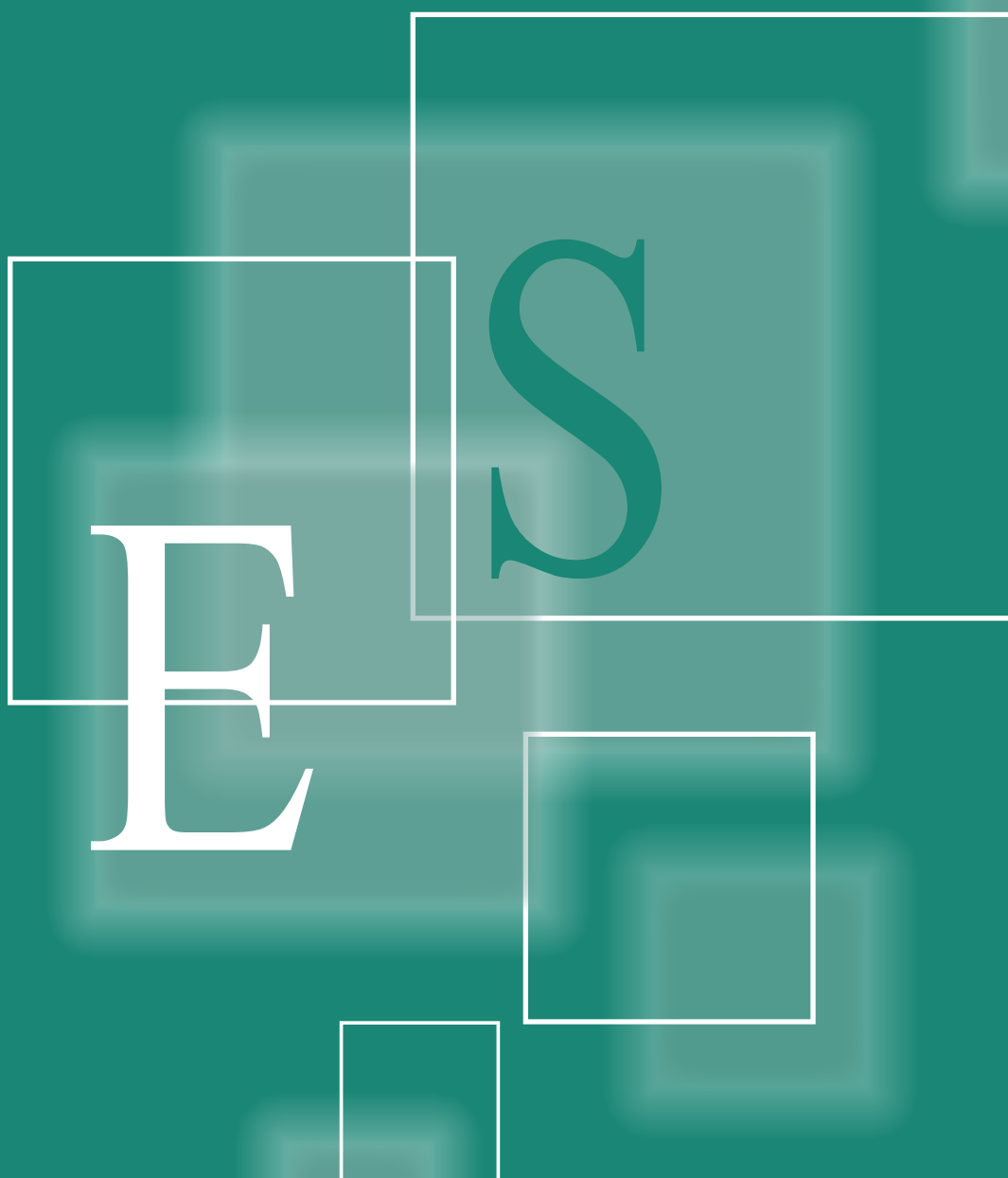


Economic Statewatch



Quarterly analyses and forecasts

Issue 17



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Center for Economic Policies of IDIS “Viitorul”

ACRONYMS AND ABBREVIATIONS

In present publication follow on acronyms and abbreviations were used:

"BCRMN" – "Central Bank of the Transnistrian Moldovan Republic";

BNM – National Bank of Moldova;

CISR – Center for Strategic Investigations and Reforms;

CSI – Commonwealth of Independent States;

CPE – Center for Economic Policies, IDIS "Viitorul";

BNS – National Bureau of Statistics of the Republic of Moldova;

ECE – Central and Eastern Europe;

IPP – Institute for Public Policies;

ISD – Direct foreign investments;

MAIA – Ministry of Agriculture and Alimentary Industry;

MDL – Moldovan leu;

ME – „Economic Monitor: quarterly analyses and forecasts”;

MEC – Ministry of Economy and Commerce;

MF – Ministry of Finance;

MPSFC – Ministry of Social Protection, Family and Child;

OIM – International Organization of Labor;

SBGC – Households Budgets Poll;

SCERS – Strategy of Economic Growth and Poverty Reduction;

H – half of a year;

Q – quarter of a year;

e – estimates;

p – forecasts;

rmsa – annual average exchange rate;

rca – annual growth rate (end of current year comparing with the end of last year);

rmca – annual average growth rate;

ma – annul average;

p.p. – percentage points.

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MAIN INDEXES

	2001	2002	2003	2004	2005	2006	2007	2008	2009e
Production									
GDP, million MDL, Current prices	19052	22566	27619	32032	37652	44069	53430	62840	59454
GDP / capita, USD, rmsa	408	459	549	721	812	890	1229	1694	1461
Real GDP, rca	6.1	7.8	6.6	7.4	7.5	4.8	3.0	7.2	-12.5
Real industrial production, rca	13.7	10.8	15.6	8.2	7.0	-4.8	1.0	0.7	-29.0
Real agricultural production, rca	6.4	3.4	-3.6	20.8	0.8	-1.1	- 23.1	31.9	2.0
Gross investments in fixed capital, % of GDP	12.2	12.4	13.3	16.0	20.7	24.8	28.0	29.8	21.2
Households									
Personal disposable monthly income, MDL	241.0	321.6	422.4	491.4	568.6	839.6	1018.7	1150.0	1050
Real disposable income, rca	17.7	26.5	17.4	3.5	3.4	5.0	8.0	7.0	-2.0
Retail trade, rca	14.8	34.2	18.2	5.6	5.3	6.9	7.6	8.4	-20.0
Prices									
The index of consumer prices	106.3	104.4	115.7	112.5	110.0	114.1	113.1	107.3	100.6
The index of prices of agricultural products	106.1	102.8	120.0	113.1	108.7	109.5	115.4	106.5	98.0
The index of prices of non-food products	107.9	108.2	111.5	111.9	114.9	115.7	111.6	102.1	100.5
The index of prices of services	104.5	104.4	112.6	111.6	106.6	120.1	113.0	117.4	104.2
The index of prices of industrial products	112.0	105.0	109.0	105.6	105.3	112.2	126.5	103.4	101.0
Labour Force market									
Population, thousands	3635	3627	3618	3607	3600	3589	3581	3573	3568
Population employed in the economy, thousands	1499	1505	1357	1316	1319	1257	1247	1251	1220
Unemployment rate, methodology of ILO	7.3	6.8	7.9	8.1	7.3	7.4	5.1	4.0	9.0
Monthly average salary, lei	544	692	891	1103	1319	1695	2065	2529	2685
Real salaries, rca	21.2	21.1	15.0	10.1	6.9	14.0	12.0	9.0	5.5

(Transnistria is not included)

	2001	2002	2003	2004	2005	2006	2007	2008	2009e
Foreign Trade and the Balance of Payments									
Export of goods and services, rca	19.9	13.8	22.7	24.7	10.8	-3.6	27.6	19.0	-29.3
Import of goods and services, rca	14.9	16.3	35.1	26.1	29.6	17.5	37.0	32.8	-35.8
Volume of the foreign trade with goods and services, millions USD	1457.7	1681.8	2192.2	2753.7	3383.6	3744.8	5031.7	6496.2	4276.4
Current account, % of PIB	-7.3	-6.2	-7.4	-3.2	-7.8	-11.4	-15.6	-17.0	-15.0
FDI, millions USD	148.5	110.4	39.4	50.0	75.0	60.0	240.5	350	200
Earnings from salaries earned abroad, millions USD	212	254	317	422	683	854	1218	1660	1160
Finance*									
Earnings in the consolidated budget, % of GDP	22.7	22.5	24.3	35.6	39.9	38.1	38.2	37.1	37.0
Budgetary balance, % of GDP	0.0	-0.5	1.6	1.1	1.9	1.2	0.3	0.3	0.3
Public internal debt, % of GDP	12.6	12.5	10.7	11.2	11.1	11.0	11.0	11.0	11.0
Public foreign trade and guaranteed by the government, % of GDP	64.5	59.4	51.5	42.9	24.9	25.0	25.0	23.0	23.0
Financial indicators									
Monetary base, rca	27.9	31.1	17.0	39.1	31.8	-0.7	46.5	22.0	-6.1
Foreign currency reserves, millions USD, end of the period	228.5	269.6	302.3	470.3	597.4	650.0	1050	1505	1144
Official annual average exchange rate MDL/USD	12.8	13.5	13.9	12.3	12.6	13.1	12.1	10.3	11.3
Interest rate for credits in MDL, %, ma	28.5	23.1	19.2	21.0	18.9	18.2	18.9	21.1	20.1
International economy									
Global GDP, rca	2.4	3.0	3.9	4.8	4.5	5.1	4.9	2.5	-0.5
Weighted average of GDP growth in the main partner countries (2/3 of Moldova's exports)	4.0	2.8	3.8	3.5	3.2	4.1	5.4	4.1	-4.0

Main indicators (continuation from the above table)

Main indicators (continuation from the above table)

* From 2004 is calculated National Public Budget

Source: NBS, NBM, ES forecasts

Transnistria, selected indicators

	2001	2002	2003	2004	2005	2006	2007	2008	2009e
Regional GDP, millions USD	199	250	309	405	486	586	650	770	680
Regional GDP, rca	10.0	-2.7	18.1	16.2	11.8	7.7	10.0	12.0	-20
Industrial output, rca	9.0	-18.7	21.4	5.2	0.6	-23.2	7.0	10.0	-35
Population, thousands (estimations)	633.6	630.1	621.8	616.5	600	585	570	550	530
Retail trade and services, rca	23.1	18.4	7.6	15.3	18.4	5.2	2.6	5.0	0.5
Investments in fixed capital, rca	15.6	-9.2	-14.7	22.2	-2.5	4.3	-6.4	-2.0	-10
Exports, millions USD	378	243.4	432.8	535.1	579.7	422.1	610.0	690.0	450
Imports, millions USD	541	449.6	592.9	758.3	855.6	738.4	740.0	1150.0	700
The index of consumer prices	127	110.6	132.6	120.4	110.8	108.9	110.0	112.0	107

Source: "CBMNR", CSIR, estimations of ES

EXECUTIVE SUMMARY

Situation in RM is not necessary exceptional or fatal, but rather competitive and advantageous for political change.

POLITICS. Political crises which shattered agendas of those two elections in 2009 make it impossible to imagine how liberal-democrats will coexist with "technocrats" from the Communist Party of the Republic of Moldova (hereafter CPRM) within the same Government, or how will they dole out key positions in the country while there is a lack of mutual trust and ill-fated reference model of 2005.

Situation in the Republic of Moldova (RM) is not necessarily exceptional or fatal, but rather competitive and advantageous for political change, which has no other objective but to completely dismantle the "one-person", sultanate-type regime of President Voronin, who ruled through regime's specific institutions: political-economic clientele, party-state ideology, state dependency on a single problem – the "transnistrian" one – and conservation of a marionette Government, obedient to the interests of a single actor, the hegemon of public space. Formed Alliance for European Integration (AEI) sets conditions for an unique political situation after elections of 29 July through 3 key elements: (1) competition between those 2 belligerent camps unfolds without a mediator, (2) the opposition accepts only the complete and real transfer of power, which would grant access to the governance, and (3) CPRM finds itself in defensive positions with minimal chances to impose its political will. Opposition parties from AEI, however, have to face another causality which they can not avoid: CPRM controls at the moment some elements of power which allows it obstruct the process of new Government' establishment, while President Voronin' tenure as the head of state creates a grave duality of power in the country, which can be solved only if one party achieves its political goal. CPRM can still block the AEI' access to governance by causing, in turn, problems and provoking repeated elections, but now only in 2010, a period dominated by crisis, budget deficit and serious governance problems as a result of a temporary Government and controversial interim status of the head of state. Caution and timidity still shape the actions of AEI, even though its leaders managed to pass the first resistance test while forming the legislature. Yet, CPRM does not want to offer any "gifts" by giving up those 8 votes needed to AEI to install the new head of state proposed by AEI, which does not seem to be willing to "bargain", even when threatened with repeated elections.

Certain devastating for agriculture processes have amplified in the first half of the year

AGRICULTURE. In the first semester of 2009 the global production registered a modest growth by only 2,6% comparing with similar period of the previous year. The growth in Moldovan agriculture is comparable with that in a number of CSI states: Ukraine (2,6%), Kazakhstan (2,7%), Azerbaijan (2,5%), Kirgizstan (2,2%) and is inferior to the growth registered in Belarus (6,6%), Tajikistan (14,8%) and Uzbekistan (4,6%).

Certain devastating for agriculture processes have amplified in the first half of the year: important increase of stocks of agricultural and alimentary products (especially alcoholic beverages, cereals and processed products of animal origin), more attenuated amendments in the lands fund (over limit increase of agricultural lands rented for a period less than 3 years), serious changes in the labor force structure (comparing with semester II of 2008, the number of population employed in agriculture decreased by circa 53 thousands, or by 11,3%, which means that every 8th person employed in agriculture quitted this business), massive withdrawal of agricultural lands from agricultural circuit (in some cantons about ? of agricultural lands

remained uncultivated), spectacular falls of acquisitions prices on main agricultural products: cereals and vegetables, fruits and grapes, milk.

In CPE team's opinion, the counter-crisis measures, able to through back negative processes unleashed in agriculture, should be directed towards improving efficiency of the existing supporting system in agriculture, improving the structure of agricultural lands fund, establishing and functioning of the agricultural and food products market, improving commercial policies. One of the main measures, a cure-all medicine in times of crises, which can really help farmers, is to diminish production costs in agriculture.

BUSINESS. World economic recession brought forward poor quality of the economic growth in the Republic of Moldova within the last years and proved the vulnerability of our economy to the external shocks. In the last 8 years we became even poorer comparing with all other countries from Eastern Europe and Caucasus, and in order to get to the level of the next poorest country in the region (Georgia), we need to grow by circa 10% annually for the next 6 years.

The overall worldwide decrease of demand, the collapse of the constructions sector and reduction of real incomes of the population are those factors that led to the crisis in the industry. The share of productive investments is decreasing for the seventh consecutive year, and in real value it could drop in 2009 below the level of 2001.

FOREIGN TRADE. In January-July 2009 the total amount of foreign trade of the Republic of Moldova registered a dramatic decrease, amounting 2454,8 millions USD or with 66,8% less than the amount registered in the same period of 2008. In the first seven months of the year 2008 exports amounted 692,2 millions USD, which meant a reduction by 22,1% against the same period of time in 2008, whereas imports amounted 1762,6 mil. USD, or 36,6% less than in the same period in 2008. The deficit of commercial balance for that timeframe reached 1070,4 millions USD, registering a decrease by 821,0 millions USD against similar period in 2008. Imports decrease led to decrease of customs taxes collections as part of import tax. In January-July 2009 these revenues amounted 4028681 thousands lei, which meant a reduction by 26% comparing to similar period in 2008.

In the first seven months of 2009 exports of vegetal products to EU-27 states and CSI countries doubled against the background of exports reduction on main goods categories. Exports of these products will stay relatively high in the second semester of the current year thank to the increased exports of vegetal products. Tariff contingents on certain goods received within the framework of PCA, and which had not been used in 2008, were completely used in 2009. For 2009 we support the CPE forecasts, which foresee a reduction of exports and imports by 29,3% and 35,8% respectively, comparing with 2008.

MONETARY MARKET. The monetary mass lowered to the level of the beginning of 2008. In spite of late reaction, the National Bank of Moldova (BNM) had made a massive intervention through all monetary tools available, yet, the monetary mass increased modestly comparing to the mobilized monetary tools.

Inflation became a peripheral indicator already in 2008, when, alongside a strong currency exchange rate ensured by heavy "dollarization" of the

World economic recession brought forward poor quality of the economic growth in the Republic of Moldova within the last years and proved the vulnerability of our economy to the external shocks

Considerable reductions of customs import-export taxes collections

BNM can infuse supplementary liquidity up to 2 billions lei, with no negative effects on the economy

economy, it allowed the Government and BNM apply similar strategies used in developed countries. That means that notable infusions of liquidity had been made in order to boost the economic growth. At the moment this should be the target objective number one for BNM and the Government.

The softening of monetary policies reversed the tendency of interest rates' growth on financial resources, but the effects of BNM' actions would take some time to be felt. It is imperatively necessary that BNM maintains a slightly excessive liquidity in the banking sector, thus, ensuring the availability of funds and low interest rates which can contribute to economic growth.

In conditions of economic crisis, the Government will manage to fulfill its obligations towards its employees and pensioners

PUBLIC FINANCES. In conditions of economic crisis, the Government will manage to fulfill its obligations towards its employees and pensioners mainly by applying three basic tools: loaning from capital market, accepting external grants and delaying payments to economic agents. These 3 tools, altogether, amount for over 6 billions lei, which equal to the social allowances' budget and actually represent the real deficit of the national public budget.

In 2009, for the first time in the history of Moldova, the Government will come to borrow unprecedented loans from the capital market in the total amount of 2,5 billions lei.

Inflation can register an unprecedented value in the history of RM – up to 0.6%.

PRICES. A faster reaction from BNM could have ensured a softer fall of the economy, but that never happened.

We witness at the moment a noticeable decrease of consumption (by circa 10% in the first semester comparing to previous one), caused by unemployment raise by 3.8% in the same period. As a result, in average per country, population has less money for purchases with approx. 90 millions lei monthly, in spite of the average salary increase. Absolutely abnormal deflation at the beginning of the year confirmed the retrenchment of the economy, phenomena which we are unfortunately still witnessing.

It is quite certain that there are more inflationist factors, although not so significant, comparing to the only deflationist factor – the retrenchment of the economy of Moldova, which will impose to maintain stable prices with a slight reverse towards an ignorable inflation by the end of the year.

Inflation can register an unprecedented value in the history of RM – up to 0.6%.

Situation on the labor market of RM worsened in the first semester

SITUATION ON THE LABOR MARKET IN MOLDOVA. Situation on the labor market of RM worsened in the first semester as a result of business activities constraints, especially in constructions, transportations and manufacturing industry, as well as due to the decrease of population's real incomes. Accelerated rate of dismissals doubled the official data on unemployment, which reached in the first semester of the year over 90 thousands people. In the meantime, according to CPE estimates, the number of people seeking a job may reach by the end of the year 180-200 thousands. Increased dismissals unfold alongside more emphasized, abnormal type of employment, reduction of social packages and delays in salaries' payments. These phenomena, alongside increased salary debts, decreased money transfers from gastarbeiters and prices volatility led to the reduction of population real incomes. That resulted in consumption being restrained by nearly 10%, and respectively, the GDP by almost 7%.

ECONOMY OF TRANSNISTRIAN REGION. The economy of Transnistrian Moldovan Republic (hereafter tmr) continues to decline in the first semester of 2009 due to the dramatic turndown in the real sector of tmr and, primarily in metallurgy and constructions (-85,3% and -60,2% respectively), increased prices on raw materials and fuel, investments' deficit and decrease of population' consumption. Decrease of tmr population real incomes has had an immediate effect on the final consumption of households in the region. More than 2/3 of population' incomes are being spent for consumption, out of this amount 1/3 being spent for utilities and 70% for daily consumption needs. In conditions of crisis, decreased index of living standards of tmr population creates real risks for poverty increase for more than a half of tmr inhabitants.

The economy of TMR continues to decline in the first semester of 2009 due to the dramatic turndown in the real sector of TMR

WORLD ECONOMY. Situation worldwide seems to get to the better – financial and economic crises seem to give up to efforts undertaken by world governments in stimulating the economy and consumption and getting rid of toxic assets of financial system. In the second quarter of 2009 countries like USA, China, Japan, France and Germany registered an economic growth for the first time since the crisis unleashed, confidence in the business environment being in ascension as well. Against the background of overall economic refreshment the prices on oil increased, and American currency depreciated a bit due to the return, amongst other reasons, of the appetite some investors have for risky assets. These tendencies will most probably continue till the end of the year, although specific oscillations of oil prices, as well as EURO/USD parity, are inevitable. World market of wheat will not face significant disturbances this year, due to the fact that despite unfavorable weather conditions in some of the major exporting countries, consumption will not exceed wheat production.

Situation worldwide seems to get to the better – financial and economic crises seem to give up to undertaken efforts

Although there are signs of economic stabilization worldwide, including signs of stocks' markets return and recovery of consumers' trust, in the short run situation remains uncertain and there are still major risks which endanger economic and financial stability of countries around the world. Economic crisis, including economies' safeguarding measures, led to the deficit growth of current and budgetary accounts. Eventual efforts to finance those deficits may lead to inflation growth, oil prices increase, decrease of interest rates, increase of unemployment rate and, eventually, to overall stagnation. Continuous support to financial institutions and private sector rendered by world governments, alongside the reduction of reference rate, may prevent another wave of crisis.

POLITICS

Sinthesis

Political crises which shattered the agenda of those two elections in 2009 make it impossible to imagine how liberal-democrats will live together with "technocrats" from the Communist Party of the Republic of Moldova (hereafter CPRM) within the same Government, or how will they divide key positions in the country since there is a lack of mutual trust and ill-fated reference model of 2005.

Situation in the Republic of Moldova (RM) is not necessarily exceptional or fatal, but rather competitive and advantageous for political change, which has no other objective but to completely dismantle the "one-person", sultanate-type regime of President Voronin, who ruled through regime's specific institutions: political-economic clientele, party-state ideology, state dependence on single problem – the "transnistrian" one – and conservation of a marionette Government, obedient to the interests of a single actor, the hegemon of public space.

The founding of the Alliance for European Integration (AEI) sets conditions for an unique political situation after elections of 29 July, through 3 key elements: (1) competition between those 2 belligerent camps unfolds without a mediator, (2) the opposition accepts only the complete and real transfer of power, which would grant access to the governance, and (3) CPRM finds itself in defensive positions with minimal chances to impose its political will. However, the opposition parties from AEI have to face another causality which they can not avoid: CPRM controls at the moment some elements of power which allows it obstructing the process of new Government' establishment, while President Voronin' tenure of the head of state creates a grave duality of power in the country, which can be solved only if one party achieves its political goal.

CPRM can still block the AEI' access to governance by causing, in turn, problems and provoking repeated elections, but now only in 2010, a period dominated by crisis, budget deficit and serious governance problems as a result of a temporary Government and controversial interim of the head of state. Caution and timidity still shape the actions of AEI, even so its leaders managed to pass first resistance test while forming the legislature. Yet, CPRM does not want to offer any "gifts" by allocating those 8 votes to AEI needed to install the new head of state proposed by AEI, which does not seem to be willing to "bargain", even when threatened with repeated elections.

Post-elections effects

Elections from 29 July tuned down the electoral calculations of CPRM. While getting up to 45% of votes, CPRM remains the largest fraction in the Parliament of the RM (48 seats), which, in turn, has the handicap of not being able to make any alliances with smaller, radicalized parties. Profound dilemma which CPRM has to solve, deals with its project of "monopolist super-party", drafted with certain superficiality by one of its official ideologists, Mark Tkaciuk, when the latter came up with a motto "Let's defend our Motherland". CPRM calls for a large coalition, but wants the absolute power for itself, while the statute of "constructive opposition" can not be assumed by its current formal leaders. Economic crisis in RM suggests to moderate groups within CPRM to accept the statute of "constructive opposition", however, pressures, exercised on CPRM by its connections from within the politico-oligarchic sys-

CPRM reflux is obvious

tem installed by CPRM throughout its 8 years of governance, do not allow it to relax and leave its economic interests unprotected. CPRM waits for liberals to handle without protective gloves those “tick-firms” that supported the wealth growth of communist officials throughout the last decade and who now hate the fact that they can not maintain any longer their monopoly over the state power. CPRM got used with the luxury of a party-state, without which it would immediately return to the status of a banal political actor, who strives with difficulties for a constituency ranging somewhere between 7 – 11% of voters, loosing eventually all the grandeur of a “single party”, able to mobilize the interests of business and those of the entropy of “useful opportunists”, attracted by the power and authority exercised in a peculiar way by the CPRM official leader, V.Voronin. Driven by the imagistic inertia of its long 8 years of governance, CPRM may still count on certain portions of electorate, quite vicariously attached to an assisting state, but the reflux is obvious.

The motif of CPRM’ political decline is built on a combination of unfavorable structural factors like rigidity, isolation and corruptibility of its leaders. CPRM is desperately seeking answers to this situation. Its first model answer was that of proposing a *Center-leftist Alliance*, hinting *sui generis* towards Democrat Party (DP), against the *Alliance for European Integration*. In a hypothesis where DP would have accepted this offer, the democrats would have been rewarded with the posture of the head of state, while CPRM would have gained access to the RM legislative chairman. In such conditions, the CPRM leader could have ensured the ascent of its power. That could have had DP leaders to copt within a separate arrangements used before between CPRM-PPCD (People’s Christian-Democrat Party) in 2005, or through corrupting necessary number of members of parliament from liberal-democratic parties to secure necessary number of votes needed to preserve control over the governance. CPRM tried to minimize the importance of AEI, claiming that it would talk to parties and not to a non-existent alliance.

That was exactly the same trick used by CPRM within 5 – 25 May, when its leaders declared that they would negotiate separately with every deputy and not with parties to which they belong to. The CPRM’ offer was targeting mainly DP as well as the Alliance “Our Moldova” (AOM), thereby suggesting that it did not expect any “reciprocity” from LDP (Liberal-Democrat Party), and even less from PL (Liberal Party). Both formations (DP and AOM) publicly declined these scenarios, confirming commitments to their liberal partners and displaying irritation by suspicions launched by the media.

The second model answer was seeking to impede the power take-over by liberal-democratic parties, either through intensifying internal contradictions amongst AEI members, or through boycotting elections of new administration. That model was residing on the premise that AEI would have had to inevitably negotiate with CPRM. As long as CPRM had an acting head of state, a temporarily Government, and executive control over law enforcement bodies, these negotiations would have been conducted on the grounds well known to CPRM, situation well sensed by AEI leaders (even with no military training!), who tried to apply the tactics of flexible solidarity, displayed right at the first Parliament’ session held on 28 August.

While giving due understanding to the difficulties of political momentum, as well as to the hostility, with which CPRM treats any discussions on real transfer of power, AEI’ leaders have tolerated, in their turn, certain internal antagonisms, thus, sending out a signal that CPRM tactics might win and, if there is an unsatisfactory allotment amongst AEI components, DP might have accepted an “immoral, but practical solution”. At the first session of the legislature CPRM

***CPRM caught
in offside by the
procedural logic
which it would
have liked to
avoid***

should have tergiversate the elections process of the new leadership of the Parliament, profiting from the role of dean of age attributed to Mr. I.Calin, who had to close down the working session of the Parliament immediately after the legislature inauguration festivities were over. However, CPRM was caught in offside by the procedural logic which they would have liked to avoid. Although having asked for a break until 4 September on behalf of CPRM, the session chairman didn't propose to vote the decision, while the fact of CPRM members leaving the session as individual deputies and not as a registered parliamentary fraction can not be invoked in support of allegations about the illegality of RM Parliament session.¹ Procedural mistakes allowed AEI leaders make an excellent use of the advantages of newly formed coalition by quickly mobilizing themselves and, thus, obtaining the first institutional victory which changes the political game inside the legislature. By electing another dean of age, Mr. Ion Hadârcă, AEI components officially registered 4 parliamentary fractions, managing to elect with 53 votes the Chairman of the Parliament of RM, through secret voting, unanimously, under strict supervision of the Commission, especially created for that very purpose.

AEI has sufficient grounds to take over under its legislative control main law enforcement institutions

AEI applied a superior tactics which bore immediate results. CPRM lost the ground and fell in its own trap, getting lost in imprudent and defective estimates of procedural logic. Thus, AEI has sufficient grounds to take over under its legislative control main law enforcement institutions. Without much effort, AEI may assign the Prosecutor General, according to art.125, para.1 and 3 (Law on prosecutor's office, the President of Court of Accounts, art.14, para.1 (Law on accounting court, No.31-2-XIII from 08.12.1994). In order to satisfy the society request, the Parliament of the RM has to ensure a complex and thorough investigation of the events that took place in April 2009. That thing can not be done without assigning a new director of SIS (Security and Intelligence Service), proposed by the President of RM or by Parliament deputies (art.13, para.1 from the Law No.753-XIV from 23.12, 1999). Before voting the new Government, procedure which has several difficult stages, AEI leaders should reset now the functioning of the Center for Combating Economic Crimes and Corruption (CCIEC), re-directing its subordination from the Government under the Parliament (art.8, no.1104-XV from 06.06.2002). These essential amendments would leave CPRM without traditional tools used during elections campaigns, while maintaining a weak Government, with no internal credibility and political support would finally erode its positions should repeated elections be held in 2010.

Figure Nr.1 Votes structure, calculated % and comparative distribution of mandates in 2 consecutive elections in 2009

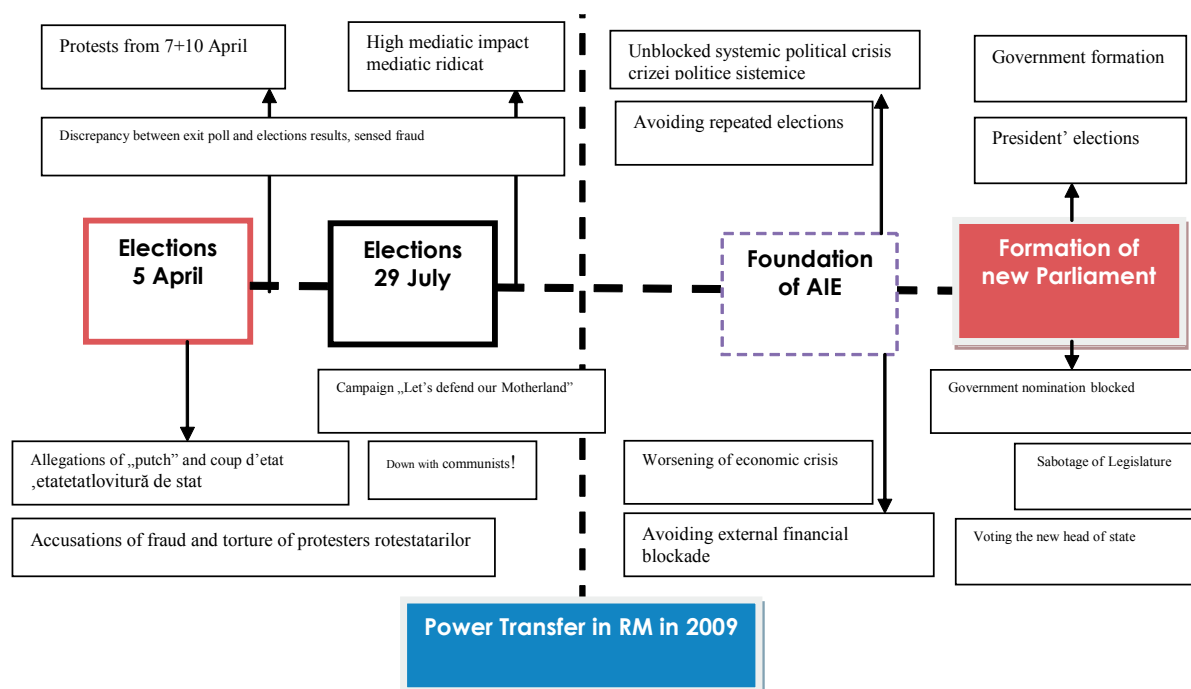
Political actors	April 5, 2009			July 29, 2009			Responsibilities apportionment within AEI governance		
	Votes	%	Mandates	votes	%	Man-date	Parliamentarian commissions	Ministries in the Government of RM	President of RM
CPRM	760,551	49,48	60	706,732	44.69%	48			
PPCD	46,654	3,04	0	30,236	1.91%	0			
AMN	150,155	9,77	11	116,194	7.35%	7			
PL	201,879	13,13	15	232,108	14.68%	15	Chairman of the Parliament		
PLD	191,113	12,43	15	262,028	16.57%	18		Prime-Minister	
PSD	56,8666	3,7	0	29,434	1.86%	0			
Green alliance				6,517	0.41%	0			
DP	45,698	2,97	0	198,268	12.54%	13			President of RM
UCM	42,211	2,75	0						
MAE	15,481	1,01	0						

1 Ion Creangă, Alexandru Arseni, Victor Popa, Jurnal.md, <http://www.jurnal.md/article/19923/>

Next months on legislature' calendar will accumulate an enormous amount of tectonic changes on the political scene in the RM. Inside CPRM, competing fractions have completely different views on how to save positions upheld by this party for the last 8 years. Encouraged to sabotage AEI, CPRM deputies tactically lost the first session, forcing even the "weak link" of AEI to publicly denounce the possibility of any pact with communist leaders. CPRM is being pressed to accept the vote for the installation of the new government of AEI, just as it did with the opposition when CPRM asked its support to re-elect President Voronin for his second mandate. Under the hysteria of not being able to gain the support of AEI components, CPRM will seek to involve the Constitutional Court in its procedural quarrel with liberal opposition, opting for a radical tactic of sabotage of the legislative process. This tactic places CPRM in disadvantageous defensive position, forcing it to pay back debts it owes to the opposition. Anchored to an authoritarian and easily hot-tempered leader, CPRM will be overthrown in the short run, loosing strategic positions in the long term. It may be anticipated that even if AEI fails to get the appointment of its candidate for the Prime-Minister, being blocked by acting President V.Voronin, the old Grecian?i' Government will not be able to resume its activity, since it will be marginalized in relations with external partners (Russia, EU, USA) and will not have political support in the Parliament. Removed from the network of its absolute power, CPRM will not get used with its new situation, which will generate internal frictions and, possibly, contradicting scenarios on how to solve the crisis within the party. Some members would wish to change the suicidal line of confrontation by conducting individual negotiations, or even by approaching AEI components. CPRM may enter the phase of internal clashes and open contestations of the line of actions imposed by its current leader V.Voronin, which may lead either to fragmentation by ethno-linguistic criteria or to the emergence of several ideological poles that would compete over the position of leader (post-Voronin). This scenario may be considered as a „modernization” through redesign of CPRM, forced under political and legislative circumstances to abandon its role of “party-hegemon”, which is permanently in conflict with the Constitution of RM that clearly denies the “installation of any state ideology”.

CPRM may enter the phase of internal clashes and open contestations deschise

Figure Nr.2 Initiatives and constraints felt by political actors in 2009



Lack of will to accept the idea of power transfer

The dramatic nature of relations between AEI parties and CPRM can be explained by the lack of will to accept the idea of giving up the power in 2009 to a liberal-democratic alternative. CPRM refused to discuss, upon the invitation of AEI, the conditions of such transfer immediately after the validation of deputies' mandates (20 August) by the Constitutional Court. AEI leaders wanted to discuss with CPRM from the positions of a formed alliance, but this very fact was seen by the CPRM leader as an attempt to hand over an „ultimatum” by “some ephemeral formations, weaker than the most important and real political party in RM”. CPRM leader felt as being insulted by the naiveté and impudence of AEI representatives who, instead of waiting to be summoned to the palace for separate discussions, draw imaginations as they would be able to rule the country. As a result, CPRM denies the invitation sent by AEI on 25 August and intensifies its actions on luring AEI components in a format built on 5 points formulated by Voronin after the elections of 29 July. None of the 4 leaders of liberal and democratic parties accepted to discuss separately, not even on those 5 points of CPRM, thus, royal prides of the conservative fraction from President Voronin's entourage will have to face numerous harsh critics from moderate fraction of CPRM, both owing to each other those conditions that used to provide resources and benefits, specific to those in power. Even if differences between those 2 fractions are purely hypothetical, exaggerated by the mass-media, personal rating fall of CPRM leader V.Voronin is a proven fact and even inevitably registered in the cyclic evolution of parties. CPRM, however, is not an average party, it is a “people's party”, without which neither the state nor the nation would exist, as it can be drawn from recent declarations of CPRM. Even the perspective to re-gain the power in 2010, after successfully blocking the power transfer, will not curdle CPRM, since it is perceived as a clan even from within the party. Point-blank refusal of any discussions on succession, reforms, alternatives in governance, heavily traumatizes the situation of its political allies (socialists, agrarians, non-affiliated people), who would seek a “platonic” relationship from now on, immediately after CPRM remains without the tool, which used to make it attractive: access to power and tangible resources.

AEI Governance

Political scene still remains vulnerable to some post-elections and even ante-elections crises

After the “moral vote” displayed by liberal parties against CPRM intentions to maintain the governance in May 5-25 and June 3, for the first time after 2001, on political stage emerged a serious political alternative, able to contest the CPRM hegemony. Although quite weak, intentions to form united, post-elections, anti-communists block have drawn the sympathies of voters², thus mobilizing their leaders to identify a format for a political dialogue and communication. We mention here, that the idea of making compulsory coalitions of pro-European parties was always welcomed by the voters, and public opinion poll well prove this fact. Only interdictions imposed by Electoral Code did not allow parties negotiate a large democratic coalition, thus, in a post-elections perspective the objective to resume the common format to ensure that power transfer in RM was easily reached. Political scene still remains vulnerable to post-elections, and even ante-elections crises. The main factor of instability is the possibility to block the power in circumstances when none of the political forces can ensure its superiority and political factors fail to negotiate their agendas due to a misbalanced institutional system and a damaged political culture. As in the case of Ukraine, this kind of situation requires conditions and external interventions, which may

² Electoral Code of RM forbids the formation of electoral alliances. Interdiction was imposed through the joined votes of CPRM and PPCD in 2008, with the goal to solve the problem of crumbling the votes collected by small parties, but with the intention to weaken the positions of other parties competing for political power in RM.

be benefic as well as malefic, as showed the situation in Ukraine. Assessments of existing options at the moment show at least 6 courses of action to solve the crisis, which we will discuss later.

Figure Nr.3 Options to solve political crisis in RM

	a	b	c	d	e	g	h
President of RM	1	1	0	1	0	0	0
Chairman of the Parliament	1	1	1	0	1	0	0
Prime-Minister of RM	1	0	1	1	0	1	0

**Options to solve
political crisis in
RM**

A. Ideal option: Situation in which one party that holds the majority in the legislature manages to completely promote its political agenda by electing the Chairman of the Parliament, by nominating its candidate for Prime-Minister and by electing out of its members the President of RM. The option assumes the coexistence of different sets of ideas, that of the majority that has everything, and that of the minority who accepts the transfer of power, lowering the resistance costs. According to this model AEI announces just its objectives (3), and CPRM abides, tacitly accepting the fact that it can not promote unilaterally its own candidate. External actors actively intervene between those 2 forces, making sure of the clarity of intentions in conditions of an asymmetric political dialogue. CPRM may condition its blocking vote with the fulfillment of certain conditions (those 5 theses formulated by Voronin, or anything else), but doesn't participate in a "large coalition", whose coagulant it should have been, given its relative numerical superiority.

B and D. Speculative options: Both options describe hypothetical courses of actions when AEI has sufficient political resources to elect 2 out of 3 most important positions, but would either fail to nominate the Prime-Minister or invest the new Government (B), or to elect the Chairman of the Parliament (D). We will examine in more details option B, since events advanced right at the first session of the Parliament with elections of the speaker (although questioned and, thus, taken to the Constitutional Court). This option says that AEI can elect the legislature' chairman and then attract on its side necessary votes (8) to elect the new President, but can not confirm the candidate for the Prime-Minister office and the old Government, respectively, remains in power in a temporarily status, situation which brings credibility to AEI. The model seems to be less relevant, taking into consideration that negotiations within AEI led to the apportionment of the spheres of responsibility and not to the distribution of all positions. That allowed electing the Parliament Chairman at the session held on 28.08.09, next step being the identification of the format to elect the new President of RM and nomination of the candidate who would form the new Executive (art.98, Constitution). The candidate has 15 days after nomination to obtain the confidence vote of the Parliament, after respective debates, on his program of activity and entire list of the Government by collecting the majority of votes of elected deputies (52). The necessary condition for this option to work is if the institutional arrangements of AEI would cease to function after first 2 elections, and part of AEI deputies would join CPRM in order to perpetuate the existence of a provisional executive, having at stakes at least the amplification of power crisis and preparations for repeated election at the beginning of 2010.

The most truth-like option according to the mass-media

C. Costly option: This option is labeled by the media as the most truth-like one. This option springs from the assessments of negotiations crisis between AEI-CPRM, who reciprocally block each other and create a formidable blockage of the real post-electoral power transfer. The crisis could have been solved through a constitutional reform, for which there are no time and political support³. The model describes the way of using to a full extent political resources of AEI (53 mandates) to elect the Chairman of the Parliament of RM, elections being held in accordance with the Constitution and the Regulation on Parliament functioning, but blocked by insufficient number of votes to elect the President of RM. That could also mean that AEI fails to convince 8 communist deputies to vote "patriotically", while the "vacancy of the head of state position" (art.90), as a result of mandate expiration of the acting President, is not legally recognized by the Constitutional Court. We would mention, in this context, about the existence of some "mines", planted without much inspiration by the architects of constitutional reform of 2000. They are related to the interpretations of the definition of "position' interim period" (art.91), which in the meantime "lasts until the newly elected President is sworn in" (art.80), as well as related to the authority to the dismiss the newly elected Parliament (art.85), even if the President does not have a separate from the Parliament mandate and can not dismiss the Parliament during the last 6 month of the President's mandate (art.85). Option C opens the door to repeated elections, which can be held only in 2010 (art.85, para. 3 – the Parliament can be dismissed just once), after what the head of state would nominate a candidate for the Prime-Minister within 45 days from the first day of request, after consulting parliamentary fractions (art.98-1), but who would not correspond to the candidate preferred by parliamentary majority, and only after two investiture requests' attempts (art.85). This situation would bring more disadvantages to political actors. Yet, it might yield to the satisfaction of CPRM to torpedo the establishment of AEI, deepen internal instability and damage even further the functioning conditions of state administration and national economy. Relations with IMF and WB would not be resumed, while the major problems affecting the functioning of a state of law would inhibit the external support promised by the European Commission and conditioned by the restoration of international obligations and democratic order in RM. The Government of RM would preserve its provisional status, protected by a President whose mandate is expired, in conditions of a parliamentary majority that disagrees with almost every action of the Government.

E. Option of incomplete transfer: This option describes the situation secured by AEI at the first Parliament' session, when it managed to mobilize itself in an exemplarily manner and elect the Chairman of the legislature, thanks to the political construction negotiated by 4 liberal-democratic formations. The situation of offside, in which CPRM falls in this case, encourage its leaders to contest in CC certain procedural deficiencies, what may mean in the meantime as pretext to recognize the existence of AEI (the fact vehemently denied before), calling afterwards to the necessity to hold negotiations with all 4 political parties outside AEI. Those 4 political parties (LDP, PL, AOM and DP) did not accept this invitation, thus, leaving CPRM without allies, while the idea of creating a coalition of center-left died lacking reciprocity. Model E could have led to a situation when the opposition would have managed to get support to elect the new head of state in exchange for the seat of the Chairman of the Parliament, creating conditions for co-existence between CPRM/AEI. That would have meant the political death

³ The Parliament of the RM can adopt amendments to the Constitution after at least 6 month from the day the respective initiative was submitted, with 2/3 of deputies votes, while Constitution revision can be requested by 200.000 citizens, or by 1/3 of members of Parliament. Art.141, and 143

of AEI and the re-painting on the wall papers the “regal right” of CPRM leader to select his partners on his choice and preferences, having almost unlimited power, concerted by a single super-dominant party and by unicolor governance. Option E may fuel, on the other hand, a powerful political crisis, expressed by the unwillingness of CPRM to accept “pioneering” and structural advantages of AEI, insisting on returning to “option 0”, while waiting for a satisfactory verdict from Constitutional Court. Duality would serve Voronin to maintain internal cohesiveness within the party, using for that goal any pretext or institutional resources to temper or to “slap down” AEI leaders. Involvement of Special Forces units, blackmail and corruption of most vulnerable politicians from opposition, against the background of unleashed ante-liberal propaganda are just some of the behavior criteria left to Voronin.

G. Option of executive alternative. This model describes the negotiations conditions to equilibrate the power in the country in a way which leaves major problems of the political system functioning still under the imperatives and necessities of the moment and of the will “to include communists in the new political configuration”. Option G foresees the nomination of a Government formed by opposition parties – an evil tolerated by CPRM under conditions of its international isolation (suspension of the cooperation memorandum RM-IMF, conditioning of a new political agreement with EU with the return to democratic functioning of the state, etc), but with the preservation of its almost unlimited power tools through installing the Chairman of the Parliament. That position is desperately wanted, and, by the way, needed to CPRM leader, V.Voronin, who does not have another option how to preserve his absolute and discretionary power in RM, as well as the possibility of bringing a loyal person, politically non-affiliated, but who shares CPRM ideas, for the position of the head of state. This model would considerably advantage CPRM conservators, who would find a “scapegoat” in the eventuality of repeated elections, ensuring that the loyal economic-administrative structure established in the last decade remains untouched. Although having tried to mediate a compromise agreement between AEI and CPRM, EU could not make the “interested” parties accept a possible calm coexistence, mainly because their causes had not been solved while the ambiguous status of the acting President creates premises for verbal hostilities and confrontation risks. While before observers were marking with explicit skepticism the post-elections project of liberals to obtain integral transfer of power, now their opinions changed immediately after the first session of the new legislature, which proved the resistance of internal agreements negotiated within AEI as well as the lack of grounds for myths on the “invincible character” of CPRM.

***Nomination of
a Government
formed by the
opposition parties
– an evil tolerated
by CPRM***

H. Impossible option. Although we marked it as an impossible option, a mirror image of option A, we would only outline the arguments that show that in practice this option is impossible. This model describes the situation where opposition fails to secure any of 3 key positions in the country, while CPRM is (still) too weak to man them, fueling thus, an explosive situation, define as a “crisis of elites and frustrations of masses”, postponing the political resolution for later times. Following the mandates validation procedures of new elected deputies, and continuing the application of the Regulation on the Parliament functioning, the new legislature obtains the necessary majority of votes, which would mark political benchmarks from now on: either towards the conservation of the „Voronin model”, securing his absolute power in another key position of the political regime, the personal power of a single person (and clan), or through “dismantling the vertical of power”, both options having costs and major institutional obstacles.

This situation makes necessary the external mediation in the context of post-electoral crisis in RM, with the goal to improve economic situation, anchor RM to EU through an association agreement, negotiate an easier regime for obtaining Schengen visas, as well as unblock external financial and technical assistance.

Matrix assessment of political situation in RM brings forward few major points.

Real and complete transfer of power to AEI, or failure to install the new Government

- The change of power in RM opens important opportunities for revitalization of the governance quality and that of political elites. Opposition has an enormous chance to launch its projects on modernization and "Europeanization" of the country, having a limited, but sufficient majority in the legislature, needed to apply reforms assumed by RM in its relations with the main western partners – EU and USA.
- After two decisive turns in the history of 2009 elections, political conditions are in favor of options C and E, both trajectories may still end up with the real and complete transfer of power to AEI (securing all 3 key positions in the state and ensuring a stable governance), or with the failure to install the new Government as a result of blockage applied by the old head of state and with repeated elections in 2010, which would deepen the crisis and population' grieves, and would increase the attractiveness of non-constitutional models of solving the power duality. In the meantime, RM would miss an interface, while political forces would be drawn into internal battles and would not be able to reset the tools of state' economy redressing.
- Next months will maximally test the AEI' resistance, as well as the competence of its leaders to mobilize resources, objectives and principles they declared during the elections campaign. The opposition should not let itself get dizzy from obtained victories because CPRM will wait for the best moment to knock AEI down and throw it into a political crisis that may be fatal for the idea of alternative governance itself.
- RM needs a new interface in its relation with the West (EU and USA), who tried to mediate in favor of co-existence whenever it was possible and time was available. The West knew fragmentarily and incompletely the elites that formed the AEI at that moment, the fact which blocked certain mediation actions and, thus, implicitly favored the position of CPRM leader, V.Voronin. AEI needs powerful internal and external mass-media assistance, without which it would not overcome the poisoned legality of CPRM, and of its erroneous policies of collective psychos and xenophobic waves.
- The new political leadership of RM has to dry out its agenda and leave only few political commitments, agreed upon by AEI leaders, without consuming precious time, political resources and population' patience for objectives that can wait.

AGRICULTURE

In the first semester of 2009 global production registered a modest growth of only 2,6% comparing with similar period of the last year (in the first quarter, BNS reported a growth of 3,6% which was labeled by ME as an ephemeral one). In January-June 2009 the growth of global agricultural production was determined by the growth in animal production by 5,1%, while vegetal production marked a decrease by 11,1% comparing the similar period of last year. Modest growth in Moldovan agriculture is comparable with that in several CSI: Ukraine (2,6%), Kazakhstan (2,7%), Azerbaijan (2,5%), Kirgizstan (2,2%) and inferior to the growth registered in Belarus (6,6%), Tajikistan (14,8%) and Uzbekistan (4,6%).

Certain devastating for agriculture processes have amplified in the first half of the year:

- Important increase of agricultural and food products stocks. In wine sector, by 10.03.2009, stocks made 30 millions decaliters. Wheat stock at the beginning of the year amounted around 900 thousands tones.
- Emphasized amendments in the lands fund. Drastic downsizing of agricultural lands cultivated by the smallest farms from 103582,77 ha in 2008 to 82544,29 ha, in 2009 and an increase of consolidated areas rented for a period of less than 3 years. Decrease of farmers households with an area of up to 1 ha – by 13099 units.
- Serious changes in the labor force structure. Comparing with the first semester of 2008, the number of people engaged in agriculture significantly diminished this year with circa 88 thousands, or with one quarter (26,1%). Comparing with the second semester of 2008 the number of people engaged in agriculture diminished with circa 53 thousands, or with 11,3%, which means that every eighth person quitted this business.
- Massive withdrawal of agricultural lands from agricultural circuit. In 2009, in some cantons about? of agricultural lands remained uncultivated.
- Spectacular falls of acquisitions prices on main agricultural products: cereals and vegetables, fruits and grapes, milk.

Vegetal sector

In the vegetal sector, the harvest campaign of cereals and been vegetables from the first group finished in the first decade of August with a slight delay. Cereal crops, vegetables and rapes covered this year an area of almost 552,3 thousands ha, including 448,2 thousands ha autumn crops (wheat – 317,4 thousands ha, barley - 72,1 thousands ha, rapes – 58,7 thousands ha) and 104,1 thousands ha of spring crops (peas – 16,1 thousands ha, barley - 76,4 thousands ha, others - 11,6 thousands ha). According to operational data, at the beginning of August follow on average outturns had been registered: autumn barley crop - 22,3 q/ha, spring barley crop - 18,7 q/ha, rape - 13,7 q/ha, peas - 13,2 q/ha, autumn wheat - 24,2 q/ha. Global harvest of autumn wheat totaled 765680 thousands tones, spring wheat – 7407 tones, autumn barley – 162473 tones, spring barley – 141665 tones, oat – 3610 tones, rye – 1408 tones, rape – 80819 tones, and peas – 20818 tones.

Contrary to state institutions expectations, the cereals harvest, although modest one, ensures food security of the country. This year, over 40% of

In agriculture, ephemeral growth of agricultural production in semester I (2,6%)

Important increases of agro and food products stocks

Emphasized changes in the structure of agricultural lands fund

Serious changes in the labor force structure engaged in agriculture

Massive withdrawal of agricultural lands from agricultural circuit

Spectacular falls of acquisitions prices on main agricultural products

Outturns on cereals below average for the last years

Cereals production ensures country's food security

harvested wheat is alimental wheat. Despite this, the central Government tergiversate the adoption of a Government Decision on cereal acquisitions for state reserves. Likewise, the implementation of measures included in the Action Plan on improving the state intervention system on the wheat market, approved by Government Decision nr. 1278 from 17.11.2008, halted during 2009.

Figure Nr.4 Global volume of vegetal production, thousands tones

	2003	2004	2005	2006	2007	2008	2009*
Cereals and vegetables for beans (after finishing)	1612,7	2993,7	2837,9	2290,2	902,0	3160,0	2100
Out of which:							
Wheat (after finishing)	100,6	853,9	1047,1	677,9	406,0	1286,0	765,7
Corn for beans -total	1413,6	1794,5	1492,0	1322,2	363,0	1471,0	909
Other cereal crops	98,5	345,3	298,8	290,1	133,0	403,0	425,3
Sugar beet (after finishing)	656,8	911,3	991,2	1177,3	596,0	919,0	710
Sun-flower (after finishing)	390,0	335,2	331,1	379,9	156,0	371,0	240
Tobacco	6,9	7,9	6,7	4,8	4,0	4,0	9,7
Vegetables – total	360,8	315,2	389,3	475,2	221,0	376,0	385
Potatoes	302,8	317,7	378,2	376,9	200,0	270,0	240
Fruits, berries and nuts	617,2	430,4	386,2	329,2	276,0	367,0	350
Grapes	677,2	685,6	518,5	466,1	598,0	635,0	570

Source: National Bureau of Statistics of the Republic of Moldova.

* ME forecasts.

On the other hand, in 2008 and in the first half of 2009 selling prices for most part of agricultural products (cereals and oleaginous products) significantly lowered. Data presented by the National Bureau of Statistics only partially reflects the real situation on the agricultural products market. According to them, in January-June 2009 average selling prices for agricultural products set by agricultural enterprises diminished with 46% comparing with respective period in 2008. For vegetal products prices dropped by 58,5%. Significantly lowered prices on wheat (exclusively seeds) – by 66,4%, corn (exclusively seeds) – by 62,0%, sun-flower (exclusively seeds) – by 57,2%, vegetables – by 45,9% , fruits and berries – by 42,3%.¹ Data is valid only for a limited number of basic agricultural products, remained in the stocks of agricultural enterprises.

Weak and uncoordinated measures on cereals market

Prices' fall on internal market on cereals and oleaginous was influenced, first of all, by the established conjuncture on external markets and then fueled by chaotic measures undertaken by state authorities to "remediate" the unfavorable conjuncture on internal market of agricultural and alimentary products. Weak and uncoordinated intervention measures applied by authorities, which in some cases were lacking elementary logic, did not stop the prices fall on main agricultural products and even more disordered the internal market. Makes sense to remind here some innovative measures carried out by authorities, like selling alimentary wheat from state reserves and purchasing fodder wheat instead to replenish reserves; blockade of cereals exports; funding constructions of slaughter-houses for animals when total numbers of animals was falling down, etc. On the other hand,

¹ <http://www.statistica.md/newsview.php?l=ro&idc=168&id=2683&parent=0>

international trade decreased, being influenced by economic crisis, which affected countries in the region.

The 2008 wheat harvest was the biggest one in the last decade -1286,0 thousands tones). In spite of this fact, farmers didn't make immediate use of the exports opportunities existing on the regional market. Prices fall on internal and regional markets happened right in middle of the harvest campaign. As a result, 64,4 thousands tones of wheat were exported, valuing 10,7 millions USD. At the outset of 2009 900 thousands tones of harvested product was in stock, while the situation on the market was absolutely unfavorable for farmers. Most farms sold their products at mediocre prices, below production costs level.

That was done in most part to pay back the credits, get funds for the new season or to pay salaries. Prices fall made broke a good number of farmers. In 2009 in many cantons about ? of agricultural lands remained uncultivated. Presented by BNS data for the second quarter of 2009 show that changes occurred in the labor structure in agriculture don't loose from zeal. Comparing with quarter II of 2008, number of people engaged in agriculture decreased with circa 53 thousands, or by 11,3%, which means that every eighth person abandoned this business.

Animal sector

In 2009 if we tend to believe to MAIA reports, animal sector undergoes a change. This change is limited to the recovery of animals' numbers up to the level registered at the beginning of 2008 and doubtful growth of animal production in the first semester of this year. According to MAIA, there is a tendency of increased animal production on collective farms versus individual ones.

Figure Nr.5 Total number of animals in 2002-2008, thousands

	2002	2003	2004	2005	2006	2007	2008	2009*
Bovines, total	410	373	331	311	299	251	231,7	222,2
out of which cows	279	256	231	217	207	181	171,7	163,2
Porcine	508	446	398	461	532	406	271,3	320,0
Ovine and goat's flesh	956	938	942	938	947	846	874,3	890,0
Poultry	14995	15756	17522	22235	22531	-	-	25600

Source: BNS.

* January-June 2009.

Thus, consolidation of animal husbandry sector takes place in the country alongside the consolidation of agricultural lands and by the end of the year the numbers of animal are expected to rise, except for bovines. By the end of the year the number of porcine will reach 400 thousands and will make 141% comparing with last year. Already this year MAIA expects an essential growth of animal husbandry production by circa 15 - 20 %².

In our opinion these forecasts are very optimistic, while evolution in this sector shows just an obvious stabilization after two, extremely difficult, years for farmers. Recovering numbers up the 2008 level is a quite modest

2 <http://www.maia.gov.md/libview.php?l=ro&idc=52&id=13758>

achievement if we consider that in 2008 this numbers came to the limit after a severe drought, when farmers resorted to massive slaughters of their animals. By 1 July 2009, bovines scored a reduction by 4% comparing with the number existed on 1 January 2008 and by 22% less comparing with 2007. Number of porcine rose to a higher level than that registered at the beginning of 2008, but was way less than numbers of animals registered at the beginning of agricultural year within the period of 2002-2007.

Source: National Bureau of Statistics of the Republic of Moldova.

Figure nr.6 Global volumes of animal production

	2003	2004	2005	2006	2007	2008	2009*
Meat (live mass), thous. tones	118,0	119,0	121,0	135,0	142,0	108,0	48,1
Milk, thous. tones	593,0	628,0	659,0	628,0	604,0	542,0	246,0
Eggs, mill. peaces.	620,0	668,0	762,0	766,0	704,0	541,0	299,9

* January-June 2009

Another thing which poor doubts on noticeable growth of animal production is the fact that global animal production in the first semester of this year didn't reach even 50% of the production registered in 2008. It worth mentioning that in 2008 the global animal production dropped to the lowest mark registered in 2003-2008. Thus, meat production (108,0 thousands tones) was less than with circa 20% comparing with the one achieved in 2003-2005 and by 30% lower than in 2006-2007. The milk production decreased in 2008 by circa 10%, comparing with 2003, with circa 20%, comparing with 2004 and 2006, and with 30% comparing with 2005.

Stabilization of total animals number and that of animal production

In the second half of 2009 the sector will maintain the same tendencies identified in the first semester, stabilization of the total animals number and of animal production. In the meantime, there will be some risks linked to fodder supplies, which will threaten the sector in the first semester of 2010.

BUSINESS

World economic recession brought forward poor quality of the economic growth in the Republic of Moldova within the last years and proved the vulnerability of our economy to the external shocks. Moreover, besides social problems related to the forced migration of economically active population, which couldn't find a decent income sources in Republic of Moldova, the economic crisis proved once again that this model of economic growth could not ensure a durable development.

Given the perspective of the governance change we would like to emphasize that a new paradigm is needed in addressing the issue of economic growth, namely: economic growth should be based on investments and focused on sectors requiring intensive qualified human capital.

Business environment in the Republic of Moldova remained at the same level of attractiveness as in previous years, however, a number of realities worth to be given a separate attention:

- Although BNM undertook some efforts to liberalize the monetary policy, which is welcomed, yet, these measures came late and there is time needed till they would significantly ease the access to credits for economic agents. We hope that after drastic measures adopted in July and August would break the ice on the crediting market within the next two month, especially if BNM effort in improving the business environment will be supported by the new governance.
- Contrary to statements made by the previous Government through the "anti-crisis program", the imports regime authorization for fish was introduced in May with a ten days warning, providing that only transportation may last up to one month.
- Lack of transparency around the tender on Parliament building and Presidential palace renovation is another proof that "economic reforms" declared in previous years were just a decoration, while the real agenda of the Government was different and in some cases totally opposite.

Overall business environment kept wearing out throughout 2009...

Thus, poor economic result of this year are not exclusively the consequence of the world economic recession, but owe to large extent to poor governance of economic processes within the last years, where economic crisis unveiled the rotted character of national economy and of its structural problems.

The profile of Moldovan economic crisis is defined by follow on statistics:

- In the first 7 months of this year the industry decreased by 24,7% and we will change our forecasts for the better from the previous ones regarding the evolution in this sector: we think the industry will decrease by approximate 28-30%;

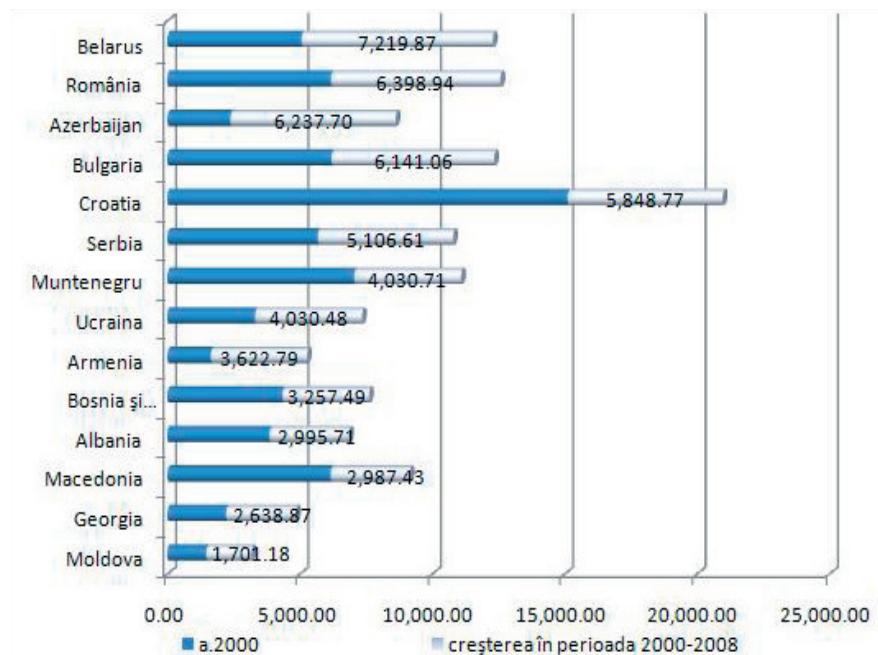
...while economic crisis unveiled the rotten structure of the national economy.

- In the same period trades by retail decreased by 4,8%, the decline having slightly accelerated within the last 2 months. Perspectives in this sector till the end of the year depend much on the budget ability to honor its obligations towards those categories that depend on budget revenues. The pessimistic forecast is that decline in this sector may exceed 15%, the optimistic one - approx. 9-10%;
- Investments dramatically fell by 38,4% in the first half of the year and if we have the scenario where the budget will not have resources for investments and economic agents will not be able to redress their financial situation, this dynamic may continue and by the end of the year this index be in decrease by 35-40% comparing with 2008.

Investments and their weight in GDP deserve a special attention, since they should be the locomotive of economic growth in the future, while the mere comparison of GDP *per capita* with the same date in other countries in the region shows way better the quality of economic growth than the final consumption (see Picture Nr. 7).

In the last 8 years we became even poorer than all other countries from Eastern Europe and Caucasus...

Figure Nr.7 Moldova in regional context: GDP/per capita in USD PPC, y.2008 comparing to y.2000



Source: World Economic Outlook, April 2009

First of all the diagram shows that Republic of Moldova, with less than \$3200 *per capita*, remains the poorest country in Eastern Europe and Caucasus, having in front Georgia, with \$4900 *per capita*, Armenia, with almost \$5300 and Albania, with almost \$6900 *per capita*.

Secondly we see that within the period of 2000-2008 Republic of Moldova had the most modest real growth of GDP/*per capita*. Although Croatia remain the largest regional economy, the economy of the Republic of Belarus had the best real growth of GDP/*per*

capita (over \$7200/*per capita* in these 8 years), followed by Romania, Azerbaijan and Bulgaria, all having a growth between \$6100 and \$6400/*per capita*. In Ukraine GDP/*per capita* rose with more than \$4000 in these 8 years, while in Armenia and Georgia, who in 2000 had an economy comparable with Moldovan one, GDP/*per capita* growth numbered \$3620 and \$2640 respectively. Within referenced period the national economy rose with only \$1700/*per capita* which means that, in fact, we became poorer comparing with other countries in the region.

Thirdly, this picture suggests that in the case of the Republic of Moldova maintaining regional rate of economic growth would mean the increase of discrepancy between us and other countries, in real values: thus, in order to reach Georgia' current economic level (next poorest country in the region on GDP/*per capita*, PPC), our economy should grow by 10% annually, for the next 6 years.

Industry

National industry production seems to stabilize around the mark of -25% comparing with 2008, with a slight recovery in June-July, due to partial recovery of extracting industry which in the first 2 months of this year had a spectacular fall by nearly 66%. In the first 7 months of the year, however, we have a decrease of only 36, 5% comparing with similar period of the previous year.

In the manufacturing industry, however, which makes over 80% of the entire industry, decline exceeded 27%, mostly due to the 20% contraction of the food industry production, reduction of production programs in the light industry, and collapse by almost 44% of the non-metal mineral productions, including glass production and articles made of it, as well as construction materials.

Main factors that contributed to this situation were:

- (a) As a result of world recession the overall demand for products, that had been traditionally making the export of Moldova, decreased. That affected mainly enterprises that make wine and distilled alcoholic beverages (which led to reduced production in connected sectors, like glass production, carton production), canning production, textiles production and clothing production. Out of 24,7% fall of the total industrial production at least 11% owe to this factor.
- (b) Dramatic fall in constructions sector (see below), which had multiple effects on industries that serve this sector – extraction industry and construction materials production, as well as food manufacturing, furniture production, etc. This factor contributed with at least 7% to the overall decline by 24,7% of industrial production.
- (c) Reduction of population overall incomes and internal consumption (see Chapter *Situation on the labor market in RM*), which affected those branches that serve internal market: milling and baking production, dairy-produce, mineral and soft drinks production.

...and to reach the today's level of the next poorest country in the region (Georgia), we need a growth by 10% annually for the next 6 years.

Overall demand fall worldwide, slump in constructions and reduction of population real incomes – factors that shaped the crisis in industry.

Contribution of this factor to the overall industry decline is estimated at maximum 2% from the total of 24,7%.

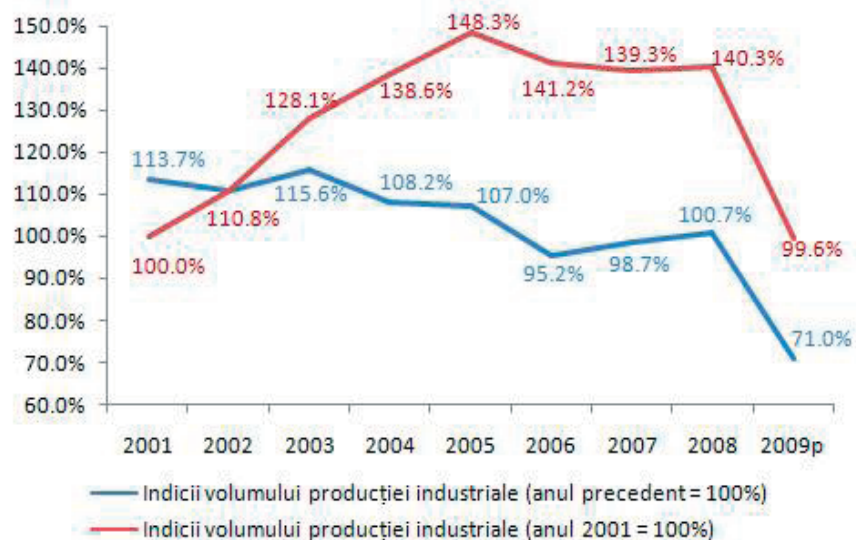
It should be added here that action of factors (b) and (c), mentioned above, unleashed to a large extent die to the reduction of money transfers flux from abroad.

Energetic sector, being the most rigid one, proved to be more stable than other industrial sub-sectors and declined by only 5,1%, which makes a contribution of about 0,6% to the overall fall of 24,7% totally for the industry.

Positive changes in the BNM policy: although with delays, but monetary mass was unfrozen...

Impact of factors from financial market is also important: on one hand, relative appreciation of the national currency against the currencies of main partner-countries, on the other hand, liberalization of the monetary mass (see Chapter *Monetary Market*). Yet, their effects are more difficult to synthesize, since they influence in a marriage with other factors mentioned earlier and multiply their effects.

Figure Nr. 8 Index of industrial production volumes, 2001-2009



Source: BNS

So, we will correct our forecast of 32-36% decline in the industrial sector for a more optimistic one of 28-30%, taking into consideration follow on factors and risks:

...however, uncertainty on global markets, risk of population poverty and budget deficit continue to endanger the national industry

1. Financial situation in the economies of the main trade partners of the Republic of Moldova stabilized and expectation on increased demands rise. It should be mentioned here that according to some analysts of financial markets there is still a risk of another wave of financial crisis which might be followed by a worsening of world recession worldwide.
2. BNM applied anyway the policy of slight depreciation of the Leu and suddenly unfroze the monetary mass, especially in the last 6 weeks

(see Chapter *Monetary Market*). This factor is going to have a well felt effect on the industrial sector not earlier than in 6-8 weeks, when banks will adjust the interest rates and reconsider crediting risks based on the situation linked to the demand on the global scale and incomes of household in the Republic of Moldova.

3. The risk of political crisis proliferation remains high if the parliament fails to elect the new President of the Republic of Moldova, which, in turn, diminishes the possibilities of the Government to attract external resources to stabilize the budget. If this risk come truth, public consumption, as well as incomes of the population dependent on budget, will fall drastically, and that would obviously sharpen the crisis in industry. Alternatively, if, in order to stabilize the budget, the Government continues to borrow massively from the internal financial market, liberalization effect of the monetary mass described earlier will be reduced to zero.
4. Special notice should be given to the wine-making sector, which is over-credited, and where the value of all credits due to be reimbursed exceeds the assets available in this branch. In such case, despite the liberalization of the monetary mass, these enterprises might not be able to get another credit for the next production cycle, especially given poor sales at the moment. If that risk becomes reality and wine-making enterprises fail to massively resume their exports, then we may witness the total collapse of one sector of national economy, considered to be strategic and promising one.

Investments and constructions

Investments indexes in the Republic of Moldova seem to stabilize around the mark of minus 40% comparing with last year, with a slight improvement in the situation by summer, similarly to the industrial production. Contrary to our hypothesis, this redress owed to a slower reduction housing constructions and renovation works (by 33,7%), comparing with overall investments activity contraction (by 38,4%). As such, the factor we predicted that would lead to the worsening in investments area turned out to work the other way around and, apparently is going to become the damping factor of investments collapse this year. Thus, we will adjust the initial forecast and will anticipate a reduction of investments by 35% in 2009, comparing with 2008.

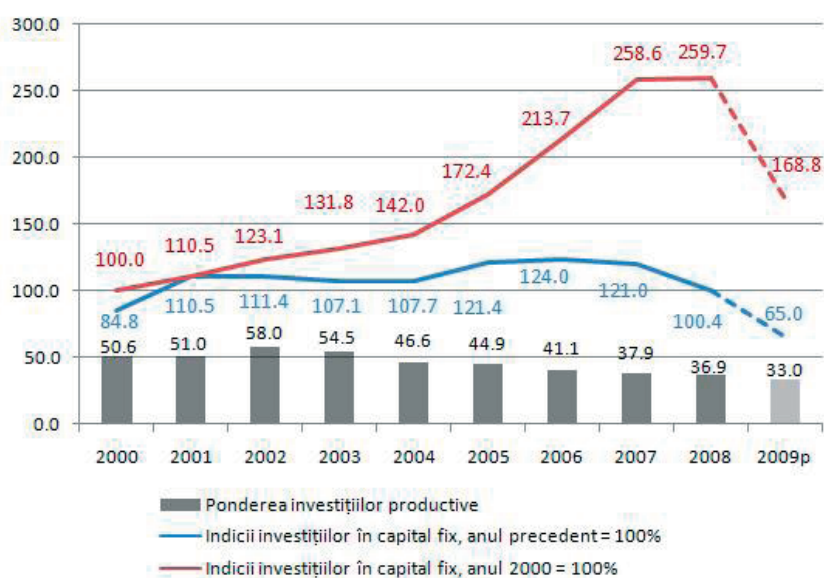
Assessing the evolution of investments activity within the period of 2000-2008 (*Picture Nr. 9*), we may draw follow on conclusions:

- (a) Gradual decrease of productive investments as a share in the total amount of investments shows that investments growth owed first of all to investments in constructions. As we mentioned in previous editions of the Economic Monitor, in 2003-2007 housing constructions (dependable up to 70-80% on gastarbeiters) were the driving gear in this field. Meanwhile, decrease of productive investments share (equipment, devices, machinery, transportation means) is an index that indirectly negatively labels the business environment in the Republic of Moldova. Thus, if CPE forecasts prove right, by the end of 2009 productive investments, in real value will not reach even the level of the year 2001.

The share of productive investments decreases for the seventh consecutiv year, and in real value it may fall in 2009 under the level of the year 2001

- (b) After the anticipated decline in investments this year, their real value will fall under the level of 2005 when constructions business went up.

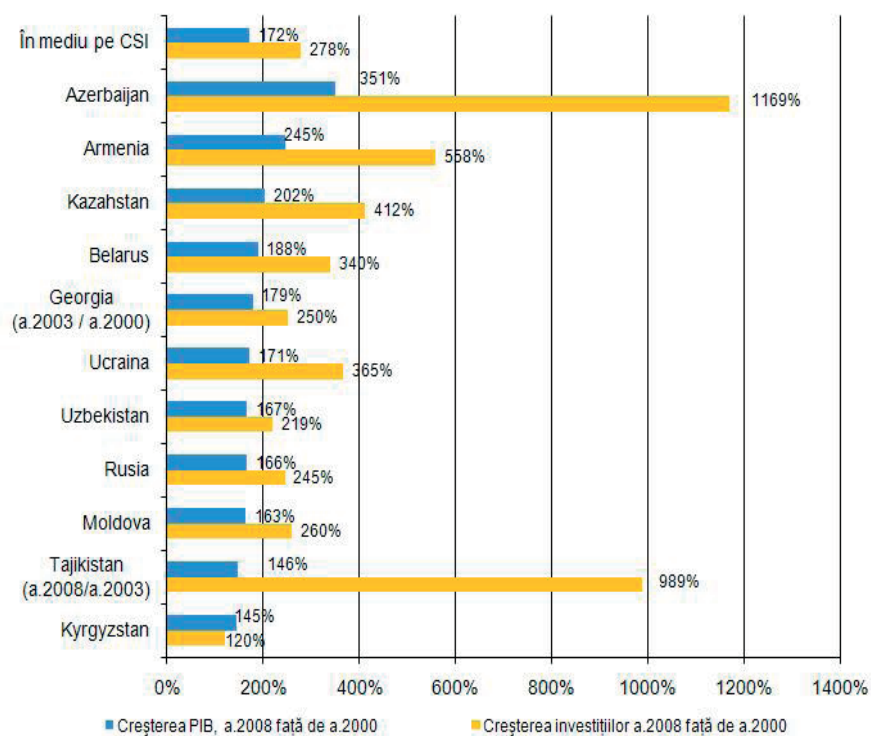
Figure Nr. 9 Evolution of investments activity in the Republic of Moldova, years 2000-2008



Source: BNS

Moreover, if we look at the investments activity in the Republic of Moldova in a regional context, then we see that the reality is even bleaker. Thus, in the same period (2000-2008), annual investments in the economy of the Republic of Moldova rose by almost 2,6 times, which is below average of that index for CSI space (see *Picture Nr. 10*), lower results being registered only in Russia, Uzbekistan and Kirgizstan. In the meantime, Ukraine, which already in 2000 had a better share of investments in GDP and investments *per capita*, managed in 2008 to secure 3,6 times more investments, while Armenia, which has a comparable economy with Republic of Moldova, managed to attract 5,6 times more investments and to prove a growth of 145% of real GDP in 2008 comparing with 2000, all that comparing with only 63% growth registered in the Republic of Moldova.

Figure Nr. 10 Moldova in regional context: Real GDP growth in national currency, year 2008 versus year 2000



Source: CSI Statistics Database, April 2009

FOREIGN TRADE

Reduction by 33,2% of overall foreign trade of the RM

In January-July Republic of Moldova's foreign trade registered a dramatic slump, amounting 2454,8 millions USD or 66,8% from the value registered for the same time period in 2008. In the first seven months of 2009 exports amounted 692,2 millions USD, which meant a reduction by 22,1% comparing to the same timeframe in 2008, while imports - 1762,6 millions USD, an amount inferior to the one received last year by 36,6%. The deficit of commercial balance for that period reached 1070,4 millions USD, with 821,0 millions USD less than in the same period in 2008. Once imports decreased the customs revenues collections lowered as well. In January-July 2009 these taxes amounted 4028681 thousands lei, which is with 26% less than in the similar period of 2008.

Considerable reductions in customs revenues from import-export taxes

Significant increase in vegetal products exports

In the first seven months of 2009 exports of vegetal products towards EU-27 and CSI countries doubled against the background of exports reduction of main goods categories. These will stay high in the second semester of this year due to increased exports of perishable vegetal products. Tariff contingents on certain goods received within the framework of PCA, and which had not been used in 2008, were completely used in 2009. For 2009 we support the CPE forecasts, which foresee a reduction of exports and imports by 29,3% and 35,8% respectively, comparing with 2008.

Exports

Decreased exports by 22,0%

In January-July 2009, exports totaled 692,2 millions USD, which meant a reduction by 22,0% comparing with the same period of 2008. This period marked significant reductions of exports towards Ukraine (53,1% comparing with the similar period of the last year), Russian Federation (81,6%), Romania (73,6%), Italy (77,7%) and Poland (65,4%). Slight increase is registered in foreign trades United Kingdom of Great Britain and Northern Ireland (128,1%), Switzerland (148,0), Greece (192,5%), Hungary (by 2,5 times), Uzbekistan (135,5%), Lithuania (146,9%), Georgia (121,9%), Israel (de 3,2%).

Slow increase of exports share towards EU-27

Exports of goods towards European Union (EU-27) decreased slower than towards CSI countries. Exports to European Union amounted 376,5 mill. USD, being less by 19,2% comparing to similar period of the last year. The EU' share in the overall exports has slightly increased comparing with the same period of 2008 (54,4 % in 2009 against 52,5 % in 2008). It worth mentioning here that tariff contingents received through PCA on some goods not used in 2008 were completely used in 2009.

Figure Nr.11 Main commercial partners of Moldova in exports, January-July 2009.

	Millions USD	in % comparing with 2008
Romania	140,3	73,6
Russian Federation	139,7	81,6
Italy	79,4	77,7
Belarus	44,6	81,6
Germany	41,3	93,9
Ukraine	40,1	53,1
United Kingdom of Great Britain and Northern Ireland	30,4	128,1
Poland	19,7	65,4
Turkey	16,2	88,6
Switzerland	15,6	148,0

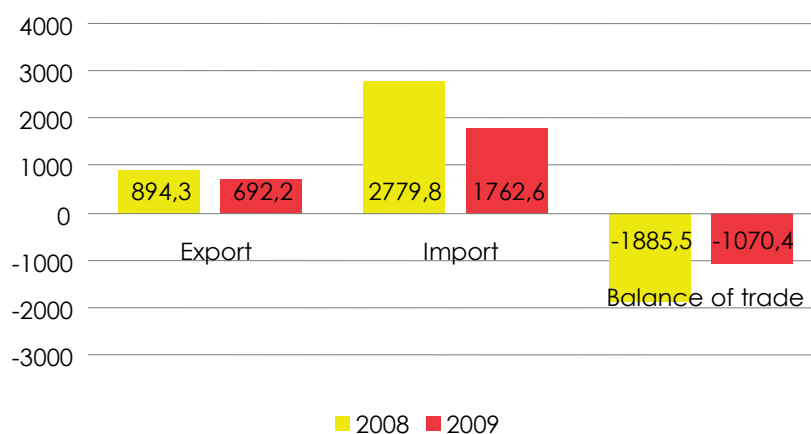
Source: National Bureau of Statistics of the Republic of Moldova.

● CAPITALIZATION OF CONTINGENTS' TARIFF OFFERED BY EU WITHIN THE FRAMEWORK OF PCA FOR EXPORTERS FROM THE REPUBLIC OF MOLDOVA.

According to MEC, within the period of 01.01.2009 – 20.08.2009, Ministry of Economy and Commerce issued 2719 export authorizations for contingent products. For wine export 721 authorizations had been issued. Thus, according to issued authorizations to wine exporters, the share offered by European Union for that group of products was distributed in a proportion of up to 99,98% (6998371,94 hl). The share offered for white sugar export to EU was capitalized up to 88,77% (15977,8t). 726 authorizations were issued.

For barley exports Ministry of Economy and Commerce issued 356 authorizations. Share offered by EU for this category of product was capitalized since the beginning of 2009 by 49,21 % (12302,41t). For tariff position 1005 90 (corn) 990 authorizations were issued. That means a capitalization of offered share by 96,33% (19266,137t). According to data registered by specialized authorities in EU, the share offered for wheat was used for 100% (30000t).

Figure Nr.12 RM Foreign trade, Jan-Jul 2009, millions \$



**Operated
amendments in
the game rules
to capitalize
tariff contingents
within PCA**

Regulation on the administration of tariff shares of exports of goods to European Union was amended this year. The Regulation was approved by the Government Decision nr. 262 dated 7 March 2008 "On administration of tariff shares of exports of goods to European Union" (Official Monitor of the Republic of Moldova, 2008, nr.51-54, art.324¹). As such, operated amendments allow Ministry of Economy and Commerce at the beginning of each year make estimates, based on available statistics, how to distribute the shares for every producer of mentioned groups of products. With written consent of one producer sugar or eggs, the share can be distributed amongst other producers based on available stocks. In the meantime, Annex nr.1 to the Regulation on the administration of tariff shares of exports of goods to European Union „Products that fall under tariff contingents provisions exempted from customs taxes” show follow on data:

Code NC	Product name	2009 ¹	2010 ¹	2011 ¹	2012 ¹
0201-0204	Fresh animal meat from species of bovine, porcine, ovine and caprine, refrigerated or congealed	3000 ²	4000 ²	4000 ²	4000 ²
ex 0207	Meat and comestible organs, fresh, refrigerated or congealed, poultry from position 0105, other than fat leaver from sub-position 0207 34	400 ²	500 ²	500 ²	500 ²
ex 0210	Meat and comestible organs from species of porcine and bovine salty or in brine, dry or smoked; flour and comestible powder, of meat or internal comestible organs, of meat of species of bovine or porcine	400 ²	500 ²	500 ²	500 ²
0401-0406	Dairy-produce (milk products)	1000 ²	1500 ²	1500 ²	1500 ²
0407 00	Birds eggs, in shells	95 ³	100 ³	110 ³	120 ³
ex 0408	Birds eggs, without shells, and eggs yolks, other than those comestible	200 ²	300 ²	300 ²	300 ²
1001 90 91 1001 90 99	Other wheat seed (other than sowing wheat), wheat (common what and meslin)	30000 ²	35000 ²	40000 ²	50000 ²
1003 00 90	Barley	25000 ²	30000 ²	35000 ²	45000 ²
1005 90	Corn	20000 ²	25000 ²	30000 ²	40000 ²
1601 00 91 and 1601 00 99	Sausages, small sausages, brines and similar products from meat, organs or blood; other processed products	500 ²	600 ²	600 ²	600 ²
ex 1602	Other cooked and canned meat, from organs or from blood				
	- cocks or chicken, not boiled				
	- domestic animals from porcine species				
	- animals from bovine species, not boiled				
1701 99 10	White sugar	18000 ²	22000 ²	26000 ²	34000 ²
2 2 0 4 21 and 2204 29	Wines from fresh grapes, other than sparkling wines	70000 ⁴	80000 ⁴	100000 ⁴	120000 ⁴
¹ From 1 January till 31 December. ² Tones (net weight). ³ Millions peaces. ⁴ Hectoliters					

For other groups of goods exports decreased comparing with the similar period of the last year. Exports of food products decreased by 13,3%, textile materials - by 23,9%, machinery and appliances - cu 11,3%, fats and animal or vegetal oils - by 22,7%, plastic materials - by 28,9%, footwear, hats, umbrellas and like products - by 44,5%, common metals and products

¹ Government Decision on approving amendments and supplements introduced by the Government Decision nr. 262 from 7 March 2008. Monitorul Oficial 78-79/340, 21.04.2009.

from common metals - by 81,3%, stone made products, plaster, cement, ceramic, glass and similar materials - by 60,4%, mineral products - by 79,5%, transportation materials and means - by 25,4%, optical tools and appliances by 60,4%.

● REPUBLIC OF MOLDOVA INFORMATIONAL SYSTEM „INTEGRATED CUSTOMS TARIFF” (TARIM).

Starting from January 2010 Customs Service of the Republic of Moldova will introduce in operation the informational system “Integrated customs tariff” (TARIM). This system represents an efficient, interactive tool, used to facilitate goods exchange. Integrated customs tariff is a database, which will include measurements applied to all tariff and non-tariff goods imported to and exported from Moldova. Database will include: export list of goods in Moldova, customs fees and other taxes, information on tariffs facilitations, additional codes and explanations on how to use the information contained in TARIM etc. The system will allow the users to get acquainted with all provisions pertaining to import-export of goods, customs fees and other taxes applied, information related to facilitations, preferences, restrictions, necessary tariff documents to get customs clearance for goods. TARIM will be applied throughout the Republic of Moldova by customs officers and interested economic agents, which will allow excluding human factor from decision making process regarding the necessity to present various certificates or authorizations. That, in turn, will accelerate customs operations, reduce

costs for customs clearances, reduce risks of wrong processing, as well as will

reduce the number of complaints and claims from economic agents. TARIM will deny the possibility to apply incorrectly or in a biased way the legislation in force in the customs field by customs officers or other representatives of law enforcement agencies, as well by economic agents involved in export-import business. Thank to TARIM, economic agents will know what documents should they present at the customs, what are the tariffs for each type of product with respective code.

TARIM will be developed and managed by the Customs Service of Moldova, which will ensure the update of the system. It is expected that TARIM database will be uploaded on the webpage of the Customs Service of Moldova by 1 January 20102.

Measures in support of exporters and importers applied by Customs Service

2 <http://www.interlic.md/2009-08-13/in-moldova-va-fi-lansat-sistemul-informatzional-tariful-vamal-integrat-tarim-11464.html>.

Imports

Imports – more profound decrease than in the first months of the year.

Imports in January-July witnessed a deeper slump than exports. They registered 1762,6 millions USD, being less by 36,6%, comparing with similar period of 2008. In the first seven months of 2009 imports from European Union countries amounted 625,1 millions USD, which is by 39,3% less than in January-July 2008. The share of imports from European countries in the overall imports of the Republic of Moldova was 43,3%. Imports of goods from CSI countries diminished by 33,6%, they share in the overall imports numbering 36,4%.

With exception of Kazakhstan and Greece, imports from main partner-countries on imports operations significantly decreased. Thus, reduced deliveries are registered from Ukraine (-50,1%), Romania (-54,2%), Russian Federation (-50,7%), Germany (-35,3%), Belarus (-47,3%), Italy (-32,8%), China (-27,6%), Turkey (-32,8%), France (-46,2%), Poland (-35,4%), United States of America (-50,7%), etc.

Imports from Kazakhstan and Greece increased, registering 166,0 millions USD and 24,4 millions USD, being in ascent by 9,7 times and, respectively by 185,7% comparing with similar period of 2008. It should be mentioned here that imports from Kazakhstan, the country which holds second position from the top of commercial partners on imports, stopped in March this year. In the first quarter of this year imports from this country amounted 165692,1 thousands USD, while their share in the total imports was 21,98%.

Figure Nr.13 Moldova's main commercial partners on imports, January-July 2009.

	million USD	in % comparing with 2008.
Ukraine	236,0	49,9
Russian Federation	172,6	49,3
Kazakhstan	166,0	by 9,7 times
Romania	162,6	45,8
Germany	138,3	64,7
Italy	126,4	67,2
China	119,3	72,4
Turkey	92,4	67,2
Belarus	65,3	52,7
Poland	43,9	64,6
France	34,5	53,8

Source: National Bureau of Statistics of the Republic of Moldova

In January-July 2009, comparing with similar period of 2008, imports decreased on follow on products: mineral products (-33,4%), machinery and appliances; electrical appliances; image and sound recording or reproducing devices (-41,6%), transportation means and materials (-61,0%), common metals and products made of (-55,8%), chemical

products (-22,%), plastic materials, rubber and products made of (-39,9%), food products, beverages and tobacco (-29,7%), vegetal products (-29,7%), textile materials and products made of (-22,5%), stone made products, plaster, cement, ceramic, glass and similar materials (-41,7%), food paste, paper, carton and products made of (-33,7%), food and food-made products (-36,4%), live animals and animal products (-22,0%).

Diminished imports negatively influenced the collection of import/export taxes. In January-July 2009, these revenues amounted 4028681 thousands lei, which meant a reduction by 26% comparing to similar period of 2008. In the first seven months of the year collections of VAT reduced by 29,8%, customs taxes by 23,6%, special taxes by 96,1%, excises by 5%, including excises on wine materials by 97,0%, excises on vodka, liquors and other alcoholic beverages by 1,6%, excises on wine from grapes, cognacs and wines from grapes saturated with carbon dioxide by 4,2%, excises beers by 29,4%, excises jewelry, including diamonds by 56,9%, excises on cars by 35,1%. Excises on oil products, other than gasoline and diesel, increased by 47,7%.

MONETARY MARKET

Monetary mass

Monetary mass didn't reach yet the level of the beginning of the year

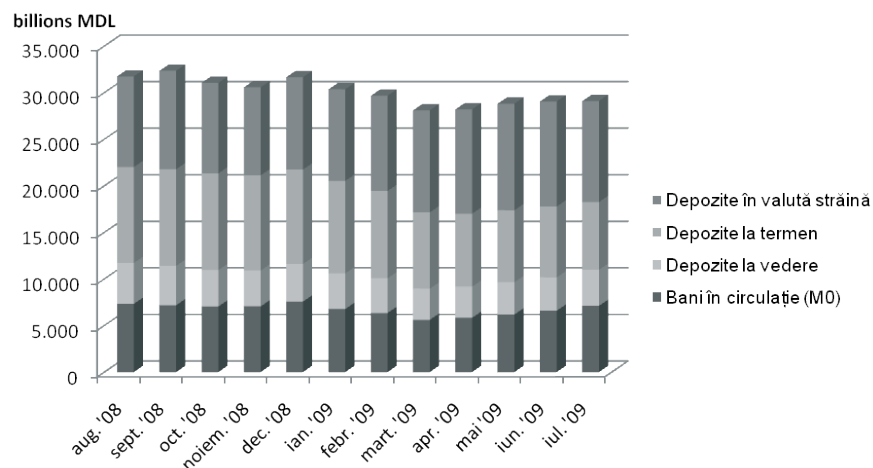
Monetary mass lowered to the level of the beginning of 2008. In 2009 it was continuously decreasing till March, followed by a slow increase up to 29.1 billions lei. Decrease of monetary mass owes to late liberalization of the monetary market by BNM. Due to that, it looks complicated to reach monetary aggregates' maxims achieved in 2008 by the end of the year. In spite of late reaction, BNM had a massive intervention through all tools available, emphases being placed on the second quarter and beginning of the third quarter of this year. Applied by BNM policy was made of follow on tools:

- Basic rate lowered from 12,5% (January 2009) to 5% by 3 September, hence, the basic rate was almost cut in half in less than 7 months.
- Sterilization was reduced to 0 for two months (March-April) from the figure of 1,3 billions lei registered in February.
- The required reserve ratios that banks must hold decreased from 20,5% to 17,5% by the end of last year, maintaining the same level in 2009 till the middle of the year when for two month the compulsive reserves rate was reduced to 8%.

Increase of monetary mass by 0.9 billions lei for an injection of 3 billions lei

In spite of massive liberalization of financial-banking market and applied injection of liquidity estimated to approx. 3 billions lei, result are modest: was achieved the stabilization of monetary mass and slow growth in April-July with an addition of less than 1 billion lei to monetary mass. This increase is way below the level of "2 billions lei of excessive liquidities", declared by BNM in a press release in August this year. Of course, capitalization of financial resources made available to commercial banking system will last. It should be mentioned here, however, that these resources are in no way excessive for the national economy, whereas their slow capitalization is just another confirmation that undertaken measures were late, the economic activity having downgraded to the level when fast capitalization is impossible.

Figure Nr. 14. Evolution of monetary mass within the last 12 months



Liquidities that had not been capitalized would exercises pressures at this stage on deposits' interest rates, forcing them to go down, thus, having a discouraging effect on deponents and becoming an additional factor of monetary mass decrease. BNM will have to come up with a well thought policy to stimulate the increase of liquidity in the economy.

Inflation

Inflation became a peripheral indicator already in 2008, the fact mentioned by IDIS experts at that point in time. There are no risks of prices increase should the currency exchange rates remain stable. Inflation will not exceed the limits mentioned in previous forecasts. Moreover, late interventions of BNM regarding the market liberalization comparing with raised expectations led to significant deflation pressures in the first half of the year, what, in turn, would lead to the reduction of inflation forecasts to a maximum limit of 0.6% in 2009.

Given Moldova's economic situation, inflation became a peripheral indicator already in 2008

Currency exchanges rate

As forecasted in previous edition, annual average rate of MDL/USD will not exceed the limits of 11.3-11.4, while the rate of MDL/EUR will have an average annual value of 15.2-15.3 lei for 1 Euro.

The exchange rate is under the complete control of BNM

The MDL rate stability is ensured by follow on factors: according to the situation by June this year Moldovan economy has a monetary mass quite heavily dollarized. 50% of banks deposits are held in foreign currencies (equivalent to over 11.2 billions lei). In addition, there are BNM reserves - nearly 1.2 billions dollars (equivalent to 13 billions lei). Thus, we have 20.6 billions lei in the country's economy (monetary mass M2 and immobilized reserves and BNM funds), and foreign currency equivalent to 24.2 billions lei.

It should be to no surprise that BNM purchases foreign currency. In a ratio of 20.6 to 24 billions we have for **1 currency leu in circulation - 0.86 national lei**, which means that if, hypothetically, all foreign currency in the country is transferred in lei, the rate will be maximum **9.5 lei/USD!** We would like to mention here that these calculations did not include currency reserves of the population, which had not been put in banks and, respectively, had not been accounted by BNM. Their emergence on the market would cause additional appreciation for the leu.

The economy is strongly dollarized

For 1 USD in the economy we have 9,5 lei

According to demand-offer theory, the currency is over-appreciated. Therefore, BNM' necessity to procure excessive currency is quite logic, since it wants to maintain a higher rate, phenomena that we witness now.

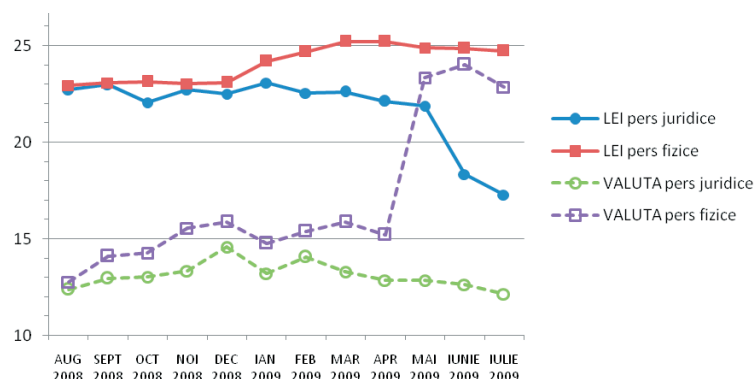
On the other hand, it is quite clear that, despite how much currency is out there in the economy, if all subjects of national economy decide to keep their currencies in the sock and all leu holders try to convert them in foreign currency, then leu will vertiginously depreciate (for a period of time). Similar phenomena had happened in February-April 2009. Such fluctuations, which are mainly driven by subjective factors, are quite difficult to forecast. Taking into consideration that BNM holds more than a half of the country currency, fluctuations generated by physiological factors are easy to handle by a quick intervention of BNM. Till the end of the year 2009 BNM has all tool sets and force to maintain a stable currency rate, moreover – it can model and impose a rate it wishes or the economic situation or Government strategy require.

Credits and deposits

The share of unfavorable credits in the total credits portfolio rose from 3.8% in June 2008 to 10.5% same month of this year.

The quality of credit portfolio in the banking system continues to worsen. Losses from credits for the entire banking system increased from 4.3%, in the total credits share in June 2008, to 6.6% in June 2009. The share of unfavorable credits in the total credits portfolio rose from 3.8% in June 2008 to 10.5% same month of this year. This is an indirect, but eloquent index of the difficult situation in the real sector of the country's economy. Registered credits losses, alongside the increase of reserves funds to cover risks, diminish quite fast the profitability of the banking sector.

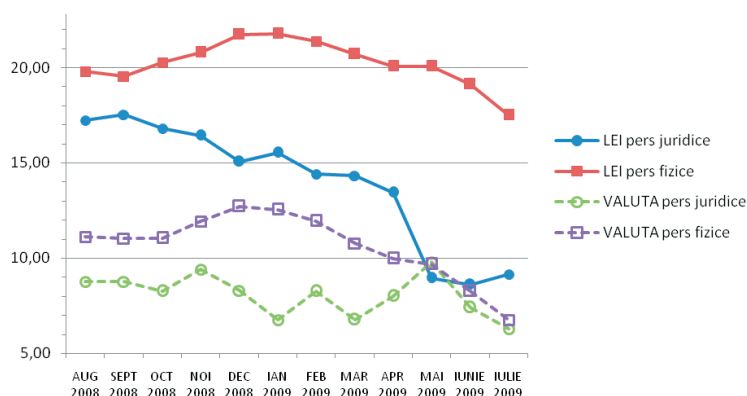
Figure Nr.15 Rate evolution for credits offered in lei and foreign currencies within the last 12 months



Thank to decisive measures undertaken by BNM in the last months, credits interest rates decrease, but not to the same extent as the deposits rate. Hence, the interest rate for deposits in lei decreased by 5.65 %, while the rate of credits offered in lei - by 4.31 %, comparing with the beginning of the year. Outmatch of deposits' rate by the crediting' rate adjustments is justified by the banking market, which is currently facing risks ensued from the economic crisis. This discrepancy will remain in place as long as the indexes of the quality of the national crediting portfolio will stay weak. An improvement of this index till the end of the year is quite unlikely.

Deposits dollarization tendency, registered within the period of November 2008 – April 2009 and fueled by expectations of the leu collapse, had stabilized in the last 2 months in proportion of 50% deposits in lei to 50% deposits in foreign currency. Leu stability, the lack of major risks of its sudden depreciation in the second half of the year, as well as quite drastic fall of interest rates on deposits in foreign currency, would bring a slight re-orientation towards deposits in lei, which mark a better profit at the moment.

Figure Nr.16 Rate evolution on deposits collected in lei and foreign currency within the last 12 months



State debts for banking system

BNM funds the Government. In May and June 2009 the Government was paid 330 millions lei through REPO operations performed with commercial banks. As for now, state debts towards national banking system amount over 3.5 billions lei, made of previous debts borrowed from BNM - 2.2 billions lei and VMS in circulation amounting nearly 1.4 billions lei.

State budget situation is critical now while accumulated deficit represents the “Achilles heel” of the national economy. If a solution to finance the budget is not found as a matter of urgency, we may witness another wave of crisis till the end of the year, which will be induced by reduced consumption of the population as a result of significant debts on pensions and salaries.

Once the Government is operational, besides external financing there is a solution coming from internal resources capitalization. A number of macroeconomic indexes have excessive reserves and can be exploited to solve this critical problem – funding state budget deficit. Reduced inflation rate, strong currency exchange rate and dollarized economy by over 50% allow BNM infuse additional liquidity. An increase of 2-2.5 billions lei of monetary mass till the end of the year may be operated without significantly deteriorating mentioned macroeconomic indexes. Through mechanisms available on financial market these resources can be directed to finance the state budget. It is important that BNM maintains primarily in the commercial banking sector a slightly exceeded liquidity to stimulate the growth of the real sector and diminish costs for financial resources.

BNM can infuse additional liquidity of 2 billions lei without negative effects on the economy

Recommendations

In the current situation we recommend that follow on objectives be implemented at macroeconomic level, in order to ensure stabilization of economic situation and reverse the general trend towards growth:

- 1. Increase the monetary mass through additional emission** making use of extremely low inflation and strong currency exchange rate.
- 2. Maintain a slightly exceeded level of liquidity in the banking system** in order to ensure low costs of financial resources and intensive crediting.
- 3. Use internal resources to finance** the budget through the existing financial mechanisms aimed to cover immediate needs.
- 4. Negotiate and obtain as quickly as possible contracts for external crediting** to finance the budget and implement structural reforms.

PUBLIC FINANCES

General tendencies

Budget deficit in 2009 will make 6 billions lei and will be covered from: external grants, internal loans and debts to economic agents

In conditions of economic crisis, the Government will manage to fulfill its obligations towards its employees and pensioners mainly by applying three basic tools: loaning from capital market, accepting external grants and delaying payments to economic agents. These 3 tools, altogether, amount for over 6 billions lei, which equal to the social allowances' budget and actually represent the real deficit of the national public budget.

In 2009, for the first time in the history of Moldova, the Government will come to take unprecedented loans from the capital market in the total amount of 2,5 billions lei.

External grants and internal loans are the life-saving vest of National Public Budget

Budget collections of 24 billions lei, payments delays to economic agents, will allow honoring obligations towards public servants and pensioners

Recent developments made look with a slight optimism to the perspectives of National Public Budget execution.

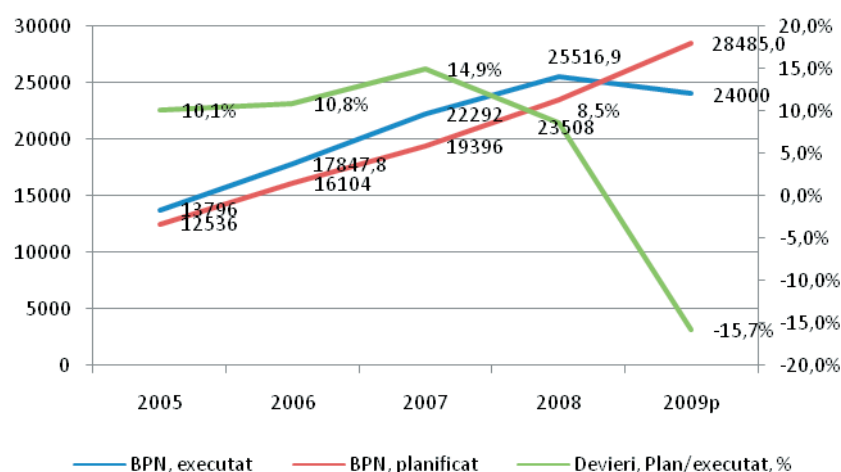
While in previous edition we anticipated a decrease by 26% of public budget incomes against forecasted ones, now we believe that the difference will considerably lower and national public budget will be executed at the level of 24 billions lei, which is with 15,7% less than initially planned and with 6% less than last year.

Main factor that reduced the discrepancy between planned and executed incomes are the external grants, which we anticipate to rise up to at least 1,9 billions lei or with over 20% more than anticipated at the beginning of the year.

Another source of increase of budget incomes is an improved fiscal discipline and ability to collect fiscal revenues. Meanwhile, governance change will fuel the population optimism, which will lead to the consumption increase, that, in turn, being the main factor in the state budget formation.

And the last factor which will determine the relatively well execution of the national public budget are the unprecedented loans borrowed from capital market, which this year will come close to 2,5 billions lei.

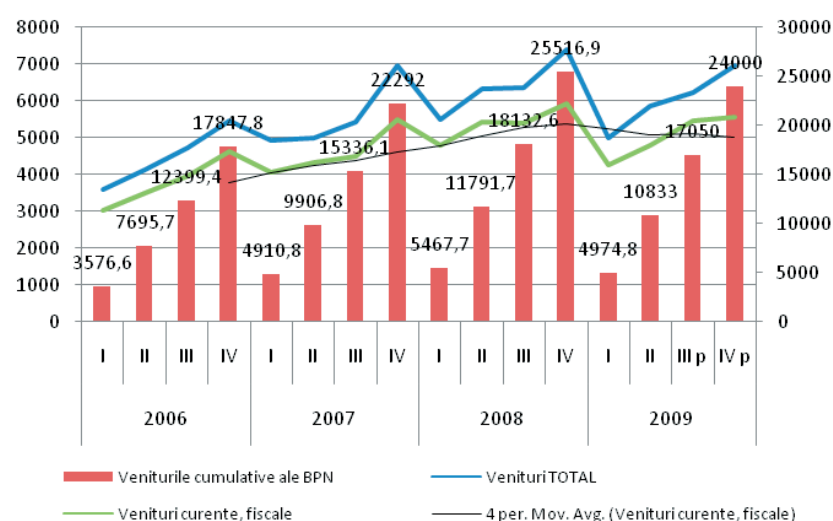
Figure Nr.17 Planning and execution of National Public Budget, thousands lei



Source: Law on state budget 2005-2009, Operational information on national public budget execution in 2005-2009, Forecasts of CPE experts

Improvements in the National Public Budget execution in III and IV quarters will owe to increased incomes from internal loans and external grants. Thus, in 2009 these sources of income will make over 17% out of total budgetary incomes, unprecedented phenomena.

Figure Nr.18. Quarterly and cumulative collections of the National Public Budget



Source: Operational information on national public budget execution in 2006-2009, Forecasts of CPE experts

Massive transfers from state budget will allow honoring all budget obligations for social insurances

Transfers from state budget, which will make over 20% of total incomes to social insurances budget will allow honoring obligations in respect to pensioners

According to the legislation in force, any deficit in the budget of social insurances is covered through transfers from the state budget.

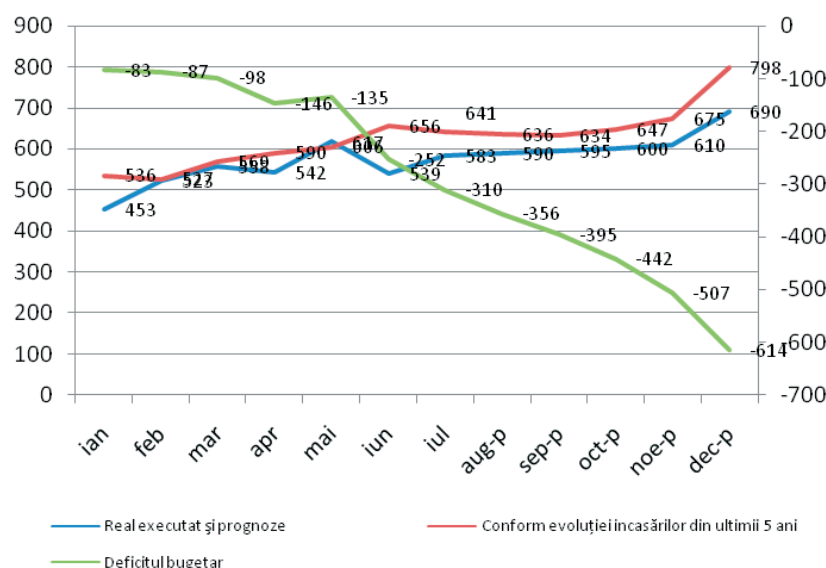
Evolution of collections in the first seven months of the year clearly show that economic crisis moved into public system as well. Reduced salaries and dismissals from real sector conditioned the reduction of collections in the social insurances budget.

We can notice as well that the negative trend registered in June changed in July. That owed to massive transfers made from the state budget. Thus, while in average transfers from the state budget were 12-13% from total incomes into social insurances budget, in July these transfers exceeded 30%.

In fact, social insurances system will be sustained in 2009 only by state budget transfers. These transfers are possible only thank to loans from capital market.

Another stabilizing factor in executing social insurances budget is the salaries payment by the Government to its employees, which makes nearly 40% of all wage earners.

Figure Nr.19 Monthly collections for social insurances budget for 2009 (thousand lei)



Source: Law on state budget 2002-2008, 2009 state budget draft, Forecast of CPE experts

It worth mentioning here that salaries increase in September and October will be implemented under tremendous political pressure and, most likely, International Monetary Fund will have no objections in respect to this increase.

As such, salaries payments to public servants as well as transfers from state budget will allow authorities honor their obligations in respect to pensioners.

Loans taken from capital market will reach a record amount of 2,5 billions lei

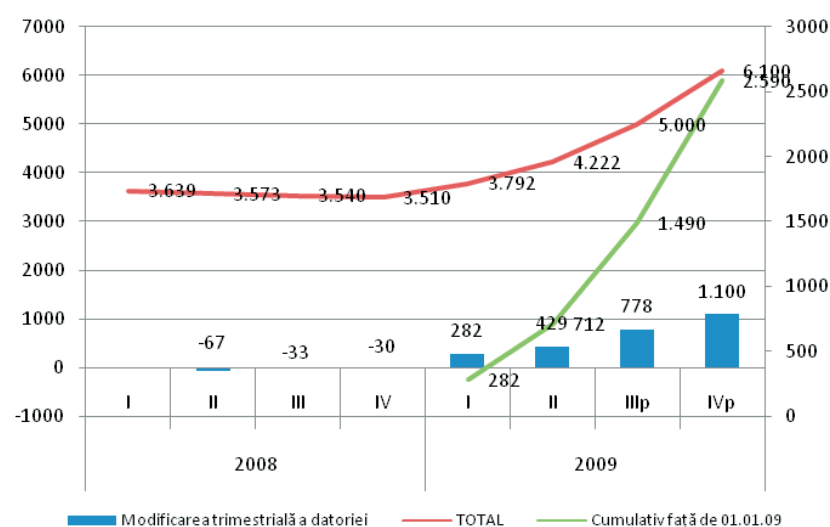
Loans from capital market will exceed in 2009 the amount of 2,5 billions lei

National Public Budget in 2009 faces unprecedented problems, while for its execution the Government used many tools since the beginning of the year, which allowed the system of public finances stay afloat. Amongst applied tools we list:

1. Delays in reimbursing VAT for exported goods. According to our estimates the Government managed to retain nearly 400 millions lei, money that normally had to be reimbursed to economic agents.
2. Delays in payments for rendered services. According to our estimates, Government's delays in payments to economic agents brought to an accumulation of public budget debts of over 1 billion lei. In other words, these delays are some type of camouflaged loans, borrowed without an interest rate from economic agents.
3. Loans taken by local public authorities. In the absence of financial resources local authorities borrow loans which, in our opinion, may rise to 300-400 millions lei by the end of the year.
4. Reduction of capital investments and expenditures for daily operation of public institutions.

These 4 tools, altogether, will make over 2,5 billions lei by the end of the year.

In addition to these 4 tools in 2009 the Government will borrow over 2,5 billions lei from the internal capital market.

Figure Nr.20 Dynamics of state budget debts

Source: Law on state budget in 2002-2008, Draft project of the state budget for 2009, Forecasts of CPE experts

We have to mention here that internal debt of the Government never exceeded 3,7 billions lei, out of which the most part is the debt to National Bank.

Directly from the capital market the Government had borrowed maximum 1,2 billions lei. This is an historical debt, by and large, and loans taken within the last years were just re-crediting operations, while in 2008, internal debt even lowered.

One of few solutions in 2009 to overcome the crisis in budgetary system is to borrow from internal market. These borrowings will rise up to 2,5 billions lei, which is by 2 times more than the overall debt in the last years.

If we take into consideration that monetary mass M2 considerably decreased, from 21 to 17 billions lei, then we can say that the share of governmental debts in M2 rose from 15% to 38%. That means, on one hand, that economic agents will not have crediting resources, while on the other hand financial resources will be re-directed from investments to consumption. That change may generate slight pressures on prices by the end of the year (see Chapter *Prices*)

PRICES

Basic tendencies

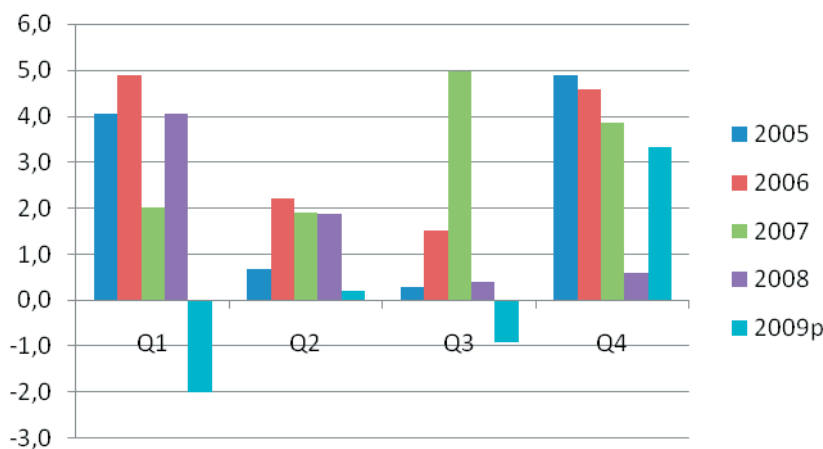
Since BNM was late and, therefore, quick liberalization of the monetary market we forecasted for the first quarter had happened later, deflation was bigger than we foreseen.

A faster reaction from NBM could have ensured a softer fall of the economy, but that never happened.

We witness at the moment a noticeable decrease of consumption (by circa 10% in the first semester of 2009 comparing to previous one), caused by unemployment rise by 3.8% in the same period. As a result, in average per country, population has less money for purchases with approx. 90 millions lei monthly, in spite of the average salary increase. Absolutely abnormal deflation at the beginning of the year confirmed the retrenchment of the economy, phenomena which we unfortunately still witness.

In spite of statistics' lack from BNS, we believe that these trends remained.

Figure Nr.21 Quarterly rates presented by IPC for the last 5 years



Source: BNS, Forecasts of CPE experts

Out of 100 MDL, population spends today 33 MDL on food, 42 lei on non-alimentary products and 25 lei for services.

The most notable price increase of 9,2% (June and July) was registered for water and sewerage service, but that did not affect the overall tendency. Other than that, prices are relatively stable; they fell in the summer period on vegetables, which is a seasonal tendency for summer months.

Harvest this year is expected to be less productive than last year, what theoretically may bring a slight increase in prices for agricultural products by the end of the year.

If the monetary policy for liberalization does not have expected effects and Government fails to solve the problem of budget deficit, farmers will have to lower prices due to decreased buying ability of the population.

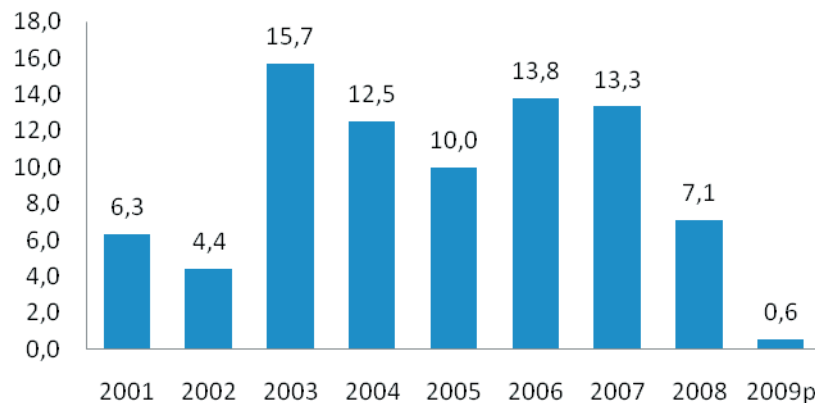
Once developed countries like USA, France, and Germany overcome the crisis, deflationist process on the global scale will stop. One of the consequences may be the tendency for an increased demand for energetic resources, which may lead to prices' increase, including on RM market.

Although import prices for gas decreased since the beginning of the year with more than 30%, Moldovagaz, yet, for unknown to the public reasons, delays the price reduction for gas delivered to the population.

There are no premises today for prices increase on household utilities, telecommunications or transportation.

In such conditions inflation may register an unprecedented mark in the history of RM – up to 0.6%.

Figure Nr.22 Annual inflation rate in the Republic of Moldova, %



Source: BNS, Forecasts of CPE experts

Factors

There are several inflationist and deflationist factors:

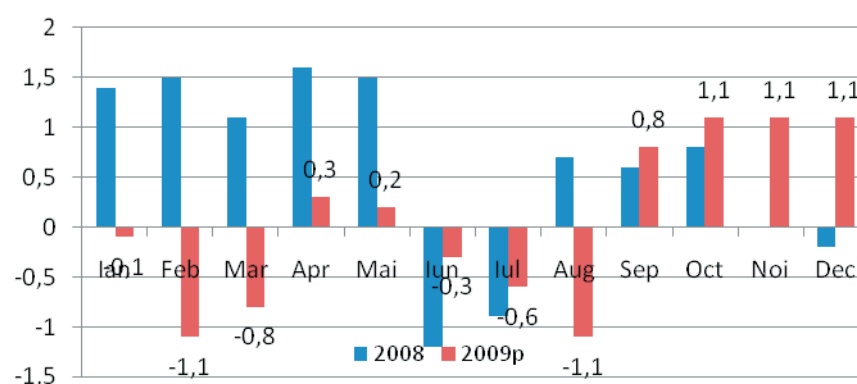
1. Liberalization of monetary market by BNM will exercise a slight inflationist pressure;
2. Contracted economy continues to exercise a deflationist pressure, mainly since in the second half of the year decreased incomes of the population will be well felt.
3. Seasonal factor that traditionally has inflationist tendency in October-December.
4. Import prices tend to stabilize and even slightly increase, just as the amount of prices of oil products increased by the end of August,

mainly because of the overall stabilization of world economy and, in some countries, slight economic growth.

5. Salaries increase in the second half of the year will boost consumption with nearly 400 mln lei and, respectively, will have a slight inflationist effect on the economy

Evolution of each and every factor mentioned above will determine the cumulated rate of inflation in Moldova. Inflationist factors are certainly numerous, but less significant comparing with the *only deflationist factor* – *contraction of Moldovan economy*, which will ensure stable prices with a slight turn of the trend towards an ignorable inflation by the end of the year.

Figure Nr.23 Monthly inflation rates for 2008 and forecasts for 2009



Source: BNS, Forecasts of CPE experts

It should be mentioned here that one critic factor is the ability of the new Government to find funds to cover salaries and pensions, which, in turn, will ensure a stable consumption till the end of the year.

This is a critical factor, both for economic development and prices' evolution.

Risks

There is one major risk – the state inability to pay salaries and pensions on time, what may lead to the reduction of population' incomes and internal consumption country-wide.

SITUATION ON THE LABOR MARKET OF MOLDOVA

In conditions of extreme instability of prices and continuous decline of the real sector of national economy, problems on the labor market of Moldova continued to worsen in the first semester of 2009. Decreased business activities and difficulties to finance current production in constructions, transportations and manufacturing industry are amongst the factors that tensioned even more the situation on the labor market of Moldova. As such, more and more companies acting in the real sector of economy report difficulties in paying wages and retaining the personnel. Diminished real incomes of the population, including reduced money transfers from abroad, led to the reduction in final consumption of households with over 10% throughout the first semester of 2009. That, in turn, leads to the decrease of internal demand and, in particular, to the reduction of *en detail* sales and services rendered to the population.

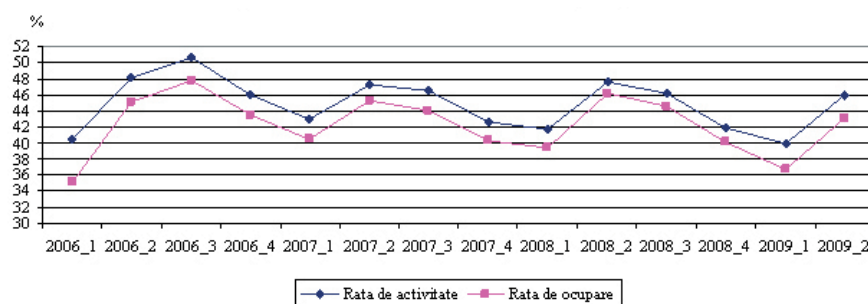
Employment and unemployment

Increased dismissals unfold alongside with increased abnormal employments, reduction of social packages and delays in salaries payments.

According to official data, the number of workers, that left labor market in the second quarter of 2009, exceeded 40 thousands people.

Seasonal oscillations typical for Moldova's labor market tempered once again the negative consequences of the crisis. Summer period hold the lead in employments, as in previous years, mainly due to the jump in agricultural and constructions businesses. It worth mentioning here that if, in conditions of crisis, the labor taxation regime is kept in place, the grey area of the labor market will significantly enlarge, what, in turn, may lead to increased undeclared salaries and unofficial employment. According to CPE estimates, from the beginning of the year indexes of unofficial employment and self-employments of the population rose by 35% and 20%, respectively.

Figure Nr. 24 Quarterly evolution of the activity and employment rates



Source: BNS, Labor force in the Republic of Moldova: employment and unemployment in the II quarter of 2009

According to official statistics, in May this year the number of unemployed people was more than 90 thousands people. According to our estimates the number of people seeking a job is way higher and may reach by the end of 2009 up to 180-200 thousands people. The situation is the most acute amongst youth, registering an unemployment level over 20% in conditions of economic growth. It is estimated that that the number of submitted applications for unemployment' allowances and their collection will rise, what would create additional tensions for the state budget. Thus, the number of submitted applications for unemployment' allowances rose in six months of 2009 with 30%. Today, these allowances (in average 770-800 lei in 2008) are being collected by less than 10% of officially registered unemployed people (approximately 9 thousands people).

According to official statistics, the number of vacancies on the labor market in July was 1,3 thousands, taking into consideration that demand exceeds the offer by 10 times. The highest demand was registered for medical personnel (nurses, technical personnel, doctors). Remarkably that namely in this sphere of services salaries increased the most (by 21%), in June the average salary of a medical personnel amounting 3000 lei.

In crisis, difficulties faced by private companies in the first instance boost the attractiveness of public service, which is traditionally high in Moldova. Due to lack of funds for anti-crisis programs to support employment in public sector, including for public works as part of infrastructure projects, the Government will not be able to use within the national territory labor force returned from abroad.

We notice that in Moldova spheres that contribute the most to the poverty level decrease are the most sensible to the crisis. Besides constructions and transportations, these spheres are retail trade, tourism, hotelier service and restaurants. In sectors that traditionally represent the small business (but in reality these being hidden unemployment), wages' decrease owes to massive stagnation of activities. All these point out to the perspective of continuous intensification of inequalities and risks from increased poverty in Moldova, mostly in rural areas and amongst youngsters.

Even when economy was growing, the small businesses were concealing unemployment...

... that is why the decline caused a massive stagnation of microenterprises businesses.

Labor migration

Massive return of work migrants to the labor market of Moldova is delayed even in conditions of crisis

As it was expected, a massive return home of work migrants never happened. The majority of migrants from Moldova seeking a job consider employment in Moldova as the last option. Workers that left Moldova during economical ascension manage to find a job in countries they moved to, even in conditions of profound recession, and choose to wait while spending earned money. According to our estimates, the number of migrants that returned home as a result of economic decline does not exceed 50-60 thousands people and more than a half intend to go back with the earliest occasion.

More than a half of returned to Moldova migrants intend go abroad again

It is well known that it were work migrants who contributed the most to the decrease of poverty and not the Government's policies. Therefore, reduction of money transfers from abroad increases the risk of considerable decline of internal demand. More and more families of work migrants reveal reductions in money transfers from abroad with more than 30% and point out to the necessity to spend earned savings in order to cover current expenses. Already 20% of migrants' families today do not receive anymore help from abroad, while the amount of nearly half of transfers considerably lowered. Taking into consideration that majority of these families are poor, who make their living for just \$2 per day, and socially vulnerable families with a living of \$5 per day, we may expect a leap of poverty level and social inequality, especially in rural area and in small towns.

Population incomes and consumption preferences

Salaries increase rate in public sector exceeded by 2 times the salaries increase in real sector ...

In spite of dramatic contraction of business activity in the first semester of 2009, salaries' increase, comparing with similar period in 2008, continues in nominal (+10,1%) and real (+8,9%) terms.

In the meantime, the average salary in the public sector rose by almost 20%, which brought about the situation where public sector employees were receiving in January-June 2009 with 500 lei more than people employed in private sector. Salaries of these categories, however, remain behind the salaries paid by effective companies with foreign capital (2660 and 4080 lei respectively). These figures show the consequences of the economic policy promoted by previous Government and the famous salaries reform, adjusted to parliamentary elections. As it was repeatedly mentioned by CPE experts, not only this reform failed to solve the problem of decent salaries for teachers, doctors and policemen, but created additional risks for the budgetary process in the country. Resources for this reform were taken out of funds aimed for structural reforms and modernization of the real sector of Moldova, which could have allowed expanding the taxable basis for the state budget, and, by doing this, solving the problem of decent salaries for public servants and "poor employees".

According to official data, households' final private consumption decreased in January – March this year with over 10%, while expenses that Moldovans encountered purchasing goods and services abroad diminished with 25%.

If the crisis in real sector worsens and salaries debts increase, population' real incomes will continue to lower. That will have its impact on the consumption preferences, which will contribute to the decrease of households' final consumption. Thus, the first semester of 2009 spotted changes in consumption preferences of the population, such as:

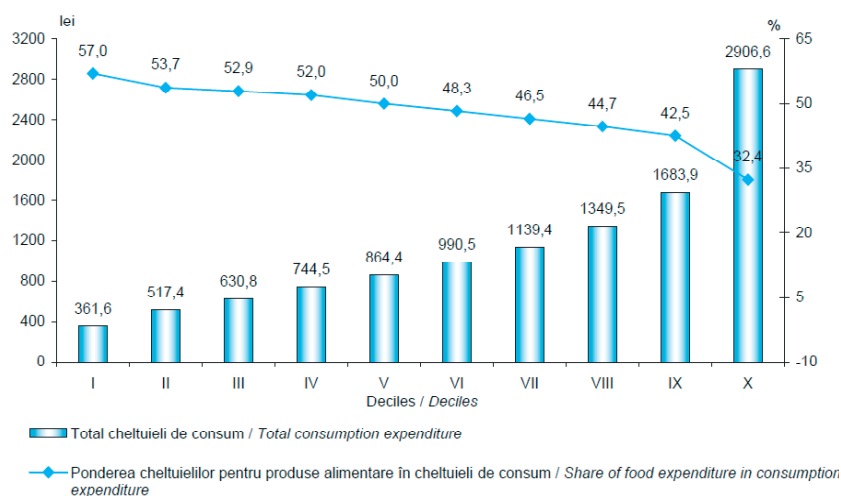
- Decrease of long-term use acquisitions
- Reduction of expenses on clothing and footwear, furniture and home appliances
- Costs for mobile phone packages decreased with 100 lei.
- Switch from supermarkets to improvised markets.
- Decrease of average bill with approx. 25-30%

In conditions of crisis salaries increase rate in public sector is 2 times higher than the increase in real sector

According to our estimates by the end of the year internal demand will continue to lower with another 3-5 %.

For the last several years the positive consumption dynamic registered in Moldova owed to massive money transfers from abroad. In conditions of decline, diminished transfers are compensated by savings made in previous years. Nevertheless, as the crisis advances into migrants' families, these will tend to cut down demand and save more, which is going to have negative effect on the index of internal demand.

Figure Nr.25 The share of expenses for food in total consumption expenses, deciles



Source: BNS, Aspects of population living standards in 2007, Chisinau 2008

Having deflation and prices imperfections, seasonal increase of demand for goods and services bring alongside higher prices, like, for example, for school requisites and some types of alimentary products, etc. Instability of prices for goods of first necessity boosts the absolute poverty in the country (whose index rose in 2008), since more than a half of the population limit the final consumption to basic physiological needs.

Figure Nr.26 Evolution of poverty level in the Republic of Moldova by residential areas, 2007-2008

Poverty indexes	2007	2008
Threshold of absolute poverty (lei)	839,3	945,9
Rate of absolute poverty	25,8	26,4
Depth of absolute poverty	5,9	6,4
Threshold of extreme poverty (lei)	453,9	511,5
Rate of extreme poverty	2,8	3,2
Depth of extreme poverty	0,5	0,5

Source: MEC, Social-economic evolution in RM in 2001-2008

Households' final consumption is the main driving force of economic growth in Moldova, what would be a challenge for the new Government to redress the internal demand in the short a medium terms. In perspective, the Government will have to modernize the economy in order to change the model of GDP growth, and, in the meantime, maintain the level of real incomes, especially for socially vulnerable strata of the population.

ECONOMY OF TRANSNISTRIAN REGION

The economy of tmr continued to decline in the first semester of 2009. Main factors were: dramatic turndown in the real sector of tmr and, primarily in metallurgy and constructions (-85,3% and -60,2% respectively), increased prices on raw materials and fuel, investments deficit and decrease of population' consumption linked to reduced incomes.

Meanwhile, consumption prices index rise, mainly on non-alimentary products (+2,2%), on the background of deflation (in the first semester of 2009 deflator index marked 1,2632). Delivery prices in the industry rose in average by 5%, including for metallurgy products with over 9%. Decrease of basic indexes of the economy, married with inflation rise, creates risks for economic stagnation in the region in the mid-term.

Consumption market continue to contract mainly due to decreased demand on non-alimentary products and services for the population, including communication services (-5,8%).

Real sector. Dramatic decline in metallurgy and construction industry continue to have a dominant influence over the production index, thus, in June of this year production in the region reached its lowest level. _

From the beginning of the year the volume of production of the enterprises in light and food industries continued to diminish (-34% and -22,1%), although in May – June electrical energy production decreased by 10%. In the first quarter of 2009 the share of electrical energy made 43% in the overall industry structure, but already in May-June it began to decrease (-10%).

Low exports' prices, decreased demand, lack of own circulation means and overall effectiveness of the production weaken the internal resistance capacity of enterprises against external shocks.

Financial index of transnistrian companies' activities started to lower as a result of intensified structural misbalance in the real sector of the region. TMR enterprises' solvency diminished mainly because of follow on factors: high dependency on banks financing, insufficient circulation means and limited access to crediting. Debts towards suppliers and salaries grow as a result of acute deficit of circulation means. As such, losses encountered by transnistrian enterprises from the beginning of the year rose by 14,6 times (18 mln. dollars).

Public finances. Decreased business activity, stagnation of main enterprises-contributors to the region's budget, complemented by reduced consumption expenses of the population brought about over 25% decrease of incomes to the region budget in January - July. Expenditures for the same timeframe exceeded by 30% the planned ones. In crisis, slight diversification of income sources for the regional budget increase the fiscal pressure on enterprises, extracting resources that could have been directed towards circulation means needed to maintain the current level of operation.

Continues the dramatic decline in the real sector of tmr, mainly in metallurgy and constructions...

... what worsened the situation the public finances sector and deepened the budgetary crisis in tmr

Increased amount of foreign currency in exchange offices in tmr point consumption of population savings

In crisis Moldova becomes more and more important commercial partner for tmr

Official rate of transnistrian ruble against dollar changed as well, making 9 rubles for 1 dollar, comparing with 8,4 rubles last year. In the meantime, an increased activity is marked in the available area of regional currency market; the amount of foreign currency in exchange offices rose up to 30,8 mln dollars (+4,8%).

Foreign trade volume from the region diminished this year by 37,5%. Exports in January – June 2009 made 50% of the similar period of last year. Change is noticed in exports' geography and goods' structure. In May, exports from the region fell by 4,1%. In the meantime, 2/3 of exports went to Moldova (17 mln dollars comparing with 7 mln dollars in 2008), Italy (3,5 mln dollars), Russian Federation (3,3 mln dollars against 38 mln dollars in 2008), Romania (1,7 mln dollars comparing with 17 mln dollars in 2008) and Ukraine (1,7 mln dollars). The region exports electrical energy (41,3%), metallurgical products - 15,5%, textiles and footwear - 14% and other goods - 29%.

In January – June imports fell by 30%. Russian Federation remains the major partner on imports for TMR (75% or 36 mln. dollars) mainly due to oil domination (56,1%). Overall, in the first semester of 2009 the amount of foreign trade of transnistrian region fell – with CSI countries with over 35 mln dollars, with EU – with 8 mln dollars.

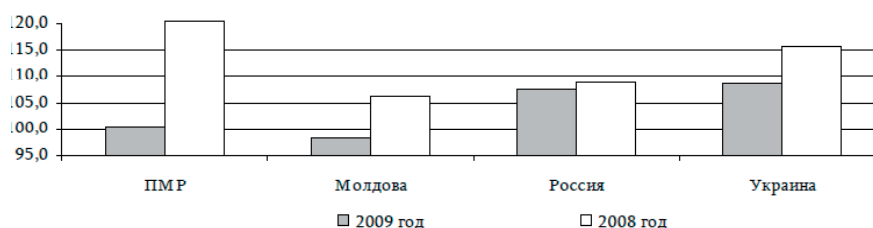
Prices. *En gross* and *retail* trades in the region are characterized by the decline of prices' index and sales' amounts. Main factors, that influenced the restraint of commercial operations and the lowest ever inflation index, were the unfavorable external conjuncture and collapse of tmr population well-being.

Figure Nr.27 Dynamic of consumption prices in tmr, %

	January-June		
	2007	2008	2009
Tempo of prices increase on alimentary products	108,7	127,1	100,2
Tempo of prices increase on non-alimentary products	106,4	111,4	103,6
Tempo of tariffs increase for services	124,4	120,1	96,9
Index of consumption prices (IPC)	110,9	120,4	100,5

Source: Transnistrian republican bank, August 2009

Figure Nr.28 Dynamics of consumption prices index by countries, January-June 2008-2009,%



Source: Transnistrian republican bank, August 2009

Households' incomes and expenditures. In the first quarter of 2009 real indexes for most of basic sources of population's incomes scored a decrease, which led to overall decrease of real incomes of tmr population. That, alongside increased unemployment in the region, influenced changes in consumption' preferences of the population towards saving. Monthly average income *per capita* lowered in January – March 2009 with nearly 10 dollars comparing with similar period in 2008, making 124,4 dollars and 134,0 dollars respectively. Nominal income of the population decreased in the first quarter of 2009 by 4,6% , whereas the real one by 18%. Available financial incomes continued to fall (with 4,4% comparing with the first quarter of 2008), which made 185,3 mln dollars, while the minimum consumption basket continues to decrease (with 6,3%).

Salaries and pensions remain the main income sources for more than 1/3 of tmr population, making over 35% of global incomes of households in the region. According to official statistics, salaries' fund in tmr decreased by 6,5% in the first quarter of 2009 and scored 48,2% GDP (44,3% GDP in 2008). Yet, real salary in public service diminished by 13%, while costs of minimum consumption basket exceed pensions with 8%.

Unemployment rate in the first quarter of 2009 decreased by 4,4% comparing with the similar period in 2008. According to official statistics the number of economically active population of tmr continue to decrease in crisis. Thus, in March this year 6 thousands people were registered that didn't have a job, out of which 3,6 thousands were unemployed.

Lowered real incomes of tmr population had an immediate effect on regional households' final consumption. More than 2/3 of people's incomes go for consumption, out of which 1/3 is spent for utilities and 70% for current consumption necessities.

Degraded living standards of tmr population, in conditions of crisis, create risks for poverty spread on more than a half of the population of tmr.

Restrained final consumption of households reflects the decrease of real incomes and consumption preferences of tmr population...

...what increase the risks of poverty spread on more than a half of tmr population

WORLD ECONOMY

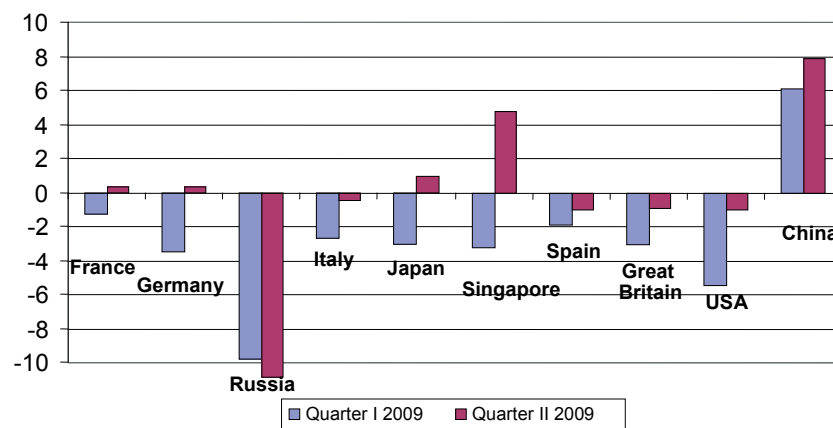
General trends

World economy slowly started to recover from the worst recession after World War II.

After two years of ravages caused by economic and financial crises in most countries around the world, in the second quarter of 2009 the world economy slowly started to recover from the worst ever recession since World War II. Although at the beginning of 2009 the biggest financial institutions in the world seem to have no chance to recover, in the months to come the world economy took a different turn. Due to measures undertaken by governments of United States, Europe, Japan and China aiming to support banks and other financial institutions, the collapse was appeased, while those institutions went on to report profits in the second quarter of 2009 (at least on the papers, taking into consideration that these financial institutions owe considerable debts to the government)¹.

Thus, the two strongest economies in the world, China and United States, seem to have passed the worst period of the world crisis. China registered in the second quarter an economic growth by 7,9%, becoming the first largest economy that managed to overcome the crisis. Real estate sector in United States and Great Britain started to redress with prices for houses going up and construction business having recovered. Germany and France have registered and economic growth by 0,3% after a profound recession that lasted several consecutive quarters, mainly due to increased exports, industrial production and household consumption. Japan has also registered an economic growth in the second quarter by 0,9% comparing with the previous quarter. Evolution of the world economy in 2009 in several selected countries is shown in the Picture Nr. 29.

Figure nr. 29 Real growth of GDP, quarters I-II, 2009, %



¹ Four most important banks in the United States - JPMorgan, Goldman Sachs, Citigroup and Bank of America reported in the second quarter cumulated profits in the amount of \$12,74 billions. Citigroup reported the biggest profit of \$ 4,2 billions, followed by Goldman Sachs with \$3,44 billions, JPMorgan with \$2,7 billions and by Bank of America with \$2,4 billions. All four financial institutions achieved better results that analysts expected, similar to before crisis times, thus fueling speculations on a possible world economy recovery.

In the meantime, as the crisis deepened discussions around the world on possible change of world powers polarity from West to East have intensified. This assumption can not be supported with certitude. Nevertheless, following the evolution in the top-list of the largest companies in the world we may see significant changes in the order. While before the crisis the list was dominated by American companies, followed by Japanese and European ones, in July 2009, according to Bloomberg, first four companies out of seven largest companies in the world were of Chinese origin (see the Picture).

Figure Nr.30 The largest world companies

Name of the company	Country	Sector	Capital on the market (approx)
PetroChina	China	Oil	\$390 billions
Exxon Mobil	USA	Oil	\$345 billions
Industrial & Commercial Bank of China	China	Banking system	\$250 billions
China Mobile	China (HK)	Telecommunications	\$210 billions
Microsoft	USA	Software	\$205 billions
Wal-Mart Stores	USA	Retail sales	\$198 billions
China Construction Bank	China	Banking system	\$195 billions
Johnson & Johnson	USA	Medicine/hygiene products	\$172 billions
Proctor & Gamble	USA	Hygiene products	\$170 billions
Royal Dutch Shell	Great Britain & Netherlands	Oil	\$169 billions
HSBC	Great Britain	Banking system	\$168 billions
Petrobras	Brasil	Oil	\$166 billions

Although there are signs of economic stabilization worldwide, including signs of stock markets' return and recovery of consumers' trust and with interest rates for bank loans being reduced, **in the short run situation remains uncertain and there are still major risks which endanger economic and financial stability of countries around the world.**

Assessing cycles of disturbances unleashed on the global scale from the outset of the crisis, we may state that every six month there was a slump in the economic situation. With this in mind, although the economic activity was resumed in several countries around the world, we may witness another apogee of crisis in the third quarter of 2009 since there are still serious problems related to the capitalization of banking sector and management of public sector debts.

Costs for saving economies were high and fatal consequences may further worsen (see the box). Economic crisis, including economies' safeguarding measures, led to the deficit growth of current and budgetary accounts. Eventual efforts to finance those deficits may lead to inflation growth, oil prices increase, decrease of interest rates, increase of unemployment rate and, eventually, to overall stagnation. Contrary to IMF and other financial institutions forecasts, the crisis may at the end worsen even more. Although crediting slightly increased since a while ago, mainly due to the reduction of interest rates, financial institutions still suffer from toxic assets – these have been identified but not completely eliminated yet.

Situation in the short run remains uncertain and there are still major risks which endanger economic and financial stability of countries around the world.

Șomajul și blocajul pieței imobiliare

● BOX:

COSTS AND CONSEQUENCES OF FINANCIAL CRISIS

Fighting economic and financial crises did cost the world economy \$11 trillion. Most costs had been born by developed countries. Thus, the governments of developed countries contributed with \$9,2 trillion to support the financial sector, comparing with 1,6 trillions invested by developing countries. These expenses to stabilize the economy will find a reflection in the budget deficit of the countries, especially in the long run, causing, thus, the increase of public debts.

In some cases public debt will exceed 100% from GDP. For example, by 2014 Japan will have debts circa 239% from GDP, Italy – 132% from GDP, USA – 119% from GDP, and Great Britain 99,7% from GDP. Budget deficit of twenty most developed countries of the world will be 10,2% from GDP. This is the worst index since WW II. Countries that will head the top list on budget deficit will be USA (13,5% from GDP), Great Britain (11,6% from GDP) and Japan (10,8%).

Continuous support to financial institutions and private sector rendered by world governments, alongside the reduction of reference rate, may prevent another wave of crisis. In the meantime, in order to avoid the crisis worsening it is important that affected countries, especially developed and emerging ones, deal simultaneously with two interconnected problems – unemployment and real estate market blockade. For example, in spite of the fact that economic situation in USA is improving and real estate market recovered, unemployment still goes up, with 470 thousands workplaces being closed in June comparing to 322 thousands the month before. When unemployment goes up, the number of people that can afford to buy or get a mortgage plan to get a place to live goes down. That makes prices for real estate go down, while depreciation of real estate market creates problems for financial sector.

US dollar value against European currency

At the beginning of August the dollar registered a record rate for this year – 1,44 US dollars for 1 Euro

Throughout June and July this year the Euro/US dollar parity oscillated between 1,38 and 1,42 US dollars for 1 Euro, and at the beginning of August registering the highest rate record for this year – 1,44 US dollars for 1 Euro. After that oscillations were traditional and reached by the end of August the rate of 1,43 US dollars for 1 Euro. American currency lost the grounds to Euro mainly due to the return, amongst other causes, of the appetite some investors have for risky assets, after what speculations on overestimated incomes enjoyed by some companies made shares go up. Another positive factor was the intensified activities in USA and resuming of China's economy. In the meantime, the growth of European currency was generated by the improvement of business sentiment index in Germany. Traders' optimism may also be determined by the bail offered to American bank CIT.

Specific fluctuation of Euro/USD exchange rate does not allow drawing a clear trend for a short term. It remains truth that, despite the fears that in many countries around the world the US dollar might be replaced in currency reserves by another, stronger and more sustainable currency,

American currency is still considered as a harbor for many investors. On the other hand, appetite for risky investments, including in oil, most likely will increase in dimensions by the end of 2009, contributing to slow depreciation of American currency.

World oil market

Likewise the Euro/USD parity, the evolution of the world prices on oil was marked by traditional volatility, which depend to a large extent on the pulse of the world economy overall and that of US dollar in particular. Hence, oil prices were ranging in June - July somewhere between 60-72 USD/barrel, reaching in August a record of world price on oil over 74 USD/barrel. Oil prices growth, just as dollar depreciation, was determined by the improvement of macroeconomic situation worldwide. In support of this statement comes data on Chinese economy improvement against the background of reduced contractions of American economy (in the second quarter of 2009 USA GDP decreased with 1%, comparing with 5.5% in the first quarter). Moreover, flooding the markets with American dollars carried out by US Government determined investors to deal with inflation and, thus, display interest for other types of investments, like oil.

In August world price on oil reached a record level, exceeding 74 USD/barrel

Another factor that determined prices rise, which can not be ignored, is the speculation.

Thus, according to OPEC data, the amount of extracted oil increased in July for the forth consecutive month, in spite of demand for oil being lower than in 2008. Prices' growth on oil is an investments driver *per se*, being supported by cheap financing. When this source erodes, prices on oil will go down. This situation might happen in the long term, given the high volatility which marks the evolution of oil prices. In the short run, however, expectations linked to economic resumption and slow depreciation of US dollar will lead, probably, to the increase of demand worldwide starting with 2010, and, respectively prices will go up.

World wheat market

Wheat production in 2009 is going to be lower than previous year due to unfavorable weather conditions in several exporting countries, mainly in those within European Union, Argentina (which was affected at the end by drought), Russia, Canada and, possibly, Australia. On the other hand, a slightly better situation in USA and other CSI countries would compensate these losses and overall production will be sufficient to cover world demand on wheat.

Overall production will be sufficient to cover world demand on wheat

Prices on wheat in 2009 were traditionally determined by the amount of wheat production, consumption and preserved stocks. Nevertheless, likewise the oil market, the wheat market is influenced by the evolution of exchange rates on main currencies, dimensions of speculations and economic fluctuations in wheat exporting and consuming countries. Comparing with 2008, in the first six month of 2009 prices on wheat significantly fell, but not

lower than 200 USD per 1 tone. Prices on wheat will not suffer, most likely, significant oscillations till the end of the year, since insufficient harvest in some countries will be compensated with sufficient production in others from those 5 main exporters².

Economic development of the main commercial partners of the Republic of Moldova

Russia

In the second quarter of 2009, Russia's economy got contracted by 10,9%

Unlike other countries, whose economies recover, Russia still suffers from devastating effects of the world crisis. In the second quarter of 2009 Russia's economy got contracted by 10,9% due to unemployment rise, which led to reduced consumption and decreased crediting. With crisis worsening, Russia's black economy tends to return after many years of contraction³. Extension of unofficial sector will inevitably diminish incomes collected from taxes and will shaken the pensions system, still pretty weak. Total dependence of Russia's economy on exports with energetic resources, prices on which had been going down in the first half of 2009, as well as the inability to diversify the economy after the regional crisis of 1998, are the main factors that do not allow Russia overcome the crisis, although measures promoted by the authorities are considered to be the best ones in the ex-Soviet space.

Anti-crisis measures endorsed by Russian Government are diverse – from reducing low-priority budgetary expenditures to increasing investments in the economy and changing the paradigm of economic growth. In order to apply these measures the Government has invested about \$46,7 billions from the money earned from exports with energetic resources. Taking into consideration that Russia, unlike other countries in the world, has significant currency reserves, interventions operated by the Government were covered faster than in other countries. Russian authorities have made direct interventions in the country's economy, managing, through exercised pressures on banks and stock-holders, to save from bankruptcy tens of enterprises. Now the Government can afford to reward the debtors, although it will be quite costly to cover budget deficit and that will depend to a large extent on oil prices, which Russian authorities can not influence.

Ukraine

Economic and financial crises in Ukraine continue to deepen

Economic and financial crises in Ukraine continue to deepen. Hence, in the second quarter of 2009 the country's economy got contracted by 18%, comparing with the similar period of the last year. Like in Russia, economic and financial crises boosted black economy of Ukraine. As such, in the first quarter of 2009 black economy expanded by 7 p.p., reaching circa 36% GDP. Alongside the fiscal burden, which could be considered as a factor that encouraged black economy, its expansion proves that underground economy managed to adjust way better to the crisis than official sector.

² Those five major exporting countries are USA, EU, Canada, Australia and Argentina. For some time now, a significant weight in world wheat exports have Russia and Kazakhstan.

³ According to Statistics Bureau of Russia, the share of black economy in GDP is circa 25%, comparing with, for example, with 8,4% in USA and 16,8% in Germany.

We may say that Ukraine doesn't have an anti-crisis program, except the memorandum agreed with IMF for \$16,4 billions. In exchange for these funds Ukrainian Government committed to establish a Stabilization Fund, inject capital in banks that have toxic assets and apply moratorium on decision to increase minimal salary up to the level of minimal basic salary. In addition to the economic crisis, Ukraine continues to struggle with internal political crisis and with gas crisis, in the latter one Russia being the main actor who is, in the meantime, Ukraine's main gas supplier as well of many European countries⁴. Historical and current debt Ukraine owes to "Gazprom" may again endanger gas delivery during the cold season. In order to avoid this situation EU gave Ukraine a loan to ensure necessary gas deliveries and timely payments for consumed gas. EU was followed by IMF that offered \$2,4 billions for the same goal⁵.

Romania

Already at the end of 2008 Romania was considered amongst the most vulnerable countries to the on-going crisis and with higher probability for the emergence of pressures related to country rating (according to the assessments of the international financial agency Moody's). To overcome the crisis effects, Romanian Government came up with four sets of anti-crisis measures, although effects from initial measures are being late. Economic development in the first half of 2009 proves that statement. In the second quarter of 2009 Romania's economy got contracted by 8,8% comparing with the same period of the last year. Agricultural and industrial sectors, still non-functional, offer little chance for Romania to resume full-fledged economic activity, leaving behind only Baltic states on the bottom of economic decline.

In the second quarter of 2009 Romania's economy got contracted by 8,8% comparing with the same period of the last year.

The new governmental anti-crisis program foresees, amongst others, supporting to farmers that produce cereals, with the scope to sell them for decent prices, reducing by 50% governmental agencies, reimbursing VAT, exempting from taxation re-invested profit and canceling all debts for a period of six month for 56.000 economic agents who accumulated debts after 28 September, on the background of economic crisis. Amongst anti-crisis measures applied by Romanian Government are: reduction of budgetary expenditures, especially reduction of working hours (by 10 days) in budgetary sector, reduction of expenses on goods' procurement and services (except health service), no payments for overtime hours. In addition, social assistance programs are being re-organized to better direct the funds and assist vulnerable categories.

Kazakhstan

The beginning of 2009 was difficult for Kazakhstan – currency reserves of the National Bank significantly dried out, as well as those of national reserve fund, while public debts guaranteed by the state and private ones significantly increased. Meanwhile, devaluation of the national currency,

In Kazakhstan GDP marked an ascension by 3% in the second quarter comparing to previous one.

⁴ Gas crisis unleashed 1 January, when Gazprom stopped delivery to Ukraine because the two parties failed to come to an agreement on Ukraine debts and price the Government was going to pay for Russian gas in 2009. Thus, the amount of gas delivered to Ukraine was reduced by 1/3 what eventually affected European countries.

⁵ Ukraine needs circa \$4 billions to make its gas stocks for cold season.

aiming to avoid the worsening of the situation, had a positive effect on the country's economy with GDP marking an ascension by 3% in the second quarter comparing to previous one. Reanimation of industrial sector played its role. Although industrial production's volumes continue to decrease, the speed of decline slowed down. Growth tendency was registered starting with March 2009 in all components of the industry: extracting industry, manufacturing (especially metallurgy), electricity, gas and water production and distribution.

In order not to devalue too much the national currency in respect to USD and Euro, Kazakhstan managed to negotiate a credit with China in an amount of \$10 billions, half of these money being directed to the company KazMunaiGaz, while the other will be given to the Bank for development of Kazakhstan and the Government to support national currency. Kazakhstan and Russia are considered to be two countries in post-Soviet space to have applied the most effective measures to combat economic and financial crises, where governments got directly involved in protecting affected companies and financial institutions.

Italy

Italy's economy continues to descend

Italy's economy continues to descend, although results for the second quarter of 2009 are better than for the first one. In the second quarter of 2009 Italian economy got contracted by 0,5%, comparing to 2,7% in the first quarter this year. Consumption and investments continue to stay low as the unemployment goes up and budgetary incomes soar.

Italy, like Romania, is one of the countries that gradually implements crisis solving measures. Measures announced at the end of 2008 to support most affected banks had a partial effect and failed to pull Italy out of crisis. Last set of measures proposed by Italy values 2 billions Euro. One of the measures from the proposed plan foresees exempting from taxes enterprises' profits if this profit is reinvested. Another measure foresees reduction of gas bills for enterprises and families. The Plan foresees, amongst others, allocation of 190 millions Euro for insurance houses to support unemployed, finance recycle training for workers threatened to lose their jobs, temporarily exempting from taxes victims of earthquake in Aquila on 6 June, and reimbursement up to 70% from the nominal price stock-holders of the ex-national air company Alitalia, dismantled in January 2009.

STATISTIC ANNEXES

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

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009e
GDP	19052	22556	27619	32032	37652	44754	53354	62840	59454
Final consumption	19263	23289	29706	33298	41368	50972	60104	71534	71286
households	16385	18493	24417	28125	34694	41360	48826	57944	56636
public administration	2878	4796	5739	5173	6674	9612	11278	13590	14650
private administration	4436	4886	5916	8443	11607	14656	20368	23222	21712
Gross investment	3190	3682	4668	6787	9258	12691	17764	21413	19315
gross fixed capital formation	1246	1204	1248	1656	2349	1965	2604	1809	2397
changes in stocks	-4647	-5619	-8325	-9936	-14042	-21004	-27118	-31916	-33544
Net exports of goods and services	9536	11834	14487	16398	19526	20591	24176	25603	22261
exports of goods and services	-14183	-17453	-22812	-25107	-33568	-41595	-51294	-57519	-55805
imports of goods and services	1481	1663	2007	2520	2895	3356	4484	6048	5215

Source: Department of Statistics of Moldova, estimates by ES

Table 2 Structure of Gross Domestic Product, %

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009e
GDP	100	100	100	100	100	100	100	100	100
Final consumption	101.1	103.3	110.3	103.9	109.9	113.9	134.3	113.8	119.9
households	86.0	82.0	89.5	87.8	92.1	92.4	109.1	92.2	95.3
public administration	15.1	21.3	20.8	16.1	17.7	21.5	25.2	21.6	24.6
private administration	23.2	21.7	23.2	26.4	30.8	32.7	45.5	37.0	36.5
Gross investment	16.7	16.3	18.6	21.2	24.6	28.4	39.7	34.1	32.5
gross fixed capital formation	6.5	5.3	4.6	5.2	6.2	4.4	5.8	2.9	4.0
changes in stocks	-24.3	-24.9	-33.5	-30.3	-37.3	-46.9	-60.6	-50.8	-56.4
Net exports of goods and services	50.1	52.4	53.3	51.2	51.9	46.0	54.0	40.7	37.4
exports of goods and services	-74.4	-77.3	-86.8	-81.5	-89.2	-92.9	-114.6	-91.5	-93.9

Source: Department of Statistics of Moldova, estimates and forecasts by ES

Table 3 Industrial output, current prices, millions MDL

Year	2001	2002	2003	2004	2005	2006	2007	2008e	2009e
Total industry	10428	12624	15963	17591	20770	22371	26174	29655	21 000
Processing industry	8108	10066	13311	14665	17627	18718	21390	19287	16 800
Electricity, gas and water supply	1902	1974	1989	2069	2235	2368	3176	2816	1 869

Source: Department of Statistics of Moldova, estimates and forecasts by ES

Table 4 Gross agricultural output, millions MDL

	Total	Annual real change, %	Crop production, millions MDL	Annual real change, %	Livestock production, millions MDL	Annual real change, %	Services	Annual real change, %
2001	8646	6.4	5727	8.8	2655	1.2	264	-4.3
2002	9474	3.4	6298	2.5	2870	5.7	306	15.9
2003	10354	-13.6	7086	-17.3	2937	-4.9	331	8.1
2004	11819	20.8	7900	29.3	3524	4.0	395	19.3
2005	12688	0.8	8449	-2.2	3851	8.4	388	1.3
2006	13734	-1.1	9079	-3.4	4278	4.0	377	5.0
2007	12825	-23.1	7941	-33.6	4509	-1.4	375	-
2008	16410	31.9	11025	69.0	4972	-19.6	343	-

Source: Department of Statistics of Moldova, estimates and forecasts by ES

Table 5 Output of major agricultural commodities

Year	Grains and podded vegetables, thousand tons	Grapes, thousand tons	Fruits and berries, thousand tons	Vegetables, thousand tons	Meat (live weight), thousand tons	Eggs, millions	Milk, thousand tons
2001	2628	505	317	448	115	618	579
2002	2587	641	327	397	120	671	604
2003	1613	677	617	361	118	620	593
2004	2994	686	430	315	119	668	628
2005	2838	518	384	389	121	762	659
2006	2290	466	460	475	134	765	628
2007	902	598	310	222	150	704	604
2008	3160	635	367	376	107	541	542
2009e	2137	570	350	385	118	670	510

Source: Department of Statistics of Moldova, estimates by ES

Table 6 The National Budget, millions MDL

Year	2006	2007	2008	2009e
National Public Budget	17845.2	22292.0	25516.9	24 740
I. State Budget	11117.3	14058.6	15977.5	16 150
1.1. Fiscal Incomes	8750.7	10733.3	12616.0	9 950
a. Companies Income Tax	422.9	562.4	303.2	280
b. VAT	6155.0	7544.2	9058.0	7 300
c. Excise Duty	1067.5	1387.4	1567.7	1 200
d. International Trade Tax	830.6	900.0	1150.0	850
e. Other Taxes	274.7	339.3	537.1	320
1.2. Non Fiscal Incomes	617.4	1013.5	704.5	500
1.3 Special funds	1294.3	1331.9	1581.9	1 300
1.4 Grants	314.9	979.8	1068.2	1 900
1.5. Net Internal Capital Market Borrowows				2 500
II. Social Security Budget	4347.7	5157.2	6362.8	6 900
2.1. Social Security Tax	3660.8	4332.7	5429.9	5 100
2.2. State budget transfers	661.1	791.7	902.2	1 750
2.3. Other taxes	25.8	32.8	30.7	50
III. Medical Insurance Budget	1559.1	2036.4	2688.6	2 650
3.1. Mandatory Insurance	523.7	783.7	1157.3	1 200
3.2. State budget transfers	1001.6	1195.0	1477.6	1 400
3.3. Other taxes	33.8	57.7	53.7	50
IV. Local budgets	4796.0	5648.5	6128.9	5 390
4.1. Fiscal incomes	2164.8	2546.8	2348.3	1 950
a. Individual Income Tax	1123.2	1322.6	1479.6	1 150
b. Companies Income Tax	660.7	832.1	414.3	370
c. Property tax	232.7	226.3	262.0	240
d. Other taxes	148.2	165.8	192.4	190
4.2. Non fiscal incomes	264.1	297.7	263.9	240
4.3 State budget transfers	2089.1	2469.4	3131.2	3 200
Transfers from state budget to other budgets	3751.8	4456.1	5511.0	6 350

Source: Department of Statistics of Moldova, Ministry of Finance, estimates by ES

Table 7 Monetary indicators

	Currency in circulation		Monetary base		M2		M3		NBM Currency Reserves, millions USD	Foreign reserves of NBM, millions USD
	millions MDL	growth %	millions MDL	growth %	millions MDL	growth %	millions MDL	growth %		
Q1'03	2193.1	-4.2	3137.1	-3.8	4455.1	-1.4	6885.7	5.7	250.4	14.2
Q2'03	2364.1	7.8	3279.4	4.5	4749.5	6.6	7300.7	6.0	260.1	14.4
Q3'03	2907.5	23.0	3704.9	13.0	5384.6	13.4	8199.0	12.3	285.9	13.9
Q4'03	2740.5	-5.7	3818.9	3.1	5621.9	4.4	8509.2	3.8	302.3	13.3
Q1'04	2632.8	-3.9	3866.5	1.2	5800.9	3.2	8659.2	1.8	309.6	12.9
Q2'04	2853.4	8.4	4203.8	8.7	6130.1	5.7	9099.1	5.1	295.7	11.9
Q3'04	3320.9	16.4	5000.4	18.9	7140.9	16.5	10384.9	14.1	391.6	12.0
Q4'04	3699.9	11.4	5313.1	6.3	8137.0	13.9	11719.6	12.9	470.3	12.4
Q1'05	3656.1	-1.2	5626.4	5.9	8432.9	3.6	12103.3	3.3	461.2	12.5
Q2'05	3895.2	6.5	5997.2	6.6	9692.0	14.9	13345.7	10.3	482.6	12.6
Q3'05	4350.0	11.7	6320.6	5.4	10505.9	8.4	14932.7	11.9	582.1	12.6
Q4'05	4571.2	5.1	7002.9	10.8	11125.5	5.9	15826.8	6.0	597.4	12.7
Q1'06	4541.2	-0.7	5978.4	-14.6	11050.5	-0.7	16299.6	3.0	587.7	12.9
Q2'06	4924.0	8.4	6339.7	6.0	11592.5	4.9	17790.0	9.1	632.7	13.2
Q3'06	4744.7	-3.6	6203.6	-2.1	11308.1	-2.4	17835.4	0.3	647.0	13.3
Q4'06	5145.8	8.5	6512.3	5.0	12485.2	10.4	19558.0	9.7	775.3	13.2
Q1'07	4856.1	-5.6	6497.1	-0.2	12715.6	1.8	19948.3	2.0	750.0	12.5
Q2'07	5421.6	11.6	6912.0	6.3	14230.6	11.9	22110.0	10.8	745.2	12.4
Q3'07	5928.4	9.3	7499.2	8.5	15867.1	11.5	24767.2	12.0	950.6	12.0
Q4'07	6664.9	12.4	9537.2	27.2	18396.7	15.9	27344.2	10.4	1050.0	11.4
Q1'08	6367.4	-4.4	9364.5	-1.8	19114.5	3.9	28476.5	4.1	1093.8	11.1
Q2'08	6594.1	3.6	9579.3	2.3	20503.4	7.3	30154.9	5.9	1186.6	10.3
Q3'08	7176.5	8.8	11264.3	17.6	21796.3	6.3	32373.1	7.4	1303.9	10.2
Q4'08	7578.7	5.6	11633.6	3.3	21774.1	-0.1	31680.7	-2.1	1505.3	10.4
Q1'09	5612.0	-26.0	8832.3	-24.1	17164.9	-21.2	28116.2	-11.3	1132.3	10.6
Q2'09	6600.5	17.6	9506.8	7.6	17792.0	3.7	29059.7	3.4	1210.1	11.2
Q3'09e	7294.9	10.5	10403.0	9.4	18475.0	3.8	29296.7	0.8	1167.7	11.2
Q4'09e	7674.3	5.2	10923.2	5.0	18635.9	0.9	29414.3	0.4	1144.3	11.8

Source: National Bank of Moldova, computations by ES

Table 8 Credit activity indicators, millions MDL, if not specified otherwise, end of period

	Current deposits in MDL	Average interest rate for deposits in MDL, %	Current deposits in hard currency	Average interest rate for deposits in hard currency, %	NBM base rate, %	Interest rate for credits in MDL, %	Interest rate for credits in currency, %
Q1'03	1211.9	12.3	1544.1	3.0	10.5	19.5	11.0
Q2'03	1280.1	11.9	1654.7	2.9	10.5	19.6	10.8
Q3'03	1330.4	12.2	1741.6	2.8	12.0	18.7	10.2
Q4'03	1469.6	13.8	1813.0	3.7	14.0	19.4	11.2
Q1'04	1725.9	15.0	1806.0	4.5	14.0	20.8	11.5
Q2'04	1856.3	14.8	1909.0	4.9	14.0	21.1	11.3
Q3'04	2145.9	15.8	2051.8	5.1	14.5	21.0	11.3
Q4'04	2572.3	15.5	2393.6	5.4	14.5	21.0	11.5
Q1'05	2901.5	15.4	2538.0	5.3	14.0	20.9	11.3
Q2'05	3260.7	13.5	2614.0	5.2	13.0	19.6	11.2
Q3'05	3596.2	12.7	2709.5	5.1	12.5	18.7	11.0
Q4'05	3792.3	11.5	2800.0	5.1	12.5	17.8	10.9
Q1'06	4057.8	11.3	3463.7	5.0	12.5	18.3	11.0
Q2'06	3911.0	11.1	4184.9	5.2	12.5	17.8	11.0
Q3'06	3711.5	11.8	4579.3	5.2	12.5	18.2	11.1
Q4'06	4202.0	13.2	4893.2	5.3	14.0	18.5	11.3
Q1'07	4734.9	14.0	5283.2	5.6	14.5	18.6	11.1
Q2'07	5455.3	15.4	5582.9	5.9	13.5	18.7	11.0
Q3'07	6328.6	15.1	5940.7	6.1	15.3	18.9	10.8
Q4'07	7455.9	15.5	6717.7	6.3	16.0	19.0	10.8
Q1'08	8867.5	15.9	7033.2	6.6	16.3	19.1	10.9
Q2'08	9638.3	17.3	7312.0	8.8	18.0	20.3	11.4
Q3'08	10379.1	18.8	8178.7	10.7	18.0	22.4	12.5
Q4'08	10148.0	19.7	7955.6	11.4	15.5	22.5	13.6
Q1'09	8192.9	20.0	8565.0	11.2	11.5	23.1	13.5
Q2'09	7620.0	16.2	11267.7	8.4	9.0	20.7	12.8
Q3'09e	7235.2	14.0	10821.6	5.9	5.0	19.2	12.1
Q4'09e	6859.0	12.0	10778.4	5.0	5.0	17.4	11.6

Source: National Bank of Moldova, computations by ES

Table 9 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
Q1'03	775.7	11.0	702.0	110.5
Q2'03	864.2	0.7	656.8	131.6
Q3'03	921.3	3.4	541.9	170.0
Q4'03	1088.7	6.8	619.1	175.7
Q1'04	976.0	-2.1	702.0	139.0
Q2'04	1087.7	4.7	726.9	149.6
Q3'04	1123.3	4.1	584.1	192.3
Q4'04	1282.3	2.9	682.4	187.9
Q1'05	1148.0	-10.4	771.7	148.7
Q2'05	1296.0	12.9	766.7	169.0
Q3'05	1335.3	3.0	647.1	206.4
Q4'05	1532.7	14.7	771.7	198.6
Q1'06	1454.3	-5.1	878.7	165.5
Q2'06	1684.0	15.8	968.2	173.9
Q3'06	1774.0	5.3	816.6	217.2
Q4'06	1948.0	9.8	929.0	209.7
Q1'07	1783.0	-8.5	980.2	181.9
Q2'07	2069.0	16.0	1062.6	194.7
Q3'07	2135.0	3.2	1025.3	208.2
Q4'07	2353.0	10.2	1142.1	206.0
Q1'08	2286.0	-2.8	1318.3	173.4
Q2'08	2583.0	13.0	1389.3	185.9
Q3'08	2602.0	0.7	1260.5	206.4
Q4'08	2747.0	5.6	1355.8	202.6
Q1'09	2569.0	-6.5	1338.4	191.9
Q2'09	2673.5	4.0	1238.0	215.9
Q3'09e	2700.0	1.0	1300.0	207.7
Q4'09e	2800.0	3.7	1400.0	200.0

Source: Department of Statistics of Republic of Moldova, computations by ES

Table 10 The Structure of the Employed Population, thousand people

	2001	2002	2003	2004	2005	2006	2007	2008	2009e
Total population	3635	3627	3618	3607	3600	3589	3581	3573	3568
Population aged above 15	1617	1615	1474	1433	1422	1357	1314	1303	1300
Employed	1499	1505	1356	1316	1319	1301	1294	1251	1220
Unemployed	118	110	117	116	104	102	70	52	95
Employment rate	0.54	0.53	0.48	0.46	0.45	0.45	0.44	0.43	0.42
Economic dependency rate	1.42	1.41	1.66	1.57	1.58	1.60	1.66	1.63	1.60

Source: Department of Statistics of Republic of Moldova, computations by ES

Table 11 Average consumer prices changes, %

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Against last December
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
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
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
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
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
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
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
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
2005	1.1	2.1	0.8	1.4	0.1	-0.8	-1.1	0.2	1.2	1.5	1.9	1.4	10.0
2006	1.9	1.4	1.5	1.0	1.2	0.2	-0.4	0.8	1.1	1.6	1.7	1.2	14.1
2007	0.8	0.6	0.6	1.0	0.9	0.0	1.1	2.2	1.6	1.6	1.3	0.9	13.1
2008	1.4	1.5	1.1	1.6	1.5	-1.1	-0.9	0.7	0.6	0.8	0.0	-0.2	7.3
2009e	-0.1	-1.1	-0.8	0.3	0.2	-0.3	-0.6	-1.1	0.8e	1.1e	1.1e	1.1e	0.6

Source: Department of Statistics of Republic of Moldova, National Bank of Moldova, computations by ES

Table 12 Balance of payments, millions USD

	2002	2003	2004	2005	2006	2007	2008
Current account balance	-19.80	-130.17	-46.13	-225.81	-379.72	-695.14	-1009.34
Trade balance in goods	-377.80	-623.01	-754.17	-1191.5	-1585.66	-2307.95	-3223.39
Exports FOB	659.70	805.09	994.07	1104.58	1058.76	1368.46	1646.65
Imports of goods	-1037.50	-1428.1	-1748.24	-2296.08	-2644.42	-3676.41	-4870.04
Balance of services	-40.34	-44.33	-20.97	-20.74	4.20	20.01	25.85
Income, including	156.58	230.79	357.04	410.89	402.06	414.27	583.90
Remittances from work	185.69	289.02	438.94	476.83	522.60	592.89	763.00
Current transfers	241.76	306.38	371.97	575.54	799.68	1178.53	1594.30
Capital and financial account (excluding changes in reserves), including	43.90	82.64	-54.54	47.56	315.42	556.55	925.82
Capital account	-19.27	-19.01	-12.81	-3.83	-22.78	-7.96	-14.67
Direct investments	83.60	73.64	147.79	190.86	251.79	481.39	679.40
Portfolio investments	-27.38	-23.75	-9.77	-6.95	-4.79	-4.51	6.38
Other investments	33.91	65.78	-32.33	-2.31	231.77	616.96	705.78
Net change in NBU reserves	-24.10	47.53	100.67	178.25	64.30	138.59	83.52
Errors/omissions	-1545.73	-1679.60	-1575.91	-1701.98	-2086.50	-2726.45	-3735.92

Source: NBM, computations by ES

Table 13 Real GDP growth in major trade partners of Moldova

	2001	2002	2003	2004	2005	2006	2007	2008e	2009e	Weight in total Moldovan Exports, %, 2007	Contribution to the World's Global Output, %
Russia	5.0	4.7	7.3	7.2	6.4	7.7	8.1	5.6	-6.0	17.3	2.7
Euro zone:	1.9	0.9	0.8	2.2	1.7	2.9	2.7	0.9	-4.0	50.6	15.7
Italy	1.8	0.5	0	1.5	0.7	2.0	1.6	-1.0	-4.2	10.4	3.0
Germany	1.2	0	-0.2	1.2	0.8	3.0	2.5	1.3	-5.5	6.4	4.4
France	1.8	1.1	1.1	2.2	1.9	2.4	2.1	0.7	-3.1	1.8	3.2
Romania	5.6	5.0	5.3	8.5	4.1	7.9	6.2	7.1	-4.0	15.7	0
Ukraine	9.2	5.2	9.6	12.1	2.7	7.3	7.9	2.1	-7.8	12.5	0
Belarus	4.7	5.0	7.0	11.4	9.4	10.0	8.6	10.0	-4.0	6.1	0
USA	0.8	1.6	2.5	3.6	2.9	2.8	2.0	1.1	-2.5	1.1	21.1

Source: IMF, computations by ES

Table 14 Breakdown of Moldovan Imports by Country, millions USD

	2001	2002	2003	2004	2005	2006e	2007	2008	2009e
CSI	334.5	434.8	593.4	764.8	915.9	1020.8	1333.7	1737.2	1257.7
Russia	136.3	168.6	183	212.3	273.6	417.0	498.6	666.1	
Ukraine	164.2	225.3	309.3	436.3	491.4	516.5	687.0	838.9	
Belarus	38.7	39.1	50.6	64.3	84.5	74.6	118.7	199.1	
Others	4.7	1.8	50.5	51.9	66.4	12.7	29.4	33.1	
UE	249.0	290.6	505.8	581.1	752.3	837.5	1681.3	2105.4	1229.6
Romania*	-	-	-	-	-	-	449.1	590.8	
Germany	93.6	101.3	135.6	150.2	190.9	214.1	319.4	364.5	
Italy	61.1	82.8	118.7	131.6	152.3	196.3	269.3	306.2	
Others	94.3	106.6	252.5	299.3	409.1	427.1	643.5	843.9	
OTHER COUNTRIES	313.7	377.7	303.6	422.6	643.6	834.9	674.9	1056.3	659.8
Romania*	107.1	126.2	98.2	164.1	257.4	345.9	-	-	
China	8.4	11.8	21.5	37.7	73.9	116.8	202.9	325.5	
Turkey	19.7	32.7	48.2	69.1	93.0	113.8	166.8	231.9	
Other countries	178.5	207.0	135.7	151.7	219.3	258.1	305.2	498.9	
Total	897.2	1103.1	1402.8	1768.5	2311.8	2693.2	3689.9	4898.9	3147.1

Source: National Bank of Moldova, Department of Statistics of Republic of Moldova, NBM, computations by ES

* Romania is a member state of EU since January 1, 2007

Table 15 Breakdown of Moldovan Exports by Country, millions USD

	2001	2002	2003	2004	2005	2006	2007	2008	2009e
CSI	348.0	368.8	423.8	502.4	551.2	424.1	550.3	627.9	396.1
Russia	249.9	251.7	308.4	353.3	347.5	182.0	232.7	318.4	
Ukraine	62.0	64.9	56.2	64.8	99.7	128.8	167.9	142.8	
Belarus	30.2	39.6	41.1	58.7	71.2	74.0	82.0	92.8	
Others	5.9	12.6	18.1	25.6	32.8	39.3	67.7	73.9	
UE	122.3	172.9	211.0	296.3	324.3	368.0	679.3	820.1	608.5
Romania*	-	-	-	-	-	-	211.2	335.8	
Germany	41.1	52.6	56.2	71.3	47.4	51.9	86.3	63.8	
Italy	47.7	64.4	82.4	136.4	133.6	116.9	140.2	167.1	
Others	33.6	56.0	72.4	88.6	143.3	199.2	241.6	253.4	
OTHER COUNTRIES	99.9	168.9	155.2	186.5	215.8	259.5	112.2	149.3	124.7
Romania*	40.2	59.7	90.2	98.9	111.7	155.6	-	-	
China	-	1.3	0.1	0.1	0.6	0.4	0.9	2.2	
Turkey	2.3	4.1	7.2	12.3	24.7	28.5	32.1	33.4	
Other countries	57.4	103.8	57.7	75.2	78.8	75.0	79.2	113.7	
Total	570.2	710.6	790.0	985.2	1091.3	1051.6	1341.8	1597.3	1129.3

National Bank of Moldova, Department of Statistics of Republic of Moldova, NBM, computations by ES

* Romania is a member state of EU since January 1, 2007

Table 16 Retail trade, services and construction of private houses, millions MDL, if not specified otherwise

	Retail trade	Real annual growth, %	Services rendered to population	Real annual growth, %
2001	7612	14.8	3404.4	21.2
2002	10753	34.2	4221.7	11.8
2003	14537	18.2	5298.9	13.3
2004	16575.8	5.6	6970.4	5.3
2005	19487.7	5.3	8209.5	9.2
2006	23356.6	6.9	9964.0	5.6
2007	28304.0	8.0	11853.2	3.9
2008	34684.4	8.8	13152.5	-2.2
2009e	28700.0	-20.0	12100.0	-12.0

Source: Department of Statistics Republic of Moldova, computations by ES



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