishing the external public debt as% of GDP.

However, the external and domestic debts register divergent trends. The external debt becomes lower due to Government's incapacity to agree new financing with international financial organization, but the domestic public debt records constant growth rates.

Table 6. Evolution of basic indicators

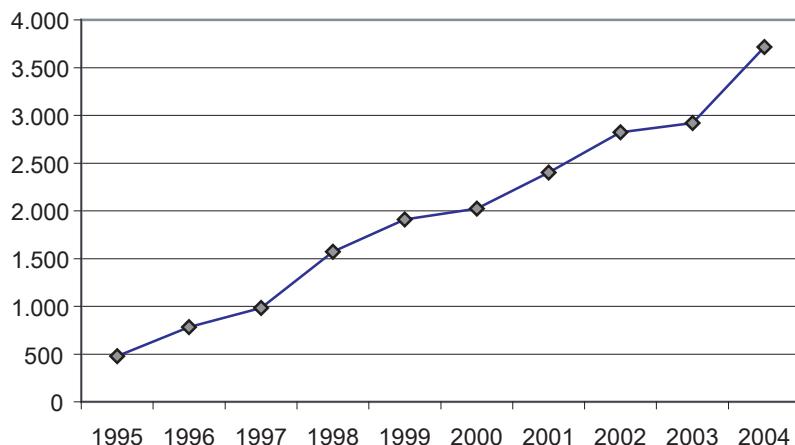
| | 1995 | 1999 | 2004 |
|---|---------|----------|----------|
| GDP mln, MDL | 6,479.7 | 12,321.6 | 31,991.7 |
| External public debt, direct and guaranteed, mln, USD | 435.7 | 758.6 | 758 |
| Domestic public debt, mln, MDL | 476.7 | 1,910.5 | 3,714.1 |
| Debt deriving from payments for energy resource, mln, USD | 171.4 | 415.4 | 287.1 |
| Exchange rate (annual average) MDL/USD | 4.4955 | 10.5242 | 12.3283 |

Source: BNM and CPE forecasts

While starting with the year 1995, the public debt was holding a constant 15% share in total public debt; in 2004, the share of domestic public debt approached 22.3% in total public debt.

The share of domestic public debt increased significantly to 22.3%...

Figure 16. Domestic Public Debt, mln. MDL



Source: BNM

In the circumstances of no additional external financing, the domestic public debt should increase in nominal terms and as a share of the total public debt.

Forecasts

The budget planning for 2005 was more prudent because of the weak execution of the state budget in 2004. Thus in 2005, they essentially reduced the income items for which only partial collection was achieved during 2004. For the remaining items, they underestimate the income for 2005. We believe the budget income collection will exceed by 15% the planned budget incomes for 2005. Due to high budget income collections, lower external debt and availability of funds on the domestic financial markets the Government will have all premises to focus and spend for capital investments. Despite the spending structure of the state budget will not experience significant changes, we agree that small change will occur in favor of budgetary investments. We consider the public debt should follow its decline due to lower external debt, national currency appreciation. Thinking in relative terms, the public debt should reach 45% as percent of GDP in 2005.

PRICE

General Trends

**Inflation Rate
constituted 12.5% at
the end of 2004**

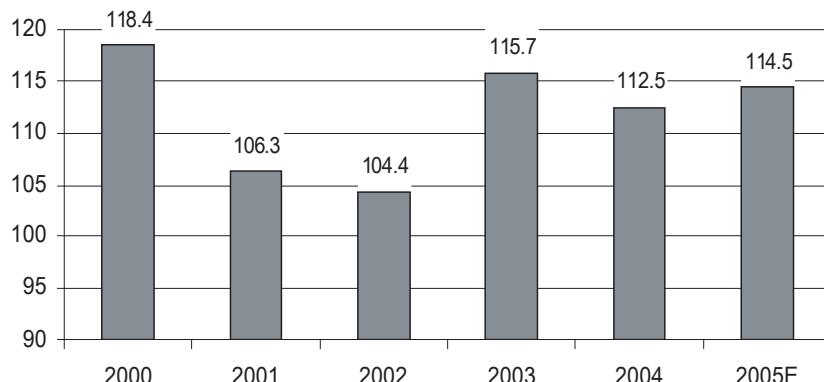
The monetary and currency policy of the National Bank of Moldova for the year 2004 was based upon the following indicators:

- Inflation rate level within the limits of 8-10 percent;
- 5% Real GDP increase;
- Average exchange rate estimated for the year 2004 constituted 15.2 Lei per 1 US Dollar.

However, the real situation confirms the incapacity of the National Bank to effectively manage both the inflation level and the exchange rate.

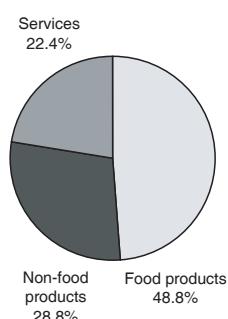
After a stabilization of the inflation rate in 2001, the year 2003 came with a double acceleration of the inflation, constituting 12.5 in 2004. According to the latest trends we expect the 2005 inflation level to exceed the 2004 one.

Figure 17. Consumer Price Index (CPI)



Source: RM National Bank, estimations belong to the expert.

CPI Components



The actual CPI structure disfavors the prices for services, this being the branch with the greatest dynamics and weight in GDP. All the more, the future CPI should be reorganized in disfavor for the alimentary products and in favor for services and non - alimentary products.

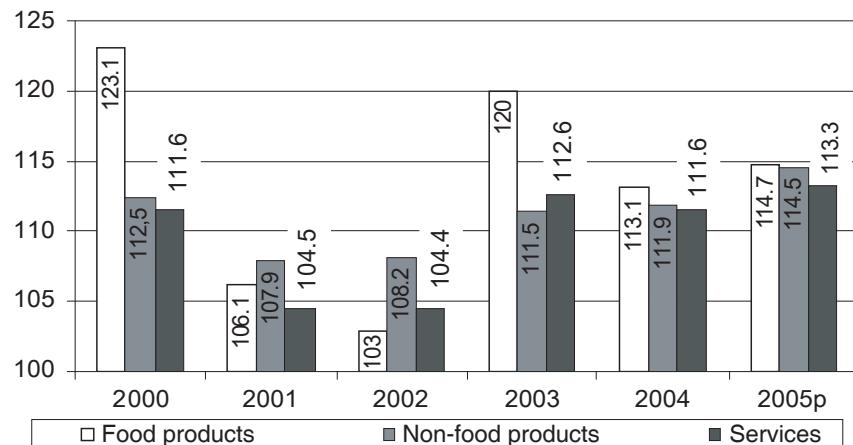
The price for food products has increased by 13.1 per cent in 2004, bringing 6.1 per cent points or 48.8 per cent to the annual rate of inflation.

Under this context, we can evidenitiate the increase in price for food stuffs of animal origin (meat, meat products and cans – by 29.9 per cent) and of vegetables and fruits by 59.9 and by 25.0 per cent respectively.

The increase in price for non - alimentary products and the tarrifs on services rendered for the population constituted, correspondingly, 11.9% and 11.6%, contributing with 3.6 and 2.8 per centage point, respectively, to the increase of the inflation rate.

Within these two groups, the increase in the administrative regulated prices had a great contribution on the inflations dynamics, namely: medical attendance – by 23.9%, services and telecommunications – by 23.8%,

Figure 18. Consumer Price Index Structure



Source: NBM, expert's estimations.

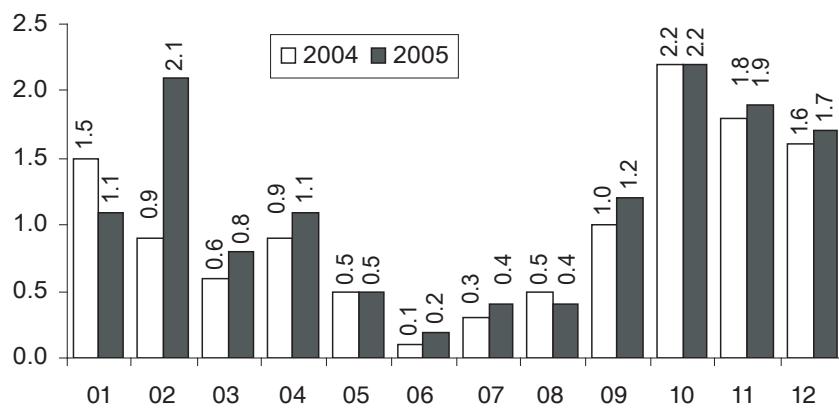
water and sewerage services – by 23.3%, and also fuel – by 23.2%, transport services – by 20.0%, footwear – by 14.4% and manufactures – by 14.2%.

CPI Seasonality

Prices had a seasonal activity in the past, with larger variation levels during the months of autumn - winter and with a relative stabilization in summer.

Inflation has a strong seasonal character, high rates during the winter period and very low rates in summer

Figure 19. The Monthly Level of Inflation, in % compared to the previous month



Source: SSD, expert's estimations

This seasonality was a result of the massive imports of energetic resources over the cold season, which brought to an increase in production costs and implicitly, in prices. The same way, exports are activated during the autumn period, in this case inflation being an instrument for export stimulation.

Recent Trends of Prices Evolution

The policy of the National Bank of Moldova for the year 2005 regarding the level of inflation is based upon the same objectives as for 2004. These objectives were unsuccessfully performed in 2004, and it seems to unfortunately not gain realization in 2005 neither (SEE THE CHAPTER ON MONETARY POLICIES). Especially we refer to the maintenance of the annual inflation rate to about 8-10% and to the creation of the necessary conditions to reduce the annual inflation to 5% by the year 2010.

CPI measured 4% during the first trimester of the year 2005, compared to the 3% registered during the similar period of 2004.

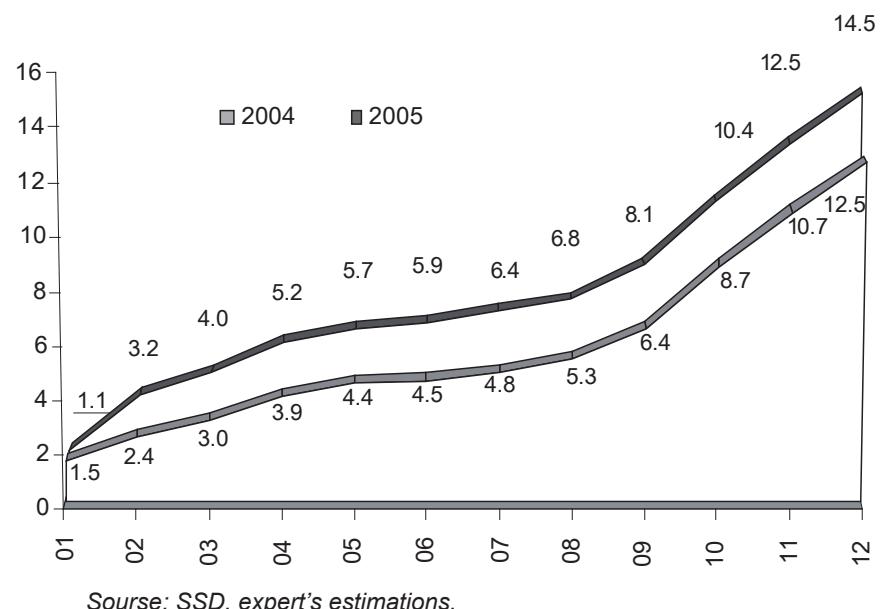
The recent trends show an acceleration of the inflation level. This way, the consumption prices went 0.8% up in March 2005 compared to February 2005, this increase including: 0.9 per cent for food products, 1.0% for non-alimentary and 0.2% for the services rendered for the population.

According to the SSD data, food products registered larger increases in price during the first trimester of the year 2005, and namely: potatoes – 8.8%, beef – 5.4, fresh fish – 4.8 increase.

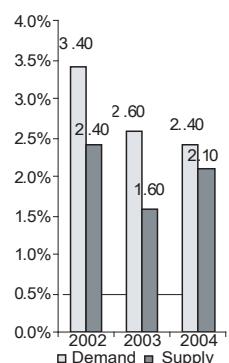
Referring to the non-alimentary products, increase in prices were registered by fuel – 2.3%, mens footwear – 1.9%, and clothing – 1.1%.

Tariffs for laundry and dry cleaners services have increased by 5.3% and for houses renovation – by 5.4%.

Figure 20. Monthly level of inflation, in % compared to December of the previous year



Global Demand and Supply for Oil



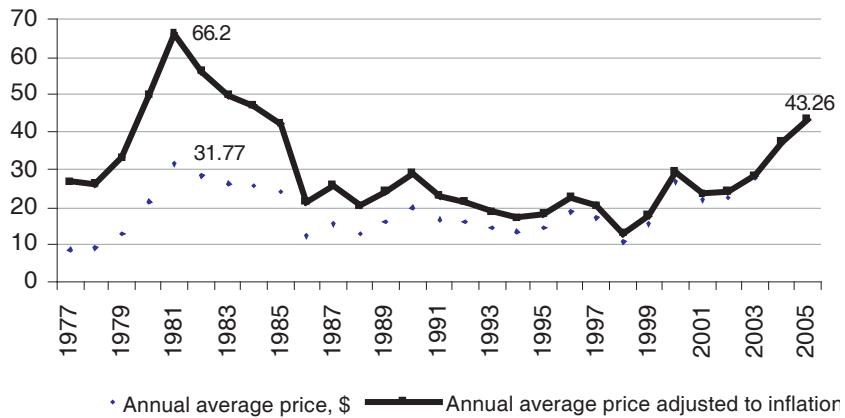
Trends Regarding the Global Oil Price

According to the U.S. Energy Information the global oil demand for the years 2005-2006 will continue to exceed the supply, creating premises for maintaining the prices at present or even increasing levels²⁹.

²⁹ <http://www.eia.doe.gov/emeu/steo/pub/contents.html>

The average price for oil during the year 2004 constituted about \$37.66/bbl. During the first months of 2005 the average price raised up to \$43.26/bbl already.

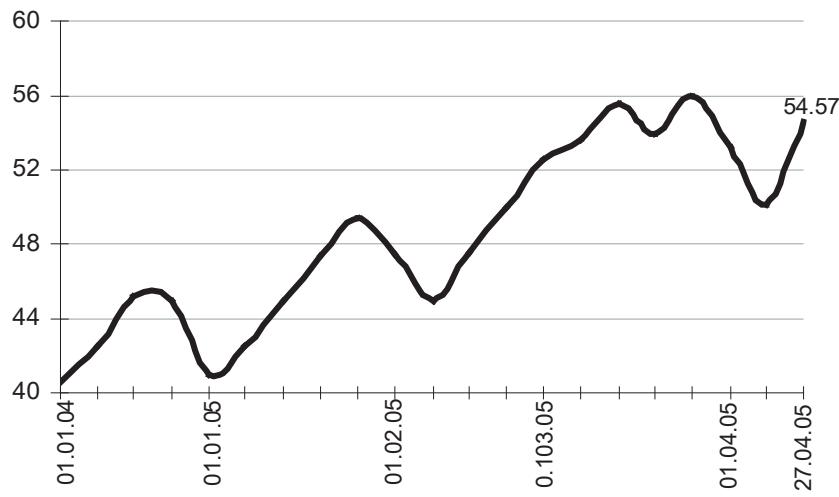
Figure 21. Global Price for Oil, 1977-2005, \$/bbl



Source: http://inflationdata.com/inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp.

After a relative stagnation of the oil price over the months of January - to February 2005, the ascending dynamics of oil prices has continued in March, so that at the end of the month the price exceeded \$56.4/bbl.

Figure 22. Global Price for Oil, 2005, \$/bbl.



Source: <http://www.wtrg.com/daily/crudeoilprice.html>.

In order to discourage the continuous increase of oil price the OPEC countries have agreed to raise the oil extraction by app. 500 th bbl per day, or by 1.9%. However, the supply and the existent capacities cannot face the increasing oil demand.

Various analysts have issued forecasts regarding the oil price, but the big variation between different opinions implies special attention in their appreciation. The majority of prognoses fall in the interval of \$40-55/bbl. More pessimistic prognoses also exist, like for example Goldman Sachs expects a price of \$105/bbl at the end of 2005.

Forecasts

The rate of inflation will reach 14.5% in 2005.

As it was mentioned for the year 2005, we expect the inflation rate to exceed the 2004 year level. We consider the following factors as decisive for maintaining a high rate of inflation:

- An expected economic increase of over 5%. According to its nature, the economic increase generates inflation, due to the growth of consumption which stimulates imports and raises the gap between imports and exports.
- The massive capital infusions from the citizens of the Republic of Moldova take place outside its borders. As a result of the massive inflows of capital, the pressure over the money supply increases, this way making the National Bank increase the monetary issue that will finally lead to the increase of prices and implicitly of inflation. In case if money supply were not going up, the threat of national currency appreciation appears, leading to the creation of supplementary barriers to export promotion. Inflation holding also a role in decreasing the profits and generating additional profits for exporters.
- Increase in price for energetic resources. After the successive raise in price for oil and diesel oil at the beginning of the year 2005, it is expected that soon enough other products will also follow ascendent dynamics, as energetic resources are part of almost all the existent products and services. In this sense, a good example is the announcement of the Chisinau public authorities to stint some routes of municipal public transport due to their low profitability according to the new price conditions for oil. Hence it is expected for the prices of industrial products and services to be adjusted to the oil price shifts during the next 1-2 months, while the raise in price for the agricultural production will be felt in autumn.
- Increase in the import price for natural gas from Russia. Although this is not final, an increase in price for natural gas will still create other premises for deepening the level of inflation.
- The reimbursement of credits contracted by the Government from the National Bank and the reduction of mandatory reserves of the Commercial Banks at the National Bank will influence the level of money supply. The influences will compensate each other though, that's why we do not give them high consideration in dimensioning inflation for the year 2005.

Considering the social orientation declared by the Government of the Republic of Moldova, we may admit the possibility of maintaining a relatively stable level of prices during the year 2005.

The end of 2005 and the year 2006, though, may bring important price raise for public services (transport, electricity, termic energy, water and sewerage), as well as for food stuffs (bread, meat, fresh fruits and vegetables).

HOUSEHOLDS

After a severe increase in the population's real income during the last years, a dramatical slow down took place in 2004, when the growth constituted only 3.5%. CPI had the biggest influence on this indicator, due to its sharp raise over the past two years (SEE THE CHAPTER ON PRICES). The 2005 trends show a low rate maintenance of the real income increase, that will constitute about 5%. The increase of the money income quota in disfavour for the incomes in nature is a positive trend. The population's consumption expenditures have increased by 11.5% in 2004, and for the year 2005 we forecast an up to 15% increase. The final consumption exceeds GDP during the last years, and this phenomenon will remain unchanged for the next years too. The households consumption will continue to measure 90% of the GDP. The selling of products and services will register an increasing trend of 10% and 15% respectively, consumers shifting preferences to the organized commerce.

The high rate of inflation has diminished the population's real income increase

Population's Income

After the population's real income has registered a significant increase over the past few years, an alarming slow down was observed in 2004 when the increasing rate measured only 3.5%, compared to 26.5% in 2002. In our opinion, the basic factor that diminished the population's real income in 2004 was the high CPI, that measured its doubled value of the previous years. (SEE THE CHAPTER ABOUT PRICES).

The population's available income has increased 2.6 times during the last 4 years

Table 7.Dynamics of the population's available income

| | 2001 | 2002 | 2003 | 2004 | 2005p |
|---|-------|-------|-------|-------|-------|
| Population's available income (monthly average per person), lei | 241.0 | 321.6 | 422.4 | 491.4 | 565.2 |
| Population's available income, in% compared to the previous year, CPI correction included | 17.7 | 26.5 | 17.4 | 3.5 | 5.0 |

Source:SSD, CPE forecast

The continuous increase of the weight of wage in the population's available income is a positive trend. Thus, wage constituted 40.5% of the total income in 2004, with an increasing future trend.

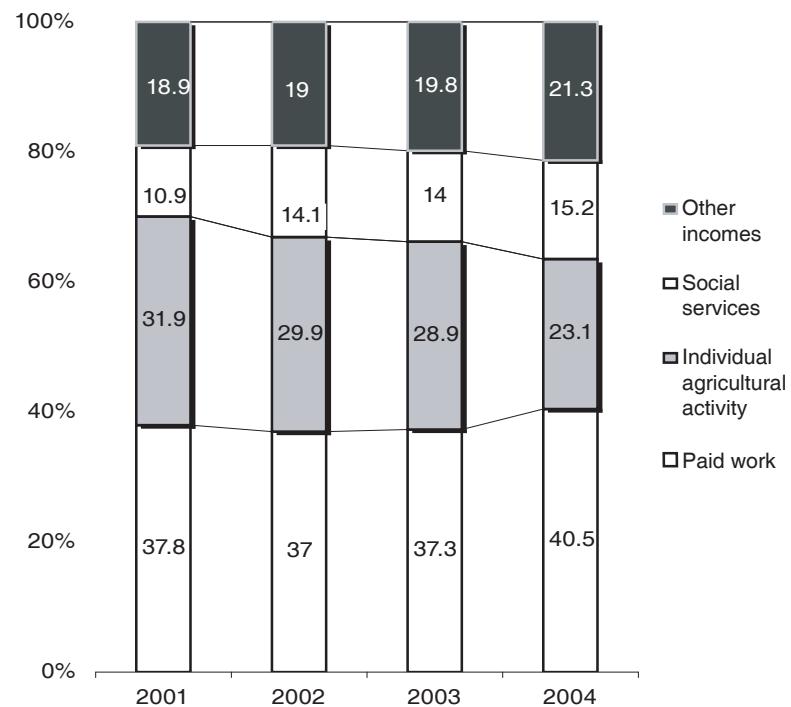
The gap among the population's incomes per residence continues to be high. So, the income of the population from urban area in 2004 was 60% higher compared to the income in rural areas. Another discrepancy per residence relates to the weight of wages in the total income, that measures over 60.0% in cities and towns and under 28% in the rural areas. Yet, unlike in the rural area, the urban area population is very dependent on a single income source, which becomes a high risk factor for the household budget in the uncertain economic conditions.

The trend of diminishing the income in nature is observed during the last years, in favour of money income that reached a 75% weight in 2004. This is a result of the national economy's animation (SEE THE CHAPTER ABOUT INDUSTRY AND SERVICES) and of the money transfers from outside the borders (SEE THE CHAPTER ON MONETARY POLICY).

Still, this chapter also has major discrepancies among residences. Thus, money income constitute 92.5% of the total income in the urban areas, whilst it barely reaches 60% in the rural ones.

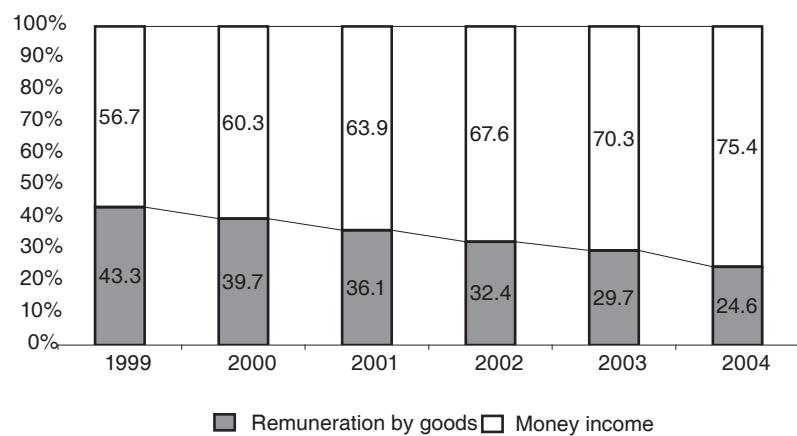
The weight of money income increases within the structure of the population's income

Figure 23. Evolution and structure of available, %



Source: SSD, CPE prognostication

Figure 24. Weight of income in money and in nature, as % of total income



Source: SSD, CPE forecast

Population's Consumption Expenditures

The average monthly consumption expenditures per person constituted 479.4 lei in 2004, or 11.5% more than the previous year. Though, the real expenditures decreased by 3.5% due to the high inflation rate.

Another factor that influenced the decrease of real expenditures per capita was their substantial reduction by 11.3% in the rural areas. Meanwhile, the real expenditures in the urban area increased by 6.7%, which developed even more the gap among the residences.

Over the last 5 years the consumption expenditures have continuously grown with an about 30% average annual rate. After this, the year 2004 registered a stoppage of this increasing trend, a fact that will remain actual also for the previous years. This trend is based upon 2 basic factors: (1) the slow down of the increasing rhythm of the population's real incomes; (2) under the conditions of an economic stabilization, the population's propensity to savings raises. (SEE THE CHAPTER ON MONETARY POLICIES)

Table 8. Evolution of consumption expenditures

| | 2001 | 2002 | 2003 | 2004 | 2005p |
|--|-------|-------|-------|-------|-------|
| Consumption expenditures (average monthly per person), lei | 248.8 | 325.8 | 429.9 | 479.2 | 552 |
| Rhythm of consumption expenditures' growth | 1.3 | 1.31 | 1.32 | 1.14 | 1.15 |

Source: SSD, CPE forecast

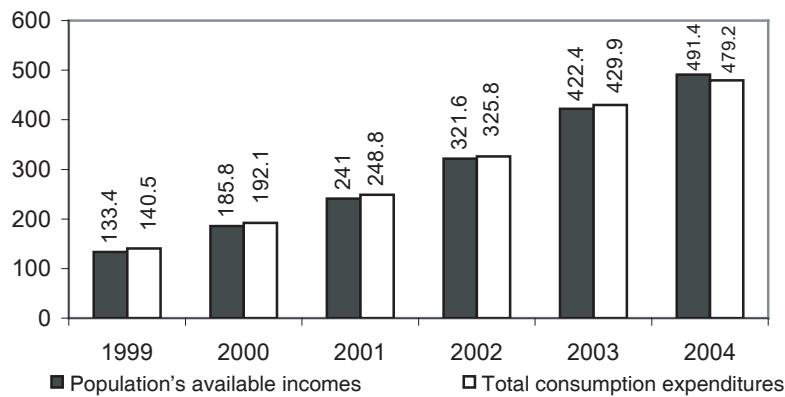
Analysing the increase of available incomes next to consumption, we observe only a slight difference between them. This is the result of both, the small propensity to savings, untrust in the accumulation process, and the existence of additional income sources that are not included in the statistical data, and that would evidentiate a real structure of incomes, consumption and savings.

Figure 25. Evolution of population's available incomes and of total consumption expenditures, average monthly per person, lei

The real expenditures of the population are decreasing

The gap among the population's expenditures per residence is continuously growing

For the first time over the last years the consumption expenditures are less than the current incomes, which represents a propensity to savings



Source: SSD, CPE forecast

The structure of consumption expenditures has substantially changed over the last years, food stuffs registering a continuous decrease, that is now about 55%. We explain this by the increase of the population's purchasing power and the non-significant evolution of the current and real prices to food stuffs.

Total Consumption

The rhythm of increasing the final consumption during the years 1998 - 2004 has exceeded the GDP's rhythm of increase. From 1997, when the emigration process took proportions, and until 2004, consumption developed 4.75 times, while GDP increased 3.6 times in the same period. As a result, the final consumption exceeds GDP in the last years, the main quota belonging to the increase in the households consumption, conditioned by the increase of financial means transfers from outside the borders. At the same time, these incomes have had a significant impact over the domestic demand increase and the economic development of the country.

We consider that a slow down in the increase rate for the money transfers from abroad will be observed in 2-3 years. It will happen in the result of the permanent emigration.

Table 9. Consumption as % of GDP

| | 2001 | 2002 | 2003 | 2004 | 2005p |
|--|--------|--------|--------|--------|--------|
| GDP | 19,052 | 22,556 | 27,619 | 31,992 | 36,200 |
| Final consumption | 19,263 | 23,289 | 30,450 | 33,832 | 38,000 |
| Households | 16,385 | 18,493 | 24,711 | 28,576 | 32,850 |
| Household Consumption in the Total consumption | 0.85 | 0.79 | 0.81 | 0.84 | 0.84 |
| Household Consumption in GDP | 0.86 | 0.81 | 0.89 | 0.89 | 0.89 |

Source: SSD, forecasts CPE

If we analyse the evolution of the final consumption and compare it with the households evolution, we can evidentiate a larger increase in the households consumption (15.6%) next to the increase in the final consumption (11.1%), which represents the overdominance of the population propensity to consume, trend that will remain unchanged for the next years.

The actual rate of the final consumption to the GDP will maintain over the next years, registering a slight decrease in the final consumption, which is a phenomenon characteristic to the countries under development.

THE LABOR MARKET

General Trends

The trends of worsening the employment indicators have continued in 2004 regardless of the registered positive economic development. After the census in 2004, it resulted that the real labor resources are less than the ones calculated on the basis of the country's Statistics and Sociology Department estimations.

The economically active population of the Republic of Moldova measured about 1,483 th in 2004, registering approximately 3% decrease in comparison with the 2003 year level. The rural population had a larger weight (54.9%) in the total active population due to the higher importance of agriculture.

The employed population constituted over 1.316 th in 2004, 3% less than in 2003.

Table 10. Labor market indices, th

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005p |
|--------------------------------|-------|-------|-------|-------|-------|-------|
| Total population | 3,639 | 3,631 | 3,623 | 3,612 | 3,386 | 3,383 |
| Population aged 15 and over | 2,778 | 2,807 | 2,840 | 2,868 | 2,699 | 2,764 |
| Economically active population | 1,655 | 1,617 | 1,615 | 1,474 | 1,483 | 1,492 |
| Employed population | 1,515 | 1,499 | 1,505 | 1,356 | 1,316 | 1,303 |
| Unemployed population | 140 | 118 | 110 | 117 | 116 | 117 |
| Dependency rate | 1.4 | 1.42 | 1.41 | 1.66 | 1.57 | 1.6 |

Source: SSD, forecasts CPE

The employed population counted over 1316 th in 2004, 3% less than in the year 2003. Within the distribution according to residencies, 56.8% of the total employment are the rural employed.

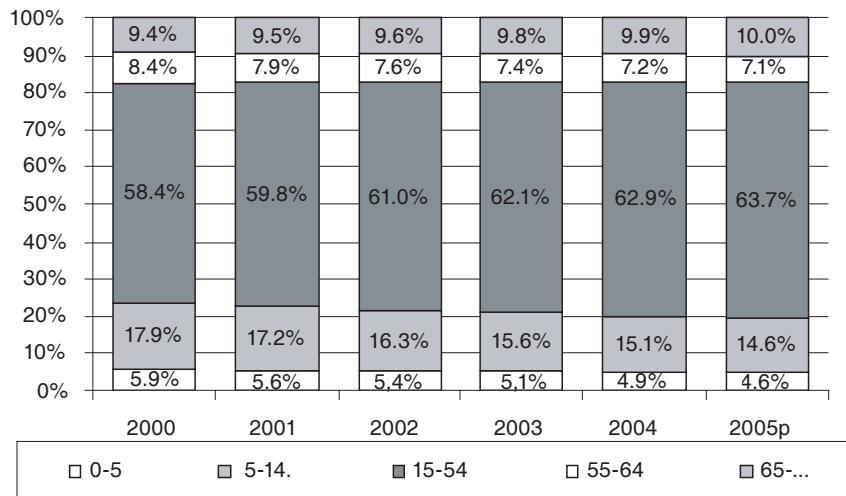
The number of unemployed according to the International Labor Organisation (ILO) was over 116 th, 0.5% less than in 2003. the unemployment touches men in wider manner – 60.2% and the persons with urban residence – 66.2%. The average unemployment duration is 22 months.

According to the 2004 data the number of youngsters aged between 5 and 14 years (population that will be counted as labor in the next 10 years) is twice higher than the number of population that will pension during the same period.

So, the continuous increase in the labor force is expected, but this situation will remain unchanged about 4-5 years due to the small natality. After this, the labor resources will become stable for a period and then will start to reduce.

Considering the age structure of the population, the labor resource will continue to grow in the next 10 years...

So, the migrational phenomenon will continue

Figure 26. Age distribution

Source: SSD, forecasts CPE

We, actually, find ourselves in the period when the „baby boomers” of Moldova (persons borned in the period of 1985-1990 when a record number of newly borns was registered in Moldova) become capable to employ.

The increase of labor resources will constitute an extra pressure on the national economy, that will not manage to provide enough jobs, so that the migration phenomena will continue to run.

The population's activity and employment rate falls

The activity rate of the population aged under and over 15 fell under 50% in 2004, compared to 75% in 1996

Due to the fact that an important part of the population have self-excluded themselves from the economic circle, being disappointed and not looking for a job, we consider the estimation of the employment level on the basis of the unemployment rate as unappropriate. We consider using the rate of employment and activity more important.

The activity rate of the population aged 15 and over constituted 49.7% in 2004, in comparison with the 75% registered in 1996. if the level of the year 1996 (meaning 75%) had maintained than the economically active population of the country should have measured 2003 th or around 540 th more than the present number. We can state that about 540 th are whether employed in the underground economy, whether have migrated looking for jobs outside the borders and have unofficial incomes.

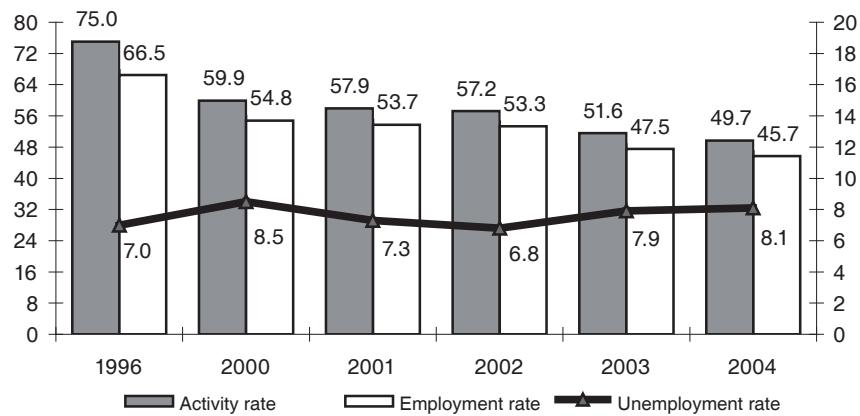
The employment rate of the population of 15 years older and over³⁰ was equal to 45.7%, registering a slightly decreased value compared to the year 2003 and by about 20.8 per cent points less than in 1996.

As a consequence of the reduction of the employment and activity rates led to a double increase of the unemployment rate³¹ (according to the ILO estimations), that is approaching 8.1% at the moment.

³⁰ Employment rate – the rate between the employed population and the population aged 15 and over.

³¹ Unemployment rate - represents the weight of the total number of unemployed in the number of economically active population.

Figure 27. Economically active population, employed population and unemployment



Source: SSD, forecasts CPE

Taking into consideration the data presented in the population's census, the reduction of the activity and employment rates, we can observe that over 700 th permanently or temporarily emigrate in search for jobs. This migration will continue as the labor resources will continue to increase.

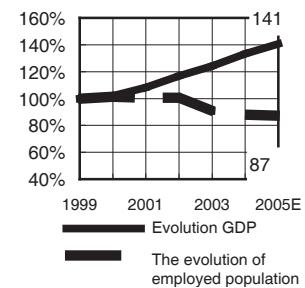
The GDP Increase Did Not Result in the Increase of Employment

The favorable dynamics of the GDP over the last years did not contribute to the creation of new jobs. Moreover the population employed in economy continued to diminish. For the year 2005 we forecast that the employment will continue to decrease, regardless of the expected economic increase, the main cause laying in large reserves of developing the labor productivity, especially in agriculture. Thus, the economic development will lead to the increase in productivity and wages, and not in employment.

The economic growth leads, though, to changes in the structure of employment, decreasing the weight of agriculture and raising the weight of other branches.

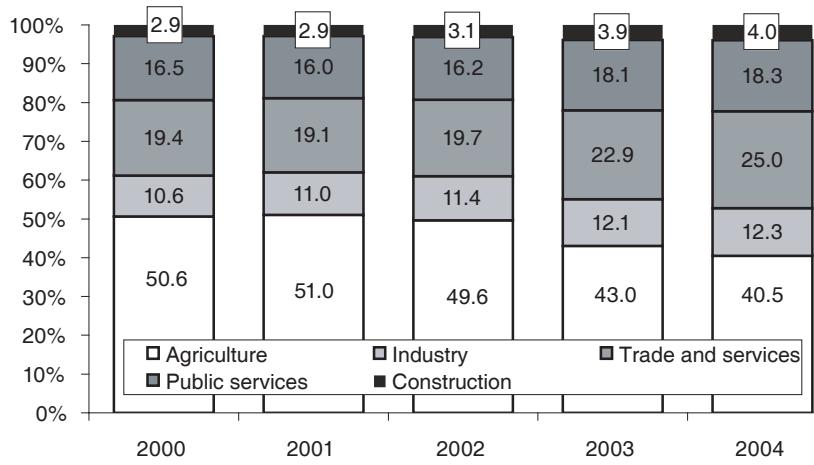
About 40.5% of the employed activated in the agricultural sector, 12.3% – in industry and 47.2% – in services. The weight of public services is rather important. In the next years agriculture will continue to diminish its weight, and the active population will employ more in trade and services and constructions. Without significant investment the personnel demand from the industry will be unsignificant.

In 2004 employment constituted 87% of the 1999 year value, while GDP - 141%



From 2000 and until now the employment has reduced in average by 8% annualy in agriculture and has increased by 3-4% in Services and Constructions.

Figure 28. Employed population, structured by economic branches



Source: SSD, forecasts CPE

37% of the employees get remunerated from the budget

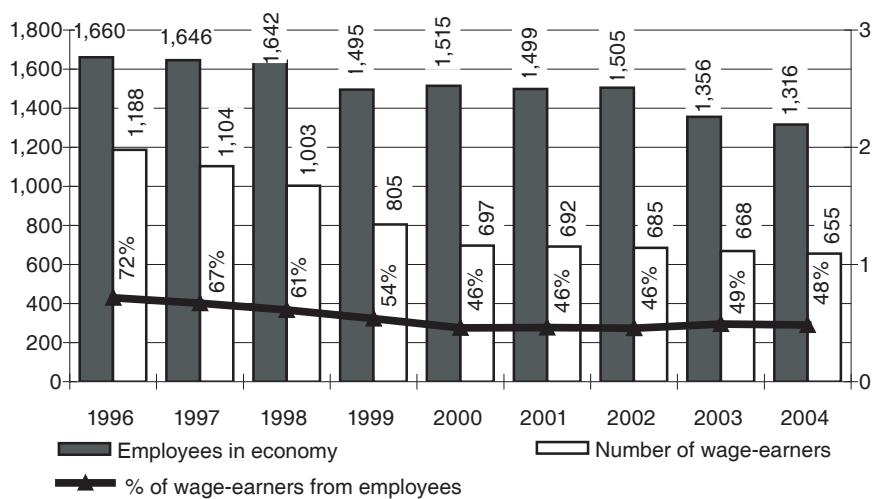
Only 25% of the total population of age of 15 and more earn a wage.

The number of employees has reduced from 72% in 1996 to 48% or about 665 th in 2004.

660 th employees do not earn wages, but live from antreprenorial activity. Around 400 th of these perform antreprenorial activity in the domain of agriculture. Coming from the reduced productivitat in agriculture, and the excessive crumbling of the agricultural land-fields, we can find that the disposable incomes of the employees in agriculture are under the average over the country and as a consequence these persons are not satisfied with their situation. We considerthat about 90% of these persons would leave the agricultural activity in favor of some stable long-term income.

The number of employees has reduced from 72% in 1996 to 48% or about 665 th in 2004. Around 37% of the wage-earners are remunerated from the state budget. As the economic growth will not bring essential changes in the number of employees in short term, employment will vary around

Figure 29. Employees and the number of the wage-earners



Source: SSD, forecasts CPE

650-670 th during the year 2005, representing about 24-25% of the total population aged 15 and higher.

Due to the fact that about 75% of the labor-able population of the country earns other income than salaries, we consider the salaries less relevant when we evaluate the living standard.

The average monthly salary increased by 27% per year over the last 4 years

Agriculture still remains the branch with the lowest salaries, which continuously leads to the decrease of weight of employment in agriculture. The level of wage on branches of activity is directly correlated with the labor productivity in each branch.

We expect the average nominal salary to increase 27% in 2005, while the real salary only 4.6%, due to the significant level of inflation. The average real salary increased by about 14% over the last 4 years, having though a decreasing trend.

Table 11. The evolution of the average salary per month

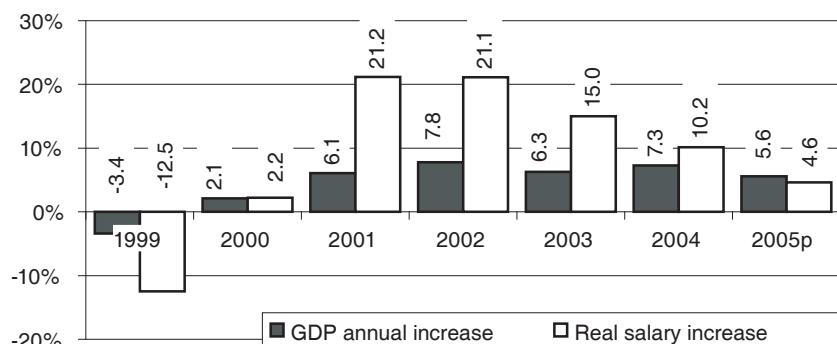
| | 2001 | 2002 | 2003 | 2004 | 2005p | Annually growth rate |
|---------------------------------|-------|-------|-------|-------|-------|----------------------|
| Average on country | 544 | 692 | 891 | 1,104 | 1,380 | 27% |
| Agriculture | 315 | 394 | 499 | 634 | 780 | 25% |
| Industry | 827 | 1,002 | 1,271 | 1,523 | 1,812 | 22% |
| Construction | 683 | 838 | 1,194 | 1,680 | 2,150 | 32% |
| Trade | 531 | 642 | 795 | 1,007 | 1,239 | 26% |
| Hotels and restaurants | 485 | 571 | 827 | 1,020 | 1,224 | 28% |
| Transport and telecommunication | 861 | 1,055 | 1,454 | 1,795 | 2,244 | 29% |
| Financial activities | 2,278 | 2,564 | 2,926 | 3,255 | 3,548 | 9% |
| Real estate transactions | 728 | 890 | 1,133 | 1,383 | 1,729 | 26% |
| Public administration | 742 | 989 | 1,050 | 1,204 | 1,421 | 22% |
| Education | 337 | 463 | 610 | 712 | 869 | 29% |
| Health and social assistance | 315 | 439 | 579 | 841 | 1,009 | 34% |
| Other activities | 391 | 505 | 671 | 801 | 961 | 27% |

Source: SSD, forecasts CPE

Over the last 4 years the average nominal monthly salary increased annually by 27% but the real salary only by 14%.

The increase of salaries is conditioned by the development of the national economy. The GDP growth resulted the increase of salaries, but the both increases were more extensive than intensive. At the moment the level of quick economic growth cannot be sustained because of the little volume of investments that finally will lead to the decrease of the salary growth rate.

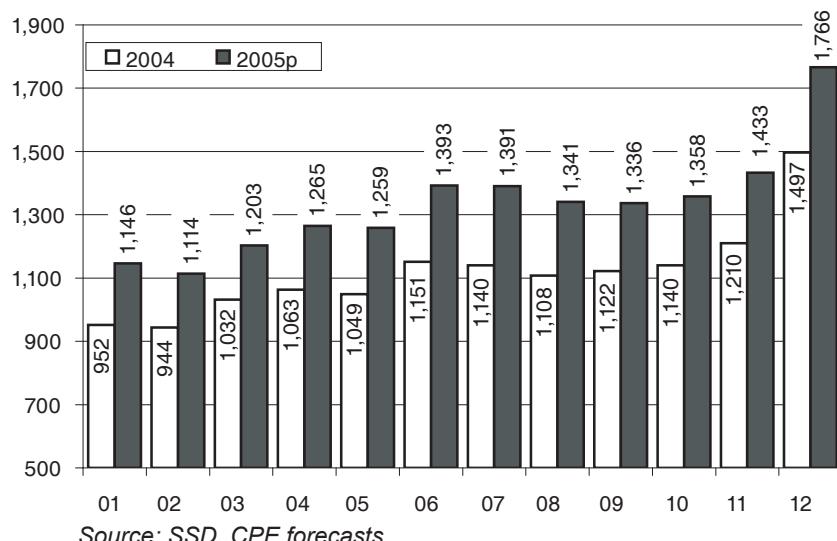
Figure 30. GDP and real wage increase



Source: SSD, forecasts CPE

The month salary increases during the last years, the biggest increase being registered in the summer-autumn months of the year. We expect an increase of average month salaries for the year 2005 by an annual growth rate of 19-20%, which depending on seasons will vary as follows: 18-19% in the winter and spring, 21-22% in the summer and 20-21% in the autumn.

Figure 31. Evolution and forecasts of real salaries.



Source: SSD, CPE forecasts

According to preliminary data the average monthly salary in the first quarter of 2005 increased by 19% compared with the respective period of 2004 and represented 1148 lei.

Forecasts

During 2004 the indicators of labor market continued to worsen despite of the recorded economic growth. The economic growth was not followed by the increase in the employees and the number of unemployed and the share of the inactive population continued to enlarge.

Analyzing the path of the economic development of the national economy we distinguish that a larger growth in salaries will be possible only as result of durable economic growth (as Moldova established as a main target). But due to low level of investments, the outlook of a durable long term economic growth looks pessimistic. Another limit to the development of the labor market is the low productivity of the national economy. This explains why the economic growth does not determine similar developments in the labor market, does not lead to higher salaries and enlargement of the employed population.

Despite robust economic growth is expected for 2005, this growth will not be found in the improvements of the labor market due to the above mentioned barriers.

TRANSNISTRIA

General trends

GDP per capita in the Eastern region is almost the same as in Moldova

In 2004 according to Tiraspol' authorities Transnistria achieved \$752 of GDP per capita comparing to \$765.6 per capita registered in Moldova. But along with positive tendencies in Transnistrian economy we have to mention a huge external debt that constitutes more than \$1 billion and is still growing. We can observe that external debt of Transnistria is higher than Moldova's external debt and almost 100% of it consists of debt for energy resources provided by Russian Federation. In 2004 we can observe intensification of privatization process. By these actions Transnistria is trying to save the situation provoked by ineffective management of state-owned enterprises. Almost all enterprises that are proposed for privatization have huge external debts that have to be covered by the investors.

We can observe real economic growth in Transnistria due to development of national industry and increase in FDI, especially from Russian Federation. We have to mention that in 2004 more than 40% of GDP was covered by services sector comparing to about 20% in 2003. We consider that Transnistria in 2005 will achieve the level of 5% GDP growth. Inflation rate in 2004 was about 20.4% but transnistrian government proclaimed that in 2005 will reduce it to 17% although we consider these goals too optimistic and it can be achieved only through governmental regulation of prices level.

Industry

Thanks to increase in investments (Russian FDI especially), industrial sector increased in 2004 by 5% and shows positive tendencies in the long run. Traditionally Transnistria was more industrialized than Moldova. In total production the highest weight occupies ferrous metallurgy with more than 30% of total production in the region.

The acceleration of output in this sector was leaded by increasing world price on commodities markets (especially on steel).

It is important to mention that Transnistria has hydroelectric power station that allows maintaining low internal prices on electrical energy and even to export it. At the time preferential conditions for some imports from Russia allow industry to produce higher value added comparing to the enterprises from Moldova.

Agriculture

In this sector we can mention stagnation tendencies and even recession that is explained by the fact that there agriculture requires huge investments and continuous policy of the state in the process of sector's development. There exist a lot of state-owned enterprises that are really ineffective, but still remain activating using the state subsidies. There exist a number of large enterprises that are insolvent in fact. According to Transnistrian authorities agriculture occupies less than 1% in GDP structure and we consider this fact as a precarious situation for economic situation in the region (dependency of foodstuffs imports).

Money market

In the end of 2004 in Transnistria there were activating 9 banks comparing to 16 banks existing in Moldova. Among these banks there exist one commercial bank owned by the state and 3 banks containing foreign capital. We can talk about positive tendencies in banking system development in 2004 – total assets in banking sector increased in 2004 by 25%, banks equities increasing by 7.5%.

Low prices on energy resources stimulates industry growth...

Agriculture contributed less than 1% of GDP growth...

Increase in sources accumulated by banks in 2004 constitutes about 35% comparing to the results of the previous year. Most of banks resources were used for legal entities' crediting operations. The situation with deposits in foreign currency is almost the same as in Moldova – show essential growth. Increasing savings of population in foreign currency is forced by high inflation level and economical instability in the region.

In 2004 inflation rate was rather high – 20.4%. In 2005 inflation rate shows tendency to increase: 1.2% in January and 2.9% in February 2005. As for prices the highest increase rate can be seen in foodstuffs' prices.

We consider that inflation rate in 2005 will exceed 20% and "Central Transnistrian Bank" won't be able to slow down this process.

The weakness of money market in Transnistria is also provoked by free turnover of foreign currencies on the market (MDL, UHR, USD and even RUR) that undermines economic stability in the region.

Level of inflation remains high...

Foreign trade

In 2004 there was observed intensification of foreign trade relations of Transnistria and at the end of the year foreign trade volume was almost \$1.3 bln. that comparing to Moldovan foreign trade (\$2.8 bln.) represents a big amount. As for trade balance, the situation in Transnistria is similar to Moldovan situation observe negative trade balance increase that constitutes according to Tiraspol authorities \$223.2 bln. In 2004 the weight of non-CIS-countries was prevailing in Transnistrian exports (more than 50% of total exports). The main countries-importers traditionally remain Russia and Ukraine (66% of total imports).

Favorable conjuncture on international commodities market positively influenced development of Transnistrian regions foreign trade.

There is an increase in finished products exports and ferrous metallurgy' products due to development of industry sector.

The main part of import represents raw materials imports. Actually, cheap raw materials (comparing to the prices Moldova has) will allow transnistrian products to be competitive on external markets (price competition). But nevertheless official information does not include imports of natural persons that represents in Transnistria quite a big portion of imports. As for 2005 we forecast that imports will growth faster than exports that will result in increasing trade balance deficit.

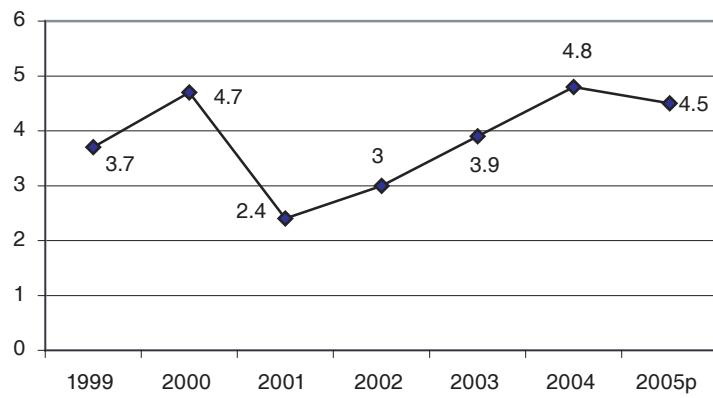
INTERNATIONAL

Global economy in 2004 performed a good level and we consider these tendencies to continue in 2005, but growth rate will decrease in developed countries while transition countries will continue to achieve new "world records" in the development trends.

General Trends

In 2004 world economy increased by 4.8% showing better results than in previous years. Growth of output led to intensification in international trade relations, world trade increasing by 8.5% in 2004.

Figure 32. Global economy growth



Source: IMF

United States and China remain the main locomotives that provide growth of world economy: their share in world GDP growth is more than 50% and in the end of 2004 their share in world GDP was about 40%.

Increase in private consumption expenditures in the US and investment growth in China are the main factors influencing growth of world economy. As a result economic growth shown by world economy in 2004 represents the best average during the last decade.

At the same time increase of global prices on energy resources will be one the main obstacle in achievement of economic growth. In addition US Dollar depreciation negatively influenced world economy and shake balance on international financial market. (SEE PRICES CHAPTER)

In the US the growth of economy will be supported by internal demand on goods and services that shows positive tendencies to increase. China in its turn will face the problem of efficient resources utilization (especially energy ones). Cheap labor market still remains the main pillar of China's growth. As for Europe, enlargement of European Union in 2004 created premises of improvements of economic climate. The newly European members will become the main source of economic growth.

The continuing growth of oil prices will diminish the growth expectations in 2005 and we expect in 2005 world economy growth will be about 4.5%. Although industrially developed countries will show decrease in their economy's growth in 2005 and will achieve less than 4% increase in GDP. USA shows positive trend in their economy growth that is proved by increased labor productivity and high level of private consumption, growth of capital investments under the conditions of stable prices.

European economy demonstrates stable positive tendencies in its development and we consider that stagnation period in Europe is finished. In 2005 European countries will show moderate but stable growth. The main factor that helps European economy to overcome stagnation period is external demand.

EU enlargement that took place in 2004 requires some time to harmonize relations between "old Europe" and "novices" but further on it will provide stable economic growth and stability in the long run.

Nowadays developing countries show fast growth of their economies.

We can observe the situation when Asian countries become the fastest growing economies. In this region the main roles play China and India, exports being the main factor influencing GDP growth. Asian developing countries in 2004 registered the highest level of capital inflows since 1998, when "Asian crisis" took place. Emerging economies attract international investors by their economic performance and high profitability rate. We consider China and India will provide the highest rate of growth (about 7.5% and 6% respectively).

The 2nd Asian economic miracle...

We also have to mention good results shown by Eastern European countries that achieved about 7% GDP increase in 2004, but in 2005 these tendencies will slow down and GDP growth will be around 6%.

USA

US economy showed in 2004 growth of 4.4% of real GDP that was achieved due to increase in domestic demand and exports increase thanks to weakening US Dollar. Trade deficit shows stable tendencies to increase that is maintained by growth of imports and in 2004 achieved 5.7% of GDP. Labor supply increased that reflected in diminution of unemployment rate.

In 2005 US will continue its economic growth and we consider GDP growth of 4% due to:

- Continuing growth of private consumption;
- Exports increase thanks to depreciation of US Dollar and favorable conditions on international arena;
- High productivity level and decrease of unemployment rate will result in output increase;
- Savings show tendencies to decrease while business investment level tends to be improved;

Risks in the short run:

- Possible continuous increase in oil prices;
- Enormous budget deficit;
- Current account deficit;
- Consumers confidence decrease that can lead to savings increase and as a result diminution of domestic demand.

Euroland

In 2004 after a stagnation period European economy began to show positive tendencies. And we consider that this tendency will continue in 2005, but we still cannot talk about stable growth of economy in Western European countries (Euro-countries) in the long run. The main factor positively influencing economic growth in European Union was external demand that was compensating high international prices on energy resources, especially on oil. GDP increase in EU was about

In 2005 Euroland will grow but still slow...

2% in 2004 that is much lower than in US and in World economy as a whole. But comparing to economic development in previous years there are observed steps forward. We are expecting in 2005 GDP growth in Euro zone about 1.7-1.8%. The problem "old Europe" is decreased level of domestic demand that is affected by low level of available income of the population. The low level of wages increase, increasing prices on energy resources and high level of unemployment negatively influences consumers' behavior and their expectations. But nevertheless we expect increase in private consumption thanks to low inflation level, although it will have heterogeneous character, varying from country to country.

Exports of Euro zone increased in 2004 in spite of Euro appreciation exceeding all forecasted levels. We can observe a tendency of foreign trade relations intensification with Central and East European countries, with CIS countries. Also we can mention increase of European goods exports in the US.

As for import we observe lessening of import growth against a background of export increase that allowed improvement of positive trade balance. These tendencies will remain viable in 2005. But there exists capital outflow, mostly in the form of direct investments. In 2005 we consider that capital outflow will diminish but still will represent an important amount (-100 bln. Euro).

Unemployment will remain on the level of 9%. 2004 can be characterized by increase in budget deficits. Administration of budget deficit was the key point during the debates in the framework of EU economic bodies. Some countries were trying to revise some articles in Stability Pact.

Central and Eastern Europe

In May 2004 10 new members became a part of European Community. This occasion slightly improved economic environment and encouraged economic growth, but due to small weight of "newcomers" in European GDP will slightly increase overall GDP growth (+0.1%).

During the last 4 years EU "newcomers" demonstrated higher growth rates than European Union on average. But nevertheless in the following years we forecast GDP-growth in these countries to be around 4.5%. We can observe differences in GDP growth and unemployment rate among new members. Economic growth in these countries can slow down because decreasing level of investments in economic reforms.

We consider that 2005 will be a year of increase of trade relations between "old Europe" and new members and we will observe increase in capital movements (investments) to new member-countries.

CIS

CIS in 2005 will show high growth rates...

CIS will continue its "incredible" economic growth and in 2005 will be in the top of the countries showing the highest GDP growth rate.

But we have to mention that this incredibly high speed economic growth is observed due to the low comparison basis.

The main factors that predetermined fast economic growth (GDP growth) were: private sector consumption, increasing prices level on world mineral resources and commodities market and foreign investments. Increasing prices on mineral resources on international market will provide CIS-countries auspicious conditions to develop their exports.

Among countries whose GDP growth is tightly dependent on export of mineral resources are Russia, Kazakhstan and Caspian region countries. But, relatively high inflation level in these countries will slow down real

GDP growth rates comparing to the results achieved in 2004. As for 2005 we forecast 6.5% GDP growth in these countries on average.

Russia

Russia continues to show economic growth during the previous year having 6.5% of GDP increase in the end of 2004. High oil prices on international market and favorable conditions on world market of raw materials represented background for economic growth in Russia. But second part of 2004 is characterized by decrease in economic growth speed due to increased production costs, increase of real wages and appreciation of national currency. Real wages growth rate exceeds the speed of labor productivity growth that negatively influences national economy growth. Inflows generated from resources export can propose some positive effects in short-run but not in the long-run. Decrease of economic growth and investment level is obvious even in petroleum industry despite high world oil prices due to taxation system and some sort of uncertainty in the relations between private sector and the state. We can observe increase in private sector consumption and investment flows. Real wages growth and domestic demand increase were followed by increase of import. But increase in incomes provoked shifting in consumers' preferences that not always were covered by national suppliers. Russia increases its export share in the world economy mostly by oil export that can harmfully influence development of economy in the future. We can mention continued growth of services, but its share in economy is still far from potential level.

We consider economic growth will continue in 2005 but there will be lessening in its growth rate by the end of 2005. GDP in 2005 will show about 6% increase.

Ukraine

In 2004 Ukraine had shown a tremendous GDP growth rate - 12% that represents the highest growth among CIS countries. And this result was achieved mostly as a growth in foreign trade and private sector consumption increase. Good grain harvest and increase in prices for base metals on international arena in 2004 assured acceleration in this growth. Russia and CIS are the main markets for Ukraine export. There is observed accelerated development in the sphere of machinery production that allowed Ukraine to increase share of these goods in its exports. We have also to mention that Ukraine is the country Moldova in 2004 had the highest negative trade balance and we consider this tendency to continue during this year.

Ukrainian trade balance showed outstanding positive tendencies in 2004 and we consider will continue to improve in 2005 due to conjuncture on international market of raw materials and commodities markets.

STATISTICS APPENDIX

Table 1. Gross Domestic Product, millions Moldovan Lei, current

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005p |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|---------|
| GDP | 9,122 | 12,322 | 16,020 | 19,052 | 22,566 | 27,297 | 31,992 | 36,200 |
| Final consumption | 9,203 | 11,090 | 16,503 | 19,263 | 23,289 | 29,706 | 33,832 | 40,700 |
| households | 6,876 | 9,137 | 14,031 | 16,385 | 18,493 | 24,417 | 28,576 | 34,500 |
| public administration | 2,254 | 1,888 | 2,348 | 2,736 | 4,600 | 5,072 | 5,504 | 5,950 |
| private administration | 73 | 65 | 124 | 142 | 196 | 216 | 235 | 250 |
| Gross investment | 2,360 | 2,820 | 3,836 | 4,436 | 4,886 | 5,916 | 8,096 | 9,800 |
| gross fixed capital formation | 2,012 | 2,272 | 2,472 | 3,190 | 3,682 | 4,668 | 6,955 | 8,500 |
| changes in stocks | 349 | 548 | 1,364 | 1,246 | 1,204 | 1,248 | 1,141 | 1,300 |
| Net exports of goods and services | -2,441 | -1,588 | -4,319 | -4,647 | -5,619 | -8,325 | -9,936 | -14,300 |
| exports of goods and services | 4,107 | 6,446 | 7,946 | 9,536 | 11,834 | 14,487 | 15,652 | 19,100 |
| imports of goods and services | 6,548 | 8,035 | 12,265 | 14,183 | 17,453 | 22,812 | 25,588 | 33,400 |
| Memo: GDP mill USD | 1,698 | 1,171 | 1,288 | 1,481 | 1,663 | 2,007 | 2,520 | 2,946.4 |

Source: SSD, estimates by ES

Table 2. Structure of Gross Domestic Product, %

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005p |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| GDP | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Final consumption | 100.9 | 90.0 | 103.0 | 101.1 | 103.3 | 108.8 | 105.8 | 112.4 |
| households | 75.4 | 74.2 | 87.6 | 86.0 | 82.0 | 89.5 | 89.3 | 95.3 |
| public administration | 24.7 | 15.3 | 14.7 | 14.4 | 20.3 | 18.4 | 17.2 | 16.4 |
| private administration | 0.8 | 0.5 | 0.8 | 0.7 | 1.0 | 1.0 | 0.7 | 0.7 |
| Gross investment | 25.9 | 22.9 | 23.9 | 23.3 | 21.7 | 21.7 | 25.3 | 27.1 |
| gross fixed capital formation | 22.1 | 18.4 | 15.4 | 16.7 | 16.3 | 17.1 | 21.7 | 23.5 |
| changes in stocks | 3.8 | 4.4 | 8.5 | 6.5 | 5.3 | 4.6 | 3.6 | 3.6 |
| Net exports of goods and services | -26.8 | -12.9 | -27.0 | -24.4 | -24.9 | -30.5 | -31.1 | -39.5 |
| exports of goods and services | 45.0 | 52.3 | 49.6 | 50.1 | 52.4 | 53.1 | 48.9 | 52.8 |
| imports of goods and services | 71.8 | 65.2 | 76.6 | 74.4 | 77.3 | 83.6 | 80.0 | 92.3 |

Source: SSD, estimates and computations by ES

Table 3. Annual real change of GDP components, %

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004p |
|-----------------------------------|-------|-------|-------|-------|-------|------|-------|
| Final consumption | -2.0 | -15.8 | 17.2 | 4.4 | 9.7 | 13.4 | 15.1 |
| households | 5.5 | -8.2 | 20.7 | 6.1 | 5.9 | 17.0 | 18.0 |
| public administration | -18.6 | -38.3 | -1.2 | -6.2 | 30.3 | -0.5 | 1.5 |
| private administration | -27.5 | -37.9 | 48.4 | 1.5 | 52.4 | -4.6 | 1.0 |
| Gross investment | 7.3 | -19.8 | 11.9 | 5.2 | 1.1 | 8.7 | 6.4 |
| gross fixed capital formation | 9.2 | -23.1 | -8.7 | 17.3 | 5.7 | 13.3 | 10.0 |
| changes in stocks | -2.6 | -0.7 | 97.6 | -16.8 | -10.9 | -5.3 | -7.0 |
| Net exports of goods and services | 29.9 | -65.9 | 124.6 | -1.5 | 9.1 | 37.7 | 32.2 |
| exports of goods and services | -26.4 | 3.1 | 9.5 | 17.2 | 19.0 | 18.9 | 22.8 |
| imports of goods and services | -10.4 | -22.6 | 32.3 | 10.6 | 15.7 | 25.0 | 26.3 |

Source: SSD, estimates and computations by ES

Table 4. Factoral contribution to real GDP change, %

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e |
|-----------------------------------|-------|-------|-------|------|------|------|-------|
| Final consumption | -1.9 | -15.9 | 15.4 | 4.5 | 9.8 | 13.8 | 16.4 |
| households | 3.7 | -6.1 | 15.4 | 5.4 | 5.1 | 13.9 | 16.1 |
| public administration | -5.4 | -9.4 | -0.2 | -0.9 | 4.4 | -0.1 | 0.3 |
| private administration | -0.3 | -0.3 | 0.2 | 0.0 | 0.4 | 0.0 | 0.0 |
| Gross investment | 1.7 | -5.1 | 2.7 | 1.2 | 0.2 | 1.9 | 1.4 |
| gross fixed capital formation | 1.8 | -5.1 | -1.6 | 2.7 | 1.0 | 2.2 | 1.7 |
| changes in stocks | -0.1 | 0.0 | 4.3 | -1.4 | -0.7 | -0.3 | -0.3 |
| Net exports of goods and services | -6.3 | 17.6 | -16.1 | 0.4 | -2.2 | -9.4 | -9.8 |
| exports of goods and services | -14.1 | 1.4 | 5.0 | 8.5 | 9.5 | 9.9 | 12.1 |
| imports of goods and services | -7.7 | -16.2 | 21.1 | 8.1 | 11.7 | 19.3 | 21.9 |
| Real GDP change | -6.5 | -3.4 | 2.1 | 6.1 | 7.8 | 6.3 | 7.3 |

Source: SSD, estimates and computations by ES

Table 5. GDP by sector, current prices, millions MDL

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e |
|--|-------|--------|--------|--------|--------|--------|--------|
| Value-added | 7,719 | 10,999 | 14,022 | 16,773 | 19,689 | 23,356 | 27,353 |
| Agriculture, hunting, forestry and fishing | 2,349 | 3,062 | 4,066 | 4,261 | 4,730 | 5,265 | 5,834 |
| Mining and quarrying | 17 | 24 | 26 | 36 | 50 | 66 | 86 |
| Manufacturing industry | 1,276 | 1,613 | 2,281 | 3,005 | 3,352 | 4,294 | 5,616 |
| Electricity, gas and water supply | 229 | 456 | 308 | 523 | 499 | 504 | 566 |
| Construction | 289 | 409 | 433 | 584 | 665 | 905 | 1,314 |
| Wholesale and retail trade | 942 | 1,885 | 2,003 | 2,287 | 2,488 | 3,028 | 3,392 |
| Transport, storage and communications | 671 | 1,013 | 1,528 | 1,974 | 2,255 | 2,863 | 3,692 |
| Other activities | 1,947 | 2,537 | 3,379 | 4,103 | 5,651 | 6,431 | 8,609 |
| Net tax on products and imports | 1,403 | 1,323 | 1,998 | 2,278 | 2,867 | 3,941 | 4,639 |
| GDP | 9,122 | 12,322 | 16,020 | 19,052 | 22,566 | 27,297 | 31,192 |

Source: SSD, estimates by Moldova Quarterly Forecasting

Table 6. Generation of Income Account, millions Moldovan Lei, current prices

| | 1998 | 1999 | 2000 | 2001 | 2002e | 2003 | 2004e |
|-----------------------------------|-------|-------|-------|-------|--------|--------|--------|
| Wages | 3,792 | 3,728 | 5,104 | 6,793 | 8,048 | 10,027 | 12,834 |
| Net taxes on products and imports | 1,543 | 1,588 | 2,247 | 2,569 | 3,161 | 4,327 | 5,230 |
| Operating surplus | 3,787 | 7,006 | 8,669 | 9,690 | 11,375 | 13,033 | 14,901 |
| structure of Income Account, % | | | | | | | |
| Wages | 41.7 | 30.3 | 31.9 | 35.7 | 35.7 | 36.7 | 39.0 |
| Net taxes on products and imports | 16.9 | 12.9 | 14.0 | 13.5 | 14.1 | 15.9 | 15.9 |
| Operating surplus | 41.5 | 56.9 | 54.1 | 50.7 | 50.4 | 47.7 | 45.3 |

Source: SSD, estimates by Moldova Quarterly Forecasting

Table 7. Industrial output, current prices, millions MDL

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005p |
|-----------------------------------|-------|-------|-------|--------|--------|--------|--------|--------|
| Total industry | 5,982 | 7,191 | 8,168 | 10,428 | 12,624 | 15,963 | 17,549 | 21,500 |
| Mining and quarrying | 52 | 57 | 62 | 74 | 101 | 127 | 159 | 213 |
| Manufacturing industry | 4,256 | 5,002 | 6,755 | 8,452 | 10,550 | 13,311 | 11,936 | 14,623 |
| Electricity, gas and water supply | 1,674 | 2,133 | 1,351 | 1,902 | 1,973 | 1,990 | 1,561 | 1,698 |

Source: SSD, estimates by Moldova Quarterly Forecasting

Table 8. Gross agricultural output

| | Total, millions MDL | Annual real change, % | Crop production, millions MDL | Annual real change, % | Livestock production, millions MDL | Annual real change, % |
|-------|---------------------|-----------------------|-------------------------------|-----------------------|------------------------------------|-----------------------|
| 1998 | 8,935 | -11.6 | 6,076 | -16.2 | 2,859 | 0.2 |
| 1999 | 8,184 | -8.4 | 5,401 | -11.7 | 2,783 | -3.5 |
| 2000 | 7,917 | -3.3 | 5,463 | -1.0 | 2,454 | -7.8 |
| 2001 | 8,428 | 6.4 | 5,900 | 8.8 | 2,528 | 1.2 |
| 2002 | 8,717 | 3.4 | 6,102 | 2.5 | 2,615 | 5.7 |
| 2003 | 7,536 | -13.6 | 5,047 | -17.3 | 2,488 | -4.9 |
| 2004e | 9,074 | 20.4 | 6,490 | 28.7 | 2,584 | 4.0 |
| 2005p | 9,618 | 6 | 6,970 | 7.5 | 2,648 | 2.5 |

Source: SSD, estimates by Moldova Quarterly Forecasting

Table 9. Major agricultural commodities

| | Grains, th. tons | Grapes, th. tons | Fruits, th. tons | Vegetables, th. tons | Meet (livestock), th. tons | Eggs, mln. | Milk, th. tons |
|------|------------------|------------------|------------------|----------------------|----------------------------|------------|----------------|
| 1998 | 2,499 | 343 | 355 | 501 | 145 | 539 | 610 |
| 1999 | 2,200 | 465 | 128 | 489 | 147 | 555 | 589 |
| 2000 | 1,935 | 704 | 248 | 364 | 123 | 575 | 574 |
| 2001 | 2,628 | 505 | 306 | 448 | 115 | 618 | 579 |
| 2002 | 2,587 | 641 | 308 | 397 | 125 | 671 | 604 |
| 2003 | 1,613 | 677 | 596 | 361 | 115 | 620 | 593 |
| 2004 | 2,980 | 685 | 404 | 315 | 116 | 668 | 628 |

Source: SSD, estimates by Moldova Quarterly Forecasting

Table 10. Public Expenditures, Revenues and Debt.

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 p |
|---------------------------------------|------|------|------|------|------|------|------|--------|
| Total revenues | 29.8 | 25.2 | 25.6 | 22.7 | 22.5 | 24.3 | 24.2 | 23.9 |
| Tax revenues | 24.2 | 19.7 | 19.3 | 18.0 | 19.0 | 21.0 | 21.9 | 21.7 |
| Corporate profit tax | 2.0 | 1.9 | 1.7 | 1.8 | 1.9 | 1.7 | 1.8 | 1.8 |
| Personal income tax | 2.5 | 1.8 | 1.7 | 1.8 | 2.1 | 1.7 | 2.1 | 2.1 |
| Land tax | 0.9 | 1.1 | 1.0 | 0.9 | 0.8 | 0.0 | 0.5 | 0.5 |
| Real estate tax | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| VAT | 12.3 | 7.6 | 8.4 | 7.9 | 9.0 | 10.2 | 9.6 | 10.3 |
| Excises | 3.8 | 3.6 | 4.1 | 3.6 | 2.9 | 3.3 | 3.2 | 3.1 |
| Taxes on foreign trade | 1.2 | 1.9 | 1.4 | 1.2 | 1.5 | 1.7 | 1.7 | 1.6 |
| other tax revenues | 1.3 | 1.5 | 0.8 | 0.7 | 0.6 | 2.4 | 2.9 | 2.8 |
| Non-tax revenues | 5.7 | 4.6 | 5.5 | 3.9 | 3.2 | 2.9 | 2.3 | 2.5 |
| NBM profits | 2.1 | 1.3 | 2.4 | 1.2 | 0.6 | 0.5 | - | 0.1 |
| Proceeds from privatisation | 0.9 | 1.1 | 0.9 | 0.5 | 0.5 | 0.4 | 0.2 | 0.2 |
| other non-tax revenues | 2.7 | 2.2 | 2.2 | 2.2 | 2.1 | 2.0 | - | 1.8 |
| Total spending | 33.2 | 28.4 | 26.6 | 22.7 | 23.0 | 22.6 | 23.1 | 23.4 |
| Economic activities | 3.1 | 2.5 | 2.3 | 1.7 | 1.8 | 1.9 | 2.1 | 2.3 |
| External trade activity | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.0 | 0.5 | 0.4 |
| Education | 7.0 | 4.7 | 4.5 | 4.8 | 5.5 | 4.8 | 4.7 | 4.6 |
| Health | 4.3 | 2.9 | 2.9 | 2.8 | 3.5 | 2.6 | 2.4 | 3.0 |
| Social assistance | 4.0 | 3.8 | 3.8 | 2.6 | 2.9 | 2.7 | 3.4 | 3.1 |
| Public administration | 4.7 | 4.3 | 4.1 | 4.0 | 4.7 | 3.8 | 4.3 | 4.2 |
| Debt servicing | 4.6 | 7.0 | 6.4 | 4.2 | 2.2 | 2.1 | 2.1 | 1.8 |
| Capital investment | 2.3 | 0.9 | 1.1 | 1.1 | 1.1 | 0.3 | 0.9 | 1.1 |
| Other | 2.8 | 1.9 | 1.0 | 1.1 | 0.9 | 4.3 | 3.5 | 2.3 |
| Budget balance | -3.3 | -3.2 | -1.0 | 0.0 | -0.5 | 1.6 | 1.1 | 0.5 |
| Domestic debt | 17.2 | 15.5 | 12.6 | 12.6 | 12.5 | 10.7 | 11.2 | 11.1 |
| Foreign debt (millions USD) | 49.1 | 65.9 | 79.3 | 64.5 | 59.4 | 51.5 | 42.9 | 24.9 |
| Energy payment arrears (millions USD) | 19.6 | 35.5 | 24.6 | 19.4 | 18.1 | 15.9 | 10.9 | 9.1 |

Source: SSD, estimates by ES

Table 11. Monetary indicators

| | Currency in circulation | | Reserves of banks | | Monetary base | | M2 | | M3 | | Multiplier | | Foreign reserves of NBM, millions USD | USD/MDL period average |
|--------|-------------------------|----------|-------------------|----------|---------------|----------|--------------|----------|--------------|----------|------------|------|---------------------------------------|------------------------|
| | millions MDL | growth % | millions MDL | growth % | millions MDL | growth % | millions MDL | growth % | millions MDL | growth % | M2 | M3 | | |
| Q3'99 | 1,073.6 | 17.9 | 345.0 | 1.7 | 1,418.6 | 13.5 | 1,745.3 | 19.5 | 2,454.7 | 11.6 | 1.23 | 1.73 | 205.4 | 11.02 |
| Q4'99 | 1,122.0 | 4.5 | 376.6 | 9.2 | 1,498.6 | 5.6 | 1,809.0 | 3.6 | 2,504.3 | 2.0 | 1.21 | 1.67 | 180.5 | 11.57 |
| Q1'00 | 1,109.3 | -1.1 | 438.0 | 16.3 | 1,547.3 | 3.2 | 1,875.7 | 3.7 | 2,749.5 | 9.8 | 1.21 | 1.78 | 191.3 | 12.42 |
| Q2'00 | 1,159.2 | 4.5 | 456.3 | 4.2 | 1,615.4 | 4.4 | 2,005.2 | 6.9 | 2,788.8 | 1.4 | 1.24 | 1.73 | 192.1 | 12.62 |
| Q3'00 | 1,339.6 | 15.6 | 426.0 | -6.6 | 1,765.6 | 9.3 | 2,301.6 | 14.8 | 3,181.7 | 14.1 | 1.30 | 1.80 | 190.5 | 12.38 |
| Q4'00 | 1,469.3 | 9.7 | 476.4 | 11.8 | 1,945.7 | 10.2 | 2,514.2 | 9.2 | 3,511.4 | 10.4 | 1.29 | 1.80 | 222.5 | 12.31 |
| Q1'01 | 1,406.3 | -4.3 | 477.8 | 0.3 | 1,884.1 | -3.2 | 2,526.2 | 0.5 | 3,574.0 | 1.8 | 1.34 | 1.90 | 222.7 | 12.69 |
| Q2'01 | 1,475.7 | 4.9 | 477.6 | 0.0 | 1,953.3 | 3.7 | 2,691.3 | 6.5 | 3,886.1 | 8.7 | 1.38 | 1.99 | 210.2 | 12.95 |
| Q3'01 | 1,698.0 | 15.1 | 525.3 | 10.0 | 2,223.3 | 13.8 | 3,189.7 | 18.5 | 4,423.5 | 13.8 | 1.43 | 1.99 | 227.1 | 12.88 |
| Q4'01 | 1,834.2 | 8.0 | 654.7 | 24.6 | 2,488.9 | 11.9 | 3,464.5 | 8.6 | 4,787.4 | 8.2 | 1.39 | 1.92 | 228.5 | 12.94 |
| Q1'02 | 1,751.4 | -4.5 | 776.1 | 18.5 | 2,527.4 | 1.5 | 3,450.9 | -0.4 | 4,852.7 | 1.4 | 1.37 | 1.92 | 225.0 | 13.21 |
| Q2'02 | 1,826.7 | 4.3 | 690.4 | -11.0 | 2,517.0 | -0.4 | 3,560.7 | 3.2 | 5,187.0 | 6.9 | 1.41 | 2.06 | 220.0 | 13.62 |
| Q3'02 | 2,246.7 | 23.0 | 755.0 | 9.4 | 3,001.7 | 19.3 | 4,346.0 | 22.1 | 6,126.7 | 18.1 | 1.45 | 2.04 | 279.3 | 13.64 |
| Q4'02 | 2,288.5 | 1.9 | 974.2 | 29.0 | 3,262.7 | 8.7 | 4,517.6 | 3.9 | 6,511.5 | 6.3 | 1.38 | 2.00 | 269.6 | 13.81 |
| Q1'03 | 2,193.1 | -4.2 | 944.0 | -3.1 | 3,137.1 | -3.8 | 4,455.1 | -1.4 | 6,885.7 | 5.7 | 1.42 | 2.19 | 250.4 | 14.18 |
| Q2'03 | 2,364.1 | 7.8 | 915.3 | -3.0 | 3,279.4 | 4.5 | 4,749.5 | 6.6 | 7,300.7 | 6.0 | 1.45 | 2.23 | 260.1 | 14.36 |
| Q3'03 | 2,907.5 | 23.0 | 797.3 | -12.9 | 3,704.9 | 13.0 | 5,384.6 | 13.4 | 8,199.0 | 12.3 | 1.45 | 2.21 | 285.9 | 13.92 |
| Q4'03 | 2,740.5 | -5.7 | 1,078.4 | 35.3 | 3,818.9 | 3.1 | 5,621.9 | 4.4 | 8,509.2 | 3.8 | 1.47 | 2.23 | 302.3 | 13.32 |
| Q1'04 | 2,632.8 | -3.9 | 1,233.6 | 16.2 | 3,866.5 | 1.8 | 5,800.9 | 3.2 | 8,659.2 | 1.8 | 1.5 | 2.2 | 309.6 | 12.6 |
| Q2'04 | 2,853.4 | 12.7 | 1,350.5 | -7.3 | 4,203.8 | 6.4 | 6,130.1 | 5.9 | 9,099.1 | 8.8 | 1.5 | 2.3 | 295.7 | 11.9 |
| Q3'04 | 3,320.9 | 4.3 | 1,675.5 | 4.1 | 5,000.4 | 4.3 | 7,140.9 | 4.9 | 10,384.9 | 5.3 | 1.5 | 2.3 | 391.6 | 12.1 |
| Q4'04 | 3,699.1 | 4.1 | 1,611.4 | 4.0 | 5,313.1 | 4.2 | 8,137.0 | 4.6 | 11,719.6 | 5.1 | 1.5 | 2.3 | 470.3 | 12.5 |
| Q1'05 | 3,656.1 | -1.2 | 1,969.7 | 22.2 | 5,626.4 | 5.9 | 8,432.9 | 3.6 | 12,103.3 | 3.3 | 1.5 | 2.2 | 461.2 | 12.5 |
| Q2'05p | 3,729.2 | 2.0 | 2,009.1 | 2.0 | 5,907.7 | 5.0 | 8,854.5 | 5.0 | 12,345.4 | 2.0 | 1.5 | 2.1 | 480.0 | 12.8 |
| Q3'05p | 4,475.1 | 20.0 | 1,888.5 | -6.0 | 6,734.8 | 14.0 | 10,094.2 | 14.0 | 14,197.2 | 15.0 | 1.5 | 2.1 | 520.0 | 13.0 |
| Q4'05p | 4,564.6 | 2.0 | 2,360.7 | 25.0 | 7,166.2 | 6.4 | 10,740.8 | 6.4 | 15,704.3 | 10.6 | 1.5 | 2.2 | 550.0 | 13.1 |

Source: NBM, computations by ES

Table 12. Money market indicators, millions MDL, end of period, if not other mentioned

| | Deposits | | | | Credits | | | | | |
|--------|-------------------|--------------------|---------------------|-----------------------|----------------------------|-------------------|------------------------|---------------------|---------------------------------|-------------------------------------|
| | Current in MDL | intrest rate, % | Foreign Deposits | intrest rate, % | NBM to Govern- ment. | NBM to bnks | NBM base rate, % | Banks to Economy | intrest rate (for MDL), % | intrest rate (for foreign), % |
| Q1'00 | 378.4 | 24.5 | 461.1 | 4.8 | 1,675.9 | 102.8 | 30.0 | 1,751.2 | 35.2 | 16.7 |
| Q2'00 | 411.1 | 26.5 | 384.9 | 5.6 | 1,675.9 | 103.8 | 29.0 | 1,795.8 | 35.0 | 17.2 |
| Q3'00 | 463.7 | 24.6 | 424.4 | 4.9 | 1,675.9 | 103.7 | 28.7 | 1,984.3 | 33.7 | 15.8 |
| Q4'00 | 493.8 | 23.8 | 368.1 | 5.1 | 1,675.9 | 62.3 | 27.0 | 2,291.2 | 32.4 | 15.1 |
| Q1'01 | 484.4 | 23.8 | 396.0 | 4.9 | 1,660.8 | 102.8 | 20.0 | 2,374.2 | 29.9 | 14.7 |
| Q2'01 | 479.2 | 21.3 | 416.6 | 4.4 | 1,645.8 | 104.2 | 19.0 | 2,543.8 | 29.6 | 14.1 |
| Q3'01 | 845.1 | 20.2 | 486.3 | 3.9 | 1,750.9 | 96.7 | 16.0 | 2,827.0 | 26.6 | 13.3 |
| Q4'01 | 1,028.4 | 18.4 | 809.6 | 3.0 | 1,888.5 | 75.6 | 13.5 | 3,101.3 | 26.2 | 11.9 |
| Q1'02 | 1,038.3 | 16.5 | 958.2 | 3.3 | 1,984.0 | 178.1 | 13.0 | 3,202.5 | 24.9 | 12.8 |
| Q2'02 | 1,058.2 | 14.1 | 1,089.9 | 3.0 | 2,007.1 | 86.8 | 12.0 | 3,392.1 | 24.5 | 12.6 |
| Q3'02 | 1,211.6 | 14.3 | 1,177.4 | 3.3 | 2,007.1 | 84.8 | 10.0 | 3,782.2 | 22.5 | 11.9 |
| Q4'02 | 1,172.1 | 12.6 | 1,306.6 | 3.3 | 2,144.0 | 81.4 | 9.5 | 4,165.7 | 19.3 | 11.9 |
| Q1'03 | 1,211.9 | 12.3 | 1,544.1 | 3.0 | 2,144.0 | 79.6 | 10.5 | 4,675.2 | 19.5 | 11.0 |
| Q2'03 | 1,280.1 | 11.9 | 1,654.7 | 2.9 | 2,144.0 | 76.7 | 10.5 | 4,878.9 | 19.6 | 10.8 |
| Q3'03 | 1,330.4 | 12.2 | 1,741.6 | 2.8 | 2,144.0 | 92.4 | 12.0 | 5,615.5 | 18.7 | 10.2 |
| Q4'03 | 1,469.6 | 13.8 | 1,813.0 | 3.7 | 2,144.0 | 72.3 | 14.0 | 5,999.7 | 19.4 | 11.2 |
| Q1'04 | 1,725.9 | 15.0 | 1,806.0 | 4.5 | 2,143.6 | 67.96 | 14.0 | 6,168.1 | 20.8 | 11.5 |
| Q2'04 | 1,856.3 | 14.8 | 1,909.0 | 4.9 | 2,635.8 | 67.96 | 14.0 | 6,290.0 | 21.1 | 11.3 |
| Q3'04 | 2,145.9 | 15.8 | 2,051.8 | 5.1 | 2,472.2 | 65.41 | 14.5 | 6,846.7 | 21.0 | 11.3 |
| Q4'04 | 2,572.3 | 15.5 | 2,393.6 | 5.4 | 2,741.0 | 62.29 | 14.5 | 7,399.3 | 21.0 | 11.5 |
| Q1'05 | 2,901.5 | 15.4 | 2,538.0 | 5.3 | 2,821.7 | 61.6 | 14.0 | 7,619.3 | 20.9 | 11.3 |
| Q2'05p | 3,278.7 | 15.3 | 2,842.6 | 5.4 | 2,900.0 | 61.5 | 13.0 | 8,152.7 | 20.5 | 11.4 |
| Q3'05p | 3,639.4 | 15.1 | 3,411.1 | 5.4 | 3,000.0 | 63.1 | 13.0 | 9,620.1 | 19.7 | 11.4 |
| Q4'05p | 4,076.1 | 15.1 | 3,956.8 | 5.5 | 3,150.0 | 65.5 | 13.0 | 10,197.3 | 19.3 | 11.4 |

Source: NBM, computations by ES

Table 13. Wages

| | Nominal monthly wage, MDL (average per quarter) | Real change, quarter on quarter, % | Real change, year on year, % | Minimum Monthly Consumption Budget, MDL, average per quarter | Rate of nominal average monthly wage to minimum consumption basket, % |
|--------|---|------------------------------------|------------------------------|--|---|
| Q1'99 | 257.9 | -1.0 | -10.8 | 555 | 46.5 |
| Q2'99 | 294.3 | -6.1 | -6.2 | 646 | 45.6 |
| Q3'99 | 315.9 | 4.8 | -8.1 | 664 | 47.6 |
| Q4'99 | 405.8 | -7.4 | 9.0 | 775 | 52.4 |
| Q1'00 | 349.0 | 6.8 | -13.8 | 948 | 36.8 |
| Q2'00 | 388.8 | 1.0 | -8.1 | 954 | 40.8 |
| Q3'00 | 416.9 | 6.9 | -6.3 | 954 | 43.7 |
| Q4'00 | 530.7 | -4.9 | 15.8 | 965 | 55.0 |
| Q1'01 | 447.3 | 11.7 | -4.6 | 1,047 | 42.7 |
| Q2'01 | 500.9 | 3.7 | 4.7 | 1,085 | 46.2 |
| Q3'01 | 531.0 | 4.5 | 13.2 | 1,011 | 52.5 |
| Q4'01 | 641.4 | 4.7 | 32.6 | 1,007 | 63.7 |
| Q1'02 | 579.0 | 8.4 | 16.4 | 1,023 | 56.6 |
| Q2'02 | 646.8 | 8.6 | 27.3 | 1,068 | 60.6 |
| Q3'02 | 705.5 | 4.5 | 43.8 | 1,114 | 63.3 |
| Q4'02 | 885.3 | 2.0 | 75.2 | 1,136 | 77.9 |
| Q1'03 | 775.7 | 11.0 | 46.0 | 1,259 | 61.6 |
| Q2'03 | 864.2 | 0.7 | 57.3 | 1,279 | 67.6 |
| Q3'03 | 921.3 | 3.4 | 62.9 | 1,312 | 70.2 |
| Q4'03 | 1,088.7 | 6.8 | 78.9 | 1,349 | 75.7 |
| Q1'04 | 976.0 | -2.1 | 55.7 | 1,386 | 70.4 |
| Q2'04 | 1,087.7 | 4.7 | 70.9 | 1,423 | 76.4 |
| Q3'04 | 1,123.3 | 4.1 | 73.4 | 1,460 | 76.9 |
| Q4'04 | 1,282.3 | 2.9 | 87.2 | 1,497 | 85.7 |
| Q1'05 | 1,154.3 | -13.5 | 62.0 | 1,545 | 74.7 |
| Q2'05p | 1,305.5 | 11.1 | 79.9 | 1,572 | 83.0 |
| Q3'05p | 1,355.9 | 1.8 | 83.2 | 1,643 | 82.6 |
| Q4'05p | 1,518.9 | 5.8 | 93.8 | 1,699 | 89.4 |

Source: SSD, computations by ES

Table 14. Unemployment, %

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005 p |
|----|------|------|------|------|------|-------|--------|
| Q1 | 14.0 | 10.5 | 8.8 | 7.9 | 9.8 | 7.3 | 8.1 |
| Q2 | 11.2 | 7.8 | 6.8 | 6.3 | 7.0 | 7.8 | 8.0 |
| Q3 | 9.5 | 7.3 | 6.3 | 5.8 | 6.5 | 7.9 | 8.0 |
| Q4 | 10.0 | 8.4 | 7.2 | 7.3 | 7.8 | 8.0 | 7.9 |

Source: SSD, computations by ES

Table 15. Price indexes by sector , %

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e |
|--|------|------|------|------|------|------|------|-------|
| Industrial producer price index | 120 | 110 | 144 | 129 | 112 | 105 | 109 | 105 |
| Price index of production sold by agricultural enterprises | 99 | 91 | 165 | 126 | 99 | 100 | 120 | 115 |
| Weighted average price index in capital construction | 133 | 109 | 142 | 130 | 111 | 109 | 120 | 115 |
| Average export prices index | 111 | 120 | 147 | 111 | 96 | 99 | 104 | 103 |
| Average import prices index | 101 | 108 | 158 | 115 | 100 | 100 | 106 | 105 |

Source: SSD, computations by ES

Table 16. Average consumer prices changes, %

| | Jan | Feb | Mar | Apr | Mai | Iun | Iul | Aug | Sep | Oct | Noi | Dec | Compared to December, previous year | Yearly average |
|-------|-----|------|------|-----|-----|------|------|------|-----|-----|-----|-----|-------------------------------------|----------------|
| 1995 | 2.9 | 2.3 | 0.7 | 0.6 | 0.4 | 0.2 | 0.2 | 0.2 | 2.6 | 2.7 | 6.0 | 2.9 | 23.8 | 30.0 |
| 1996 | 3.5 | 2.5 | 1.1 | 1.1 | 0.8 | 0.1 | 0.1 | -0.3 | 1.5 | 1.6 | 1.4 | 0.8 | 15.1 | 24.0 |
| 1997 | 1.9 | 1.4 | 1.0 | 0.8 | 0.6 | 2.0 | -1.0 | -0.8 | 1.2 | 0.9 | 1.1 | 1.5 | 11.2 | 12.0 |
| 1998 | 1.3 | 0.4 | -0.1 | 0.7 | 0.2 | -1.1 | -1.4 | -0.6 | 0.2 | 1.4 | 8.6 | 7.8 | 18.3 | 8.0 |
| 1999 | 5.4 | 1.5 | 0.6 | 2.0 | 4.1 | 7.2 | 2.5 | 0.7 | 1.7 | 2.1 | 4.3 | 5.0 | 43.7 | 39.0 |
| 2000 | 2.9 | 1.3 | 0.1 | 1.6 | 1.4 | 4.4 | 0.7 | 0.8 | 1.4 | 1.0 | 0.8 | 0.8 | 18.4 | 31.0 |
| 2001 | 1.2 | 0.3 | 0.3 | 1.5 | 0.5 | -3.5 | -1.7 | -0.5 | 0.9 | 1.3 | 1.1 | 1.9 | 6.3 | 10.0 |
| 2002 | 1.3 | -3.4 | 0.5 | 1.9 | 1.6 | -3.4 | -1.5 | -0.6 | 0.8 | 1.2 | 1.2 | 1.9 | 4.4 | 5.2 |
| 2003 | 1.9 | 1.8 | 0.9 | 1.5 | 0.5 | 1 | 1.3 | 0.4 | 1.6 | 2.1 | 1.1 | 0.7 | 15.7 | 11.6 |
| 2004 | 1.5 | 0.9 | 0.6 | 0.9 | 0.5 | 0.1 | 0.3 | 0.5 | 1 | 2.2 | 1.8 | 1.6 | 12.5 | 12.6 |
| 2005p | 1.1 | 2.1 | 0.8 | 1.1 | 0.5 | 0.2 | 0.4 | 0.4 | 1.2 | 2.2 | 1.9 | 1.7 | 14.5 | 13.9 |

Source: SSD, NBM, computations by ES

Table 17. Balance of payments, millions USD

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 p |
|--|-----------|-----------|-----------|----------|-----------|----------|----------|--------|
| Current account balance | -334.71 | -46.99 | -120.92 | -108.05 | -103.14 | -142.09 | -113 | -285 |
| Trade balance | -388.09 | -134.7 | -306.62 | -312.92 | -378.25 | -622.3 | -758.3 | -1,085 |
| Exports FOB | 643.58 | 474.84 | 476.58 | 569.43 | 659.8 | 806.3 | 995.2 | 1,080 |
| Imports of goods | -1,031.7 | -609.54 | -783.2 | -882.35 | -1038.1 | -1428.6 | -1,753.5 | -2,165 |
| Balance of services | -46.54 | -32.05 | -43.13 | -48.75 | -38.8 | -39.47 | -54.8 | -60 |
| Income, including | 34.5 | 33.99 | 72.25 | 100.78 | 159.27 | 215.04 | 336.5 | 460 |
| Remittances from work | 99.68 | 90.05 | 126.24 | 183.67 | 239.05 | 278 | 480 | 560 |
| Current transfers | 65.42 | 85.77 | 156.58 | 152.84 | 154.64 | 304.64 | 363.6 | 400 |
| Capital and financial account (excluding changes in reserves), including | 131.77 | 121.27 | 169.46 | 80.32 | 86.35 | 67.29 | 143.45 | 180 |
| Capital account | 0.33 | 116.61 | -11.97 | -20.66 | -15.32 | -12.81 | -5.35 | -20 |
| Direct investments | 76.25 | 37.83 | 135.99 | 146.05 | 116.18 | 58.37 | 147.92 | 170 |
| Portfolio investments | -59.11 | -140.06 | 117.03 | -32 | -27.48 | -21.21 | -10.41 | -30 |
| Other investments | 114.3 | 106.89 | -71.59 | -13.07 | 12.97 | 42.94 | 11.29 | 60 |
| Net change in NBM reserves | 225.78 | -48.7 | -47.42 | -9.47 | -26.96 | -14.07 | -147.99 | -80 |
| Errors/omissions | -22.84 | -25.58 | -1.12 | 37.2 | 43.75 | 88.87 | 117.54 | 185 |
| Net Investment Position | -1,372.96 | -1,364.41 | -1,473.31 | -1,535.8 | -1,649.66 | -1,694.5 | -1,637 | - |

Source: NBM, computations by ES

Table 18. Real GDP of the major trade partners of Moldova

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 p | Share in Moldovan exports%, 2004 | Share in world output, % 2004 |
|------------|------|------|------|------|------|------|------|------|--------|----------------------------------|-------------------------------|
| Russia | 1.8 | -4.9 | 5.4 | 9.0 | 5.0 | 4.3 | 7.3 | 6.1 | 6.0 | 35.8 | 2.7 |
| Euro zone: | 2.3 | 2.9 | 2.8 | 3.5 | 1.5 | 0.9 | 0.5 | 1.9 | 1.8 | 30.1 | 15.7 |
| Italy | 2.0 | 1.8 | 1.7 | 3.1 | 1.8 | 0.4 | 0.4 | 1.2 | 1.6 | 13.9 | 3.0 |
| Germany | 1.4 | 2.0 | 2.0 | 2.9 | 0.8 | 0.2 | -0.1 | 1.7 | 1.5 | 7.3 | 4.4 |
| France | 1.9 | 3.5 | 3.2 | 4.2 | 2.1 | 1.2 | 0.5 | 2.4 | 2.1 | 1.1 | 3.2 |
| Romania | -6.1 | -4.8 | -1.2 | 2.1 | 5.7 | 4.9 | 4.5 | 8.0 | 7.4 | 10.0 | 0 |
| Ukraine | -3.0 | -1.9 | -0.2 | 5.9 | 9.2 | 5.2 | 9.4 | 12.0 | 8.0 | 6.6 | 0 |
| Belarus | 11.4 | 8.4 | 3.4 | 5.8 | 4.7 | 4.7 | 6.8 | 11.0 | 10.2 | 6.0 | 0 |
| USA | 4.4 | 4.3 | 4.1 | 3.8 | 0.3 | 2.4 | 3.0 | 4.4 | 4.0 | 4.3 | 21.1 |
| Hungary | 4.6 | 4.9 | 4.2 | 5.2 | 3.8 | 3.3 | 2.9 | 3.9 | 3.8 | 1.5 | 0 |

Source: NBM, computations by ES

Table 19. Breakdown of Moldovan Imports by Country, millions USD

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005 p |
|----------|---------|-------|-------|-------|---------|---------|---------|---------|
| CIS | 440.2 | 221.9 | 252.7 | 334.5 | 434.8 | 593.4 | 767.8 | 1,108.9 |
| Russia | 233.0 | 118.8 | 104.6 | 136.3 | 168.6 | 183 | 216.3 | - |
| Ukraine | 151.6 | 78 | 112.4 | 164.2 | 225.3 | 309.3 | 436.4 | - |
| Belarus | 50.6 | 21.3 | 32.7 | 38.7 | 39.1 | 50.6 | 64.6 | - |
| Other | 5.0 | 3.8 | 3.0 | 4.7 | 1.8 | 50.5 | 50.5 | - |
| UE | 281.2 | 156.6 | 209.3 | 249.0 | 290.6 | 505.8 | 582.7 | 757.5 |
| Germany | 91.9 | 66.2 | 85.4 | 93.6 | 101.3 | 135.6 | 150.9 | - |
| Italy | 65.1 | 34.2 | 45.1 | 61.1 | 82.8 | 118.7 | 132.1 | - |
| Other | 124.2 | 56.2 | 78.8 | 94.3 | 106.6 | 252.5 | 299.7 | - |
| SEE | 214.8 | 143.1 | 205.2 | 190.6 | 256.1 | 133.5 | 199.5 | 219.5 |
| Romania | 112.9 | 90.1 | 129.3 | 107.1 | 126.2 | 98.2 | 164.5 | - |
| Bulgaria | 29.3 | 9.7 | 14.4 | 23.5 | 28.9 | 30.1 | 29.6 | - |
| Hungary | 29.0 | 10.2 | 15.3 | 20.7 | 22.3 | 19.6 | 0.0 | - |
| Other | 43.6 | 33.1 | 46.3 | 39.3 | 78.7 | 0.4 | 5.4 | - |
| Other | 87.5 | 51.5 | 107.8 | 123.1 | 121.7 | 4.8 | 224.2 | 291.5 |
| Total | 1,023.7 | 573.1 | 777.4 | 897.2 | 1,103.1 | 1,402.8 | 1,774.2 | 2,377.4 |

Source: SSD, NBM, computations by ES

Table 20. Breakdown of Moldovan Exports by Country, millions USD

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005p |
|----------|-------|-------|-------|-------|-------|-------|-------|---------|
| CIS | 429.1 | 256.3 | 279.7 | 348.0 | 368.8 | 423.8 | 502.6 | 603.1 |
| Russia | 336.8 | 191.8 | 212.5 | 249.9 | 251.7 | 308.4 | 353.4 | - |
| Ukraine | 48.7 | 35.2 | 36.5 | 62.0 | 64.9 | 56.2 | 64.8 | - |
| Belarus | 31.8 | 21.7 | 21.8 | 30.2 | 39.6 | 41.1 | 58.7 | - |
| Other | 11.8 | 7.6 | 8.9 | 5.9 | 12.6 | 18.1 | 25.7 | - |
| UE | 82.9 | 98.4 | 103.3 | 122.3 | 172.9 | 211.0 | 297.1 | 386.2 |
| Germany | 23.9 | 36.9 | 36.3 | 41.1 | 52.6 | 56.2 | 71.9 | - |
| Italy | 22.3 | 25.9 | 36.6 | 47.7 | 64.4 | 82.4 | 136.7 | - |
| Other | 36.7 | 35.6 | 30.4 | 33.6 | 56.0 | 72.4 | 88.5 | - |
| SEE | 80.5 | 82.8 | 65.1 | 62.0 | 96.1 | 98.1 | 105.7 | 163.4 |
| Romania | 60.8 | 42.1 | 39.1 | 40.2 | 59.7 | 90.2 | 98.9 | - |
| Bulgaria | 2.8 | 5.4 | 3.2 | 3.8 | 3.5 | 6.2 | 5.5 | - |
| Hungary | 3.5 | 16.4 | 4.8 | 7.3 | 9.2 | - | - | - |
| Other | 13.4 | 18.9 | 18.1 | 10.7 | 23.8 | 1.7 | 1.3 | - |
| Other | 39.6 | 24.8 | 25.9 | 37.8 | 72.8 | 57.1 | 80.9 | 90.0 |
| Total | 632.1 | 462.3 | 471.5 | 570.2 | 710.6 | 790.0 | 986.3 | 1,242.7 |

Source: SSD, NBM, computations by ES

Table 21. Retail turnover and private housing starts

| | Retail turnover, quarterly, mil- lions MDL | Year-on-year or quarter-on-quarter real change, % | Services rendered to population | Annual growth rate, real, % | Investments in com- mercial and resi- dential real estate |
|-------|--|---|------------------------------------|--------------------------------|---|
| 1996 | 3,840 | 12.3 | 820 | -21.9 | 105 |
| 1997 | 3,971 | -7.7 | 1,237 | 10.2 | 122 |
| 1998 | 3,679 | -14.2 | 1,299 | -11.7 | 114 |
| 1999 | 3,602 | -29.6 | 1,897 | -10.2 | 94 |
| 2000 | 6,012 | 27.4 | 2,600 | 0.1 | 67 |
| 2001 | 7,612 | 15.1 | 3,404 | 21.2 | 92 |
| 2002 | 10,753 | 34.3 | 4,222 | 11.8 | 105 |
| 2003 | 14,537 | 18.2 | 5,229 | 13.3 | 114 |
| 2004e | 17,428 | 11.0 | 6,912 | 4.8 | - |
| 2005p | 21,951 | 10.0 | 8,468 | 7.0 | - |

Source: SSD, computations by ES

Table 22. Nominal disposable income and consumption spending of households, million MDL

| Anul | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e |
|--|-------|-------|-------|--------|--------|--------|--------|
| Disposable income, average per month per one household member, MDL, including, % | 5,159 | 5,833 | 8,105 | 10,492 | 13,961 | 18,285 | 23,838 |
| wages | 1,790 | 2,065 | 3,023 | 3,966 | 5,166 | 6,820 | 9,003 |
| proceeds from agricultural activities | 2,033 | 2,246 | 2,796 | 3,347 | 4,174 | 5,284 | 6,510 |
| proceeds from individual activity | 155 | 193 | 243 | 283 | 363 | 713 | 1,098 |
| revenues from propriety | 36 | 23 | 16 | 31 | 14 | 110 | 157 |
| social payments | 521 | 484 | 778 | 1,144 | 1,969 | 2,560 | 3,379 |
| other current allowances | 21 | 23 | 32 | 42 | 42 | 18 | 22 |
| other current transfers | 604 | 799 | 1,216 | 1,679 | 2,234 | 2,779 | 3,669 |
| Consumption | 5,497 | 6,144 | 8,380 | 10,831 | 14,144 | 18,610 | 24,156 |

Source: SSD, computations by ES