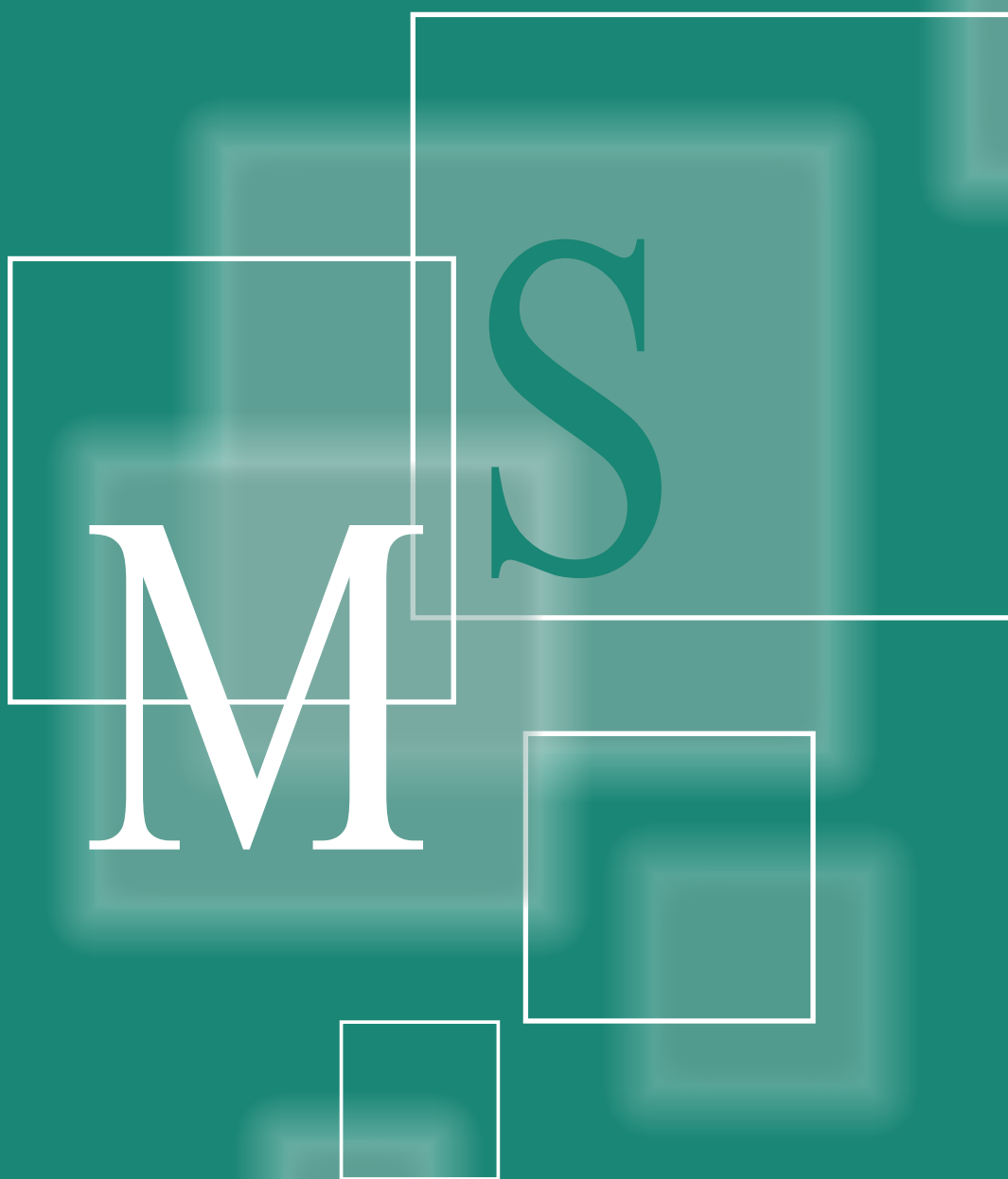


Economic Statewatch



Quarterly Analysis and Forecasts

Issue 15



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Should you have any questions regarding this report, please contact The Center of Economic Policies of the Institute for Development and Social Initiatives “Viitorul”

Adress: MD-2005, Republic of Moldova, Chişinău, 10/1 Iacob Hancu str., IDIS “Viitorul”, for CEP;

Phone: 37322-22-18-44, Fax: 37322-24-57-14

E-mail: veaceslav.ionita@viitorul.org and office@viitorul.org

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THANKS



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The Economic Statewatch expresses the personal opinions of its authors which might not coincide with that of IDIS “Viitorul”. Any other third person, inclusively IDIS “Viitorul” is not responsible for the presented conclusions in this publication.

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ACRONYMS AND ABBREVIATIONS

In this publication have been used the following acronyms and abbreviations

CBMNR – Central Bank of the Moldavian Nistean Republic;

NBM – National Bank of Moldova;

CSIR – Center of Strategic Investigations and Reforms;

CIS – Community of Independent States;

CEP – Center of Economic Policies, IDIS „Viitorul”

DSS – Department of Statistics and Sociology of the Republic of Moldova;

CEE – Central and Eastern Europe;

IPP – Institute of Public Policies;

FDI – Foreign Direct Investments;

MDL – leu, national currency of the Republic of Moldova;

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

MEc – Ministry of Economy;

MF – Ministry of Finance;

MLSS – Ministry of Labor Force and Social Security;

ILO – International Labor Organization;

SHB – Survey of Households’ Budgets;

SEGPR – Strategy of Economic Growth and Poverty Reduction;

H – half of the year;

Q – quarter of the year;

e – estimations;

p – forecasts;

rmsa – average annual exchange rate;

rca – annual growth rate (the end of the current year divided to the end of the previous year);

ma – annual average;

p.p. – percentage points.

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MAIN INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008e	2009p
Production									
GDP, million MDL, Current prices	19052	22566	27619	32032	37652	44069	53430	62840	71000
GDP / capita, USD, rmsa	408	459	549	721	812	890	1229	1900	2050
Real GDP, rca	6.1	7.8	6.6	7.4	7.5	4.8	3.0	7.2	2.0
Real industrial production, rca	13.7	10.8	15.6	8.2	7.0	-4.8	1.0	0.7	-10.0
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	25.0
Households									
Personal disposable monthly income, MDL	241.0	321.6	422.4	491.4	568.6	839.6	1018.7	1150.0	1350.0
Real disposable income, rca	17.7	26.5	17.4	3.5	3.4	5.0	8.0	7.0	5.0
Retail trade, rca	14.8	34.2	18.2	5.6	5.3	6.9	8.0	8.0	4.0
Prices									
The index of consumer prices	106.3	104.4	115.7	112.5	110.0	114.1	113.1	107.3	110.5
The index of prices of agricultural products	106.1	102.8	120.0	113.1	108.7	109.5	115.4	106.5	109.5
The index of prices of non-food products	107.9	108.2	111.5	111.9	114.9	115.7	111.6	102.1	108.0
The index of prices of services	104.5	104.4	112.6	111.6	106.6	120.1	113.0	117.4	114.0
The index of prices of industrial products	112.0	105.0	109.0	105.6	105.3	112.2	126.5	103.4	110.0
Labour Force market									
Population, thousands	3635	3627	3618	3607	3600	3589	3581	3573	3560
Population employed in the economy, thousands	1499	1505	1357	1316	1319	1301	1390	1320	1300
Unemployment rate, methodology of ILO	7.3	6.8	7.9	8.1	7.3	7.4	7.1	7.2	7.0
Monthly average salary, lei	544	692	891	1103	1319	1695	2063	2600	2850
Real salaries, rca	21.2	21.1	15.0	10.1	6.9	14.0	12.0	7.0	7.0

(Transnistria is not included)

	2001	2002	2003	2004	2005	2006	2007	2008e	2009p
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	28.0	12.8
Import of goods and services, rca	14.9	16.3	35.1	26.1	29.6	17.5	37.0	44.4	23.0
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	6495.0	7837.4
Current account, % of PIB	-7.3	-6.2	-7.4	-3.2	-7.8	-11.4	-15.6	-17.0	-17.0
FDI, millions USD	148.5	110.4	39.4	50.0	75.0	60.0	240.5	350	400
Earnings from salaries earned abroad, millions USD	183,7	239,1	258	450	900	1200	1700	2200	2700
Finance*									
Earnings in the consolidated budget, % of GDP	22.7	22.5	24.3	35.6	39.9	38.1	38.2	37.1	38.0
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								23.0	24.0
	64.5	59.4	51.5	42.9	24.9	25.0	25.0		
Debts for energy, % of GDP	19.4	18.1	15.9	10.9	9.1	9.1	8.9	8.7	8.8
Financial indicators									
Monetary base, rca	27.9	31.1	17.0	39.1	31.8	-0.7	46.5	21.0	25.6
Foreign currency reserves, millions USD, end of the period	228.5	269.6	302.3	470.3	597.4	650.0	1050	1500	1200
Official annual average exchange rate MDL/USD	12.8	13.5	13.9	12.3	12.6	13.1	12.1	10.3	11.0
Interest rate for credits in MDL, %, ma	28.5	23.1	19.2	21.0	18.9	18.2	18.9	20.2	18.8
International economy									
Global GDP, rca	2.4	3.0	3.9	4.8	4.5	5.1	4.9	3.9	3.6
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	3.6

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	2008p	2009p
Regional GDP, millions USD	199	250	309	405	486	586	650	770	890
Regional GDP, rca	10.0	-2.7	18.1	16.2	11.8	7.7	10.0	12.0	13.0
Industrial output, rca	9.0	-18.7	21.4	5.2	0.6	-23.2	7.0	10.0	12.0
Population, thousands (estimations)	633.6	630.1	621.8	616.5	600	585	570	550	540
Retail trade and services, rc	23.1	18.4	7.6	15.3	18.4	5.2	2.6	5.0	6.0
Investments in fixed capital, rca a	15.6	-9.2	-14.7	22.2	-2.5	4.3	-6.4	-2.0	2.0
Exports, millions USD	378	243.4	432.8	535.1	579.7	422.1	610.0	690.0	730.0
Imports, millions USD	541	449.6	592.9	758.3	855.6	738.4	740.0	1150.0	1300.0
The index of consumer prices	127	110.6	132.6	120.4	110.8	108.9	110.0	112.0	112.0

Source: "CBMNR", CSIR, estimations of ES

SUMMARY

The beginning of 2009 will be marked by a high tonality in internal ideological disputes, the freeze of negotiations with EU at least until after elections and the failure in negotiations over Transnistrian conflict

POLITICS. Second half of 2008 imposed a higher tonality in internal ideological disputes. Since stakes in elections on 5 April 2009 are being tremendous, authorities have decided to adjudicate for themselves another victory whatever the price is going to be, following the principle: the victor is exempted from trial!

Another important subject of indigenous politics is the relationship with EU. The sympathy with which Moldovan citizens are treating EU institutions and benefits make the discourse of the overwhelming majority of political elite be pro-EU. At least, even the most dogmatic leaders of the Republic of Moldova Communist Party (hereafter RMCP) in their statements acknowledge the alignment to the EU vicinity policies as a structural element of the Republic of Moldova (RM) politics. However, this fact does not obstruct RMCP leaders to play the usual equilibristic game between Moscow and the West.

Chisinau officials swallowed a tough pill, when found forced to acknowledge (at the last Government sessions in December 2008) the refusal of European Commission to set off negotiations of a new political document before the general elections. Still, the dialogue between RM and EU was pretty reticent, especially if assessed through repeated warnings addressed by EU to Chisinau officials regarding the freedom of speech, the justice controlled by power and intimidating abuses against opposition parties.

Agricultural production in 2008 increased with 31,9% comparing to 2007 and only with 1,4% comparing with 2006

President Voronin did not succeed to convince Moscow of the purity of his intentions in respect to Russian interest in the region. The 2009 elections will be held without the participation of Transnistrian populace, which remains hostage of Transnistrian regime and of all failed formats of political settlement. The out-crying failure in Transnistrian conflict settlement worsened even more in December 2008 at the meeting Voronin – Smirnov, where the first one displayed a very bad performance.

Vladimir Voronin cheated once again, stating at the end of the meeting with Smirnov that parties came to an agreement to re-start consultations in the format controlled by Russian Federation, which excludes EU, USA and Ukraine – a format which pleases Kremlin. The cynic gesture of increasing the transit fee through Transnistria was an immediate reply of Tiraspol, aiming to block any attempts that RMCP could have made on the eve of parliamentary elections on separatist territory.

For the first time in the history of Moldova, in 2008 imports of agricultural products were higher than exports

AGRICULTURE. The year 2008 culminated for farmers with relatively high production capacity and global products for the Republic of Moldova and with obvious dramatic falls in animal sector. In 2008 agricultural products in all households of different category valued in current prices, according to preliminary estimations, about 16,4 billion lei, thus registering an increase of 31,9% against 2007 and 1,4% against 2006. This data shows that farmers recover only positions lost in 2007, whereas the increase comparing to 2006 was insignificant.

In 2008, for the first time in the history of the Republic of Moldova, external trade with agricultural products has registered a deficit in commer-

cial balance. This year, exports of agricultural products registered 595,3 million USD, where imports – 631,3 millions USD. This failure in commercial realm emerged against the background of collapsed prices on internal market for main agricultural products – cereals, oleaginous plants, fruits and grapes. Measures undertaken by authorities in order to remediate the situation on internal market of agricultural products can be assessed as being awkward and in some cases not understandable.

Failures of the last year are the registered emphasized decline in animal sector, poorly conducted autumn's agricultural campaign, stagnation of agriculture subvention system reform, non-use of the majority of tariff contingents received through PCA, shortfalls in the implementation of agricultural policies, poor promotion of Moldovan agricultural companies on external markets, return to suspicious policies of exempting large producers in agriculture from penalties.

In our opinion, main risks for agriculture in 2009 will be the decrease in global production of vegetal sector, continuous stagnation in animal sector, the increase of prices for agricultural inputs, even less flexible funding of agriculture, the slowdown of agricultural products exports, and promotion by the central government of populist policies in agriculture.

BUSINESS. The growth of 2008 will be maintained by alcoholic beverages production sector, sugar and vegetal oil production sectors, however, the situation is getting worse, and in the next year the industry could decrease by 10% due to: a) decrease of demand (on external as well as on internal markets) for main industrial goods (mainly textiles and alcoholic beverages);

b) leu appreciation, which makes autochthon goods be non-competitive on external markets, and even on internal markets c) very limited access to bank loans and their high prices in conditions when population will start gradually to consume its reserves it has in bank accounts.

In order to diminish negative effects on the national economy and mainly on industry, NBM has to allow gradual depreciation of national currency, having the population thoroughly prepared in advance to avoid panic on currency market.

As we forecasted at the outset of 2008, gusarbaiters' remittances had withdrawn to a large extent from the real estate market, which, alongside with the deficit of liquidities in economy led to stagnation in housing construction sector (by the end of this year there might be a decrease in this sub-sector), and the decrease in consumption will affect the retail trade, which, in turn, through expanded commercial networks served this year a locomotive for the growth in buildings construction sector. Thus, next year we may expect a decrease of 20% in constructions sector, which will drag after it the stagnation in trades with construction materials, and mainly extracting industry.

Countries that are amongst the last to welcome investors are normally the ones that investors leave the first. RM till now did not succeed to create a favorable investing environment not only for local economic agents but

In 2008 the industry will register an increase of maximum 2,5%, which is less than in 2005, and for 2009 we foresee an industrial decrease to up to 10%.

World crisis will affect those branches of national economy which enjoyed the most dynamic development in the last 4 years

also for foreign investors as well. Hence, after a good growth this year to up to 15% of investments in equipment – the most qualitative investments – in 2009, due to created situation in industry, we may expect a drastic decrease of investments overall (more than 10%) and especially investments in equipment (more than 15%).

For 2009 we anticipate an increase of exports by 10% and of imports by 20%

FOREIGN TRADE. The total proportion of Moldova's international trade increased in 2008 with 29,1% comparing to 2007, valuing 6496,2 millions USD. Exports registered an increase of 19% and imports a raise of 32,8%. Disproportions in the increase of exports and imports of the Republic of Moldova have caused the accumulation of a negative commercial balance 2008 in amount of 3,3 billion USD. In 2009 we anticipate as the most optimistic option a decrease of the growth rate of exports and imports up to 10% and 20% respectively, comparing with 2008. This year RM's foreign trade will be negatively influenced by a number of several clearly emerged risks: reduction in offers for exports and crediting of foreign trade, decrease of consumption in RM, over-appreciation of Moldovan leu and depreciation of currencies of RM's main commercial partners, mutual non-payments for delivered goods and more frequent use in external trade of non-tariff barriers as tools for internal markets protection.

Reduction of population' consumption made us review the forecast of budget increase in 2009 from 17,7% to 6,1%. In real terms the budget will be smaller than in 2008

FINANCE. Negative trends in economy, more attenuated than our previous expectations were, determined us to significantly revise forecasts for budget revenues collection. In fact, if we analyze the privatization dynamics since 1996 till today, we may notice that in 2008 state budget has entered into crisis phase.

In such conditions, without having made a drastic change in its expenditures' policies, the Government risks to fail to fulfill its obligations towards state employees already in the first month of spring.

There are only three possible solutions in created conditions: acceleration of privatization process, which might make up lost revenues of a billion lei; depreciation of national currency, which would allow, at least nominally, the execution or even over-execution of state budget; or reduction of all expenditures for investments, in order to be able to honor its obligation to pay salaries.

In 2009 Leu will depreciate by 10% in respect to main currencies

MONETARY MARKET. The monetary mass reached its apogees of 32.4 billions lei in September, registering thus an increase of 16,4% comparing with the beginning of the year, after that it continuously was going down throughout October, November and December at the end being reduced by 1,77 billions lei or by 5,5%. In this context it could be stated with certainty that throughout 2009 the monetary mass of Moldova will stagnate. The level of sterilization was pretty high reaching in December 2008 a daily rate of more than 1 billion lei, sterilization costs reaching 210 million lei throughout 2008.

In 2009 remittances will decrease to 1,4 billion USD

Forecasts for the exchange rate of USD to leu of 10-10,3; and Euro to leu of 14,6-15,1 were pretty accurate by the end of 2008. For 2009 we forecast an appreciation of 10% of foreign currencies to national currency.

Due to the impact of world recession, confirmed by trends of the second half of 2008, there is an expectation of remittances reduction in 2009. In

2009 incomes from abroad will decrease by 10-12%, and only in the worst case scenario - by 20%.

PRICES. High inflation is a very sensible tax for the poor and obstructs economical development. However, to an extent of 60% inflation depends on imports, therefore NBM' tools have a limited impact in stopping it. Appreciation of national currency in 2008 contributed to the decrease of inflation with by at least 10 p.p. However, inflation decrease for the entire population owes to higher prices for those who receive remittances from abroad. Thus, the buying ability of foreign currencies, from where remittances are being received, decreased by 24%. The second and the most dramatic effect was the failure to collect revenues from exporters, which negatively influenced the economic growth overall. The price for inflation reduction was paid by discouraged remittents and local economic agents.

Due to the external conjunction inflation rate in 2009 can possibly stay at 10%

Anti-inflation policy for 2009 should take into account the world recession, which will make prices for raw materials to go down. Prices for energy and oil products have a tendency to go down. The agricultural products' market stabilized and its pressures on national prices decreased.

The most important factor that will influence national prices is the internal pressure. Weak competitive ability of the economy will result in an excess of demands, which, in turn, will push prices up. The slowdown of prices appreciation will not increase anymore pressures on prices. The remittances' decrease will ease only for a short period of time the inflationist pressures.

The prices' growing rate for durable goods, medicines, gas and oil should go down during 2009, while prices for food prices and basic need products should go up.

LABOUR FORCE MARKET. Moldova will feel consequences of crisis with a 5-6 delay. Labor market has registered some tensions already and skillful workers accept lower salaries for their work.

Without having changed the economical development paradigm, assimilation of those 100-150 thousands gustarbaiters returned home

Without having changed the economical development paradigm, Moldova will not be able to assimilate all gustarbaiters who will return home. According to our assessments around 100-150 thousands workers, mainly from Russia will return home in the nearest future and will never go abroad to work. Most of these workers come from rural areas, they don't have adequate education and their employment is going to be difficult.

In crisis changes in households preferences determine economical growth.

THE ECONOMY OF THE TRANSNISTRIAN REGION. Negative conjunction of external economy in 2008 has dramatically influenced almost all industrial branches of Moldovan Transnistrian Republic (hereafter MTR), which brought a decrease of production of 30% comparing with 2007. Foreign trade remains the main source of incomes in the region, making over 80% of its balance of payments. According to MTR State Customs Committee the rate external commercial exchanges grew by 38,2%, amounting 2571,5 millions USD.

Production rate of MTR decreased in 2008 by 30%

In 2008 inflation was 24%, registering a modest decrease comparing to previous years. MTR's external debt increased in the first half of 2008 by 400 millions USD, amounting 2043,3 millions USD, mainly marking an increase of MTR's debt to Gazprom (1,8 million USD).

In 2009 the world crisis will worsen and will be felt at the world level in real estate, service, industry, trade sectors.

WORLD ECONOMY. The year 2008 brought alongside expected and less expected challenges. The scales of financial crisis that hit first industrialized countries, and expanded further over countries in transition, were underestimated. Losses of world financial institutions after 20 months of crisis reached 2,8 trillions USD, while losses of individual persons and non-financial institutions are tens times bigger.

Recovery from crisis expected to happen in 2009 is delayed at least for one year. What was intended at the beginning as a natural markets' correction ended up with a real collapse. World economy entered the steamy era, and is getting very difficult now to assess its development even for a short term. What gets obvious now is that financial crisis gradually encompassed real sector of many countries, transforming into an economic crisis which will express itself throughout 2009, maybe even tougher than during the previous year. Effects will be felt at the world level, most affected sectors being real estate, financial, service, constructions, car industry and tourism.

POLITICS

INTERNAL POLITICS IN 2008/2009

Effects of global financial crisis. The global financial crisis from 2008 is being felt more acutely at local/national level as well, its effects having limited access to funding and refunding sources, freezing consumption and remittances currents are alarming average citizens. In a decisive elections' year, RM' economy will face increased pressures on the labor market against a background of economic growth stagnation. The inevitable decrease in remittances incomes will nourish local consumers caution and will raise constraints on exports, which, in turn, will negatively affect the production branch of the industry. In October 2008, remittances that were being sent to RM have changed in amount and provenience from geographical stand point, registering, according to our estimates, an absolute record of 1,6 billions, comparing to which 2009 will bring an income of less than 1,4 billions. These fluctuations will considerably reduce revenues collected by the public budget, which is up to 90% dependent on internal consumption and remittances amount. That will create serious obstacles in executing the state budget.

The attempt to stabilize the situation is emptying its thesaurus of National Bank, which will maintain a high rate for the leu, as an imposed tax by RMCP in the electoral campaign. The crisis hits the exports and consumption, which will slow down or will block the rhythm of economic growth of previous years: from 7 to max. 2%, or even register a regress comparing to previous years. Negative expectations drive the population to withdraw its individual deposits from banking circuit, estimated at approx. 1,2 billion lei, thus contributing to the aggravation of economic crisis. Official statements concerning the maintained macroeconomic stability and reduced inflation rate in conditions of world economic crisis provoke nothing but a burst of laugh of IFI and business community. These symptoms point out to the crisis transformation scale, anticipated by the populace by having reduced consumption, and by economic agent as well through the reduction of industrial production, limitation of exports, which expose the seriousness of intentions and ability to address the effects of crisis to a tough test, using old government garniture.

Struggle for power in RM is shaping out. The second half of 2008 imposed a higher tonality in internal ideological disputes, expressed namely through the existence of a number of circumstances. We will group these factors in few categories: (1) structural, (2) relational and (3) operational, defined as such in accordance with their impact and intensity in a short or long term. As a structural factor, which influences the Chisinau position nowadays, emerges the decision of RMCP leaders to exploit to the maximum extent the benefits offered by EU and USA, having selectively addressed, in turn, requirements imposed by these actors, namely in those areas which allow RMCP leaders maintaining their dominant positions in politics, national economy and foreign policy. Since the stakes in elections of 5 April 2009 are immensely high, authorities have decided to adjudicate themselves

another victory, following the principle: the victor is exempted from trial! Moldovan authorities have learned from their long-lasting governance experience (8 years) the secret of political survivability – balancing between competing rivals – and intend to keep swinging between the EU/USA model of conditional benefits and Russian model of unconditional clients' favoritism.

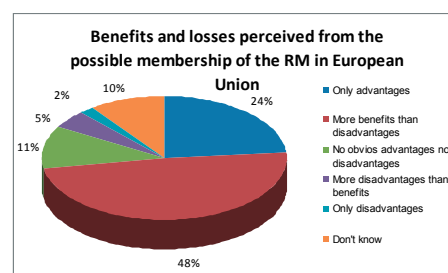
This model allows Moscow providing protection *in lieu* of eternal tutelage, giving to political elite the freedom to chose the governance model to its liking: ranging from authoritarian regime of Lukashenka, to modern satrap-style rule of Turkmenistan and Kazakhstan (type - Turkmenbashy), or dynastic regime like in Azerbaijan. Evidently, the only constraint exercised by Russia and felt by RMCP elite is the imposed clientele regime, mirrored by Tiraspol administration, which ex-President V.Voronin defines as criminal and mafia-like regime. From stand point, Chisinau authorities are still hoping to see I.Smirnov taken by Moscow to an unknown destination, offering thus to Moldovan communists the chance to claim the glory of territorial re-integration and the status of Russia's privileged partner in RM. However, Chisinau's calculations do not match Kremlin's ones, which doesn't want to give up the regime it had planted after 1992 in Tiraspol and which is treated by Kremlin as an equal party in the conflict and as a key role player in geopolitical schemes of Russian state at the double borders of EU and NATO. Asking for loyalty and natural monopoly in fragile economy of RM, Russia is enforcing its influence and positions in political field, without making any concessions in response. There are still some landmines that blow these plans.

The first one is explained by the fact that Moldovan citizens are more concerned with immediate social problems: overwhelming poverty, jumping prices and lack of work places, and only to very limited extend – how the relationship between Moscow and Chisinau are being built. Meeting of RMCP leader with Minister of foreign affairs Lavrov and President offer some image benefits, however without any guaranties on how things will unfold in respect to secessionist region. For the time being, Russia seems to be more interested to preserve the existing status quo in controlled by Smirnov clan region rather than shaken it now. The Primakov model of federalization of RM on the principles of equality of conflicting parties is accepted nether by the population (72% of respondents consider the model as non-existent), nor by the overwhelming majority of RM' political forces. Acceptance of this model would mean suicide even for RMCP itself. Severe crisis undergone by Russia today makes Kremlin to return in ex-soviet area in capacity of censor and even regional despot, and not as a necessary supporter in conditions of profound world crisis. CIS certainly is not the right tool which can remedy dysfunctions of regional economies. Still, CIS remains as a polygon where institutional transplantations are being made from Russia towards member states, which are more or les dependent on its projects. In spite of profound crisis of exports, Russia hopes to use its resources to control economically and politically CIS states. In February 2009, Russia declared the creation of combined military forces of CIS states and hopes to get with this toy a sound resonance worldwide. Earlier, during CIS summit held in Chisinau, highly placed Russia officials stated that they had come to an agreement with RM to convert Moldova's currency reserves

into Russian rubles as a follow-up of non-reimbursable credits offered by Russia. Although MNB officials refused to comment these statements, it seems obvious now that Russia's pressure tools have extensively varied for the last 5 years. At the end of 2008 RM authorities unilaterally rejected energy imports from Ukraine, having made arrangements to buy energy exclusively produced by Kuciurgan plant, an enterprise bought by RAOES, and whose capacities will be able to cover all RM' internal consumption and allow energy exports towards big consumers in the South Balkans region. Alongside with other developments on the internal electricity market, RM becomes even more vulnerable in relation to big energy monopolists of the Russian state. Targeted acquisitions made by some enterprises in RM, either on the left or right bank, do not present any direct advantages for the population, which is forced to reduce its consumption even more in 2009, change plans, and return home after years of economic migration. Having registered over 1.6 billions USD in remittances, RM' economy will be inevitably paralyzed by the extreme dependency on this form of public budget completion. Smaller budget means less public investments in roads construction and structural reforms, less money for pensions and salaries for state employees. Infrastructure development projects, announced earlier by the authorities (1,6 billions euro in December 2006, 1.5 billions euro in February 2008) will unfold with difficulties as long as RM' cooperation with its western partners remains unclear. It is crucial for RM to fulfill major requirements relating to the corruption elimination from public acquisition, customs and administration, in order to get access to the Millennium Challenges Program (MCA) funds, estimated at 300 billions USD. Funds are being allocated by USA in support of economical and political reforms, however monitoring reports in 2008 were not always in favor of internal policy course, assumed by the RMCP governance.

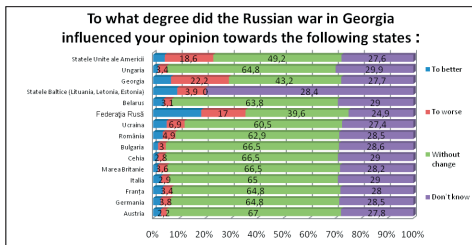
Central authorities have declared about these important efforts to be made in countering and eliminating corruption for the funds sake, but still, the US State Department report, published in August 2008 warned Chisinau that it could miss funding unless agreed earlier priorities would be seriously addressed. Critics targeted mainly human trafficking, child violence and corruption, while also signaling to the authorities that by the time the report was published RM Government did not assign a person responsible for coordination of all policies and programs launched under MCA auspices. Decision to assign Minister Mejinski, former Director of the Center for Combating Corruption and Economic Crimes (CCCEC), as coordinator of these programs and governmental policies raised a certain suspension over the person recently appointed as Minister of Interior, but only for a few days. President Voronin re-appointed Minister Papuc as Minister of Interior, who recovered his position lost in the middle of investigations related to the heroin deal, and made few other assignments, that of new Director of CCCEC and Fiscal Inspectorate. Obviously, neither the media nor the parliament in Chisinau understood the reasons that drove these changes, was the heroin case taken to the end or not, especially now when Minister Papuc, earlier interrogated as part of the investigations, was re-instated in his position on the eve of parliamentary campaign launch in RM.

Figure 1. Perception of advantages and disadvantages of integration into EU?



Another visible constraint exercised on Chisinau politics derives from relationship with EU. The sympathy with which Moldovan citizens are treating EU institutions make the discourse of the overwhelming majority of political elite be pro-EU. At least, in their statements even the most dogmatic leaders of RMCP acknowledge that EU vicinity policies represent a structural element of RM' politics. This, however, does not impede RMCP leaders to play their usual game and swing between Moscow and the West. More visibly this tendency was confirmed during CIS summit in Chisinau, an event from which Chisinau authorities had many expectations but received only bills to be paid. Although trying to display a self-confidence and a maximum ease, CIS summit hosts didn't get nearly anything out of Russian premier V.Putin' visit to Chisinau, just another round of compliments for the quality of wines (still prohibited on Russian markets), vague perspectives of Russian-Moldovan cooperation and some fantasies on a new CIS strategy of economical development 2009-2020.

Figure 2. Effect of the war in Georgia in the perceptions of the Republic of Moldova citizens¹



¹ Opinion poll, November-December 2008, IDIS/ CBS Axia

Neither the hosts nor the rushed guests of the summit dared to publicly discuss the Russian-Georgian war, the imposed embargos by Russian Federation on some states with equal rights, as foreseen by the Statute of CIS Community, ratified by the RM' Parliament when Moldovan Democratic-Agrarian Party came to power in 1994. Acting government seemed to plan to improve its image by taking over the CIS chairmanship, but this rotation now for the RM, in conditions of an unprecedented gas crisis in relations between Ukraine and Russia proves ones again with an array of arguments what value this chairmanship has in the eyes of parties, engaged in a fight for life or death. Instead of stepping in between two parties in its capacity of CIS Chairman, Prime-Minister of the RM Government (by rotation) prefers to call consumers to reduce consumption, and wait with patience till Russians and Ukrainians will settle their disputes. It becomes obvious that this Moldovan Chairmanship in CIS will have the same effect on transnistrian conflict settlement as it had on gas crisis resolution, that is, opposite to the expected or forecasted effect at the beginning of 2008¹.

Changing involutions and evolutions in transnistrian conflict settlement

Electoral games against the background of transnistrian conflict.

President Voronin failed to convince Russia of the purity of his intentions in respect to Russia interest in the region. The 2009 elections will be held without the participation of Transnistrian populace, which remains hostage of Transnistrian regime and all failed formats of political settlement. The out crying failure in Transnistrian conflict settlement worsened even more in December 2008 at the meeting Voronin – Smirnov. Ironically, although neither Voronin nor

¹ Foreign Affairs Minister A.Stratan stated that by the end of 2008 transnistrian conflict will be settled. In 2007, President V.Voronin stated in front of EU states ambassadors that transnistrian conflict is already solved long ago in the minds of those who were negotiating, and that in less than half a year the conflict will be over.

Smirnov really wanted this event to happen, none of the two could avoid this event, extensively sponsored and awaited by the mediators. Lacking inspiration, V.Voronin was listening to separatists' leaders accusations with a stony face, who didn't hesitate to remind Voronin the existence of criminal investigations files, economic blockade and even the lack of reason for the RM' territorial reintegration, as long as for separatists the only accepted formula is the recognition of MTR by RM as part of parties' parity effect voiced by Russian mediators (1997, Primacov). From President V.Voronin, Smirnov learnt only that RM will unconditionally fund roads and old people asylums' construction, with European moneys, things that Smirnov less care about. In a spontaneous heartfelt attack Smirnov accepted, though, faced by the media to suspend the transit taxes, which RM citizens have to pay when transiting Transnistrian check-points. This euphoria didn't last a week because immediately starting with 1 January taxes rose overnight by 3-4 times.

Vladimir Voronin cheated once again, stating at the end of the meeting with Smirnov that parties came to an agreement to re-start consultations in the format controlled by Russian Federation, which excludes EU, USA and Ukraine – a format which pleases Kremlin. Vladimir. The cynic gesture of increasing the transit fee through Transnistria was an immediate reply of Tiraspol, aiming to block any attempts that RMCP could have made on the eve of parliamentary elections on separatist territory. It could be possible that in making this decision the separatist leader did not follow only his wary instinct, who doesn't miss a single occasion to make RMCP leader look ridiculous, but also determined by the free fall of transnistrian economy in 2008 worsened during the gas crisis. The secessionist region's exports potentials were literally devastated by the world crisis effects, showing its true nature: non-competitive, non-equilibrated, maintained alive just direct subsidies in administration and indirect subsidies in energy resources consumed by the industry. Lifting favorable customs regime which RM offered to transnistrian economic agents, who could get access to the GSP+ benefits, and from January 2008 to PAC (Autonomous Trade Preferences), without paying taxes to the RM budget), could have provoked the stop of any production in the region. RM' internal difficulties caused contradictory reactions in Moscow. While some joyfully blamed Tiraspol' leaders for corruption, links with mafia, apathy in negotiations with Chişinău, others still, realized they could carelessly lose overnight the entire wooden construction and, without an immediate help, RM can destroy itself.

Moscow replied with large airborne gas a result of merger of Patriotic Party of Transnistria and Transnistrian Republican Party. Many had qualified this action as the one which was going to balance the speaker Şevciuc ascension, leader of Obnovlenie Party – the only Tiraspol official exempted from circulation ban updated in February 2009 by EU and USA. Another hypothesis could be that Moscow would wish to see a dynastic continuity, ensuring Smirnov the senior of honorable withdrawal and bringing Smirnov the junior to power, as a promoter of military-industrial and political interests in the region. The first

initiatives of the new formation led by O.Smirnov are symptomatic. They criticize the liberalization of the regional economy launched by Obnovlenie, and propose to introduce a new tax for monopolist corporations and their overly large incomes, targeting namely the Sheriff Company, and economical and political factor, which till recently was ensuring the cohesion and power of the Obnovlenie Party.

Later on, in February 2009, Tiraspol Administration officially declares that it does not intend to negotiate the Chişinău proposals (plan) and that Kosovo model is going to be applied in Transnistria's case. We mention here that this bellicose tonality of Tiraspol Administration arose within a week after another grant of 40 mln USD was authorized by Moscow, which is to cover separatist regime current needs. Moscow pretend to forget Smirnov's merit in stealing the money allocated to settle humanitarian catastrophe in Transnistria (2006-2007)², and attributed to the Russian Foreign Minister visit to Chisinau a conspiracies connotation³.

Scared of the regularity and extent of some protests in the region, Smirnov has asked several times for help in 2008. Received money in 2009 will be allocated for pensions increase (around 15 USD), but this increase will be paid to those inhabitants that hold Russian citizenship. Hence, Russian help could be associated with the loyalty purchase of the locals, who will apply for Russian citizenship in order to get material stimulus. Stepping with one foot in the parliamentary campaign of 2009, Vladimir Voronin is still looking for the long waited message from Moscow, which could get him access to a pool of 300.000 voters, having possibilities to reshape RM' political scene using his immense political and administrative power he enjoyed till now. It remains unclear whereas Moscow would wish to accept V.Voronin tutelary administration, which it considers as outdated and unpredictable. Moreover, President Voronin personal resentments towards I.Smirnov administration affects Moscow's rational calculations while netting its influence net in RM. Until August 2008, Russian policy was called as tacit annexation, having necessary implants of a lack of progress, preserved sine qua non of peacekeeping troops and a negotiations format of 2 out 7 involved participants. These formats have legitimized military formations of MTR, massive privatizations, arms exports and internal trajectory of the internally affected by secessionism state, RM. New course of Medvedev (and Putin) Administration re-draw the markings of a new Russian policy, more offensive one, more brutal one, mainly in the CIS space, launching through the war in Georgia some actions that are being felt by RM as well.

The CIS Summit was succeeded by the ICE chairmanship handover from RM to Romania, an event that could pass unnoticed by the large public if a new crisis in Moldovan-Romanian relations wouldn't emerge. Chronologically taken, all bites of Moldovan diplomacy made public could serve an example of maladroitness for young diplomats, however, a

² Russia subsidies again Transnistria with 40 mln USD, 11.02.2009, www.transnistria.md

³ Lavrov will travel to Chisinau to restore relationship between Voronin and Smirnov, www.unimedia.md, 19 February 2009

better understanding of these tensions could be obtained through the filter of domestic politics, obviously dictated by elections. Thus, in a statement made on 21 November, Ministry of Foreign Affairs and European Integration (MFAEI) qualifies parliamentary elections in Romania, in which Moldovan citizens took part, as an intervention into internal affairs of RM. The same day Romanian Foreign Ministry replied, that electoral campaign in RM respects the local legislation and European practices. On 26 November, MFAEI comes back with a reply, which points out to the danger, caused by the participation of RM' citizens - holders of a dual citizenship - in elections held in Romania. Romanian Embassy in Chisinau receives a Note, in which the Ambassador is warned to refrain from any statements which could lead to unpleasant actions. The visit of Romanian Prime-minister Tăriceanu is postponed at the last moment, and ICE chairmanship handover at conference in Chisinau is in danger as a result of harsh accusations stipulated in the MFAEI Note. On 24 November, 2008, President Voronin postpones his official visit to Kazakhstan, implying an internal emergency situation, alarming state security forces on the eve of the 90th anniversary of principalities unification. The crisis in Romanian-Moldovan relations evolves on many dimensions and considerably reduces possible positive effects of cooperation between RM, as a nation aspiring to EU membership, and Romania, as full-rights member of EU.

Chisinau officials had swallowed dry, when found forced to acknowledge (at the last Government sessions in December 2008) the refusal of European Commission to set off negotiations of a new political document before the general elections. Still, the dialogue between RM and EU was pretty reserved, especially if assessed through repeated warnings addressed by EU to Chisinau officials regarding the freedom of speech, the justice controlled by power and intimidating abuses against opposition parties. In 2008, ambassadors of EU states accredited to RM signed 2 successive declarations regarding conditions needed to a state of law and pluralist democracy in RM in order to improve its status. Ambassadors' critics were targeting mainly Parliaments amendments operated in the Electoral Code, increased electoral threshold, interdiction of electoral blocks and that of assigning people with dual citizenship in public positions. Ambassadors' declarations produced only a visible irritation of authorities, which pretended that presented facts were lacking veracity. In addition, presented to the public Note was blamed and chaffed. At the official level, Moldovan diplomats rushed to re-orient received critics towards non-loyal elements, who are not loaded with responsibilities for social society, or towards opposition, whose status is to criticize, etc. Neither the European integration agenda progressed in a satisfactory manner, swinging between rhetoric appeals and formal actions, which didn't contribute to the increase of effectiveness and professionalism of institutions responsible European integration. For sure, explanations of this situation can be found not only in the failures of MFAEI, but in the weaknesses of RM political system. Awaiting adequate reactions from authorities, EU launched discussions on the content of the future Moldovan-community juridical framework, agreed on

cooperation Platform of mobility partnership between EU-RM and on twinning Project for RM Parliament RM.

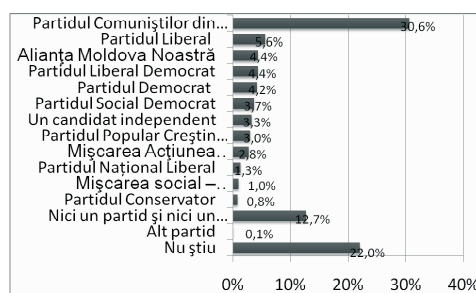
Neurasthenics of political crisis. In 2008 RM went through a visible functionality crisis, and this phenomenon was expressed in different ways. Western partners labeled RM as being poorly governed and vulnerable to external shocks. In a recent poll on wellbeing held in 2008, Republic of Moldova holds 83rd position, near Honduras, way lower than Ukraine – place 68, Belarus – 78 and even Uzbekistan – on place 80, wellbeing being the constant indicator of all programs run by the government appointed by RMCP, apparently without any impact. European partners were able to identify grave shortfalls within the RM parliamentary regime, the justice control by a single party, and dubious simulation of EU integration concerns, without assuming any firm and courageous obligations needed for changes in the essence. Main critics were mostly addressed to the applicability of adopted legislation, corruption reduction and preventing the state from intervention in autochthon business. RMCP was trying to imitate a strategy to speak in the name of the population, merging with the state and placing itself in the position of the only RM European integrator, as the only Transnistrian re-integrator, as the only engine of economic growth, etc.

The toll-set of this ideology included suspension of any public debates on official media and TV stations, hunt-down of opposition leaders, through fabricated on request files by a Prosecutor' Office docile to RMCP interests, and abusive use of administrative resources in order to install an obligatory tutelary regime, the vertical of power. RMCP ideology affected the religious life, seeking electoral support from Moldovan Church, thus making a weird alliance of orthodoxy and Marxist-Leninism. Voluntarism of RMCP leaders encouraged corruption, administrative abuses and flagrant violation of state power separation. RMCP launched a true crusade against Romanian influence in schools and public life, transforming the history as a school subject into a tool of ideological seduction and political revenge.

Ideological and political eclectics of RMCP were possible and due to low level of cohesiveness within opposition, weakened by internal battles and lacking credible leaders at internal level. RMCP propagandists managed to install a true oligopoly of power of a single person over the entire political system in RM, which they do not seem willing to give up easily and not even capable to reform it. The crisis is manifested by an atrophy of the Executive responsibility mechanism in front of legislative, a visible constraint of legislative authority by the exaggerated role of the Presidency over other state institutions. Situation when every policy or decision of the executive is authorized by Presidential advisers creates a vacuum of power by the end of second mandate of President Voronin, and re-writing all formal and informal regulations according to which the current political system is functioning, take time. In November and December 2008 in RM rained with opinion polls.

Figure 3. What political party would you vote for if parliamentary elections were next Sunday?⁴

In spite of their diversity, most of these polls (Barometrul IPP, Monitorul IDIS, Sondajul IMAS, Voice of the People CBC Axa, IRI-Gallup) registered a certain freeze of RMCP rating at a relaxingly high scores for leaders of this party. Some of them even went on dreaming to recover constitutional majority which they had in 2001. There is a visible wave of protest and social dissatisfaction by the style and results of RMCP governance within last years, which a slowed down by multitude of opposition parties, lack of adequate public information space that would provide objective information and public debates, as well as exaggerated ambition of some political parties which will not be able to overcome alone the electoral threshold of 6%. Many of such small parties were named in Latin America Toyota-parties, after T. Carothers who described these parties as having as many members as could feet into a single Toyota.



Fragmentation of opposition parties could be encroached only by the lack of belief on behalf of the population in the idea of a party, while political socialization is set back by the RMCP monopoly over the media space. Over 43% of respondents would wish that opposition parties make an alliance in elections, and complain about the difficulties they face while trying to understand the doctrinal differences between these changing and pluralistic entities. In such conditions, elections represent an element of self-legitimizing using enough resources for manipulation and discouragement, making, thus, the contesters unable to win the power held by the ruling party. Still, the approaching elections will be held against a background of legitimacy crisis of the RM' political system. Political context of these elections is mined by multiple deficiencies and constraints. A joint Declaration made by EU member states on November 2008 assessed the situation in RM as being critical on the eve of elections, expressing concerns in respect to criminal investigations against politicians from opposition, restricted access to public mass-media, lack of independence for editorial and public audio-visual means, and lack of political pluralism, which encourage opposition to go in the streets without being listened to by the public authorities.

Authorities' reply to this alarming signal was totally inadequate one, stating that that the very Declaration was a subjective in nature (Minister of Justice) and that the most objective information can be obtained only from central authorities. Still, amendments operated in Electoral Code in 2008 are assessed as being serious impediments on path of recognizing 2009 elections as democratic and correct ones. European Court for Human Rights (ECHR) Decision from 18 November 2008 qualified the interdiction to elect to public postures person holding multiple citizenships as a grave deprivation of human rights, while a technical report of Venetian Commission strongly recommends to Chisinau authorities to

4 Opinion poll, november-december 2008, IDIS/CBS Axa

review the electoral threshold (6%) and the interdiction to form electoral alliances. Once again authorities' reaction was far from being cooperative one. Parliamentarian officials, together with the head of state, basically confirmed their unwillingness to conform to these requirements, invoking an explanation that electoral regulations can not be altered within 6 month before elections (Recommendation of the European Council) and that similar interdictions to those stipulated in the Law on public service in RM exist in other European countries. Both arguments are inoperative, and that is because constitutional provisions and European conventions on civic and political rights prevail over specific normative regulations, where unwillingness to apply final ECHR' confirm the RM' alignment to a vicious practice of political interpretation of European jurisdiction, following the example of Russian Federation. In both case it is RM's external reputation that will ultimately suffer, while arguments used by Chisinau in regards to EU will weaken. Not surprisingly at all, that EU suspended negotiations on new political document EU/RM in December 2008, which confirms our previously stated concerns that these negotiations will not be re-taken till after elections, when a new RM Government will be formed.

AGRICULTURE

The year 2008 culminated for farmers with relatively high rates of global production for the Republic of Moldova and with obvious falls in dark in animal sector production. In 2008 agricultural products in all agricultural households of different category valued in current prices, according to preliminary estimations, about 16,4 billion lei, thus registering an increase of 31,9% against 2007 and 1,4% against 2006. This data shows that farmers recover only positions lost in 2007, whereas the increase comparing to 2006 was insignificant.

In 2008, for the first time in the history of the Republic of Moldova, external trade with agricultural products has registered a deficit in commercial balance. This year, exports of agricultural products registered 595,3 million USD, where imports – 631,3 millions USD. This failure in commercial realm emerged against the background of collapsed prices on internal market for main agricultural products – cereals, oleaginous plants, fruits and grapes. Measures undertaken by authorities in order to remediate the situation on internal market of agricultural products can be assessed as being awkward and in some cases not understandable.

Failures of the last year are the registered emphasized decline in animal sector, poorly conducted autumn's agricultural campaign, stagnation of agriculture subvention system reform, non-use of the majority of tariff contingents received through PCA, shortfalls in the implementation of agricultural policies, poor promotion of Moldovan agricultural companies on external markets, return to suspicious policies of exempting large producers in agriculture from penalties.

In our opinion, main risks for agriculture in 2009 will be the decrease in global production of vegetal sector, continuous stagnation in animal sector, the increase of prices for agricultural inputs, even less flexible funding of agriculture, the slowdown of agricultural products exports, and promotion by the central government of populist policies in agriculture.

Global agricultural production in 2008 valued 16,4 billions lei

Increase in agricultural production by 31,9% comparing to 2007 and only by 1,4% comparing to 2006

In 2008 RM for the first time had a deficit in its commercial balance in the trade with agricultural product

Failures of 2008

Risks for agriculture in 2009

Vegetal sector

Table 1. Global vegetal products, thousands tones.

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

Source: Republic of Moldova National Statistics Bureau.

2008, the biggest harvest of wheat for the last decade

In 2008, in vegetal sector, the biggest contribution to the increase of global agricultural production was made by cereals and vegetable beans 23,4%), vegetables (3,3%) sun flower (5,3%).

Only 1,7% of corn products were exported in 2008

The wheat harvest collected this year (1286,0 thousands tones) was the biggest fro the last decade. In spite of this fact agricultural producers did not use the immediate export opportunities existed on regional markets. Hence, it was exported only 64,4 thousands tones of wheat in amount of 10,7 millions USD.

The cereals and oily vegetables market is hibernating

Corn beans production 1471,0 thousand tones) was higher than that of 2006-2007, but lower than in 2004 (1794,5 thousands tones) and 2005 (1492,0 thousands tones). In 2008, it was exported 25,3 thousands tones of corn in amount of 7,4 millions USD, which made only 1,7% of total corn beans harvest of the country.

High production capacity of sugar beet and special protection measures of sugar market

A negative impact on cereals' exports as well as on prices established on internal market was generated by the inability of authorities to remediate the situation on the cereals' market. Weak and inconsistent intervention measures undertaken by authorities did not stop the fall of prices on main cereal products.

Sugar beet production in 2008 was 919,0 thousands tones. It should be mentioned here that dimensions of sugar beet plantations have been drastically downsized in 1996-2008 in an alarmingly descending manner. Whereas in 1996 sugar beet plantations were making altogether 77,0 thousands hectares, in 2008 their surface was 22,9 thousands ha. Downsizing of sugar beet plantations was partially compensated by increased production capacity in this branch.

● MEASURES OF SUGAR MARKET PROTECTION IN RM.

Sugar production branch in the Republic of Moldova is enjoying an unprecedented strong support of state authorities. By the end of the year amendments were operated in the Law on customs tariff. Thus, following customs tariff is applied to:

1. for goods classified in tariff positions as 1701¹: within the limits of 6500 tones share, out of which 5500 tones originating from EU - 10% and over the share limit - 75%.
2. for goods classified in tariff positions as 1702²: within the limits of 1840 tones, out of which 640 tones originating from EU - 10% and over the share limit - 75%.

At the end of 2007, by Law nr. 289-XVI dated 20.12.2007 an exceptional customs tariff was established for a period of 4 years as a safeguarding measure³ for goods classified in tariff positions "1701

1 Sugar produced from beet and cane-sugar and pure saccharine from chemical stand point, in solid state.

2 Other sugars, including lactose, maltose, glucose and fructose (laevulose), pure from chemical stand point in solid state; sugar syrups without any added colorants and other substances; artificial honey, mixed or not mixed with natural honey; sugars and caramelized molasses.

3 Official Monitor nr.203-206/802 from 28.12.2007.

Sugar produced from beet and cane-sugar and pure saccharine from chemical stand point, in solid state", "1702 90 790 ---- other", "1702 90 990 -- other" and "2106 90 590 ---- other", classified in Goods Directory of the Republic of Moldova, approved by the Governmental Decision nr.54 from 26 January 2004, having following values:

- 39%, but not less than 115 euro per tone, from 16 February till 31 December 2008;

- 38%, but not less than 110 euro per tone, from 1 January till 31 December 2009;

- 37%, but not less than 105 euro per tone, from 1 January till 31 December 2010;

- 36%, but not less than 100 euro per tone, from 1 January 2011 till 15 February 2012, except tariff position 1701, for which the safeguarding measure will expire on 31 July 2011. Established tax is applied in addition to the existing customs tax, regardless the country of goods' origin, is being calculated and collected at the customs post based on goods value in accordance with existing legislation, and is included in the goods' taxed value.

Similar situation is mentioned for other technical plants. Tobacco plantations have been reduced throughout the last 8 years. Whereas in 2000 tobacco plantations encompassed 23,5 thousands ha, in 2008 there were only 2,8 thousands ha. Decline in this branch affected the operation of processing units and, in addition, contributed to the increase of raw material imports.

Tobacco plantations have been reduced for the last 8 years

In 2008, sun flower seeds production registered 371,0 thousands tones, which meant an increase of 2,5 time comparing to 2007 and a lower level comparing to registered records in 2003 and 2006. Out of total sun flower seeds production, 52,9 thousands tones had been exported amounting 21,9 millions USD, which meant a reduction of exports with 9,8 millions USD comparing to 2007.

Lower exports of sun flower seeds

Likewise, total production of vegetables (376,0 thousands tones) and potatoes (270 thousands tones) was higher than the one registered in 2007, but lower than harvests collected in 2001-2002 and 2004-2005 and, respectively, to the potatoes harvests of 2000-2006.

2008: 1 kg of wheat=1 kg of grapes

Fruits harvest numbered 367,0 thousands tones, being higher than in 2006-2007, but lower than in 2003-2005, when was varying between 617,2 thousands tones and 430,4 thousands tones. In the meanwhile, the grapes production that registered in 2008 - 635 thousands tones, is higher than the one registered in 2001, 2005-2007 and lower than the one obtained in 2000,

Humiliating payment conditions for grapes producers.

2002-2004. It is necessary to mention here that acquisition prices for grapes in 2008 were ridiculous - 2,0-2,5 lei/kg for white species, 2,0-3,5 lei/kg for red species and 1,0-1,5 lei/kg for species like "Isabela". Payment conditions for acquired grapes were opposite of acquisition prices, favoring processing enterprises and humiliating grapes producers. Namely, money for purchased grapes were being paid in 2 waves, 50% right after harvest and the rest by the end of the year, or in 3 waves, paying one third at the harvest, second third by the end of the year, and the last third in the first trimester of the next year.

Animal production follows the example of animals' number, i.e. is falling in the dark

Animal sector

Numerical reduction of animals – process unfolding throughout several years now in jumping pace, has strongly affected the animal production in 2008. Last year animal production registered a decrease of 19,6% comparing to 2007. Meat production was reduced by 24,9%, eggs production - by 23,3%, and milk production - by 9,5%.

Table 2. Global animal production.

	2003	2004	2005	2006	2007	2008
Meat (live mass, thousands tones).	118,0	119,0	121,0	135,0	142,0	108,0
Milk, thousands tones.	593,0	628,0	659,0	628,0	604,0	542,0
Eggs, thousands peaces.	620,0	668,0	762,0	766,0	704,0	541,0

Source: Republic of Moldova National Statistics Bureau.

Late measures to restore animals' numbers

Whereas in previous years sacrificing in mass of animal and birds has hidden the gravity of ongoing processes in animal sector by bringing forward some plausible data which showed a remarkable increase at the expenses of qualitative and quantitative losses in animal husbandry, in 2008 the central Government was concerned with prices reduction for animal products by encouraging imports, building farms and slaughter-houses. At beginning of 2009, with a big delay, Ministry of Agriculture and Food Industry (MAFI), issued a normative document stipulating the import of live animal to restore animal numbers. MAFI is justified by the fact that "droughts of 2007 led to a substantial reduction of animals' numbers, whose restoration to the necessary level requires time (at least half a year), and there are cereals stocks accumulated in the country of autochthon origin which could be used to feed animals"⁴. According to this order, „it is temporarily accepted”, until 1 July 2009, imports species of young swine and calf for further growth, aging up to 60 days and weighting up to 20 kg for swine”.

Agricultural policies

In 2008 one law and 16 sanitary veterinarian norms approved and two institutions created

In 2008, the Official Monitor published the Law on plants' species protection and 16 veterinarian sanitary norms, endorsed by the Government' decisions. In the meantime, there were created the Sanitary -Veterinarian and Safety of Animal Products Agency and the General Inspectorate Phytosanitary and Supervision. At the beginning of 2009 it could be mentioned some debts in the implementation of the National Strategy of long-term development of the Re-

⁴ MAFI Order nr. 25 from 02 February 2009.

public of Moldova agro-industrial complex 2008-2015). We will go through some of them:

- Draft of Law on agricultural terrains consolidation.
- Draft of law on terrains with low production.
- Draft of law on agricultural cadastre.
- Draft of law on creation of risk fund, designed to finance innovative projects.
- Draft of law on plants protection and phytosanitary quarantine.
- Drafting Regulation on agricultural cadastre implementation procedures.
- Drafting Regulation on mechanism of technologic transfer and commercialization of innovative-researching activity results in agro-food sector.
- Creation within the MAFI of a structure, responsible for continuous monitoring and research of internal and external markets and forecasting demands on respective markets.
- Creation of a state enterprise entrusted with monitoring functions of the consolidation process, informational services for land owners, economic agents, review and release expertise on consolidation projects, developed by private structures, other enterprises, schooling participants to the consolidation process.
- Monitoring exports/imports of agricultural and food products from/to the Republic of Moldova and drafting proposals on tariff policies for imported goods, depending on the situation and immediate priorities in agricultural sector and food industry.
- Marketing infrastructure development in agricultural sector :
 - Creation of regional en-gross markets;
 - Creation of Information and Agricultural Food Marketing Center;
 - Implementation of the MAFI 2008 Action Plan on the market information system development (action CSRS).

Debts on the implementation of National Strategy of long-term development of the Republic of Moldova' agro-industrial complex (2008-2015)

FOREIGN TRADE

Increase by 29,1% of RM' foreign trade

In 2008 the deficit of trade balance overcame the physiological threshold of 3,3 billions USD

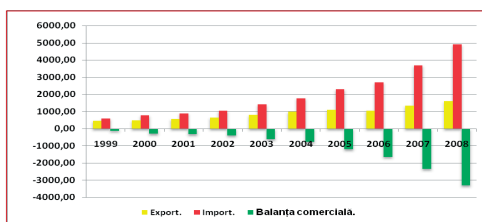
Moldova's international trade in 2008 increased by 29,1% comparing to 2007, amounting 6496,2 millions USD¹. Exports increased by 19%, and imports by 32,8%. Disproportions in the increase of exports and imports of the Republic of Moldova have caused the accumulation of a negative commercial balance 2008 in amount of 3,3 billion USD. In 2009 we anticipate as the most optimistic option a decrease of the growth rate of exports and imports up to 10% and 20% respectively, comparing with 2008. This year RM's foreign trade will be negatively influenced by a number of several clearly emerged risks: reduction in offers for exports and crediting of foreign trade, decrease of consumption in RM, over-appreciation of Moldovan leu and depreciation of currencies of RM's main commercial partners, mutual non-payments for delivered goods and more frequent use in external trade of non-tariff barriers as tools for internal markets protection.

Exports

Sudden drop of exports at the end of 2008

Exports in 2008 amounted 1597,3 millions USD, having increased by 19,0%, comparing to 2007. This increase owes to a large extent to the intensification of commercial transactions in July-October. In the last two months of 2008 exports suddenly dropped below the registered in 2007 level.

Figure 4. Foreign trade of the R. Moldova, thousands USD.



Source: Republic of Moldova National Statistics Bureau.

The bulk of total exports was formed by traditional three groups of exported goods: textile and other goods made out of textiles – 19,7% (20,6% in 2007 and 21,7% in 2006), food products, beverages and tobacco - 19,6% (20,6% in 2007 and 26,3% in 2006) and vegetal products – 13,2% (12,2% in 2007 and 13,0% in 2006). Shares of exported textiles, food products, beverages and tobacco, in the total amount of exports are declining throughout last three years. More than ever exports of food products, beverages and tobacco were, for the first time, lower than imports of similar goods in 2008.

Exports of machinery and devices is in constant ascent.

In the total amount of exported goods a separate place is reserved for goods falling under the category “Machinery and devices; electrical devices, registration and image and sound reproduction devices”, which is the only group of goods in a continuous ascent. The share of these goods in the total amount of exports was 10,7% in 2008 (6,8% in 2007 and 5,1% in 2006). Shares of other groups of goods in the total amount of exports are presented as follows:

¹ In 2008, Moldova's overall foreign trade amounted 5031,5 millions USD, having increased by 34,4% comparing to 2007.

- Mineral products – 4,0% (4,3% in 2007 and 2,6% in 2006).
- Fat and animal or vegetal oils – 3,9% (4,1% in 2007 and 3,3% in 2006).
- Articles made of stones, gypts, cement, ceramics, glass and similar materials – 3,3% (3,8% in 2007 and 3,1% in 2006).
- Footwear, hats, umbrellas and articles made out of these materials – 3,0% (2,9% in 2007 and 3,0% in 2006).

● IN 2008, FOR THE FIRST TIME IN THE FOREIGN TRADE IMPORTS OF FOOD PRODUCTS, ALCOHOLIC BEVERAGES AND TOBACCO (SECTION IV) PREVAILED OVER EXPORTS.

Exports of goods from this group registered 312,2 millions USD, which meant an increase of only 13,1% comparing to 2007, while imports increased by 44,4%, registering 343,4 millions USD. Main products exported from this category in 2008 were: wines – 119,3 millions liters amounting 153,5 millions USD (with 45,8 millions USD more than in 2007), strong alcoholic beverages – 4,5 millions liters amounting 43,4 millions USD (with 14,2 millions USD more than in 2007), white sugar – 15,3 thousands tones amounting 11,9 millions USD (with 8,6 millions USD more than in 2007), canned fruits and vegetables – 47,6 thousands tones amounting 41,8 millions USD (with 3,1 millions USD more than in 2007), brut tobacco – 3,3 thousands tones amounting 7,4 millions USD (with 0,6 millions USD more than in 2007), cigarettes – 329,3 millions peaces amounting 11,4 millions USD (with 4,3 millions USD more than in 2007), fruit juices – 16 thousands

tones amounting 17,2 millions USD (with 34,0 millions USD less than in 2007).

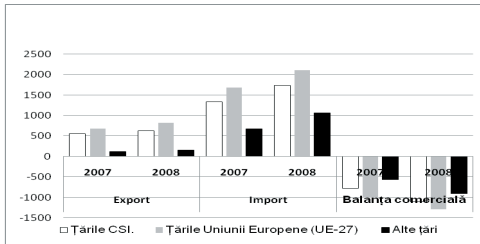
Main imported goods from the mentioned category were: cigarettes – 4,1 millions peaces amounting 68,9 millions USD (with 10,1 millions USD more than in 2007), sugar products – 29,9 thousands tones amounting 16 millions USD (with 10,2 millions USD more than in 2007), strong alcoholic beverages – 3,3 millions liters amounting 15,3 millions (with 4,4 millions USD more than in 2007), canned fruits and vegetables – 15,4 thousands tones amounting 24,2 millions USD (with 9,0 millions USD more than in 2007), fruit juices – 7,4 thousands tones amounting 7,3 millions USD (with 9,0 millions USD more than in 2007).

Exports of food products, beverages and tobacco are overtaken by imports.

R. Moldova in 2008 were mainly oriented towards EU making 51,4% (820,1 millions USD), having registered a slight increase of 20,7% comparing to 2007. CIS states were received 39,3% of Moldova's exports (in 2007 – 41,0%), which amounted 627,9 mil. USD. Exports to these countries increased by 14,1%, comparing to 2007². Main recipients of goods within CIS were: Russian Federation - 318,4 millions USD (with a share in the total amount of RM' exports of 19,9% and an increase comparing to 2007 with 36,9%), Ukraine - 142,8 (with a share in the total amount of RM' exports of 9,0% and a decrease of 14,9% comparing to 2007), and Belarus - 92,8 (with a share in the total amount of RM' exports of 5,8 % and an increase of 13,2% comparing to 2007).

² National Statistics Bureau (NSB).

Figure 5. Evolution of R. Moldova foreign trade by groups of countries in 2007 - 2008, mil. USD.



Source: Republic of Moldova National Statistics Bureau

Share of Moldovan exports to EU in the total amount of RM' exports was 51,4% (50,6% in 2007). Main recipients of RM' exported goods with EU were: România - 335,8 millions USD (with a share in the total amount of RM' exports of 21,0% and an increase of 59% comparing to 2007), Italy - 167,1 millions USD (with a share in the total amount of RM' exports of 10,5% and an increase of 19,2% comparing to 2007), Germany - 63,8 millions USD (with a share in the total amount of RM' exports of 4,0% and a decrease by 26,0% comparing to 2007), Poland - 56,1 millions USD (with a share in the total amount of RM' exports of 3,5% and an increase of 16,1,0% comparing to 2007), and United Kingdom of Great Britain and Northern Ireland - 52,3 millions USD (with a share in the total amount of RM' exports of 3,3% and an increase of 53,2% comparing to 2007).

Unexploited trading advantages

In 2008 Republic of Moldova did not exploit to the full extent advantages it has in foreign trade with European Union. Larger access of Moldovan exports on community market according to ATP (Autonomous Trade Preferences) modestly facilitated the access of Moldovan products on EU market. Out of all community tariff contingents established for Republic of Moldova, exempted from customs taxes when imported to EU, to the fullest extent were used those established for wine made from fresh grapes, with alcoholic title, in an existent volume of maximum 15% (Code NC 2204 21 and 2204 29) - 60000 hectoliters and for the white sugar (Code NC 1701.99.10) - 15000 tones. For 2008, for the follow up products were also established tariff contingents:

- Fresh animal meat, species of pork, beef, lamb, refrigerated or congealed (Code NC - 0201 to 0204) – 3000 tones.
- Poultry meat and comestible organs, fresh, refrigerated or congealed, position 0105, other than fat liver from sub-point 0207.34 (Code NC - ex 0207) – 400 tones.
- Pork and beef meat and comestible organs, salty or in a salty liquid, dry or smoked; comestible powder, meat or comestible internal organs from pork or beef (Code NC - ex 0210) – 400 tones.
- Mild products (Code NC - 0401 to 0406) – 1000 tones.
- Birds eggs with shell (Code NC - 0407.00) – 40 millions peaces.
- Birds eggs without skin, and eggs yolks other than those unsuitable for consumption (Code NC - ex 0408) – 200 tones.
- Wheat (Code NC - 1001.90.91) – 25 000 tones.
- Barley (Code NC - 1003.00.90) – 20 000 tones.
- Corn (Code NC - 1005.90) – 15 000 tones.
- Salami and meat sausages, made from organs or blood; other food products and canned meat, from organs or blood:- from birds of the specie Gallus domesticus not boiled; - from domestic animals of swine. – from domestic animals of calf, not boiled (Code NC - 1601 00 91 and 1601 00 99, ex 1602) – 500 tones.

Table 3. Moldova's main trade partners in exports, 2008.

	mil. USD	in % comparing to 2007
România	335,8	159,0
Russia	318,4	136,8
Italy	167,1	119,2
Ukraine	142,8	85,1
Belarus	92,8	113,2
Germany	63,8	74,0
Poland	56,1	116,1
United Kingdom of Great Britain and Northern Ireland	52,3	153,2
Kazakhstan	44,5	97,7
Switzerland	39,7	175,8

Source: Republic of Moldova National Statistics Bureau.

Imports

Imports in 2008 amounted 4898,9 millions USD, having increased by 32,8% comparing with 2007. In 2008, imports progressed till November, after having suddenly dropped following the exports' example. In the last two months of 2008 goods imports (123,7 millions USD in November and 120,4 millions USD in December) were lower comparing to the same time period of 2007.

**Imports below
the 5 billions USD
threshold**

In the overall amount of imported goods the biggest shares traditionally had follow on products:

- Mineral products – 23,0% (21,4% in 2007 and 24,6% in 2006).
- Machinery and devices; electrical devices; image and sound recording and reproduction devices - 15,6% (14,8% in 2007 and 14,1% in 2006).
- Chemical products - 8,5% (8,6% in 2007 and 8,3% in 2006).
- Transportation means and materials - 8,0% (7,8% in 2007 and 6,0% in 2006).
- Metals and articles made of them 7,6% (9,1% in 2007 and 8,1% in 2006).
- Food products; alcoholic and non-alcoholic beverages; tobacco - 7,0% (6,4% in 2007 and 6,7% in 2006).
- Textile materials and articles made of textiles – 5,8% (6,8% in 2007 and 7,7% in 2006).
- Plastic materials, rubber and articles made of them - 5,7% (6,1% in 2007 and 6,3% in 2006).
- Vegetal products – 3,4% (4,1% in 2007 and 2,7% in 2006).

European Union imports (EU-27) amounted 2105,4 mil. USD (with 25,2% more than in 2007), making 43,0% of total amount of imports (45,6% in 2007). Imports coming from CIS countries amounted 1737,2 mil. USD (with 30,3% more than in 2007), which equals with 35,5% of the total amount of imports (36,1% in 2007)³.

³ NSB.

Table 4. Moldova's main trading partners in imports, 2008.

	Millions USD	in % comparing to 2007.
Ukraine	839,0	122,1
Russia	666,1	133,6
România	590,8	131,6
Germany	364,5	114,2
China	325,5	160,4
Italy	306,2	113,7
Turkey	231,9	139,1
Belarus	199,1	167,7
Poland	121,3	136,2
France	103,4	109,0

Source: National Statistics Bureau of the Republic of Moldova

BUSINESS

The results of 2008 proved that the majority of our predictions at the beginning of this year concerning the factors that affected the evolution of economical phenomena: new tendencies in construction commerce and service sectors. We have identified some of the important factors that have influenced industrial production correctly, such as a rather statistical than a real growth and positive effects the agricultural sector has had upon industrial production. At the same time, all along the year we have been forced to revise our relatively positive prognosis from the beginning of the year due to unpredictable factors:

- a) Aggressive NBM policy concerning the diminution of currency mass that was motivated by the will to fight inflation. This has brought either business or social credits to zero for some months.
- b) The world economical crisis that has not only affected Moldova's main partners' rate of exchange, but the market consumption volume as well.

In 2009 the importance of financial factors towards the real sector of economy will grow even more, once Moldovan leu has gained strength in comparison to other currencies. For example, the Ukrainian hryvna has lost 40% value towards leu and this affects either our export perspectives to this country, or the attractiveness of autochthonous production negatively. The national currency has had a similar evolution in comparison to other partner currencies as well.

The world economical crisis of a great unpredictable depth and life-length will lead to the decrease of consumption for the main goods which will tension the competition.

Thus the Government's economical prognosis of a 7% economical growth under the conditions of an 8% inflation are irrelevant and have to be revised. The steady inflation level which is lower than in the other countries of the region, means that the NBM will continue the "strong and stable leu" policy because this is the main tool of inflation decrease under the conditions of national economy where consumption is covered by import in a 70% proportion. This "macro economical stability" and the rush for a prestigious place among countries with a stable financial and bank system can ruin those real sector agents that have been heroically surviving until now.

As consequence of the competition advantage loss, national production and industry may register a 10% collapse and the most affected sectors would be those that are oriented towards export: clothes' and textile production, alcohol production as well as juice and canned food production. At the same time, meat and milk preserve will face a sever competition against imported goods. A light service sector decrease along with a great real income diminution (15%) will take place. Retail commerce will develop similar to

In 2008 the situation of the real sector of economy was worsened by the mass currency sterilization policy that brought to an exceeding credit mark-up...

The NBM's intention to continue the "strong and stable leu" policy will ruin the real sector

remittances but will decrease in smaller proportions: about 5 % mostly due to consumption latency. As a result of currency sterilization policies promoted by NBM in 2008, that led to a credit resource deficit investments, that are usually sponsored by credit resources in a 70% proportion will stagnate after impressing 2004-2007 growth. Thus equipment investments will only be possible for a small number of economical agents, mostly from the service sector or infrastructural monopolies (Moldovagaz, Union Fenosa, Termocom etc). There is a probability that the previous year's excessive privatization, new company owners assume the responsibility regarding investment programs. As a result we predict a 10% investment decrease, and a 30% one for equipment. The field of construction will also stagnate as we have predicted earlier. Although in 2007 it grew due to residential buildings in Chisinau and in 2007-2008 due to commercial and official buildings, construction will lose 20% in 2009.

In 2008 we have only reached 91,2% of the 2005 level of production, and a 10% decline is awaited in 2009

Industry

2009 will be the forth year consecutively when autochthonous industry will be forced to face shocks: after the embargo Russia has established in 2006 next came the drought of 2007 which made food industry lack raw products and these were followed by 2008, when economical agents had to face the problem of economy credit resources' lack and high interest rates (grace to NBM currency sterilization policy). 2009 will be marked by a consumption decrease concerning main Moldovan export goods, under the conditions of the world economical crisis. Although we reached the end of 2008 having a minor 0,7% industrial growth, we haven't even reached the level of 2006, to say nothing of 2005 meanwhile the predictions for 2009 are even more pessimistic, under the condition that the autochthonous producers have already lost about 20-40% of competitiveness due to the fact that national currency has gained strength towards the currencies of our economical partners. So, our production has not only become uncompetitive on export markets, but is even more expensive than the goods imported to the country. Thus, under the newly created conditions, taking the hypothesis that NBM will insist upon the inflation restriction policy and will not allow leu weakness as a basis, we see the following tendencies in the main industrial branches:

The production of clothes: this export-oriented branch will suffer more than others grace to its peculiarity. For us this branch actually means exporting work force, because 90% of all companies in this sector get all the materials and accessories from the person who makes the order, thus the client becomes a deliverer as well. Moreover, the client also becomes an investor because the equipment of this sector is compact, has a long life-term and its cost is comparable to the cost of the previously ordered batch. So, all over the country there are work force export factories that work with the client's equipment. This peculiarity along with low demands concerning staff qualification makes this industry very mobile. The last wave of this industry's "migration" came from the poor regions of the Western Europe (especially the South of Italy) towards new EU member countries (Romania, Bulgaria); and after 2005 this migration moved East: to Mol-

dova, Ukraine, Belarus and Russia. Until 2008 due to the relatively low unqualified work force prices we managed to benefit from this wave, but once the leu gained strength and has automatically raised our work force cost in comparison to other countries, amplified by the decrease of demand for this kind of industry in Western Europe this sector may lose 50% in 2009.

Wine and distilled alcoholic drinks production: Although this years producers have mostly managed to avoid the effects of the credit deficit on the financial market replacing them by commercial credits, they will have problems concerning their production's sellout due to the already mentioned factors: the leu reinforcement and the diminution of demands for its production as well as the aggressive currency policy adopted by NBM. Thus, even if the product export in this sector will decrease only 15-20%, these companies will already have payment problems what means that when the access to credits will be limited and the costs raised, it can cause a lack of trust in the chain of values of this industry and affect the production possibilities negatively by the next grape refinement season. In the case of this pessimistic scenario, production may lose 20% in this sector, what will lead to the decrease of production in the adjacent industries.

A 15% production decrease is also registered in some industrial sectors that work rather for the national market: meet and milk refinement, that generate about 8% of all industrial production, that will have to face tough competitiveness from cheaper goods imported from Ukraine, due to the leu's reinforcement vice Ukrainian hrivna. This is also why fruit and vegetable preservation and juice production factories, that have a 4,6% ponder to industry and are oriented towards export will have problems concerning sellout because of their lack of competitiveness in comparison with similar products from other countries. Thus as a result of seasonable payment problems, the volume of production in this sector may decrease 10%.

The only major field we can register production growth in is the energy sector, that may grow due to the export of electricity from the "Moldoveneasca" CERS from the Trans-Dniestrian region to Romania. It is also likely that the energy that is generated by this central power station will replace the energy we used to import from Ukraine in the energy balance.

Retail commerce

Retail commerce will lose up to 5% along with a harsher decline of the population's income that will be affected by the diminution of the remittance volume. If 10-15% (40-60 thousands) of emigrants come back home, a slight increase (below 5%) in the food and first necessity products commerce is possible. At the same time, we predict that the informal import will worsen while those who will still have the possibility to keep their job abroad will send home industrial goods that were bought there (clothes, footwear, techniques etc), because these will be cheaper under the conditions of the leu's reinforcement either towards Euro or the Russian rouble. This tendency will be outlined by the de facto blockage of the main goods'

Retail commerce will be in a close connection with remittances outlining the weak economical growth of Moldova in the past years...

delivery channel of the type from Ukraine: Odessa port and "7th Kilometer" market. At the same time, automobile sales will decrease vividly. New ones will not be sold because of the diminution of buying capacity, and old cars will face the same situation as a result of the worsening of the import conditions.

Investments

There are no resources for economical investment activity growth.. Either investments or activity in the construction sector can only decline

In 2008 investments have rather grown due to foreign investors who have privatized the companies sold by the Government. Under the conditions of the economical and financial global crisis, these investments will lower dramatically. Thus, due to an almost zero investment potential of the local business that is a result of the decrease of its competitiveness and limited financial opportunities along with an expected budget deficit, we notice that we don't have resources for an economical investment growth. Thus, we forecast that economical investments will lower drastically – up to 20%, while its technological re-equipment will be delayed for an indefinite period.

The field of constructions, as a component of the investment activity, has already shown signs of stagnation and even decline of work intensity: as a consequence of the fast mark-up in 2003-2007 and a decrease of emigrants' interest toward this market, a residential construction stagnation started in 2008. It is likely that massive constructions will not be launched for the next 2 years. At the same time, under the conditions of the global financial and economical crisis as well as those of a consumption power decrease, all the active projects from the office and commercial building sphere will be brought to an end, while the construction of new ones will probably be delayed as well.

Services

Services will contribute to GDP's relative stability

This sector has the largest contribution to the GDP and grace to its peculiarity (the lack of import competition) it will be less affected by the leu's reinforcement. Moreover, this situation is even favorable for the service sector, this being the only one to be able to make serious investments. At the same time, the decrease of population's available income will not affect consumption even in these sectors. Thus, either telecommunication which is the engine of this sector, or other economical services will decrease 1-3% in 2009. In the case of a pessimistic scenario we may have an economical decline in this sector as well.

MONETARY MARKET

The Monetary Mass

The monetary mass reached its apogees of 32.4 billions lei in September, registering thus an increase of 16,4% comparing with the beginning of the year, after that it continuously was going down throughout October, November and December at the end being reduced by 1,77 billions lei or by 5,5%. It is an absolutely unusual situation for this period of time, since previous years (2006-2007) registered a continuous increase during this timeframe. While the evolution rate of monetary mass is a forerunner indicator of economic growth, the continuous decrease of monetary mass for two consecutive months indicate to the emerging premises for a slowdown of economical activity passing into an economical stagnation phase. These premises are bolstered by other macro economical indicators: decrease of industrial production registered in October and November, continuous reduction of remittances in the second half of 2008, opposite to the trend registered in the same period of 2007, as well as by some external factors: economic recessions acknowledged in largest world economies (USA and EU state) and crises in neighboring countries: Russia and Ukraine. Taking into account the openness of Moldova's economy, it could not remain unaffected by the regional and world economical recessions.

In this context it could be stated with certainty that throughout 2009 the monetary mass of Moldova will stagnate, especially if economical policy of the government will be approved too late and there will be no liquidities injections made similarly to economical policies widely accepted in countries that decided to counter and control economical recession.

Sterilization in mass of circulating liquidities had continued till September 2008 and registered a slight slowdown by the end of the year. The sterilization rate is expected to be maintained at the level which would allow freezing the exchange rates until the parliamentary elections and will "prove" the implementation (or closeness to full implementation) of the objective set by the ruling party to increase average salary in economy to 300 USD.

The level of sterilization was pretty high, reaching in December 2008 a daily rate of more than 1 billion lei, and sterilization costs reaching 210 million lei throughout 2008. Following similar policy in 2009 in conditions of a potential economic recession and, as a consequence, facing the risk of not fulfilling the budget, would raise questions, especially because justifications of these measures from economical stand point are not valid anymore, in situation when economy needs liquidity and the inflation rate fell below the level set as objective for 2008. Maintaining high rate of sterilization will have just a political connotation mentioned above for parliamentary elections of 2009. Thus, already in January 2009 1,4 billions lei had been sterilized.

Inflation versus currencies exchange rates

As it was proved by „IDIS Viitorul” study on inflation causality in the Republic of Moldova, monetary policy had a minimum effect on inflation, the later

***Gustarbeiters
protect Moldova
from world'
financial and
economical
crisis.
Remittances
finance currency
rate and
maintain the
wellbeing level***

being significantly reduced in the 4 months of the year by two major non-monetary factors:

- Sudden decrease of prices on a number of agricultural crops;
- Prices decrease on fuel, caused by world economic recession,

It worth mentioning here that world economic crisis leads inflation decrease at minimum rates worldwide, which means that fighting inflation with every mean in 2009 would be a mistake, especially since monetary tools in the Republic of Moldova are not able to make a feasible difference, as 2008 results showed. What could be done is to put on gustarbaiters' shoulders the burden of inflation through currency exchange rate.

As mentioned in the previous issue, there could be two possible scenarios of monetary policy:

„Scenario 1: Necessities of Lei liquidity in the economy are satisfied by MNB and are being moderately introduced on the currency market in order to avoid major disturbances. The exchange rate of Leu to USD (the only currency used by MNB to form official rate) is maintained in economical terms at "real" level. Inflation rate is established depending on the economy' capacity to provide quickly goods and services for the demand created by the influx of money: if the economy is able to satisfy quickly with goods and services when needed – inflation rate remains low, if the ability is limited – inflation raises very quick.

Taking into account that in promoting its policy MNB was forced to control inflation, there are no doubts that in the way the economy is structured it can not rapidly cover with goods and services the incoming flux of money to the country. In this case the non-intervention would have led to high inflation, assessed at 10-11% for the first 8 months of the year comparing to registered 6%. In case of this scenario inflation would have reached by the end of 2008 the level of 16-18%. What could have been the effects of this scenario?

1. *Lending rate would have stayed at an acceptable level for the economy.*
2. *The economy would have registered a progressive and a cornerstone for a long term viable economical development would have been built*
3. *Local producers would have been stimulated for lasting development. Competing ability of local producers on internal as well as on external markets would not have been damaged.*
4. *Harmful for the economy fluctuations of the Leu rate would not have existed. Lack of difference between real value and rectified rate through monetarist policies would not have created the potential of a sudden collapse of leu rate, still existing today.*
5. *Influx of speculative capital from abroad would have been discouraged.*
6. *Inflation would have been well endured by all social strata.*

It should be mentioned here that inflation reduction due to non-monetarist factors emerged throughout 4th quarter of 2008 make the first scenario to look more suitable to Moldova's economy, ensuring alongside a lower level of inflation (11-12%) comparing to the one initially indicated in scenario.

However the Government continued the monetary policy according to Scenario 2:

„Scenario 2: Government objective is targeting inflation and keeping it at a low level. MNB intervenes on monetary market and sterilizes monetary mass in lei. Sterilization made by MNB is directly proportional to percentage points of controlled by MNB inflation, which comes out of economy's inability to rapidly satisfy the growing needs of goods and services. Thus MNB transferred inflationist effect on the buying capacity of currency used in the country, in other words mainly on people working abroad and who transfer money home for their family members. In such conditions, whereas the state and those who worked at home faced an inflation of 6% during the last 8 months, those working abroad endured an inflation of 20,5% in the same timeframe. MNB didn't do anything but re-distributed the real inflation on a specific segment of the society.

Is the annual reduction of inflation 4-5% justified, taking into account the social cost of MNB interventions presented below:

- *Re-distribution of inflation on a single social strata considered the most vulnerable;*
- *Growth of credits' interest rate;*
- *Non-justifiable appreciation of lei reduction of competing capacity of exporters and local producers comparing to imported products;*
- *Leading economy to an economical stagnation*
- *Hitting the most vulnerable social strata through gusarbaiers' inflation.*

It is difficult to evaluate the results of such policies as a success and if it is worthy to get by the end of the year an inflation of lei of 12,3-13% instead of 16-18%”.

Forecasts of 2nd scenario can be seen implemented by the end of 2008, mentioned in the previous issue. Moreover, taking into account that monetary policy is changing slowly, these forecasts will tend to continue evolving in the first half of 2009 as well.

Exchange rate

Forecasts for the exchange rate of USD to lei of 10-10,3; and Euro to lei of 14,6-15,1 were pretty accurate by the end of 2008, registering a slightly higher value for US Dollar (10.4 MDL/USD) due to its appreciation on the world scale in respect to Euro, and Euro ended up in 2008 at the lowest limit within the forecasted limits (14,74 MDL/EUR). The lei rate is established based on currency demand and offer, however its real value is over-appreciated. If the currency excess will be reduced and it would be possible to balance between the currency demand and offer, the lei rate will have a tendency to go down to its real value in respect to strong currencies. There is a risk of a micro crisis in the second half of the year. If such premises emerge, it is important that MNB ensures a slow depreciation of lei in respect to other currencies in order to avoid this risk. The reduction tendency of remittances for the last half a year reduces supplies for the strong rate of lei, but together with MNB currency reserves the desired rate for USD will be maintained for the sake of political objectives up until elections. Against the background of economic crises in neighboring countries economies, mainly Ukraine and Russia and significant appreciation of lei in respect to these nations' currencies (during IV quarter MDL appreciated in respect to UAH by 55%, in respect to RUB by 14,1% and in respect to RON by 7,6%), maintaining the same rate of lei after elections

will not be justified neither from political nor economical stand points. It is forecasted an average appreciation of 10-15% of strong currencies in respect to national currency by the end of 2009.

Credits and deposits: Interest rate for credits and deposits reached their maximum in 2008

In spite of forecasted political vector of MNB towards liberalization of banking market, in conditions of world recession' impact on GDP of the republic, uncertainties and changes in behavior of economic agents and population, the interest rates for credits and deposits irreversibly grew, mainly due to significant decrease of deposits in the last month of 2008. Liberalization tempo of banking market is low to re-cover liquidities reduction in economy in a period of the year when demand for credits goes up, especially in agricultural sector.

In the situation when most of the countries inject liquidities in economy and reduce refinancing rates close to 0%, local economic agents realize their considerably disadvantageous situation in respect to their foreign counterparts, expressing discontent with internal crediting market. Late measures in solving the problem might significantly affect the country's economy, especially economic growth in the medium and long, which will be addressed by the parliament and government formed after 2009 elections. Hopefully the Moldovan saying will not come true „After me – may happen whatever, even global flood!” and undertaken measures by the Government and by MNB at the beginning of 2009 be oriented towards durability of economical indicators for medium and long term.

The amount of credits will register a decrease in the next months till March 2009. Economic stagnation will not allow reaching the same value of credits portfolio, similar to those registered in 2007 or in the first half of 2008.

Reduction of population' incomes will lead to deposits erosion throughout 2009.

Since effects of economical growth stimulation will not be felt earlier than after one year, and by the end of the year the Government will not be able to undertake significant measures in this regards, a spectacular increase of these indicators will not be possible.

Forecasts 2009

1. Due to the impact of world recession, confirmed by trends of the second half of 2008, there is an expectation of remittances' reduction in 2009. In 2009 incomes from abroad will decrease by 10-12%, and only in the worst case scenario - by 20%.
2. Currency exchange rate will remain relatively stable in 2009. Forecast for 2009 is 10,60-11,00 MDL for 1 USD.

FINANCE

General tendencies

The negative economical tendencies that were more accented than our previous expectations, have determined us to revise the essential prognoses concerning budget encashment. We predict a rising of 6,1% of the budget income in 2009. Actually, analyzing the dynamics of privatization from 1996 until now, we notice that the state budget has already entered the crisis faze in 2008.

Under such conditions, if the Government doesn't modify its cost policy drastically, it risks becoming unable to fulfil their duty towards budgeters by the first months of spring.

Under such conditions, there are only three possible solutions: the acceleration of privatization, which would allow the compensation of the failed income of about one milliard lei; the depreciation of the national currency, which would at least nominally allow the budget execution, or even over-execution, or the decrease of capital expenditure, thus having the possibility to salary the budgeters.

The state budget risks to be at least 10% under executed.

The negative economical tendencies are more accentuated than we expected at the end of 2008. As a consequence, we have decreased our expectations concerning the rising of the budget income from 15,7% of the initial prognosis, to 6,1%. This increase is much below the level of inflation even with no modification to the budget expenses. The Government will not be able to pay the budget salaries in spring.

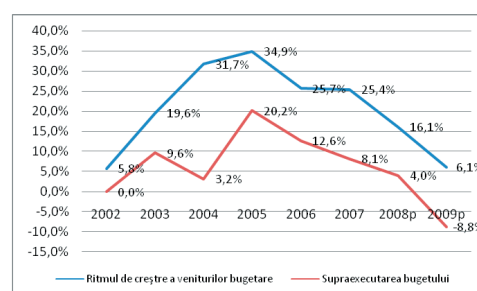
The intention to raise the wages before the election will create a tensed situation at the end of the year. The fact that the decision to raise the salaries has been taken by the central authorities, but the payment is executed by local authorities, causes a doubtful phenomenon, when the growth of the wages has no financial cover. As a consequence, the local public authorities are forced to approve the local budget including raised wages, not having enough income to assure remuneration for the last 1-2 months of the year. Until 2008 this problem was being solved on the basis of three instruments:

1. The state budget was being over executed and thus the Government could honour its duty towards the local budgets. This functioned well until 2008, but in 2009 the Government risks to leave the town halls with no money for budget remuneration because of the danger of budget un-execution.
2. The town halls have been and still are forced to pay teachers' wages

If the Government doesn't modify its cost policy drastically, it risks becoming unable to fulfil their duty towards budgeters by the first months of spring

We have reduced our prognosis of the 2009 budget income growth from 15,7 to 6,1%

Figure 6. The rhythm of increase of the state budget income



Source: State budget law 2002-2008, The project of the State budget 2009, CPE experts' prognosis

out of their own sources or financial reserves. In other words, the wages were increased, but the transfers are at the old level. Most mayors have to allocate their own money in order to increase salaries just because of the lack of the practice concerning town halls suing regional or central authorities in Moldova, and of the ambiguity of the legal frame.

3. Town halls are forced to credit the Government. This phenomenon takes place very often these years, when town halls give their own money to pay teachers their wages, while the Government returns their money with a 0,5 – 1 year delay.

These instruments have been, in a way or another, applicable for the past years, because there was a positive growth of the budget encashment dynamics of all levels. In 2009, under the conditions of financial incertitude, the over 400 million wage increase seems more like a sweepstake and this can create a great risk for the second semester.

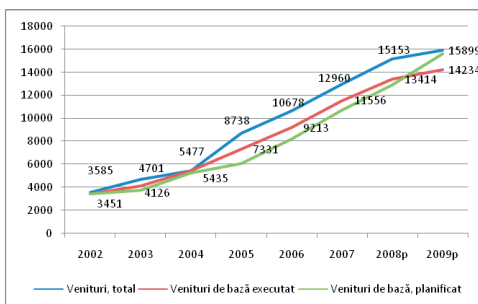
At this moment there is only one solution for the budget crisis: the depreciation of the national currency, which will cause inflation and consequently, the Government, will register a vivid growth of the state budget at least nominally.

The decrease of consumption can cause an over 1,2 milliard failure of the state budget

The decrease of consumption can cause an over 1,2 milliard failure of the state budget

The past months' evolutions remind us of the 1998-1999 period more and more, when Moldova was directly affected by the crisis in Russia. That time the drastic decrease of the export (which came back to the level of 1997-1998 only in 2004) and the non-payment of the partners from Russia where the catalyst of the crisis. The risk to repeat the situation of 1998, when the state budget was lower than in the previous year is very probable in 2009. Despite this, the main factor of the present crisis is the decrease of the population's consumption, which affects the state budget directly, in a proportion of 90%.

Figure 7. The dynamics of the state budget income



Source: The state budget law 2002-2008, The state budget project 2009, The CEP experts' prognosis

The evolutions of the past months make us revise the prognosis concerning budget encashment. Thus, we were forced to reduce the budget income with about 1,3 milliard lei. These dramatic reductions have been caused by several factors:

1. The reduction of the remissions and consumption (which was mostly caused by remissions) will lead to a vividly decreasing level of import. Although it is anticipatory to establish the real rate of decrease, we consider our previous prognosis too optimistic and the budget risks not executing either the TVA for the imported goods, or the level predicted by the Government. At this chapter the budget will fail 800 million lei in comparison with our previous prognosis, or 420 million lei in comparison

with the Government's anticipations.

2. The IDIS experts considered the Government's expectations towards the TVA encashment within the country exaggerated even in the previous number of the EM. Nevertheless, the vivid decrease of the population's consumption, along with the modest increase of the import, will cut the TVA encashment within the country with about 800 million in comparison with the Government's prognosis, or 400 million in comparison with our previous prognosis.

Table 5. The budget encashment for 2008

	2009 Government's prognosis	2009 CPE prognosis	2009 CPE prognosis, revised
Total income	17.231.800	17.179.000	15.899.000
Basic income	15.602.800	15.514.000	14.234.000
Income taxes for corporate bodies	110.000	110.000	110.000
TVA, total	11.085.800	10.900.000	9.700.000
<i>TVA, internal</i>	<i>4.071.000</i>	<i>3.600.000</i>	<i>3.200.000</i>
<i>TVA, import</i>	<i>8.820.800</i>	<i>9.200.000</i>	<i>8.400.000</i>
<i>TVA, repayment</i>	<i>-1.806.000</i>	<i>-1.900.000</i>	<i>-1.900.000</i>
Excise, total	1.753.700	1.781.000	1.781.000
Traffic taxes	109.000	110.000	110.000
Licence taxes	103.000	105.000	105.000
Taxes for viticulture revitalising	81.300	80.000	80.000
Fees, external commerce	1.188.000	1.235.000	1.155.000
Activity and property income	251.000	250.000	250.000
Administrative taxes and payments	255.000	255.000	255.000
Fines and sanctions	70.000	70.000	70.000
Other budget income	38.000	38.000	38.000
Grants	819.000	880.000	880.000
Special income	1.368.000	1.365.000	1.365.000

Source: *The state budget law 2009, CEP estimations and prognosis*

2009 is the year when Moldova has to change its development paradigm clearly: From consumption based economy, to an economy based on export.

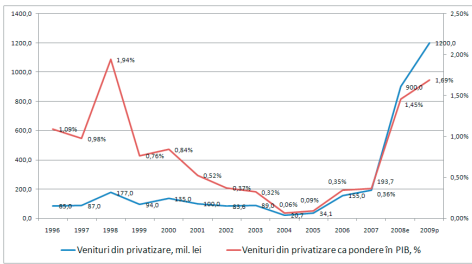
Privatization as an index of the budget crisis

The difficulties concerning 2008 state budget execution and unprecedented public property privatization of about 900 million lei have determined us to understand what the motivation of these privatizations was.

Analyzing the privatization of 2008 from the point of view of USD encashment, we see that the amount of sales integrated 86,6 million USD, which is about 40% of the total encashment since 1996.

Although the Government hadn't announced the crisis, it has actually taken the same anti-crisis measures as in 1998: mass privatization of public property

Figure 7. The state budget encashment from privatizations, thousands lei



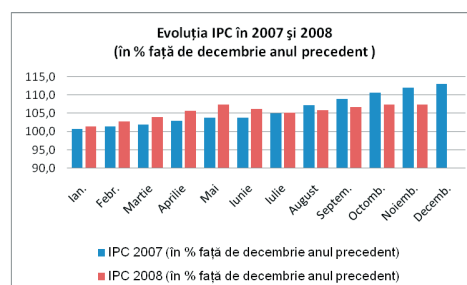
Source: The state budget law 1996-2009, CPE prognosis

The analysis of the privatization income in comparison with GDP is especially appealing. There are two vividly noticeable waves of privatization: 1998 and 2008. In 1998 the privatization was imposed by the major force that caused the economical crisis. Thus, only privatization could save the state budget from a total breakdown. In 2008, although the Government hadn't announced the crisis, it has actually taken the same anti-crisis measures as in 1998: saved the state budget income by way of privatization.

Anyway, it seems that this time the scenario will be more dramatic, because unlike 1999, when the situation became more stable, it is likely that the Government will be forced to accelerate the privatization process in order to cover the budget holes in 2009.

PRICES

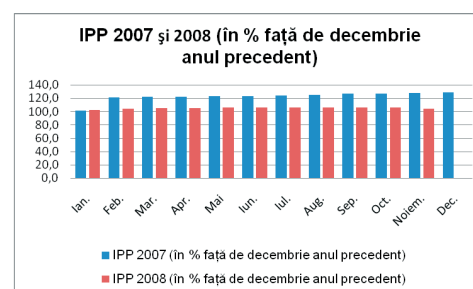
The evolution of IPC in 2008 seems to be a surprise for everyone. It's for the third time since 2001 and 2002, when the inflation in Moldova is going to be less than a number. On the diagram we see that the evolution of prices will have a faster growth than it was in 2007 only until May, and afterwards periods of deflation and price growth stoppage will follow. We hope that the data captured by the diagram is not just a statistical manipulation of the way in which IPC was calculated. Anyway, we have to remember that the gravity of products in the IPC count was modified either in 2007 or in 2008 in order to get a clearer picture. Thus, it is considered that consumption in Moldova has the following structure: out of 100 lei 35 will be spent on food products, 41 on non-food products and 24 on services.



At the same time the prices for basic goods and services have substantially risen in the previous year. Food products that have registered price increase are rice (95% growth), bread and pasta (9%), beef (50%), pork (40, 4%), chicken (16, 6%), fresh fish (10%), cheese (6, 6%). The most prominent non-food products are vehicles (10,9%), cosmetics and perfumery (9,1%), products for children (7,2%). The rental services for population were the most volatile. The repair and house-keeping services registered a 33% price growth and the prices for public services are now 30% higher.

The evolution of IPP is also interesting if we take into consideration the fact that in 2008 there was much pressure from energetic resources. It seems like our national industry doesn't depend on energetic resources' prices' fluctuations, what comes into contradiction with the general acceptance.

Anyway, making a deeper analysis we notice that the producers' prices in the industry of meat production, treatment and conservation have registered a 35,5% increase in comparison with the previous year. The same evolution was noticeable in the industry of forage (36,9%). The industry of pasta production has also had a spectacular price growth of 22,9%. The prices for internal market aimed alcohol drinks have raised with about 25%. The prices for electricity have registered a 53% increase which was the greatest price growth of 2008.



REGIONAL AND INTERNATIONAL ENVIRONMENT

The prices have been established at an international level. The prices for agricultural food products will have a modest price rising. The agricultural crisis was caused by an exceeding demand for biological fuel and high prices for oil products which have a great pounder in agricultural costs. The 2009 previsions are hopeful because there are chances to restart the export of agricultural products to Ukraine and Russia.

The prices for oil will keep to a low level because of the world recession. The crisis will have the same effect on many other raw materials that are used in industry.

During the last year there was a great volatility especially for energetic products. The spectacular price growth has directly contributed to the increasing inflation in countries from the region starting with 2006 until the middle of 2008. Many countries have implemented restrictive currency policies in order to be able to face the second wave of the effects caused by the first price growth. At the same time the appreciation of the national currency towards USD has contributed to the decrease of inflation in a way.

PREVISIONS AND REFLECTIONS FOR 2009

At a global level, the evolution of international commerce and the moderation of the economical rise will determine the decrease of the prices for conveniences. Although Moldova is not integrated in the international financial system and the financial crisis doesn't affect the Moldovan bank system directly, a slowdown of the economy will surely happen. Furthermore, the national economy has started declining in 2006. Normally this situation has to lead to lower prices. A strong ten-year-long economical growth was followed by a strong price growth (partially influenced by improper anti-inflation policies). Another aspect that creates inflationary pressures is the incertitude concerning the economical evolution of the country, thus generating inflationary anticipations.

During year 2009 the prices in Moldova will grow slowly. Although there is a decrease of remittances, internal demands will exceed the aggregated offer. The prices for import products will be steady.

The demand for agricultural food products is surely increasing, although it was relatively stable along the period and we don't expect any great fluctuations in the future. Once the demand increased, local producers have raised their prices as a response to the phenomenon. Consequently, the agricultural products' import has also raised and their international prices were influenced by the agricultural crisis. To conclude, we are extremely open to all shocks and we can't fight the growing prices for agricultural food products.

In 2009 we will have enlargements concerning agricultural and food products. Services will also be susceptible towards price growth. The prices for non-food products will at least have to keep the same level because of the national currency appreciation and the crisis in borderer countries.

We consider that during the following years prices have to raise either as a cause of the inefficiency that characterizes our national economy, or because of the capital expenditures.

RISKS

At present we can mention two great risks. There is a danger concerning the second wave of mark-ups and this factor is followed by budget expense and strong wage growth which contribute to inflation. Moreover, a risk of an inflationary spiral can appear in this situation either by dint of salaries, or as a cause of the pressures from the companies that want great income.

Price growth for food products is an extremely serious problem. Thus, a mark-up for agricultural food products of 5% in opposition to the increasing consumer's price index will lead to a 2, 9%¹ increase of the poverty rate.

The pressures outgoing from energy resources is a problem that cannot be solved at the moment. Although the international prices went down, the stability of the energy resources' and especially natural gas's delivery is extremely politicized.

The level of prices depends greatly on how fast we are able to reach the level of the aggregated offer that can match consumption. The years of production's capacity neutralization and industry destruction already create difficulties at the price level. The faster the excessive liquidities are absorbed by the productive branches of economy, the faster we cast away the negative effects of a demand that exceeds the offer.

Under these conditions the aim of one-number inflation is realizable in 2009. We would only like to specify that the prices for those products that have the greatest poulder in household consumption will add up to 10% in 2009.

¹ "Rising Food Grains and Energy Prices in ECA", World Bank, April 2008

LABOUR FORCE MARKET

Employment and unemployment

The global economical crisis will evince on the Moldovan labour market with 5-6 month delay

The first semester of 2008 was the first time the republic of Moldova has registered the phenomenon when the increasing number of employees was followed by a decrease of unemployed people, which means that there is a tendency of fulfilling the work force necessity by employing jobless people. Nevertheless these expectations have not been justified in the second semester of 2008 because of the first wave of decline in the real sector of Moldova. The main factor that has determined this regress was the economical crash of those countries, towards which autochthonous exporters and emigrants were oriented. According to CPE data the consequences of the global economical crisis will evince on the Moldovan labour market with 5-6 month delay, when the period of improvement of the local employment data is followed by serious changes such as mass dismissals and wage debts.

During the past 5 years the tension on the Moldovan work market has doubled...

In 2008 the first wave of the real sector crisis in Moldova has affected construction, international transportation and industry (see the Real sector). In industry, where the tempo of wage growth lags behind the increasing work productivity, the decrease of production led to a 50-55% reduction of vacancies, a cutback of the social package and an increasing number of workers who were sent to non-paid vacations. The blockage of industrial construction and inhibition of the housing market, as well as the reduction of the number of international transportation contracts have contributed to the tension of work relationships in the country. Thus, according to ANOFM data, the coefficient of the labour market's tension has doubled during September - December 2008 and in January 2009 the number of persons applying for jobs exceeded the number of vacancies from 25 to 30 times.

...this has lead to the fact that a greater number of specialists from deficit fields accept being hired with an insufficient salary

The cut of expenses for population's consumption is a risk first of all for the service sector and this will evince through an increasing number of official demands for unemployment compensations during February and March. Immigrants, who have already occupied existing vacancies, will bring their contribution to the rising level of unemployment.

The fact that only a few months were needed to liquidate the acute deficit of qualified workers is very significant. In this way in September – October 2008 as a result of the exceedingly high number of demands that overgrew vacancies, the majority of building companies announced that the number of qualified workers who agree to be paid lower wages is greater than until September 2008.

According to official data 10% of the unemployed received unemployment compensation of 700 lei average in 2008. In September the number of the officially unemployed registered a 15% growth and there is a probability that it will reach 70-60 thousand people by the middle of 2009. All of these will aggravate the situation of one of the most vulnerable category of economically active population – the youth, who had difficulties with finding suitable vacancies and was extremely exposed to migration even before the crisis.

Migration

Under the conditions of the crisis the dynamics of the economical growth will be determined by the changes in consumers' preferences.

It is expected that the number of the unemployed will grow by dint of job migrants who decided to stay in the Republic of Moldova during the crisis in Russia and EU. During the past years the share of the work force surplus has reached the number of 350-400 thousands annually, 30% of which work illegally. There is a high probability that this very category of migrants (100-150 thousand workers) will be the first to try to find a job in Moldova. As soon as 70% of them are made up of the rural population it is likely that this phenomenon will evince through a higher non-official employment and self-employment rather than official unemployment.

According to official data working emigrants have transferred 1660,06 million dollars to Moldova in 2008 and this is about 40% of GDP (38,5% of GDP in 2008 and 36,6% in 2007). Just like in the previous years these finances were mostly directed towards consumption, and only 10-15% of them were invested in business.

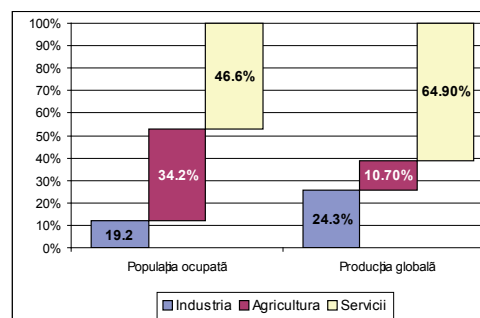
In conformity with the CPE estimations, under the conditions of crisis certain changes of these consumers' preferences will determine the dynamics of internal necessities greatly and thus influence the rate of CPE growth. As we now, the mass banc transfer currents have not only contributed to the consolidation of national currency and influenced the export negatively, but also led to a decrease of the poverty level.

Thus, according to the World Bank data, a 10% increase of banc transfers per habitant leads to a 3,5 % poverty decrease. This is why currency sterilization is not a rational measure. We recommend applying new incentives in order to attract deposits such as fund transfer from one account to another with a following participation in national economy credits etc.

Wages

Over a half of all Moldovan work force are employees (62,5%, 2007) and clerks, whose salaries are their main income (3000 lei in December 2008). Under the conditionals of the economical crisis and high prices for food products and tariffs, the risk of poverty raises for this category of

Figure 8. The structure of employed population and global production, 2008, first semester



Source: NBM, CEP estimations

The number of the unemployed in the first semester of 2009 will reach up to 70-60 thousand people

Moldova will not be able to absorb all the working migrants who decide to find a job in their mother country if the economical growth is not remodelled

Under the conditions of the crisis the dynamics of the economical growth will be determined by the changes in consumers' preferences.

The highest salaries in Moldova are being offered by financial institutions and companies based on foreign capital

employees and other 620, 5 thousands of pensioners, whose retired pays of 650 lei are almost twice lower than the minimum consumption requirement by dint of the growing prices for socially important goods and services.

Table 6. The average monthly wage for CIS states, 2008

	Average nominal wage		Real wage	Minimum wage 1 July 2008.	
	USA dollars	2008/ 2007, %	2008/2007 %	USA dollars	Minimum consumption requirement pounder,%
Azerbaijan	300	124	103	71	85
Armenia	282	121	111	82	...
Belarus	381	124	108	97	101
Kazakhstan	477	118	99	100	100
Kirghistan	139	137	109	10	10
Moldova	227	126	109	35	37
Federația Rusa	677	129	113	98	55
Tadjikistan	63	146	114	6	...
Ucraina	338	139	110	108	79

Source: General confederation of Trade Union, 2008

The Salary reform that was initiated by the Government has led to the fact that the clerks' wages have grown three times since the past 5 years and reached the point of 2528,6 per month, matching the official salaries in the private sector. In spite of this, according to CPE estimations the data of the official statistics only reflects 60-70% of the actual income engaged in the real sector. In some branches, such as IT, commerce and construction the disregarded pays and "envelope salaries" may form up to 40-45% of the declared income.

Taking into consideration the stable dynamics of social bank transfers, it is probable that the decrease of the general quantity of population's income that was registered in autumn 2008, has mostly taken place due to mixed income – those of the self-employed and property income. According to our estimations, in the third quarter of 2008 they formed 8,1% and 3,5% of the general population income respectively. The latent wages and those that are not tempered by contracts decreased and this fact is confirmed by the estimations of the market sectors where a 25-30% retribution diminish was registered.

The unofficial pays and property and rental income were not taken into consideration

The indicated types of income have reacted to the aggravation of the business climate more flexibly than the official wages did. In December a new pause in the development of the negative processes interfered this is especially caused by the fact that the dynamics of the population's income was supported by a salary growth in the budgetary sphere as a matter of the salary reform and the approaching election date.

THE ECONOMY OF THE TRANSNISTRIAN REGION

The real sector. The decrease of the volume of production was registered in all the directional and export branches of industry, having ironworks 30% decreased, 20% for light industry and over 40% for cement and construction materials' production. The decline of industrial production has led to a cargo transportation index decrease.

Table 7. *The real sector of Transnistrian economy, 2008*

	November		Growth rate, %
	2007	2008	
Industrial production, million roubles.	600,4	435,5	72,5
Transportation volume, thousands t.	351,5	267,7	76,2
Passenger rotation, million passengers per km	34,1 2	51,9,	152
Retail product rotation, millions of roubles.	577,6	582,4	100,8
Pay services for population, millions of roubles.	78,6	108,6	138,2
Telecommunication services, millions of roubles.	39,0	43,2	110,8

Source: *Transnistrian Republican Bank*

The decline of production in the field of electric energy was not that sensible (-8%) due to the great mark-up for electric and thermal energy.

The external commerce will remain the main source of income in the region, forming 80% of the price account balance. According to the Transnistrian State Border Committee the volume of external commerce exchange has raised 38, 2% percent in a year, forming 2571,5 million US dollars.

The negative external commerce account balance (over 700 million dollars, 2008) is still increasing. Over a half of the Transnistrian import is made up of carbohydrates (28,9%) and ferrous metals (25,5%). At the same time, over 60% of all the exported production comes for ferrous metals that are exported by the Moldovan ironworks factory from Rîbnița and the cement factory from the same locality.

The negative conjuncture of the external economy in 2008 has influenced all the industrial branches of Trans-Dniestria dramatically... this led to a 30% production decrease if compared to 2007

Table 8. *The dynamics of external commerce exchange volume in Trans-Dniestria, million dollars*

	2003	2004	2005	2006	2007	2008e
External commerce volume	1031,8	1293,4	1435,3	1160,5	1410,0	1940,0
Goods export	432,2	535,1	579,7	422,1	727,0	790
Goods import	599,6	758,3	855,6	738,4	1132	1250
External commerce balance	-167,4	-223,2	-275,9	-316,3	-405,0	-560

Source: *Attachment to Transnistrian CS decision, 1245 of December 19, 2007, CEP counts*

Over 80% of the Transnistrian consumption market is made up by retail sales. Under the conditions of the crisis, the decrease of consumer goods led to a

diminution of services' volume and retail commerce as well as to the slowdown of the final consumption growth ratio. In 2008 the growing rate was of 1% if compared to 2007.

The basic factors that contribute to the Transnistrian consumption demand are international bank transfers, sustained by a 30% and 13% salary growth in the real and budgetary sectors respectively along with a 5% pension increase.

In August 2008 the minimum consumption requirement was of 95 USD, while the average wage was of 236 dollars. In the previous year the average monthly salary for budgetary employees of Trans-Dniestria (120 dollars) was 30% lower than the one of those who work in the real sector (187 dollars). In 2007 the average pension in Trans-Dniestria has reached 53, 3 dollars monthly including add-ups, slightly exceeding a pensioner's minimum consumption request.

On the work market we notice a stable decrease of the employed population (from 180 thousands people to 160 thousand for years 2003-2006), as a result of job migrations due to the loss of qualified workers and non-formal employment.

Table 9. The dynamics of Transnistrian work resources (thousands of people at the end of the year)

	2004	2005	2006	2007	2008
Work resources per total	342,3	340,4	337,3	336,0	332,7
Economically active population, including	176,4	171,9	163,6	162,7	161,0
- employed	172,6	168,6	161,0	159,8	158,1
- unemployed	3,2	2,7	2,1	2,3	2,3
- searching for work	0,6	0,6	0,5	0,6	0,6
Economically inactive population	165,9	168,5	173,7	173,3	171,7

Source: Transnistrian CS decision , 1245 of December, 19, 2007

In 2008 inflation has reached 24% registering a slight decline in comparison with the previous years. The deflation of food products (0,6%) has had a slowing effect upon the rates of the final IPC index growth in the second semester of 2008. Like in the previous years the growth of the tariffs for services (32%) and provisions (14%) have played the main role in inflation increase. The tariffs for electricity and communal services have had the greatest mark-up rate. It is expected that this tendency will be more evident during 2009-2010 as a result of the forced correction to the Transnistrian tariff policy and the high food products and energy resources' conjuncture. Under the conditions of weak budget plenitude, the high level of inflation increases the risk of poverty and inequality.

The necessity of a great mark-up for natural gas was first of all caused by the enormous debts that were gained during an inadequate tariff policy that took place in the past years. The reasonable payment for gas consumption is the basic condition for restructuration and liquidation of the historical debts Transdnistria has towards Gazprom. In 2008 the prices for gas delivery in the region marked 195 dollars for a thousand cube meters, (170 dollars in 2007 and 135 dollars in 2006). In 2008 an eventual mark-up (15%) for natural gas

The reasonable payment for gas consumption is the basic condition for restructuration and liquidation of the historical debts Transdnistria has toward Gazprom

for Transnistrian consumers until the level of 225 dollars specified by the contract was planned. The prices for electricity raised 11% average.

During year 2008 the exchange rate for USD was steady at zero level of devaluation around the value of 8, 47 Transnistrian roubles. Anyway, at the beginning of 2009 the growing currency demands have constrained financial authorities of Trans-Dniester to make currency interventions and this led to diminution of financial reserves. By the end of 2008, the exchange rate has been corrected and oscillated between 11 and 12 roubles.

The net external debt of the Transnistrian republic has registered a 400 million dollar increase at the beginning of 2008, forming a total of 2043,3 million dollars mostly due to the debts towards Gazprom.

Table 10. Transnistrian external debts for 2007-2008, million dollars

	01.01.2007	01.01.2008	01.07.2008
Cerințe	381,5	360,6	406,5
1.1. Direct and portfolio external investments	71,7	53,9	49,9
1.2. Commercial credits	107,8	125,5	184,3
1.3. Credits and loans	95,8	51,4	13,6
1.4. Correspondent bank accounts	97,0	116,2	140,2
1.5. Foreign currency bank accounts	2,0	1,6	3,7
1.6. Other actives	7,2	11,9	15,0
Obligations	1983,5	2216,4	2449,8
2.1. Transnistrian direct and portfolio investments	201,9	212,7	220,5
2.2. Commercial credits	162,2	204,6	181,9
2.3. Credits and loans	179,3	269,8	391,0
2.4. Non-resident bank accounts and deposits in Trans-Dniestria	159,1	46,9	50,1
2.5. Natural gas debts	1281,0	1482,5	1606,2
Transdnistriean net external debts	-1602,0	-1855,8	-2043,3

Source: Transnistrian CS decision, 1245 of December 19, 2007, Transnistrian Republic Bank.

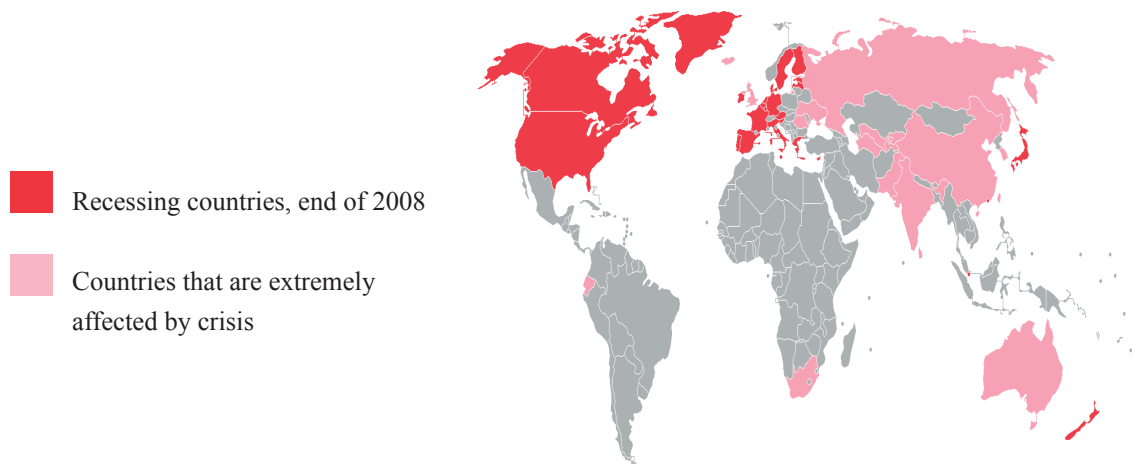
We should mention the fact that unlike Ukraine's debt for Gazprom's gas delivery that led to „gas war” in January 2009, the analogical Transnistrian debt bothered neither the local administration, nor the one from Moscow. As the new MoldovaGaz director A. Gusev stated „the restructuring of this debt was prepared long ago, but there are still no conditions for its realization.”

WORLD ECONOMY

General tendencies

The year of 2008 has brought us expected and less expected consequences. The proportions of the financial crisis that had at first affected industrialized countries and then extended to those in transition were at first underestimated. The loss of world financial institutions has reached the mark of 2,8 trillion dollars within 20 months, although the loss of non-financial persons and institutions is ten times greater. A famous saying: "When the Uncle Sam sneezes the whole world catches a cold" proves its truth in the present. All the countries in the world are more or less, directly or indirectly (see the diagram) affected by crisis. The financial crisis has gradually affected the real sector of many states, thus degenerating to an economical crisis. EU member states have entered the third quarter in recession lining up to Ireland, Japan, Estonia, Latvia, New Zealand, Hong Kong and Singapore¹. The negative economical development of the USA, Great Britain and Russia in the third quarter outlines the fact that, after all, they have officially entered recession in the fourth quarter of 2008.

The Situation in Europe, especially in the East, which some years ago seemed to devastate western countries, has worsened seriously during the year, and especially in its second half. The investors' intention to avoid risks has led to an over 60% contraction of the bond paper market in Poland, Romania, Russia, Turkey, Hungary and Bulgaria since the last year's summer. Such countries as Lithuania, Hungary, Turkey and Ukraine were forced to ask for financial refuse from FMI, what points out the possibility of a classical crisis evolution in these countries, as it happened in Latin America in the '80s, in Asia in the '90s and in Turkey at the beginning of the 21st century. These countries depended on foreign capital². All these states have an enormous budgetary deficit and will probably suffer of recession until 2010.



The evolution of the main indices that characterized the global economy at the end of 2007 and beginning of 2008 indicated upon the lasting tendency

¹The GDP of those 15 states went 0,2% down in the third quarter after a similar decrease during April-June. It is important that economy registers two consecutive contractions in order to declare technical recession.

²The crisis in these countries was deepened with the "support" of FMI and World Bank, that offered credits instead of the promotion of neo-liberalist politics, which led to an economical collapse.

of depreciation of the US dollar towards the European currency, of an increase of the world oil prices and a relative resistance some countries have during the world crisis. The events of the second quarter proved these tendencies and the prices for oil have reached incredible heights – 147 USD per barrel, on the basis of a significant US dollar depreciation reaching the level of 1,6 dollars per Euro. The price for wheat, that reached 450 dollars per tone at the end of 2007, was specific for the first months of 2008 as well, when the previous year's reserves were commercialized and the perspectives regarding the 2008 crops were uneven.

Anyway, the evolutions in the third quarter have destroyed any inertial prognosis and proved that the world crisis had only begun. The prices for oil lowered to 90 USD per barrel, and the ratio of the US dollar towards Euro went down to 1,39. The world prices for wheat reduced twice in comparison with the first months of 2008, reaching the value of 200 dollars per tone. These tendencies continued in the fourth quarter – the prices for a barrel of oil went down to the lowest level of the last four years – 37 US dollars, and the official quotation of the USD towards Euro lowered to 1,25 US dollars in November, and exceeded 1,47 US dollars at the end of December. This is a record for the last quarter of the year.

It was the last quarter when the fact that the number of countries that are affected by crisis and the magnitude of the impact were underestimated became vivid. The affected countries have taken several post factum salvation measures in their fight against crisis. Similarly to the USA that have approved a 700 milliard dollar worth salvation plan for their financial system, the European Commission has approved several measures of a total of 200 milliards of Euros, through which an impulse for the European economy was offered and the money were to be invested in the 27 member states.

The harshest measures were still oriented towards the diminution of the interest rate, which has especially evinced in the last quarter (see the table). The Central Bank of the USA has lowered the interest rate to 0,25% and this is the lowest level since the past 232 years. Having a minimum interest rate, the USA will not be able to use the same weapon in order to stabilize economy in the future and will need some other, less traditional methods. The Central European bank has reduced the rate of interest with 75 percentage points in December, from 3,25% to 2,5% in order to contribute to the recovery of the Euro zone from the worst situation since its creation (1999). In December the Central Bank of China has reduced its basic rate for the fourth time since the last five months with 2,16 percentage points, from 7,47% to 5,31%. After five years of struggling with inflation and an increase of interest rate, China has changed its currency policy radically as a reply to the economical slowdown. Japan and Great Britain, who have reduced their rates of interest with 0,1% and 2% respectively are in the same situation. Unlike the central banks of the other states, the Russian one has been increased its interest rate continuously (3 percentage points since the beginning of the year) in order to stop the capital loss and reduce inflation.

	Dec. 2006	Dec. 2007	Jan. 2008	Feb. 2008	Mar. 2008	Apr. 2008	Maye 2008	June 2008	July 2008	Aug. 2008	Sep. 2008	Oct. 2008	Nov. 2008	Dec. 2008
USA Central Bank	5,25	4,25	3	3	2,25	2	2	2	2	2	2	1	1	0,25
Central bank of Europe	3,5	4	4	4	4	4	4	4	4,25	4,25	4,25	3,75	3,25	2,5
Central bank of Great Britain	5	5,5	5,5	5,25	5,25	5	5	5	5	5	5	4,5	3	2
Central Bank of Japan	0,25	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,3	0,3	0,1
Central Bank of China	6,12	7,47	7,47	7,47	7,47	7,47	7,47	7,47	7,47	7,47	7,2	6,66	5,58	5,31
Central Bank of Russia	11	10	10	10,25	10,25	10,5	10,5	10,75	11	11	11	11	12	13

The recuperation from the crisis that was expected for 2009 will come with at least one year delay. What started like a natural market correction became a real collapse. The global economy has entered an epoch of volatility and its evolution is extremely unpredictable even on short terms. What is for sure is that the financial crisis has gradually affected the real sectors of many countries, thus generating an economical crisis that will evince throughout 2009 maybe even worse than during the previous year. The effects will be felt at a global level, while the real estate, financial, construction, service, vehicle industry and tourism branches will be the most affected. This will have a "human" raid of character in 2009, affecting people, especially vulnerable ones.³

The financial crisis is now more often compared to the Great Depression of the '30s, as well as to the 1998 financial crisis, the effects of which echoed to the Republic of Moldova.

The value of the US dollar vice the European currency.

The evolution of the Euro – USD exchange ratio was determined by (and determined itself) the proportions of the global financial crisis. Due to the US authorities' efforts, the American dollar has gained enough inertia in order to value 1,25 units per euro in the second half of 2008, in comparison with the 1,6 ratio in April. This tendency can be explained by the fact that the magnitude of the USA crisis is more or less known and the trust in dollar comes back slowly, while the proportions of crisis in Europe can be only guessed. At the same time this energy could be enough only until the beginning of the next year, when the dollar will probably be depreciated due to the fact that many countries will refuse to keep their reserves in US dollars (see the box). The depreciation of the US dollar towards the Euro has evinced in the second decade of December, reaching 1,47 dollars per Euro, as we have predicted in the previous editions of the EM.

³According to the International Labour Office, the global financial crisis may lead to a 20 million unemployment increase before the end of 2009. The number of "poor workers" that gain less than 2 dollars a day can add up to 100 million during 2007-2009.

● THE EPOCH OF DOLLAR REJECTION HAS BEGUN

The process of USA dollar rejection has begun at an international level – several countries have passed from dollars to other currencies or barter in their commercial bilateral transactions. Thailand plans changing the produced rice for Iraq oil. Argentina and Brazil have refused bilateral transactions in favor of peso and real. Russia intends to pass to rouble transactions with Vietnam, China, and partners from CIS countries, while the Arabian states take the dinar as the main commercial tool. Five countries from the Persian Gulf (Bahrain, Kuwait, Qatar, Saudi Arabia and the United Emirates) discuss passing to a unique currency until 2010. South American countries – Venezuela, Bolivia, Nicaragua, Honduras, Dominican Republic and Ecuador have taken the decision to create a common reserve system and

a unique regional currency that will be probably named “sucre”.

The USA Government produces enormous quantities of dollars in order to assure the liquidity growth and a way out of crisis. This situation is acceptable as long as investors prefer this currency, but taking the current tendencies of dollar refusal into consideration, dollars’ situation may worsen starting from 2009. In this case we can’t exclude the depreciation of the US dollar, what will affect first of all emergent countries, whose bank reserves are still flooded by dollars. At the same time, discussions about a “new dollar” – Amero that will be introduced in the USA Canada and South America at a rate between 10 to 1 and 50 to 1 appear in press and world economical circles more and more often.

At the same time we have to mention that in the first semester of 2009 the dollar will still continue being appreciated due to the fact that the capitals of American investors (about 1 trillion US dollars) that crossed the border at the beginning of the crisis still belong to the USA. The USA Government profits of the demand for dollar actives and emits different bond papers, thus contributing to the increase of the Government’s debt.⁴ The increasing debt is the main cause of dollar appreciation. At the same time, an unlimited dollar production will lead to its depreciation in a long-term perspective. In the second semester the situation may change in an unfavourable way, leading to dollar’s depreciation.

The world oil market

An index of the financial crisis proportion is the price for oil that has reduced trice in less than half a year from 147 US dollars per barrel in July, to 37 dollars in December 2008. The situation of the oil extracting countries that were affected by crisis was aggravated by the decrease of prices for oil. In the first semester of the year the prices exploded due to geopolitical tensions that were felt from Iran to Nigeria and Pakistan, the lack of balance between the limited offer and the massive demand that is mostly outgoing from China, an acknowledgement of the fact that the oil reserves are limited, and, in the end, the attraction the oil has had upon investment funds. The cheaper the dollar was, the less interested the investors were in buying it, preferring alternatives such as oil. During the last months of the year the dollar was being appreciated and investors came back to currency in the detriment of oil that has lost price.

This evolution of oil price points out the fact that the oil market is and probably will remain volatile along the future year, being sensitive to US dollar evolution,

⁴ At present, the USA debt is of 60% towards the GDP (10,6 trillions of US dollars). Summing the external debts of the private sector up, we get an amount of 13,8 trillions. This increase is almost equal to the country’s GDP. The main creditors of the USA are China and Japan (40% of all Government debts)

sudden changes of the population's perceptions and the tendencies of offers and demands. In December OPEC countries decided to reduce oil delivery with 2,2 million barrels per day. At present, the level aimed for oil production of the cartel is 24,845 million barrels per day. This decision could maintain the low prices. At the same time, despite all these efforts, due to the oil market volatility and pessimistic anticipations concerning the effects of the world crisis, the prices for oil will not be stable and will oscillate between 40 and 70 US dollars per barrel, although they may exceed these limits depending on the measures the world countries will take in order to stop the crisis and annihilate its negative effects⁵.

The world wheat market

The low wheat price of about 200 dollars per tone in 2008, in comparison with 450 dollars in 2007, was determined by the great amount of crops that reached 673 million tones and this is 65 million (about 10%) more than in the previous year. The low prices for wheat, that didn't allow farmers to get great profit, along with the great reserves and the high-priced resources will lead to a diminution of wheat production and agricultural surfaces in 2009, thus generating a price growth. This involution of the world wheat market could have repercussions on the sector as a whole. A big part of farmers will renounce cultivating wheat in favour of other more profitable plantations, such as corn. This can lead to a 1, 6% diminution of wheat predestined agricultural surfaces down to 221, 7 million hectares⁶. Although wheat consumption can grow in 2009 (over 640 million tones), it will not exceed production and wheat reserves will be made anyway.

The economical evolution of the main commercial partners of the Republic of Moldova

RUSSIA

Unlike many other countries, Russia has managed avoiding recession in 2008, although it was also affected by negative evolutions of the financial and economical sectors. Russia's economy increased in the third quarter with the smallest rate of the past three years – 6, 2%, and the commercial surplus of October reached the lowest level of the past 13 months. The stock market has already lost 1 trillion dollars, which equals 84% of the GDP for the May-November period of 2008. Mass dismissals started to take place in this period. 76 thousand people were fired in October. The proportions of the dismissals in the field of construction are unknown, because illegal emigrants are the main work force here. The diminution of oil prices and vehicles' sale (-15% in November) have led to the first time a budgetary deficit was registered in 2008. In just three months from august until November, the foreign reserves decreased from 600 to 475 million US dollars.

⁵ For example, the Merrill Lynch Company suggests that the price per barrel can be reduced to 25 US dollars if the recession that dominates the USA, Europe and Japan can reach China, which is the country that has the greatest contribution to the goods market in the past years.

⁶ The International Grains Council Great Britain.

The Government's measures of prevention, evinced through a 200 milliard dollar injection in order to protect the indebted companies; along with other 50 milliards for preventing the vivid devaluation of the Russian rouble will have short-timed effects and will not be able to protect Russia from the impact of the financial crisis. The fact that Russia depends on the price of one of the goods, such as oil, will make the impact of the crisis harsher, especially due to the steady relatively low oil prices. Actual tendencies indicate a probable start of recession in Russia, being the second after the 1998 financial crisis. Russia was severely affected by the financial crisis especially starting with September 2008, but the effects will only be felt in 2009.

UKRAINE

After months of denial, in the last months of the year the authorities have finally admitted that the country's economy couldn't avoid the world depression. Inflation has reached 22,3% in 2008 – a record number since 2000 when inflation in Ukraine reached 25,8%. The increase of the budget expense was the main factor of inflation. Expectations concerning the depreciation of the hryvna led to the prices' increase, and finally to the de facto depreciation of the hryvna. In the end, the Ukrainian hryvna has reached the lowest exchange level since 1999. Production decreased 28,6% in November after a 19,8% decrease in October. This was the most vivid diminution in Europe in November, for the fourth month consecutively. The most affected sectors of the economical activity in the country are iron production, machine construction and oil refinement.

In November 2008, FMI approved a program for Ukrainian sustainability worth 16,5 milliard dollars. Year 2009 will be extremely difficult for Ukraine, especially as a result of the crisis and enormous debts for natural gas imported by Russia.

ROMANIA

Romania, unlike other countries of the region faced crisis relatively well in 2008, although the fact that negative effects unfold in the European countries more and more cannot pass unnoticed. The economical crisis hits the Romanian industrial giants severely. Five the most affected vital points of the industry are: metallurgy, textile production, auto components, vehicles and chemistry. The annual ratio of unemployment went 0,1 percentage points up to 4,1% in November in comparison with the previous month. The number of the unemployed has grown up to 12 788 persons.

Current account deficit is still one of the main problems of the Romanian economy, but at the same time it is a consequence of the country's speedy development in the past years, including the third quarter. Although Romania is vividly affected by crisis, Romanian economy has grown during the third quarter of this year with 9,1%, GDP reaching the level of 139,4 milliard lei. This is the greatest yearly economical growth in EU. At the same time the annual inflation registered in Romania in November (6,8%) has been twice bigger than the EU medium, Romania being the fifth among member states with the highest annual inflation. 2009 will be a difficult year for Romania especially grace to the contrac-

tion of the economy of partner states, and states where a great part of Romanians work.⁷

ITALY

Just as year 2008 started, the world crisis has definitely hit Italy – a country that has been affected by low productivity and competitiveness along with a great public debt of 104% in comparison with GDP. This is the biggest in the Euro zone and the third in the world. The fourth great power of Europe has entered technical recession as soon as the Gross Domestic Product has fallen to the lowest level since the past decennium. Italy's GDP has reduced 0,9% in the third quarter, in comparison with a similar period of the previous year and with 0,5 percent in comparison with the previous quarter. The evolution of GDP is the result of a diminution of the agricultural, industrial and service bidding. Export decreased 1,6% in the third quarter, while the local investments that include the transport sector have reduced 1,9 %. After a decade when unemployment was in negative tendency grace to the immigrants' flow and work market's flexibility the ratio of unemployment in Italy could exceed 7% in 2008, in comparison to 6,2% in 2007 and grow even more in 2009.

By the end of 2008, the Government of Italy announced a plan for economical stimulation and bank sector support of 12 milliard Euros. In spite of all these efforts the evolution of 2008, especially the GDP contractions in the second and third quarter indicate that this is a severe economical crisis.

GERMANY

After a surprisingly good start at the beginning of 2008, Germany has reached recession in the second half of the year. During the third quarter Germany's GDP has reduced with 0, 5% in comparison with the previous quarter. During the last quarter the tensions in the German companies have raised and millions of employees were ready to riot. The first to protest were the automobile construction company workers.⁸ The contraction of production has led to an increasing level of unemployment in Germany. ⁹

This situation has determined Germany to approve an anti-crisis plan of 50 milliard dollars – the greatest of all the western European ones. Anyway, these measures will not be enough in order to re-launch economy in 2009, at least not for the first semester. Although the reduced prices for oil will favour the growth of economy in Germany, this will not be enough to bring the pre-crisis situation back.

⁷ The number of Romanians who will not have a job in 2009 will grow three times as an effect of the invasion of those, who come home after abroad work due to the first time EU countries enter recession, as well as a contraction of the local work market which is a direct consequence of the crisis that provoked a diminution of order for many of the Romanian companies. Romania will not have the capacity to absorb such a great number of emigrant workers, who come back to their mother country.

⁸ Daimler after useless negotiations between syndicates and patronage. The example of the two from Daimler was followed by the Audi employees from the lands of Bavaria and Baden-Wurtemberg. Other riots were initiated at the Miele and Salzgitter factories. Another German company that bears the effects of the crisis is BMW. The giant has given up CS construction under the conditions when the company income lost 500 million Euros.

⁹ A temporary approximation of the number of the unemployed indicates that 3,08 million people lost their job in November 2008.

STATISTIC ANNEXES

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

	Year	2001	2002	2003	2004	2005	2006	2007	2008e	2009f
GDP		19052	22556	27619	32032	37652	44754	53354	62840	74000
Final consumption		19263	23289	29706	33298	41368	50972	60104	71534	80500
households		16385	18493	24417	28125	34694	41360	48826	57944	64400
public administration		2878	4796	5739	5173	6674	9612	11278	13590	16100
private administration		4436	4886	5916	8443	11607	14656	20368	23222	30400
Gross investment		3190	3682	4668	6787	9258	12691	17764	21413	28000
gross fixed capital formation		1246	1204	1248	1656	2349	1965	2604	1809	2400
changes in stocks		-4647	-5619	-8325	-9936	-14042	-21004	-27118	-31916	-36900
Net exports of goods and services		9536	11834	14487	16398	19526	20591	24176	25603	38750
exports of goods and services		-14183	-17453	-22812	-25107	-33568	-41595	-51294	-57519	-75650
imports of goods and services		1481	1663	2007	2520	2895	3356	4484	6048	7789

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

Table 2 Structure of Gross Domestic Product, %

	Year	2001	2002	2003	2004	2005	2006	2007	2008e	2009f
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	113.7	108.8
households		86.0	82.0	89.5	87.8	92.1	92.4	109.1	91.3	87.0
public administration		15.1	21.3	20.8	16.1	17.7	21.5	25.2	22.3	21.8
private administration		23.2	21.7	23.2	26.4	30.8	32.7	45.5	41.5	41.1
Gross investment		16.7	16.3	18.6	21.2	24.6	28.4	39.7	37.0	37.8
gross fixed capital formation		6.5	5.3	4.6	5.2	6.2	4.4	5.8	4.5	3.3
changes in stocks		-24.3	-24.9	-33.5	-30.3	-37.3	-46.9	-60.6	-55.1	49.9
Net exports of goods and services		50.1	52.4	53.3	51.2	51.9	46.0	54.0	45.0	52.4
exports of goods and services		-74.4	-77.3	-86.8	-81.5	-89.2	-92.9	-114.6	-100.1	-102.2

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

Table 3 Industrial output, current prices, millions MDL

	Year	2001	2002	2003	2004	2005	2006	2007	2008e	2009f
Total industry		10428	12624	15963	17591	20770	22371	26174	29655	36600
Processing industry		8108	10066	13311	14665	17627	18718	21390	19287	29782
Electricity, gas and water supply		1902	1974	1989	2069	2235	2368	3176	2816	4460

Source: Department of Statistics and Sociology 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	8864	-3.4	4521	4.0	310	5.0
2007	12550	-23.1	7280	-33.4	4884	-1.8	386	-
2008	16400	31.9	12201	-	-	-	-	-

Source: Department of Statistics and Sociology 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	2298	465	460	478	135	766	628
2007	902	598	310	221	142	704	603
2008e	3160	635	367	376	108	541	542
2009f	2650	580	420	410	127	768	590

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

Table 6 The National Budget, % of GDP

	Anul	2004	2005	2006	2007	2008e	2009f
Total revenues		35.6	39.9	38.1	38.2	37.1	38.0
Tax revenues		29.3	31.7	32.8	32.2	31.3	31.3
Direct taxes (excluding SIF and MEF)		5.6	4.9	4.9	4.6	3.6	4.5
Corporate profit tax		2.4	1.9	2.0	2.0	1.0	2.0
Personal income tax		2.5	2.4	2.4	2.2	2.2	2.2
Property tax		0.7	0.6	0.5	0.5	0.5	0.5
Revenues of special budgets SIF and MEF		8.6	9.2	9.5	9.5	9.6	9.8
Social insurance contributions		7.7	8.0	8.3	8.1	8.0	8.0
Medical insurance contributions		0.9	1.2	1.2	1.4	1.6	1.6
Indirect taxes		15.1	17.6	18.4	18.1	18.1	18.1
VAT		10.7	12.6	14.1	14.2	14.1	14.2
Excises		2.8	3.2	2.4	2.4	2.3	2.4
Taxes on foreign trade		1.5	1.8	1.9	1.4	1.7	1.7
Non-tax revenues		2.5	3.0	2.3	2.4	2.5	2.5
Road taxes		0.3	0.2	0.3	0.2	0.2	0.2
NBM profits		-	0.6	0.3	0.2	0.3	0.3
Incomes from operations with capital		0.2	0.5	0.2	0.1	0.2	0.2
Local taxes		0.3	0.3	0.2	0.2	0.2	0.2
Other non-tax incomes		1.5	1.4	1.3	1.6	1.6	1.6
Other incomes		3.6	4.5	3.2	3.7	3.5	3.6
Grants		0.4	1.3	0.8	1.3	1.3	1.3
For budget support		0.3	0.6	0.3	0.7	0.6	0.6
For investment projects		0.1	0.7	0.5	0.6	0.7	0.7
Special revenues		3.2	3.3	2.5	2.4	2.3	2.3
Revenues of social funds		0.3	0.4	0.3	0.3	0.3	0.3
Revenues from special means		2.9	2.9	2.2	2.1	2.0	2.1
Total expenses		35.1	37.9	37.5	38.2	36.6	37.0
General public services		2.3	2.5	2.1	2.3	2.2	2.3
External economic activity		0.5	0.7	0.6	0.5	0.5	0.5
Justice and Constitutionality		0.3	0.3	0.4	0.4	0.4	0.4
Maintenance of public order, defense and State security		2.8	2.9	2.3	2.7	2.6	2.7
Social expenses		22.0	24.0	29.1	25.1	23.5	24.5
Education		6.8	7.3	8.9	7.7	7.3	7.5
Culture, arts, sports and activities for youth		0.8	0.9	0.9	0.8	0.7	0.7
Health		4.2	4.3	5.7	5.0	4.8	5.0
Social assistance and support		10.2	11.5	13.6	11.7	10.7	11.0
Science and Innovation		0.3	0.4	0.4	0.5	0.5	0.5
Economic activity		4.2	5.3	4.7	4.7	5.3	5.3
Debt servicing		2.4	1.3	1.4	1.1	1.0	1.0
Other expenses		0.4	0.6	0.6	1.1	0.7	0.8

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

* Since 2004 calculations refer to the National Budget

Table 7 Monetary indicators

	Currency in circulation		Reserves of banks		Monetary base		M2		M3		Multiplier	Foreign reserves of NBM, millions USD
	millions MDL	growth %	millions MDL	growth %	millions MDL	growth %	millions MDL	growth %	millions MDL	growth %		
Q1'03	2193.1	-4.2	944.0	-3.1	3137.1	-3.8	4455.1	-1.4	6885.7	5.7	250.4	14.2
Q2'03	2364.1	7.8	915.3	-3.0	3279.4	4.5	4749.5	6.6	7300.7	6.0	260.1	14.4
Q3'03	2907.5	23.0	797.4	-12.9	3704.9	13.0	5384.6	13.4	8199.0	12.3	285.9	13.9
Q4'03	2740.5	-5.7	1078.4	35.2	3818.9	3.1	5621.9	4.4	8509.2	3.8	302.3	13.3
Q1'04	2632.8	-3.9	1233.7	14.4	3866.5	1.2	5800.9	3.2	8659.2	1.8	309.6	12.9
Q2'04	2853.4	8.4	1350.4	9.5	4203.8	8.7	6130.1	5.7	9099.1	5.1	295.7	11.9
Q3'04	3320.9	16.4	1679.5	24.4	5000.4	18.9	7140.9	16.5	10384.9	14.1	391.6	12.0
Q4'04	3699.9	11.4	1613.2	-4.0	5313.1	6.3	8137.0	13.9	11719.6	12.9	470.3	12.4
Q1'05	3656.1	-1.2	1970.3	22.1	5626.4	5.9	8432.9	3.6	12103.3	3.3	461.2	12.5
Q2'05	3895.2	6.5	2102.0	6.7	5997.2	6.6	9692.0	14.9	13345.7	10.3	482.6	12.6
Q3'05	4350.0	11.7	1970.6	-6.3	6320.6	5.4	10505.9	8.4	14932.7	11.9	582.1	12.6
Q4'05	4571.2	5.1	2431.7	23.4	7002.9	10.8	11125.5	5.9	15826.8	6.0	597.4	12.7
Q1'06	4541.2	-0.7	1437.2	-40.9	5978.4	-14.6	11050.5	-0.7	16299.6	3.0	587.7	12.9
Q2'06	4924.0	8.4	1415.7	-1.5	6339.7	6.0	11592.5	4.9	17790.0	9.1	632.7	13.2
Q3'06	4744.7	-3.6	1458.9	3.1	6203.6	-2.1	11308.1	-2.4	17835.4	0.3	647.0	13.3
Q4'06	5145.8	8.5	1366.5	-6.4	6512.3	5.0	12485.2	10.4	19558.0	9.7	775.3	13.2
Q1'07	4856.1	-5.6	1641.0	20.1	6497.1	-0.2	12715.6	1.8	19948.3	2.0	750.0	12.5
Q2'07	5421.6	11.6	1490.4	-9.2	6912.0	6.3	14230.6	11.9	22110.0	10.8	745.2	12.4
Q3'07	5928.4	9.3	1570.8	5.4	7499.2	8.5	15867.1	11.5	24767.2	12.0	950.6	12.0
Q4'07	6664.9	12.4	2872.3	82.9	9537.2	27.2	18396.7	15.9	27344.2	10.4	1050.0	11.4
Q1'08	6367.4	-4.4	2997.1	4.3	9364.5	-1.8	19114.5	3.9	28476.5	4.1	1093.8	11.1
Q2'08	6594.1	3.6	2985.2	-0.4	9579.3	2.3	20503.4	7.3	30154.9	5.9	1186.6	10.3
Q3'08e	7403.1	12.3	3341.9	11.9	10745.0	12.2	22573.4	10.0	32298.0	7.1	1803.9	9.8
Q4'08p	7910.0	6.8	3625.7	8.5	11535.7	7.4	25091.3	11.2	35929.1	11.2	2000.0	10.1
Q1'09f	7625.3	-3.6	3875.2	6.9	11500.5	-0.3	26658.7	6.2	38680.5	7.8	1800.0	10.0
Q2'09f	8260.8	8.3	4245.5	9.6	12506.3	8.7	29069.3	9.0	42314.9	9.4	2000.0	10.1
Q3'09f	9274.2	12.3	4651.1	9.6	13925.3	11.1	32244.4	10.9	46599.7	10.1	2200.0	10.2
Q4'09f	9909.3	6.8	5046.1	8.5	14955.4	7.4	36034.5	11.8	52033.2	11.7	2400.0	10.2

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, %	Banks to Economy	Interest rate for credits in MDL, %	Interest rate for credits in currency, %
Q1'03	1211.9	12.3	1544.1	3.0	10.5	4675.2	19.5	11.0
Q2'03	1280.1	11.9	1654.7	2.9	10.5	4878.9	19.6	10.8
Q3'03	1330.4	12.2	1741.6	2.8	12.0	5615.5	18.7	10.2
Q4'03	1469.6	13.8	1813.0	3.7	14.0	5999.7	19.4	11.2
Q1'04	1725.9	15.0	1806.0	4.5	14.0	6168.1	20.8	11.5
Q2'04	1856.3	14.8	1909.0	4.9	14.0	6290.0	21.1	11.3
Q3'04	2145.9	15.8	2051.8	5.1	14.5	6846.7	21.0	11.3
Q4'04	2572.3	15.5	2393.6	5.4	14.5	7399.3	21.0	11.5
Q1'05	2901.5	15.4	2538.0	5.3	14.0	7619.3	20.9	11.3
Q2'05	3260.7	13.5	2614.0	5.2	13.0	8117.9	19.6	11.2
Q3'05	3596.2	12.7	2709.5	5.1	12.5	8976.9	18.7	11.0
Q4'05	3792.3	11.5	2800.0	5.1	12.5	9990.5	17.8	10.9
Q1'06	4057.8	11.3	3463.7	5.0	12.5	10761.6	18.3	11.0
Q2'06	3911.0	11.1	4184.9	5.2	12.5	11520.0	17.8	11.0
Q3'06	3711.5	11.8	4579.3	5.2	12.5	12319.7	18.2	11.1
Q4'06	4202.0	13.2	4893.2	5.3	14.0	13767.8	18.5	11.3
Q1'07	4734.9	14.0	5283.2	5.6	14.5	14821.0	18.6	11.1
Q2'07	5455.3	15.4	5582.9	5.9	13.5	16471.6	18.7	11.0
Q3'07	6328.6	15.1	5940.7	6.1	15.3	18555.2	18.9	10.8
Q4'07	7455.9	15.5	6717.7	6.3	16.0	20883.8	19.0	10.8
Q1'08	8867.5	15.9	7033.2	6.6	16.3	22741.8	19.1	10.9
Q2'08	9638.3	17.3	7312.0	8.8	18.0	23932.9	20.3	11.4
Q3'08e	10580,4	17.0	7853,84	9.0	17.0	27559,7	20.8	11.5
Q4'08p	12277.0	16.5	8649,23	8.5	17.0	31457,2	20.5	11.3
Q1'09f	14305,8	16.2	9485,09	8.1	16.0	34103,6	19.5	11.0
Q2'09f	15686,8	16.0	10339,3	7.6	16.0	37153,7	19.0	11.0
Q3'09f	17220,1	15.5	11105,5	6.5	14.5	42784,0	18.5	10.5
Q4'09f	19981,5	15.0	12230,2	6.5	14.5	48834,6	18.0	10.5

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	1315.3	173.8
Q2'08	2583.0	13.0	1341.9	184.5
Q3'08e	2650.0	2.6	1245.8	196.3
Q4'08p	2749.0	1.9	1500.0	180.0
Q1'09f	2500.0	-7.5	1600.0	156.3
Q2'09f	2700.0	8.0	1650.0	163.6
Q3'09f	2850.0	5.6	1550.0	183.9
Q4'09f	3000.0	5.3	1700.0	176.5

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

Table 10 The Structure of the Employed Population, thousand people

	2001	2002	2003	2004	2005	2006	2007	2008e	2009f
Total population	3635	3627	3618	3607	3600	3589	3581	3573	3568
Population aged above 15	2807	2840	2868	2881	2899	2910	2915	2910	2910
Employed	1499	1505	1356	1316	1319	1301	1390	1320	1300
Unemployed	118	110	117	116	104	102	104	100	100
Employment rate	0.54	0.53	0.48	0.46	0.45	0.45	0.47	0.45	0.45
Economic dependency rate	1.42	1.41	1.66	1.57	1.58	1.60	1.66	1.63	1.63

Source: Department of Statistics and Sociology 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	Annual average
1997	1.9	1.4	1.0	0.8	0.6	2.0	-1.0	-0.8	1.2	0.9	1.1	1.5	11.2	12.0
1998	1.3	0.4	-0.1	0.7	0.2	-1.1	-1.4	-0.6	0.2	1.4	8.6	7.8	18.3	8.0
1999	5.4	1.5	0.6	2.0	4.1	7.2	2.5	0.7	1.7	2.1	4.3	5.0	43.7	39.0
2000	2.9	1.3	0.1	1.6	1.4	4.4	0.7	0.8	1.4	1.0	0.8	0.8	18.4	31.0
2001	1.2	0.3	0.3	1.5	0.5	-3.5	-1.7	-0.5	0.9	1.3	1.1	1.9	6.3	10.0
2002	1.3	-3.4	0.5	1.9	1.6	-3.4	-1.5	-0.6	0.8	1.2	1.2	1.9	4.4	5.2
2003	1.9	1.8	0.9	1.5	0.5	1	1.3	0.4	1.6	2.1	1.1	0.7	15.7	11.6
2004	1.5	0.9	0.6	0.9	0.5	0.1	0.3	0.5	1	2.2	1.8	1.6	12.5	12.4
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	11.9
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	12.7
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	12.3
2008e	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	6.9
2009f	-0.1	1.3	0.9	1.4	0.7	-0.2	-0.1	0.3	0.9	1.0	1.3	1.4	10.5	10.4

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

Table 12 Balance of payments, millions USD

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

Source: NBM, computations by ES

Table 13 Real GDP growth in major trade partners of Moldova

	2001	2002	2003	2004	2005	2006	2007	2008e	2009	Weight in total Moldovan Exports, %, 2007	Contribution to the World's Global Output, %
Russia	5.0	4.3	7.3	6.1	6.4	6.7	6.5	7.2	6.3	17.3	2.7
Euro zone:	1.5	0.9	0.5	1.9	1.3	2.7	1.6	1.3	0.8	50.6	15.7
Italy	1.8	0.4	0.4	1.2	0.1	1.8	0.8	0.1	0.2	10.4	3.0
Germany	0.8	0.2	-0.1	1.7	0.9	2.7	1.3	1.9	0.9	6.4	4.4
France	2.1	1.2	0.5	2.4	1.4	2.3	1.5	1.1	0.9	1.8	3.2
Romania	5.7	4.9	4.5	8.0	4.1	7.7	4.8	5.6	4.8	15.7	0
Ukraine	9.2	5.2	9.4	12.0	2.8	7.1	4.1	5.9	5.8	12.5	0
Belarus	4.7	4.7	6.8	11.0	9.2	9.9	8.2	6.3	7.9	6.1	0
USA	0.3	2.4	3.0	4.4	3.2	3.3	3.4	1.6	0.9	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	2008e	2009f
CSI	334.5	434.8	593.4	764.8	915.9	1020.8	1333.7	1737.2	2084.2
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	2736,9
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	1214,2
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	6035,3

Source: National Bank of Moldova, Department of Statistics and Sociology 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	2008e	2009f
CSI	348.0	368.8	423.8	502.4	551.2	424.1	550.3	627.9	689,1
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	984,1
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	128,9
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	1802,1

National Bank of Moldova, Department of Statistics and Sociology 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
2008e	33400	7.0	13100.0	5.0
2009f	36000	6.0	14200.0	3.5

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

Table 17 Disposable income and household consumption, current prices, millions MDL

Year	2001	2002	2003	2004	2005	2006	2007	2008e	2009f
Disposable income	10492	13961	18285	23838	28913	33249	39899	44100	48000
Wages	3966	5166	6820	9003	12237	15908	17816.9	19600	21100
From agricultural activity	3347	4174	5284	6510	6945	7300	7800	8200	8500
From self-employment	283	363	713	1098	1320	1550	1900	2250	2550
From property	31	14	110	157	210	230	280	320	370
Social benefits	1144	1969	2560	3379	4075	4686.3	5249	5900	6300
Other benefits	42	42	18	22	38	45	51	55	58
Other current transfers	1679	2234	2779	3669	4088	4880	2010	2250	2400
Household consumption	10831	14144	18610	24156	30150	34672	35088	36600	38000

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

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