

Center of Economic Policies of IDIS “Viitorul”

Economic Statewatch:

a quarterly analysis and forecast

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Center for Economic Policy at IDIS „Viitorul”

ACRONYMS AND ABBREVIATIONS

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

CEE – Central and Eastern Europe

CIS – Commonwealth of Independent States

CSIR – Centre for Strategic Investigations and Reforms

SSD – Statistics and Sociology Department of Republic of Moldova

EGPRSP – Economic Growth and Poverty Reduction Strategy Paper

ES – Economic Statewatch: quarterly analysis and forecast

FDI – Foreign direct investments

HBS – Households' Budget Survey

ILO – International Labour Organisation

IPP – Institute for Public Policies

MDL – Moldovan leu (the national currency of Republic of Moldova)

ME – Ministry of Economy

MF – Ministry of Finances

MLSP – Ministry of Labour and Social Protection

NBM – National Bank of Republic of Moldova

H – half of the year

Q – quarter of the year

e – estimate

f – forecast

aaer – average annual exchange rate

apc – annual percentage change (rate between end of the current
year on end of the previous year)

aapc – annual average percentage change

aa – annual average

pp – percentage points

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Main indicators

(Transnistria not included)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e | 2006p |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| Output | | | | | | | | |
| GDP, Million MDL, current prices | 12322 | 16020 | 19052 | 22566 | 27297 | 31992 | 36200 | 43000 |
| GDP per capita, USD, aaer | 321 | 354 | 408 | 459 | 543 | 765.6 | 892 | 890 |
| Real GDP, apc | -3,4 | 2,1 | 6,1 | 7,8 | 6,3 | 7,3 | 6,0 | 6.0 |
| Real industrial output, apc | -11,6 | 8,0 | 13,7 | 10,8 | 16,0 | 5,0 | 6,0 | 5.0 |
| Real agricultural output, apc | -8,4 | -3,3 | 6,4 | 3,4 | -13,6 | 20,4 | 5,0 | 6.0 |
| Gross fixed capital investment,% of GDP | 18,4 | 15,4 | 16,7 | 16,3 | 17,1 | 15,6 | 16,2 | 27,3 |
| Households | | | | | | | | |
| Available income percapita per month, MDL | 133 | 186 | 241 | 322 | 422 | 491,4 | 565,2 | 670 |
| Real available income, apc | -18,7 | 6,1 | 17,7 | 26,5 | 17,4 | 3,5 | 5,0 | 5.0 |
| Real retail trade, apc | -29,6 | 27,4 | 15,1 | 34,3 | 21,1 | 11,0 | 10,0 | 10,0 |
| Prices | | | | | | | | |
| Consumer Price Index (CPI), aapc | 143.7 | 118.4 | 106.3 | 104.4 | 115.7 | 112.5 | 112 | 113 |
| Food price index | 144 | 123.1 | 106.1 | 102.8 | 120 | 113.1 | 109.9 | 111,5 |
| Industrial/Non-food price index | 135.6 | 112.5 | 107.9 | 108.2 | 111.5 | 111.9 | 117.1 | 112 |
| Services Price Index | 155.6 | 111.6 | 104.5 | 104.4 | 112.6 | 111.6 | 109.3 | 118 |
| Labor Market | | | | | | | | |
| Population, thousands | 3646 | 3639 | 3631 | 3623 | 3612 | 3386 | 3383 | 3385 |
| Employed in economy, thousand | 1,495 | 1,515 | 1,499 | 1,505 | 1,356 | 1316 | 1303 | 1280 |
| Unemployment rate, ILO methodology | 11,1 | 8,5 | 7,3 | 6,8 | 7,9 | 7.8 | 7.8 | 8.0 |
| Average monthey salary, lei | 304.6 | 407.9 | 544 | 692 | 891 | 1104 | 1500 | 1700 |
| Real wages, apc | -12.5 | 2.2 | 21.2 | 21.1 | 15.0 | 10.2 | 5.2 | 4,5 |

Indicatorii principali (continuarea tabelului)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e | 2006p |
|---|--------|--------|--------|--------|--------|--------|-------|-------|
| Foreign Trade and Balance of Payments | | | | | | | | |
| Export of Goods and Services, apc | -23,5 | 5,5 | 14,5 | 18,3 | 21,1 | 24,8 | 22 | 18 |
| Export of Goods and Services, apc | -36,1 | 22,3 | 11,2 | 18,1 | 34,6 | 26,5 | 30 | 20 |
| Goods and servicesturnover, million USD | 1035,4 | 1248,9 | 1467,4 | 1813,2 | 2193,0 | 2760,5 | 3 480 | 4800 |
| Current account, % of GDP | -4,0 | -9,4 | -7,3 | -6,2 | -7,4 | -3,2 | -3,0 | -3,5 |
| Goods and services turnover, million USD | 38,8 | 127,5 | 148,5 | 110,4 | 39,4 | 50,0 | 75 | 60 |
| Income Earned Abroad, Million USD | 90,1 | 126,2 | 183,7 | 239,1 | 258 | 450 | 600 | 600 |
| Public Finances | | | | | | | | |
| Consolidated Budget revenues, % of GDP | 25,2 | 25,6 | 22,7 | 22,5 | 24,3 | 23,5 | 24 | 24,5 |
| Budget balance,% of GDP | -3,2 | -1,0 | 0,0 | -0,5 | 1,6 | 0,2 | 1,5 | 1,0 |
| Domestic public debt,% of GDP | 15,5 | 12,6 | 12,6 | 12,5 | 10,7 | 11,6 | 12,0 | 11,5 |
| Foreign public and governmentally guaranteed debt, % of GDP | 65,9 | 79,3 | 64,5 | 59,4 | 51,5 | 29,2 | 25,0 | 23,0 |
| Energy arrears, % of GDP | 35,5 | 24,6 | 19,4 | 18,1 | 15,9 | 11,1 | 10,0 | 8,0 |
| Financial Indicators | | | | | | | | |
| Monetary base, apc | 41,3 | 29,8 | 27,9 | 31,1 | 17,0 | 38 | 37 | 40 |
| Foreign Currency reserves, Million USD, end of the year | 180,5 | 222,5 | 228,5 | 269,6 | 302,3 | 470 | 550 | 600 |
| ROfficial exchange rate, annual average MDL/USD | 10,52 | 12,43 | 12,87 | 13,57 | 13,92 | 12,3 | 13,2 | 13,0 |
| Interest on MDL loans,%, aa | 35,5 | 33,3 | 28,5 | 23,1 | 19,2 | 21 | 19,2 | 18,5 |
| Economia internațională | | | | | | | | |
| Global GDP, apc | 3,7 | 4,7 | 2,4 | 3,0 | 3,9 | 4,8 | 4,5 | 4,0 |
| Weighted GDP growth of main trade partners (2/3 of exports) | 2,5 | 5,3 | 4,0 | 2,8 | 3,8 | 3,5 | 3,2 | 4,1 |

Source: DSS, NBM, forecasts by QES

Transnistria, Selected Indicators

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e |
|-----------------------------------|-------|-------|-------|-------|-------|--------|-------|
| Regional GDP, million USD | 332 | 281 | 199 | 250 | 309 | 405,00 | 486 |
| Regional GDP, apc | -30,1 | -20,9 | 10,0 | -2,7 | 18,1 | 16,2 | 18,0 |
| Industrial output, apc | -3,8 | 16,5 | 9,0 | -18,7 | 21,4 | 47,00 | 5 |
| Population, thousands (estimated) | 658,0 | 651,8 | 633,6 | 630,1 | 621,8 | 616,5 | 600 |
| Retail trade and services, apc | -18,3 | 11,9 | 23,1 | 18,4 | 7,6 | 7,30 | 16 |
| Investments in fixed capital, apc | 34,6 | 3,8 | 15,6 | -32,7 | -14,7 | 70,00 | 10 |
| Exports, million USD | 258 | 328 | 378 | 243 | 433 | 535,10 | 560 |
| Imports, million USD | 417 | 489 | 541 | 450 | 530 | 758,00 | 790 |
| Consumer prices index, aapc | 240 | 190 | 127 | 111 | 133 | 120,40 | 116 |

Source: "CBTMR", CISR, estimates by ES

SUMMARY

POLITICS. The parliamentary elections in March 2005 led to political stability in Moldova. The Stability is based on an unprecedented covenant of partnership between the ruling party and the opposition. The fortunate international context allowed, although after Sisypheic efforts, the Moldovan diplomacy to attract the attention of Brussels. The growing interest of the European Union for the Russian neighborhood is spurred by the geographic realities, by the growing security threats and the reasons of a common market strategy. As for domestic policy, the Communist Party continues to monopolize the Moldovan political market.

The domestic political stability and the fortunate international environment allowed the Moldovan authorities attract the interest of Brussels

In 2005, the shortcomings of Moldovan party structures popped out into the light. The dissident sparks in public discourses have shattered the internal durability of the parties. The low working capacity of the Parliament apparatus made the Speaker Marian Lupu seek external assistance, mainly from the civil society and foreign donors, for a parliamentary reform.

The international financial organizations and the opposition blame the Government for stagnating the main structural reforms. In 2005, good prospects for the settlement of the Transnistrian conflict emerged.

AGRICULTURE. The year 2005 was shaped by a series of happenings that could generate long-term changes in agriculture and mainly the structural reforms, the revising of state policies on agriculture and the upgrading of land surfaces used in agriculture.

Promising agricultural policies that could bear results in the following years are taking shape.

The total agricultural output demonstrated a 6% increase in prices, as compared to the previous year. This growth was primarily caused by an 8.7% increase in the outputs of live stock and partly by a 4.6% increase in vegetal output.

The exaggerated grain crop surfaces have been maintained, despite a steep decline of 46% in prices between the first quarter of 2005 as compared to the same time period in 2004.

The areas of technical crops has experienced an insignificant extension compared to 2004, but has still decreased if compared to 2003. The transparent and fair distribution of export quotas on sugar was favored both sugar producers and farmers of sugar beets. The surfaces of multi-year crops has been considerably reduced since 1997. Nonetheless, there is an overall growth in the total output of fruit.

The Law on the State Budget for the Year 2006 stipulates a significant increase of 220 Million MDL in subsidies for agriculture. Another 60 Million MDL were allocated into the Fund for Supporting the Creation of Vines.

INDUSTRY AND SERVICES. In 2005, the Moldovan industry experienced a low growth rate caused mainly by externalities and low investment in capital. The services sector continued to be the driving force of national economy. The growth in services has been assured by an increase in the purchasing capacity of the population, in consumption and by the boom in telecommunications, trade and construction.

The application of the VAT on imports of machinery and high-tech equipment will depress purchases of these items and, therefore, hamper the modernization of the industrial sector.

Services have been the driving engine of economic growth in 2005

In 2006, the growth rate of the industrial output will continue to decrease until it reaches the level of 5%. A similar tendency could be forecasted for 2007. The processing industry will experience a 5% growth in output. Should substantial investments not occur, then by 2007 the sector will be in stagnation.

Alarms have already been signaled in the Wine sector; where a miserable 1% growth was accompanied by large supplies.

The year 2005 was the least fortunate time period for the foreign trade of Moldova.

FOREIGN TRADE. 2005 was the most unfortunate year for foreign trade. For the first time the imports were double the exports. Thus, the trade deficit amounted to \$1 Billion. In the end of the year, a new initiative aimed at promoting foreign investment in Moldova was launched under the aegis of OECD. We hope this initiative will help improve the investment climate and the export potentials of Moldova.

Moldova continued to lose its traditional export markets, which have not been replaced with alternatives. Russia, which is the main export market of Moldova has been closed throughout the last half a year. This "friendship policy" of Russia's has led to a 5% decrease of Russia's share in Moldovan exports, while our trade balance was reduced by 30%.

Secondary products account for the smallest share in our exports.

The high GDP monetization of 37% could lead to strong inflation.

MONETARY POLICY. In 2005 GDP monetization was planned at 31.4%, but in reality, it reached 37% of GDP. We believe that to be a great risk for the financial system of Moldova, as it could lead to an extremely strong inflation. The high monetization proves that monetary funds are not conveyed efficiently within the financial system of Moldova. The National Bank of Moldova (NBM) is very often in the position of increasing the money supply to cover the liquidity needs of the state, or of the commercial banks, as well as to amortize the huge supply of foreign currency. On this background, there is a surplus of liquidity.

In 2006, the NBM has not changed its policy, low inflation rate being the main objective. Inflation should not exceed 8-10 percent. However, we consider that inflation will be above that. In 2006, the NBM plans to increase the monetary base by 20%, the M2 indicator by 40% and simultaneously keep GDP monetization at 35%.

The upsurge of money supply and the surplus of liquidity in the banking system allowed the banks to dictate the interest rates for deposits, thus lowering them down to 10.55%.

During 2005, the Moldovan Leu demonstrated an inflatory trend caused by the large supply of foreign currency in Moldova, accompanied by the low demand for MDL by the population. For the first two quarters of 2006, we expect an exchange rate of MDL to the USD that will exceed 13 MDL/1 USD, mainly caused by the appreciation of the US Dollar on the foreign markets. In the second half of 2006, the exchange rate will lower the Dollar again under 13 MDL, as we can forecast a depreciation of the Dollar for that period.

PUBLIC FINANCES. In 2005 the state budget reached its growth limits. Between 2003 and 2005 the VAT applied on imports had been the main source for growth for the state budget. Since the source is depleting in 2006, we forecast sharp decline in budget revenues and a possible budgetary crisis in 2007-2008.

The 2005 budget has exhausted its growth sources

The year 2006 will be marked by a feverish search of revenue sources for the consolidated budget. An increase in the excises for oil products could be a solution, for short term, though. Whereas in the long run, the solution could be found in the personal income tax and tax on property.

The growing inflow of remittances from abroad and the profits caused by surplus in budget revenues allowed the finalizing in 2005 of the National Gas Infrastructure Programme that was planned until 2010.

PRICES. The inflation was the most controversial indicator of year 2005. The deflation that occurred in the summer, also known as "the potato deflation" went beyond any expectations. Despite of the data supplied by the Department of Statistics and Sociology (DSS), regarding the 10% inflation rate, we believe the real inflation rate was of at least 12%. Our main reason for skepticism are the outdated methodologies and of the significant fluctuations in the structure of consumption.

Contrary to the official data, we consider that the real inflation rate was at 12% the very least.

The rise in gas prices will reflect a rise in the prices for household services within the CPI. The effect of higher gas prices on non-food products will be lower.

HOUSEHOLDS. In 2005 there was a slowdown in the growth of real incomes caused mainly by high prices for consumer goods and small wages. The slowdown in the increase of household incomes and the lagging demand have been retaining the consumption expenses of families.

In 2005 there was a slowdown in the growth of real incomes.

In 2005 there was a huge discrepancy between the households' income and consumption. This discrepancy may be explained by the massive shadow economy. By comparing the official revenues to the consumption, we conclude that for every unit of official income, there are two units of unregistered income, which cover the consumption.

The numerous poor are the most vulnerable to price fluctuations, especially to prices of consumer goods. The revenues of the wealthiest surpass the revenues of the poor by 18 times.

Land ownership, and also ownership of the land used in agriculture does not impact the level of well-being of rural households. Our forecasts show a 8-10% growth annual growth for the next 2-3 years.

LABOR MARKET. During 200-2005, the population employed decreased by 200 thousand, although there were no important structural changes. The purchasing power decreased 2-fold.

During the last five years, the employed population decreased by 200 thousand people...

Agriculture is the sole sector in which a massive future decrease of employed population is expected. At the present moment, there is a surplus of human resources in agriculture, as for every employed person, there are just 3 ha of land, which only allows for subsistence agriculture.

Nonetheless, due to natural factors, such as aging, high mortality rates in the rural regions, massive migration of the young population abroad or to

... and will continue to decrease by over 200 thousand in the next 10 years.

The awesome GDP growth of 19% in Transnistria was is an illusion caused by the modification of the calculation methodology.

the cities, the population employed in agriculture will decrease by another 200 thousand in the next 10 years.

Until now, the private sector accounted for most of the raises in wage pays. In 2005, however, wages grew mainly in the state sector. The wage raises in the real economy have not grown beyond the inflation rise.

TRANSNISTRIA. In the first nine months of the current year, the monostructure tendencies in the Transnistrian economy were very salient. The share of metallurgy and of the textile industries have grown as share of GDP and in the total of exports in the detriment of other economic activities. GDP growth was 19%. It should be noted, however, that one of the main factor explaining such a growth is the modification of the GDP calculation methodology, and namely, the services were for the first time included in the calculation.

The process of privatization is going full blast ahead. According to the Law on Privatization, the property of 125 companies is to be sold between 2005 and 2006.

The structure of the Transnistrian industry remained unchanged. The metallurgic industry continues to top the economy, with its 52% share. The energetic industry follows with 17% share. Other important sub-sectors are: the textile industry (13%), the food industry (8%) and machinery (6%).

The banking system has shown a steep rise on the course of year 2005, as the demand for banking services rose steadily. In the first 9 months of 2005 the assets of the commercial banks grew by 80%.

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- Regulations on the distributions of sugar export quotas from Moldova to Romania.
- Vine Centers and Wine-Lands for the Development of Original Trade Marks of Wine.
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- Recent Trends in the Rentability of Moldovan

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- An Average Wage of \$300/ month and Increase in Employment by 300 Thousand people until 2008???

POLITICS

General Tendencies

The March 2005 elections brought more political stability in Moldova. This political peace is based on an unprecedented covenant of cooperation between the ruling party and the opposition.

The new political environment has been very favorable for the adoption of several strategic laws that are crucial for the modernization of the Moldovan society and state following the European course of the country. The conditions set forth in the covenant have, however, been insufficient to propel a sound change in the working habits and the performance of the government, that found itself lagging behind political developments.

The format in which EU and USA got involved to seek a solution for Transnistrian conflict is also inefficient. In February 2005, Moldova signed an Action Plan with the EU and also showed willingness to elaborate an Individual Action Plan (IPAP) with NATO until end of February 2006. The implementation of the Moldova-EU Action Plan became a criterion of quality evaluation of both state policies and the political cohabitation between the ruling power and the opposition before the eyes of civil society.

The regional political context has been difficult for Moldova. In 2005 Russia, longing to maintain its hegemonic position in the ex-Soviet space, sought to retaliate for its fiascos from the times of the two orange revolutions in Georgia and Ukraine.

Its intervention policies varied from direct involvement into the electoral process to extorting concessions from the “rebel” states by the means of increased tariffs on exported natural gases and other economic blackmail policies. The will to undertake power no matter the price did not bring anticipated results. However, the vulnerability of the EU’s “new neighbors” raises doubts about the success of the European Neighborhood Policy (ENP); especially until adequate remedies that would also uphold the objectives traced in the Security and Defense Policy have not been found. The course of the new energy policy created rifts in Russia’s relation with the EU. The gas crisis utmost revealed the shortcomings of the ESDP as it proved to be hyper-dependent on Russian raw materials.

International Context

The regional evolutions in the end of 2004 determined Moldova’s political class to adopt a political trajectory which is way-out from the perimeter of post-Soviet communism. The new way has forced the politicians to adopt the itinerary followed by its neighbours: Romania and Ukraine. While Romania is already a NATO member, Ukraine is seriously preparing to accede within the next 5 years.

Sometimes it looked as if Russia lost control over the political course in the CIS space. The drastic overnight changes in the elite structure and in the strategic priorities of Ukraine, Georgia and Moldova, left Russia in frustration, mainly because of not having sufficient resources to avoid a confrontation with the West. After several attempts of opposing to the color revolutions from Ukraine and Georgia, Russia was willing to retaliate,

Starting with the summer of 2005, Russia counter-attacked, choosing to retaliate through means which are typical for economic colonialism: suppressing economic alternatives, corruption of the political class and taking over the pillar institutions of energy security of states.

her intentions being crystallized through its firm position against Western projects of political change based on the Georgian-Ukrainian model (i.e. in Kyrgyzstan), which could analogically tempt some Russian or Byelorussian leaders of opposition. The rapid succession of diplomatic notes on the background of an accelerated course of "westernization" of the countries included in the ENP by EU (Ukraine, Moldova, followed closely by Georgia, Armenia and Azerbaijan) soon made President Putin replace diplomatic notes with direct threats expressed in the most brutal way, varying from "open" economic blackmail (shutting down gas pipe-lines in full winter and freezing energy systems yet massively dependent on Russian gas and oil) to contesting frontiers of these states and discussing the matter of revising the agreements regarding the demarcation line of Russian and Ukraine frontiers as in other regions that are limitrophe to Russia.

Distinct from the „cordial“ relation established between Putin and the presidents of Kazakhstan and Byelorussia, Moscow's policy concerning Ukraine, Georgia and Moldova became more brutal in 2005.

The 3-fold augmentation of gas price for "unfriendly" states and the unveiled threats focused on the status quo on the Russian-Ukrainian frontiers¹, moreover Moscow's definite refusal of withdrawing military troops from Moldova's separatist region have made the bulk of Russia's foreign policy discourse lately. The profound crisis where they have failed at the end of 2005 reflects the lack of effective solutions in Russia to influence Ukraine's policy, the lack of attractiveness of its projects in the region (CIS, CESEA)². Simultaneously, these actions intensified a series of geopolitical cleavages within the CIS. On one hand, there are the states with explicit pro-Euro Atlantic aspirations (Ukraine, Georgia and Moldova lately), on the other – states led by plutarchic elites dreaded by the possibility of them being replaced by "orange" politicians. The seismic waves of regime change in Ukraine and Georgia brought forth geopolitical vibrations. Ukraine and Georgia expressed their will to solicit NATO membership and the opening of US military bases in Romania accelerated Russia's needs to review its relations with the "Near Abroad".

On the other hand, Russia spontaneously declared itself to be the protector of the geopolitical status-quo of the former Soviet space, offering generous and unconditional support to the authoritarian leaders in these countries. Hence, Russia reacted immediately and positively to the "internal difficulties" in Uzbekistan³, obtaining on this occasion the evacuation of US military presence from that country. In a very short time, the same scenario was repeated by Russia in Kyrgyzstan, where Bakiev, the newly elected leader of the opposition, requested a raise of rent fee for the US military base. The request was done right after Bakiev had an official visit to Moscow. Russia perceives the US and NATO presence in Central Asia as a factor of instability. The argumentation for that being that Central Asia is the responsibility of the CST (Collective Security Treaty of Tashkent)". By that Russia regards the Western urges of democratization as spread of Western pressures upon local authorities.

1 During an interview for the Russian Channel 1, the Russian Defence Minister, Ivanov declared that, should Ukraine dare to revise unilaterally the rent for the Russian navy base in Crimea, Russia will re-open the issue of the Russian-Ukrainian border, referring to the time when the peninsula was „abusively“ transferred into the property of Soviet Ukraine.

2 After Ukraine reused the initial offer of 160 Euro/1000 cubic meters of gas, the only offer that followed from the directors of GASPROM was of 230 Euros/1000 m.

3 According to the reports of Freedom House, the authorities of Uzbekistan recognize the death of 186 civilians in Andijan, while independent sources mention numbers ranging from 500 to 1000. Right after the atrocities, the Uzbek authorities suspended the activity of the opposition press, including BBC, Radio Free Europe/Radio Liberty and Internews.

In order to make its arguments more solid, Russia repudiated its relations with the dissidents in Kazakhstan and Turkmenistan, so as not to skare Nursultan Nazarbaev and Saparmurat Niyazov from cooperating with Moscow.

Russia who attempted to mobilize the whole CIS community against ODIHR-OSCE, accusing it of "excess of attention that it gives to electoral democracy", especially in the former USSR and, in particular, in to the clientele regimes of the Kremlin (Byelorussia, Uzbekistan, Kazakhstan). This position of the Russian leaders made a good enough reason for many of these leaders to join Moscow's initiative. Nonetheless, Russia did not succeed shutting ODIHR's mouth and nor did it manage to confer more legitimacy to the CIS observers that the Kremlin has used to weaken international influence in the space that Russia perceives as "zone of vital interests".

Mobilizing its vast networks of pressure and its relations with the authoritarian leaders from Central Asia and Belarus, Moscow shortly succeeded in creating a truly "anti-orange pact", guarding over regimes with serious democracy deficiencies, thus spurring the repugnance of EU and the USA. In 1995, Russia continued to exert pressure on the OSCE in order to implement its' security agenda⁴.

Ukraine and Georgia found themselves in opposition to Russia, especially through efforts of revigorating GUAM. The admission of new observer members from the ranks of the neighboring countries during the Summit in Chisinau this April aimed at enlarging this group's development "on flanks", increasing strategic visibility and, at the erasing the differences between the ex-Soviets and the non-ex-Soviets.

The climax was achieved with the creation, on December 2 2005, of the Community of Democratic Choice (CDC), occasion when Ukraine and Georgia was joined in this endeavor by Moldova, Lithuania, Estonia, Latvia, Romania, Macedonia, Slovenia and Poland. Russia refused to participate. A common declaration on behalf of the head of states presented at the event reiterated the political objectives of the Community and, at the same time, the format of cooperation between member states.

Never before has Russia's role as the central element of the CIS been contested. Up until the present, the degree of economic, political and military integration of CIS member states largely depended on their personalized relations with the Kremlin. The effects of these cleavages were noticed at the 60th anniversary of the victory in the II-nd world war (May 9th), where leaders of the Baltic states did not participate nor the presidents of Georgia and Azerbaijan, while the presidents of Moldova and Ukraine kept their visits to Moscow a couple of hours short.

There has not been a long time since the leaders of these countries re-instated their interests, which turned out to be distinct from those of the CIS. The revitalization of GUAM and, later, the creation of the Community of Democratic Choice was sheer evidence of that. Moscow looked at these developments as to a threat, but as well as to Putin's personal projects. Moscow accused the West of promoting a policy of "Russian isolation", and of unwanted immixtion into "a territory of exclusive and legitimate Russian interest".

The Creation of the CDC was perceived by Russia as an "anti-Russian" pact, an "unfriendly" join, that determined the appearance of new official and quasi-official, aggressive declarations accusing the signatories as willing to "isolate" Russia from the rest of Europe.

⁴ Vladimir Socor, Life begins at 30 conference on OSCE's future after 30 years, Hofburg, Vienna, 9 September 2005

The European Commission frowns more and more upon the sources of instability and conflicts on its Eastern borders. The accession of Romania and Bulgaria in 2007 will extend the geopolitical horizons of EU to a region where a strong Russian military presence still persists (Transnistria, Crimea, Byelorussia, Abkhazia). The preservation of an "ex-Soviet Pax" is unconceivable under the conditions when the gravitation of the EU in Moldova, Ukraine, Georgia, Armenia, Azerbaijan increases every single day. More than that, EU's Security and Defense Policy can no longer ignore the inklings originating in the secessionist regions of Transnistria, South Ossetia and Mountain Karabakh towards a region that is more important for European stability.

THE GAS CRISIS

After Kiev's refusal to pay a price of \$160/1000 cubic meters of gas, which replaced the old tariff of \$50, Gazprom, the Russian giant gas producer came up with the stunning offer of \$230/cubic meter. Even though Ukraine admitted that it has to move on towards world prices, Kiev solicited a lower price together with a transition period that would allow diminishing the price shock. After several deliberations, Moscow announced an ultimatum addressed to Kiev that aimed at displaying the Ukrainian authorities as "incapable to agree with Russia". Meanwhile, Gazprom launched a full campaign of disparagement against Ukraine, claiming that Kyiv "is stealing" the gas meant for the EU consumers. Obviously, the results of these actions seem to have worsened the relations between Ukraine and Russia.

On continental design, the new price policy imposed by Russia in the midst of winter has been harshly criticized, while the Russian leaders were accused of "irresponsibility". On January 4, 2006 the Ukrainian delegation finally accepted a price of \$220 proposed by Gazprom, but still continu-

ing to consider considering importing gas under transparent conditions through RosUkrEnergo at the price of \$90/1000 cub. Meters as a back-up.

However, the contradictions of this conflict did not end here. Many of those who would accept Russia's arguments about the need to charge Ukraine according to world prices would not be able to disguise their frustration when former Russian officials openly assert that "the subsidiary gas price of \$50 for 1000 cubic meters was enacted to support the Russia-supported candidate for the presidential elections, Kuchma".

Since Ukraine turned towards the EU and NATO while distancing itself from Russia, there's no more reason to continue subsidizing the Ukrainian leaders. Analysts assert that, in 2006, a new conflict between Russia and Ukraine is imminent. The extent of the conflict will depend on the number of supporters that the oligarchs who are benefiting from the new Russian venture will get in the Ukrainian Rada.

This is how Russia came back on December 2nd to the 2 issues that had strongly undermined its reputation at the beginning of 2005: (1) control and management over energy resources towards EU, (2) decline of its influence over its neighbors, and especially over Ukraine. Russia hoped that Kiev will accept the conditions of gas delivery and will make concessions on political level. Apparently, the leaders in Moscow relied on the fact that EU will remain a neutral actor in this crisis or at least, will not contribute much in mediating this conflict between Ukraine and Russia, which the latter considers as a strict economic one, which it dwells on with geopolitical means. The fact that Putin does not remember WHY Ukraine paid in 2004 only \$50 for 1000 square meters suggested to its critics serious arguments of doubting the precision of estimations presented by Gazprom for justifying "market costs" of new tariffs, accusing him of amnesia and cynicism.

Not accidentally, the 2006 Freedom House Report diminished Russia's position from the statute of "partially free" to "not free". Thus, the files entered in action against former counselor Schroeder (who chose to undertake a key office in the Management Council of Gazprom immediately after the expiration of his Counsellor of Germany) explains the secret of some EU tolerated affairs along these past years. Putin's initiative strikes unexpectedly the image of Gazprom

Concern that would have desired to be seen by the West as an honorable firm. In reality, the fact the President Putin and not Gazprom Concern announced the ultimatum conditions for gas delivery to Ukraine discouraged without appeal the frailty of business and democracy traditions in an authoritarian state⁵. Those that did not believe that Russia will move on to actions of reprisals against Ukraine (exactly in the day when Russia obtained presidency through rotation of the G7+1 Group) did not understand that actually the dispute relates to something more than gas price. Telecasting on January 1st on all TV channels about the act of gas delivery suspension to Ukraine and Moldova was schemed not only in order to set a lesson to Kiev, but also to show the force that Russia controls.

The stake of parliamentary elections in Ukraine, the attempt to assure control over main gas thoroughfares of transition towards European consumers⁶, the pro-Euro Atlantic agenda where Ukraine anchored throughout the last year: all these elements contributed to escalation of a new profound crisis between Ukraine and Russia to the end of 2005. Many observers appreciated EU's position as a "capitulant" one. Moldova and Ukraine asked for EU assistance and counseling in crisis overcoming, suggesting that they would like to negotiate in group gas deliveries with Russia. However, while Ukraine succeeded to sign on January 4th a Contract with Gazprom, apparently, as follow-up of "surprisingly simple solution"⁷, Moldova was put on the waiting list for a couple of weeks if not abandoned before the initial position approved by President Yushchenko and Voronin: accepting a gradual rise of 30% on prices, moratorium on current gas delivery and mediation of relation with Russia through EU⁸. Only on January 16th 2006 Moldova obtains the signing of an Agreement on gas delivery with Gazprom at a rate of \$110/1000 square meters which is appreciated by President Voronin as a "triumph of pragmatism" in Mold-Russian relation.

It is true that the Agreement differs essentially from the one signed between Russia and Ukraine, but its merits should not be overestimated. Though appreciated as a positive Agreement, more transparent than the one signed by Kiev; this arrangement has numerous defaults: it does not assure stability for gas delivery, it accepts passing on proprieties under the control of Gazprom in exchange for debts, which means that the negotiated tariff is not the final price of gas delivery to Moldova. To these conceding we will add the lowering of the transit tariff (from \$2,5 to \$2/1000 cubic, which assured in 2005 an income of \$40 mil or circa 35% of gas costs), as legalization, de facto, of acquisitions made by RAO EES and namely, the Cuciurgan Power plant, which obtains the right to restore activities and furnish electricity towards Eastern Europe. Of course, Chisinau authorities consider useful to mention that it is Moldova's national interest to maintain direct relations with Russian business rather than allow secessionist authorities assure themselves profits through the positions that they hold. Hence, these conceding have long-term consequences in the perspective of reestablishment of an effective jurisdiction over the Transnistrian territory as a large participation of the Russian capital in the sectors that define Moldova's energy security.

5 Moscow gets off to bad start in '06 by C.J. Chivers, The New York Times, Tuesday, January 3, 2006, *de asemena*: Jamestown.Org. 04.01.2006.

6 The GAZPROM's CEO, Medvedev declared that the company is interested to trade good gas prices for some properties in Ukraine. He proposed the following offer: GAZPROM will provide a "grace period" for the transition to better prices, while GAZPROM will enter into the possession of the gas-transport and distribution system in Ukraine.

7 The appointment of RosUKrGAZ as intermediary between Gazprom and Ukraine for gas deliveries has been intensely criticized

8 The transit of gas through Moldovan territory towards the Balkans constitutes, 22 Billion cubic meters in 2006, sold at the price of \$250 per 1000 cubic meters. From 1996 until 2005, the tariff established for Moldova was the highest in the CIS. Meanwhile, Gazprom controls 50% of the shares of Moldova Gaz (the other two major shareholders are: the Moldovan state with its 34% and the Transnistrian authorities, which hold 13.44% of shares). The total gas debts for gas consumption of Moldova constitute 1 Billion USD.

FORECAST FOR 2006

Year 2006 will free Moldova and Ukraine from the myth of the fake relationship with the Russian Federation, supposedly based on „mutual love“. The effects of this de-mystification „love vs., gases“ will be felt especially by political parties and characters that did not let go to their nostalgic past and who cannot generate competitive political ideas for transition, because it may look as too fast for them. On a regional level, the results of general elections in Ukraine will unfold again under the circumstances of increased alert and electoral mobilization after the 2004 model.

The CDC could be seen by as a safety belt for the stability of the choices made by the “orange group” that came to power after 2004. Russia will suffer several image attacks, including stopping the works on the Northern gas pipe-line, projected through the Baltic Sea, but already contested by Finland and Estonia.

Already in 2006 Russia could feel the first consequences of economic recession, which could lead to an increase in the efforts of the domestic opposition to challenge the course of Putin’s policy for Russia.

The G8 reunion in Moscow could serve as pretext for a new “family dispute” among the highly developed states, with implication barely to be ignored by Kremlin. On the eve of the official inclusion of Romania and Bulgaria into EU, the subject of offering EU membership to Moldova and Ukraine will reappear on the agenda of European discussions. The intensification of Russian economic pressures upon “non-loyal” states tends to strengthen the positions of those who urge EU to act more firmly in the issue of including its Eastern neighbors in the European Defense and Security Policy agenda.

Foreign Policy

Even though the EU and the USA got actively involved in an enlarged format (5+2) in tandem with launching of the Mission of Moldo-Ukrainian border monitoring and opening of a new permanent EU Delegation in Moldova, settlement of the territorial conflict of Republic of Moldova did not record visible progresses.

The main trends in the foreign policy of Moldova followed a visible crystallization of a pro-European paradigm. On one hand, the signing of the Moldova-EU Action Plan materialized long-time dreams of Chisinau of obtaining a special political relation with the EU. On the other hand, the existence of a favorable international framework helped the efforts of Moldovan diplomacy in 2005⁹. After long and consequent efforts to capture Brussels’ attention to try to shift the European perspective from Stability Pact-like Balkanic way to an individualized way. The politicians in Chisinau acknowledged that anchoring to Western structures is not an overnight achievement. The European vocation of Moldova could only be confirmed by a conjugated effort, backed by strong international support.

The failure of constitutional referenda in France and the Netherlands, the intensification of Turkey accession dialogue, and the fear of “government failure” brought up by the prospect of integrating this giant country, powered by problems with the illegal migrants, make EU firmly delay any discussions about the chances of Moldova or Ukraine to adhere to EU. It is understandable that some formulas of compromise are sought in Brussels.

EU is willing to offer certain commercial preferences, technical assistance programs to its neighbors. However, all these will be marked by political formulas meant to avoid direct references to the European perspective of the neighbors. Thus the start, since January 1st 2006, of the program of preferential trade tariffs were met in Chisinau with much aplomb, but without a critical analysis of the gains that the national economy of Moldova really needs.

9 A favorable international context can be explained by the growing awareness on the frozen conflicts which make the current security agenda of the EU, by the enactment of the European Neighborhood Policy, but as well as by the preparations for the accession of Romania and Bulgaria to the EU in 2007.

Besides the virtual benefits of this regime, Chisinau is tempted to understand EU's decision as serious first step towards a perspective of accession materialized in the status of associate country, recognized through a bilateral agreement. The Baltic States were in a similar situation on the course of their NATO integration. The accession dialogue was started only after these states became fully integrated into the so-called EU "Northern Security Dimension".

As in the case of the EU solutions for the rest of the Central European states, European integration was inextricably linked to stimulation of democratic development and the vertiginous inclusion of these countries into economic and social assistance programs, common infrastructure projects and good governance, assimilation of standards and community conduct rules, which are impossible to be learnt from manuals. The same solution could be applied for Moldova. Moreover, in both cases, this model of "Europeanization in leaps" hints at two contingent objectives: (1) strengthening the democratic systems and (2) consolidation of a functional market economy. However, in comparison to the Baltics, the society in Moldova remains tributary to some Soviet practices of state administration with deep reminiscences in the conscience of its ruling elites. The assistance received by Moldova from the Baltic States is from this point of view extremely valuable, being known the tenacity and openness that these nations have manifested in order to maintain an ascending economic and political trajectory after the collapse of USSR.

The effective capacity to initiate and manage complex processes of internal transformation of administrative practices and institutionalization of the pro-European course does not bring rewarding results neither on internal nor on the external level.

The designation of an EU Ambassador for the Settlement of the Transnistrian conflict, the inclusion of EU and USA into an extended negotiation format and equipping a Mission of Moldo-Ukrainian border assistance (December 1st) as well as the opening of the Delegation of the European Commission in Chisinau (October 7th) headed by Cesare de Montis speaks illustratively about the capacity of the EU in mobilizing itself when wanted. We can notice that the decision of the EU to offer Moldova assistantship was adopted by European Commission despite the fact that there are serious tensions within EU regarding approval of EU budget, which suggests that EU will look upon reaching results in the process of conflict settlement; that would seek to justify the "investment". The confrontation between the 2 currents: the group of supporters of the "extended budget" and the supporters of the "reduced budget" will also influence the assistance that Moldova will receive from EU throughout the following years.

Though belated, these developments fulfill the decade-long dream of the opposition: to see Moldova connected to the Western political and security institutions. It is notable that this happens simultaneously to the real and imaginary eastward advancing of NATO's frontiers. Nevertheless, it is absolutely necessary that these embryonic commencements succeed and be correctly understood by Moldovan authorities. From this perspective, the US could contribute more than it does at present in the field of increasing the competitiveness of the Moldovan economy. In 2005, the United States became a more visible regional actor, this fact being confirmed by opening of new military bases in Romania, but also by the involvement of its diplomacy into the conflict settlement format. The decision to include Moldova in the "Millennium Challenge Account" aimed at supporting non-refundable financial assistance to the countries that scored successfully in combating corruption, awakens a live interest. Is Moldova such a country? The Moldovan civil society and business community could confirm such a hypothesis but only with serious moral reserves.

Some behold in the national consensus appearance an autochthonous alternative to the orange revolution, events ulterior to the parliamentary ballot being rather perceived as an "orange evolution"

Along supporting democratic reforms in Moldova, the United States and the EU promoted a categorical declaration at the last OSCE Ministerial Council from Ljubljana. The declaration reiterates "the definite necessity to unconditionally withdrawal of Russian troops from Moldova", thus validating a tendency of anchoring our country to the agenda of Western preoccupations.

Likewise, the interests of the new mediators have to be correctly decoded without drawing unrealistic expectations, but without missing real opportunities of political and economic involvement of the Western institutions in braking up the "Russian-Transnistrian status-quo". Chisinau must be sure that its choices have implications and economic costs. Especially after expulsion of "CIS observers" at the parliamentary elections from March 2005, Moldova became the epicenter of an intense anti-Moldovan campaign that paralyses commercial relations and intensifies Moldova's negative image in Russian mass media. Activating the presence of the EU and the USA in Moldova could provoke serious deterioration of Moldovan-Russian relations. From this perspective, any nostalgic idea of "geopolitical taming" by following a bi-vector foreign policy, can lead to nothing else but failure in this year for Republic of Moldova.

Domestic Context

Howbeit, another important part of the conditions announced by the opposition were frozen.

The elections in March 2005 weakened the parliamentary communist fraction CPRM, decreasing its votes from 71 to 53. Nonetheless, the CPRM managed to keep its monopoly on the executive power.

The first legislative session (spring-summer 2005) was conducted in an unprecedented the spirit of "brotherhood" which could have been hard to imagine some time before; the CPRM initiatives being treated almost with tenderness by the Christian-democrat deputies and vice versa. It is true that neither "the orange opposition" nor the "state reds" no longer remember the color.

Even so, the "constructive" cooperation between the power and the opposition continued throughout the 2nd legislative session, with more hardships. The long-entrenched practices of voluntarist voting, inertial decision-making, and exclusion of the opposition when adopting important decisions and laws have been rather a rule than an exception.

Some of the conditions invoked by the opposition have been partially or fully fulfilled and we will notice among these: live telecasting of the sessions of the legislative, placement of shorthand reports on the Parliament's official website, de-nationalization of newspapers founded by the Government, modification of the legislation regarding the Court of Accounts, the Superior Court of Magistrates and the Information and Security Services. Howbeit, another important part of the conditions proposed by the opposition were frozen, as follows: modification of the legislation regarding a new Audio-Video Code, modification of the legislation regarding magistracy, without forgetting to mention that even the accountancy actions of the 70% of the "realizations" of the opposition could be easily questioned.

The ratings of most of the politicians do not reflect similarly over the popularity of their parties

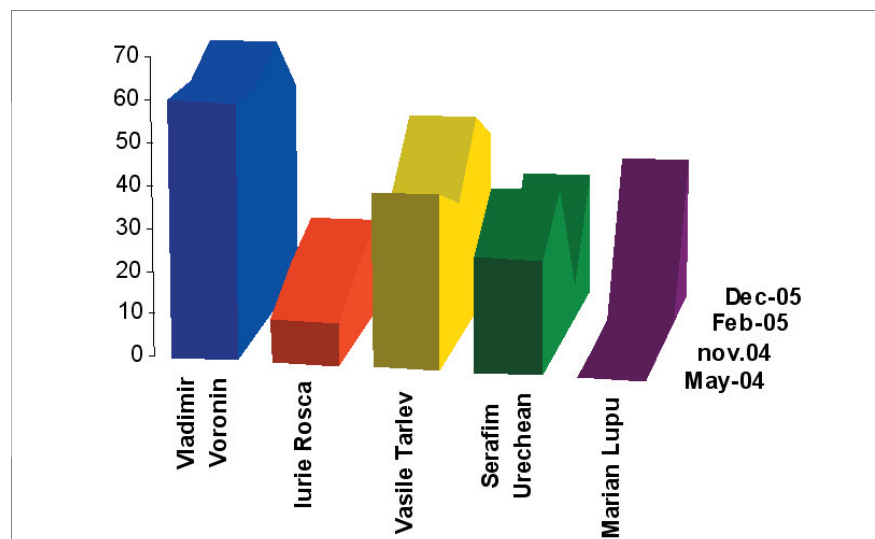
The year 2006 will be a year of Rubicon-year for those who promised integral and effective fulfillment of reforms in Moldova. Public opinion polls monitored by the IPP Barometer at the end of 2005 do not attest

major changes in the political position of the parties. CPRM continues to dominate the political market. If we report the poll ratings of the CPRM (53%) to the scores achieved by the opposition, the best score achieved is 10-11%. If we compare these numbers to those of 2004/2003, we will discover a decline in popularity of almost 10% which can also be found in the report about the personal rating of the leader of the party-V. Voronin (47% in December 2005 vs. 61% in November 2003 and 59% in November 2004). What do this dynamics tell us? Apparently, about the fact that the President is the driving motive for the entire Communist Party, that fully benefits from the advantage of being in power and symbolically holding back nostalgias of a docile and disciplined electoral segment.

The ratings of most of the politicians do not reflect similarly over the popularity of their parties (Serebrian – 18%, 5% - SLP, Urecheanu – 28%, 10% - AMN, Diacov – 12%, PD – 10%).

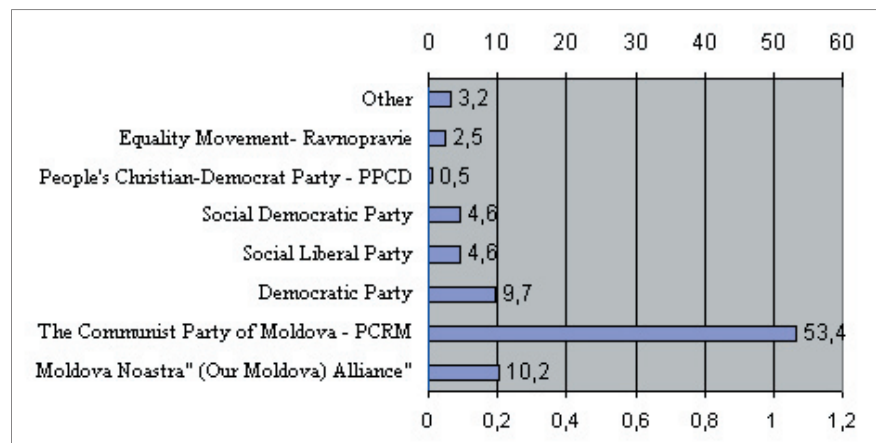
Public offices create “public people” which alter the options of the electorate (which is the case of the speaker Marian Lupu, who emerged with a “starting” rating of 33% in the Barometer, although it is the first time that he was absent from anterior measures). Nevertheless, Lupu’s ratings does not affect the popularity of the President. There are though objective limits even for the toughest ratings. Despite sui generis effort made by CPRM Voronin and the Government¹⁰, the “blessed” were not elected for the office of the Mayor of Chisinau. This fact brings Moldova into a latent phase of discussing about the successor and that in Russia the adrenaline of the 2007 elections can already be felt.

Chart 1. The Rating of the Political Leaders



Almost 52% of the participants in the poll are convinced that they would participate in voting, should the elections be conducted on this Sunday. However, most of them (45,1%) do not believe that a party that would represent their interests exists in Moldova (compared to 21.3% - I do not Know, and 30,3% - yes, there is)

¹⁰ The Government was not entitled to use over 40 Million lei for reconstruction works in several sectors of Chisinau without asking the prior consent of the Parliament that was informed anyway.

Chart 2. Public Opinion Barometer, IPP, December 2005

The priority of the modernization of the state and the imperatives of European integration have altered the framework of formulation and materialization of political reform as well determined a clear strategic focus on the settlement of the Transnistrian conflict.

Partially, the political reform is benchmarked by the 10 conditions formulated by the Christian-democrats – “the Decalogue” that they put forth and traded it for their votes in electing the President. The decision to form workgroups which will bring together all political factions (with the exception of AMN, maybe) promised to finally create a lucrative format that will represent the will of both the Communist Party and the opposition.

However, these expectations did not get fully confirmed. Only 2 of the working groups formed by the legislative were able to present projects and amendments to the present legislation. The projects were targeting, in order of priorities: justice reform, reform of the Court of Accounts, the Information and Security Service and the Central Electoral Committee until the end of spring-summer session.

As for the other workgroups, they did not come into life, partly because of being marginalized, partly because of their little success in persuading the leaders of the Parliament in the strategic character of their proposals.

On the other hand, the new cooperative construction of the opposition and the ruling party has, diluted the opposition's role as political institution. The meaning of the opposition was largely questioned within the opposition itself.

Although conforming to the usual rigors for the elections, the opposition parties have demonstrated quite a modest interest, and this fact was noticed by the electors.

The so-called „National concord” in the Parliament has taken shape only episodically. There was enough consensus when deciding upon resolutions and the Law on the Special Status of the Localities in the Eastern Region of Moldova (June - July), the appointment of the new Central Election Committee and of the Superior Council of Magistrates, the Action Plan on the Implementation of the Recommendations of the Council of Europe. Whereas on the rest of the issues, the partnership did not work. The issues pertaining to the quality of governance, to the state budget (2006) and to other issues which are very sensitive for the Ruling Party, fragmented the Parliament, having situated the entire opposition, and not only its swing part, on the other side of the barricades.

The budget for 2006 was adopted by simple majority (53 votes), ignoring the opposition's proposals. In retort, the latter required the resignation of the Prime Minister, V. Tarlev, who was blamed for the slow economic growth and for the

blocked relations with IMF and the World Bank, all being the result of the lack of initiative and ability to lead the reform of the government.

Year 2005 was full of challenges which proved to be good testing of the durability of parties as social structures. A multitude of structural shortcomings and internal frustrations popped into the light. The explosion of dissident dissatisfactions displays the internal frailty of the parties. Although vividly disturbed by its ad-hoc allies (or route companions, as the Communist Leader called his allies during a show on PRO-TV), the CPRM is the only party that has not fed dissident claims, in spite of the difficult decisions it had to take.

The partial elections for the Municipality of Chisinau have proved to be a painful test for the parliamentary parties in 2005. The local elections have been organized in many rounds, on the 10th and the 24th of July, 27th of November and 11th of December. Although the new elections and the repeated ones have been unfolded simultaneously in 13 localities of the country, the political scene of the capital has immediately captured the attention of the press. Despite of the lack in authentic polls, the think-tanks were convinced in the imminent victory of the CPRM-supported candidate, be it in the first or second tour of elections. Taking control over the capital city would have been a recompense for the efforts spent on elections. The appointment of the Minister of Finance as official candidate of CPRM for the Mayor's office was a sheer proof of that.

The necessity to re-elect the Mayor of Chisinau emerged after March 2005, when Serafim Urecheanu preferred to trade his office for the seat of an MP, which he earned during the elections. Many considered this decision to be wrong, especially after the freshly invested MP allowed himself to blare his intentions of running for the Mayor's Office. However, these messages have been viewed as matter of political caprice, which has substantially lowered the ratings of the AMN leader, but also on the whole party.

Initially, AMN decided to support D. Braghis, who previously lost to Urecheanu in the race for the leading position in the AMN. The appointment of Braghis as candidate spurred a sharp conflict within the Alliance. As soon as the AMN Congress established that the intestine conflict gets out of control, a compromise solution was found. The liberal Mircea Rusu was designated. However, he had fewer chances than Braghis. As he got as much as 10,26% of the votes, while Dumitru Braghis had gathered 20,65% in the first round of elections in July.

After having tested its candidate, Gheorghe Susarenco, during the first two election rounds, the PPCD decided to finally give up the marathon for the top office of capital city. Probably, the PPCD traded the intention for the mayor's office for the sake of the "Decalogue"; probably, for the sake of internal peace within the party, as their own intestine conflicts were slipping out of control. The candidates of the DP and SLP, as well as the candidate from the Ecologic Movement proved the same uncompetitiveness. The left-wing political parties that had hoped to gather the electoral leftovers of CPRM found themselves in a similar situation.

Even if unnoticed by the polls, Valerii Klimenko (Ravnopravie), Gh.Sima (Party of the Labor Union Patria-Rodina) and Valentin Krilov (Patria Rodina « Ravnopravie ») managed to stabilize a quite homogeneous segment of electorate. During the elections of July the 10th, this segment amounted to 4.2% of the votes, in November – 8,6%, and in December – 7,96%.

The Communist candidate had the most chances to win, while the PPCD and the AMN candidates each gathered barely half or even one third of the score they had gained during the elections in March.

Table 1. Distribution of votes casted in the 2005 local elections

| | CPRM | PPCD | AMN | PSD | PSL | PD | PL |
|---|------------------------------|-----------------------------|--|-----------------------|-------------------------|-----------------------------|---------------------------|
| The popularity of political parties according to the Public Opinion Barometer of the IPP, issued in December 2005 | 53% | 11% | 10% | 5% | 5% | 10% | - |
| % accumulated by the candidates of elections | | | | | | | |
| July 10 | Zinaida Greciannii 50,15% | Gheorghe Susarenco 7,02% | Dumitru Braghiș (independent) 20,65% | | | Vladimir Gurîțenco 3,76% | Dorin Chirtoacă 7,13% |
| November 27 | V.Ursu 46,66% | - | Mircea Rusu 10,26% | Eduard Mușuc 4,69% | Olga Nicolenco 1,78% | - | Dorin Chirtoacă 25,14% |
| December 11 | V.Ursu 52,91% | - | Oleg Cernei 3,51% | - | - | - | Dorin Chirtoacă 35,62% |

Source : Information concerning the new elections results for the function of the general mayor of the Chisinau Municipality, CEC, www.cec.md

The unavailability of competitive candidates, the mass demoralization and electoral fatigue caused by four rounds of failed elections, as well as other factors of the status quo (inappropriately chosen period for the 1st and 2nd polls), sent the city electorate confusing messages. Respectively, neither of the 4 election rounds of 2005 accumulated the required 1/3 of the voters in the list.

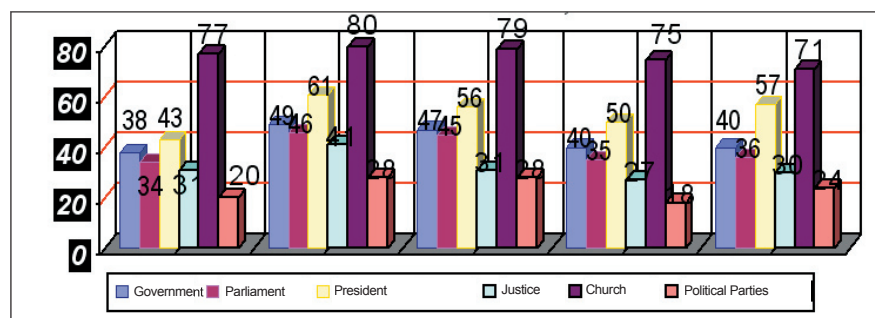
Frustrated by the failure of the elections, the politicians proposed various ways of overcoming the crisis, including : (1) the election of the mayor by the municipal council, (2) the keeping of the ad-interim mayor in his function until the next complete local elections in 2007, (3) and the appointment of the mayor. Neither of these proposals gathered the required political support, fact that made the CEC plan a January a public survey aiming to elucidate possible actions that should be done to overcome the electoral crisis in the capital city. However, the relevance and the utility of the poll are unsatisfactory.

The Reform Agenda

The expectations regarding the new Parliament were high. The Parliament was expected to take over the announced political reforms right after the elections. Such sentiments circulated mainly due to the fact that the re-installation of the Tarlev Government did not arouse a big enthusiasm among the CPRM deputies, nor did it incite the opposition.

The quantitative indicators record the adoption of 144 laws (82 laws less than in the same period of 2004). Some of the laws are essential for the ambitions declared by the Moldovan politicians when adopting a new course for the country¹¹. Disregarding some positive developments, the trust of citizens in the Parliament, as well as in the Government and the Law, is still low.

Chart 3. Public Trust in Institutions



Almost 56% of the questioned respondents consider that things in Moldova are going wrong; the number of those who share this opinion has grown in compared with February 2005 (41%)¹², but it coincides with the values recorded in November 2004 (56%) and November 2003 (55%). The authors of the poll explain it as being seasonal factors.

Generally, the population is not satisfied by their socio-economical well-being. However, 38.3% consider their situation in 2005 has improved compared to the previous year. Poverty, the prices and the future of children are seen, in the polls, as being the most pressing problems that bother the population (values varying between 61% and 45%).

The uneven contribution of the parliamentary work groups and the unsatisfactory performance of the Parliament, made the speaker Marian Lupu seek external support to reform the Parliament. This search was being done in the context of a systematic dialogue with the civil society and the donors.

It was only in November that I have noted the announcement of a communication agenda of the Parliament with the civil society, the preamble of this document urging all the NGOs, the resources centres and the active think tanks to bring their contribution and ideas to the process of modernisation of the Parliament, in particular, in what concerns the growth of interaction between the Members of Parliament and the electorate.

The agenda of the Parliament contains for 2006 - 2009 contains almost 200 law bills queued for adoption, that being an indicator of domestic stability and of high quality of democratic institutions. These indicators should allow the Moldovan authorities to require that the Council of Europe (CoE) lifted the monitoring of the parliament.

However, the procedural vices of the Parliament are not even a small part of the deficiencies they do not compare to the deficiencies of the executive power. The executive is definitely the weakest link when it comes to adjusting of national legislation to that of the European Union, thanks to its reduced planning and implementation abilities and to the stagnation of reforms in adequating its structural functions.

For the time being, one could only guess what the authorities really wanted by this model of reform. Did they preclude solving rapidly the deficiencies in administration, and at the same time avoiding sudden changes?

11 See the Political Declaration of the Parliament, April 2005

12 The Public Opinion Barometer, IPP, December 2005. Conducted on a sample of 1506 people in 88 localities, which is representative for the entire adult population of Moldova, save Transnistria. Error margin: 2.6%

The M.P.s, the civil society and even the head of the state have often spoken on these functional deficiencies. After the tough attack of the head of the state against the Tarlev Cabinet in June 2005, many have expected a possible resignation.

The numerous mistakes made by Prime Minister Tarlev¹³ brought a lot of substance into the claims of the opposition. However, this resignation did not take place in autumn because it was thought it would give a bad signal to the West. Besides, at the beginning of winter, this demission would not have sense, as the conflict related to the gas deliveries from Russia was escalating.

President Voronin affirmed that the Tarlev Government will be kept as long as it performs its duties. The all above facts could mean that there are no suitable substitutes. The perspective of a coalition government has not ripened yet.

Similarly to the international financial institutions, the opposition considers that the Government is responsible for the stagnation of the main reforms, for the slowdown in economic growth and lack of progress in the regulatory policy, as the implementation of EGPRS being completely stopped by the lack of coordination between the ministries.

During 2005, the Government continued its interventionist policies in the banking sector¹⁴, including through pressures on the National Bank to restart pressures on oil importers; there has been invoked again the bringing of a foreign Bank with a view to lower interest rates for short-term credits.

By contrast to Romania and Ukraine¹⁵, Republic of Moldova did not succeed to attract considerable investments in infrastructure in 2005 as well as in the previous years. Therefore, the competitive geographical advantages in comparison with the EU are illusory. The railways and the highways that traverse RM are in a catastrophic condition, while the European transport corridors bypass Moldova.

The domestic labor market records continuous decline, meanwhile the trade deficit significantly reduces the competitiveness of the national economy. The slow rhythm of economic growth makes the treatment that EU is willing to offer Moldova, as compared to Ukraine, to be under satisfactory level. Only at the end of 2005, EU has announced the granting of a preferential system of free trade for the Moldova¹⁶, together with other 11 states, however the exact types of local products that the private sector could export are not stated¹⁷.

13 According to Premier Tarlev, the Tiraspol authorities delivered weapons to the Chechen rebels last year. According to Tarlev, the Beslan hostage-taking was done using Transnistrian weapons.

14 Speaking from the tribune of the Economic Forum, the President ultimately required the lowering of the interest rates for credits, thus generating unsubstantiated expectations throughout the business environment. This declaration posed new pressures on the implementation of the NBM's monetary policy.

15 In 2005, the European Union decided to grant Ukraine the status of market economy.

16 Moldova, together with Georgia, Mongolia, Sri Lanka, and other 11 Latin American countries such as: Bolivia, Colombia, Ecuador, Peru, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama will benefit from the preferential free trade regime with the European Union

17 According to the EU Trade Commissioner, Peter Mandelson, the preferential trade regime (GSP) that will enter into force on January 1, 2006 will rise the number of number of products that benefit from tariff exemption from 6900 to 7200, which comprise mostly fish and food products. It should be noted, that, currently the exports directed toward the EU make up 25% of the total Moldovan exports.

Local experts explain this fact by the lack of adequate ability to negotiate and communicate with the economic institutions of the EU. The same gaps explain the fact that the Government of the Moldova did not succeed in 2005 to solve the issue of foreign debt, nor did it manage to repair the relations with the international financial institutions and, thus, raise the image of Moldova. Therefore, Moldova was not successful in negotiating the restructuring its foreign debt and, as a result, lost trust on the international scale (Moody). Alas, that could be a useful tool of attracting foreign direct investments. This was a lost opportunity, as together with the rise in the price of gas and, therefore, of the imported electricity, the payment of the foreign debt will become less realistic.

Local experts consider that a sound reform of the central administration could help the situation. On November 8, 2005, the Coordinating Unit of the Government Apparatus made public a project of the Strategy of the Reform of the Central Public Administration (CPA). On December 30 the the Strategy was adopted by the Government.

The reform aims to create a modern and efficient system of CPA that would align to the principles of the EU, although extensively altered by the personal vision of Tarlev and largely adopted to the local peculiarities. Unfortunately, the Government views this strategy a purely technical decision, while the intensity and architecture of its priorities require a rather long-term commitment and implications for all sectors and public authorities in Moldova. As well, the Strategy should be a long-term document, so as not to be limited to the „biological” life of a single government. The process of elaboration of this strategy was characterized by secret mania and ignorance by the local actors, so that even the Parliament found out about the objectives and the rhetoric of the reform Strategy from the press.

Of course, the Government of Moldova can be pleased that now it has a strategy to discuss about with the donor organizations, but at what costs? Just as in the case of EGPRS, the authors of the new strategy rely too much on the resources of foreign donors. Besides, the Government views short presentations as being more than enough accomplishment.

On the other hand, the Government strategy is a sectorial document that does not tackle directly the issue of the local administration, for which, however, it foresees the establishment of a specialized Ministry. In October 2005, the CoE expressed its disenchantment with the lack of progress in the local autonomy and financial independence, presenting a new extremely critical report on the lack of progress in the context of the local financial independence and the effective policies of decentralization of services. The CoE appreciation came independently from the local authorities. But is Moldova ready for a reforming strategy in the local public administration, deeming the local tradition to first establish institutions and then invent functions that these are supposed to perform?

The strategy has not been discussed in the Parliament, but it has already aroused the interest of foreign donors, aware of the essential role of this reform in the modernization of the country. The experience of the implementation of other documents should awake the political factors out of euphoria, as well as the foreign donors¹⁸.

¹⁸ See the case of the Agency for Regional Development, recently destituted by Governmental decision. Other cases (that of the Agency for Competition), enacted in 2003 only for two weeks, after which it was liquidated immediately, only to reappear in the Government's Reform Strategy in 2005.

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In February-March Chisinau will be presenting an assessment report on the implementation of the EU-Moldova Action Plan which will be seconded by the own monitoring report of the European Commission. The support of the EU is crucial for the country's course in 2006. The same important for Chisinau is the transformation of the paradigm of interpreting its own "successes" into European logic. The EU urges for more structural changes and less plain rhetoric. A negative report upon the implementation of the Plan of Actions would bring into discussion the role and mandate of the Tarlev Government in 2005, thus urging for an alternative solution, which could be a coalition government; a more competent one.

The crisis in the relations with the monopolist supplier of gas to Moldova could lead to chain reaction within the national economy, leading to a relative increase in consumer prices. Although the GDP will not suffer much from the abusive increase in prices for gas, individual consumers will feel a certain shock. It is expected that Chisinau will accept Russia's duel by seeking a legal counter-balance to the participation of Gazprom in the statutory capital of Moldova-Gaz Association. The Government in Chisinau will also take action for solving issues that are related to the legal status of some companies that were abusively privatized by the separatist regime.

The Settlement of the Transnistrian conflict

The year 2005 brought new and encouraging signals for Moldova. One would justify the political tricks done after 2005 by the benefit brought by the political stability and by the formulation of a stable political position at the legislative level. Such a strategic consensus has never existed between power and opposition since 1991. Ukraine's¹⁹ active involvement into the conflict settlement in Transnistria determined a positive dynamics in resolving the conflict. The initiatives were later on completed by a series of legislative resolutions (June) and the adoption of a law regarding the special status of the rayons (districts) from the Eastern part of the Republic of Moldova (July, 2005)²⁰. Also, on September 28-29, an enlarged reunion, in an extended format for negotiations took place in Odessa; the EU and the US participated for the first time.

Hesitating on whether to accept the newcomers in their observer quality in the new format of negotiations, Russia did not miss emphasizing the participation of the EU and the US as being limited to the status of observers. Russia insisted that "a fair resolution of the conflict can be reached only in basis of existing realities."²¹ However, nothing changed in regards to the Moldo-Ukrainian border control. Transnistria continued to export based on the old customs stamps that provided by Chisinau in 1997. Ukraine continued the maleficent tradition of acting behind the scenes, when adopting a common position with Russia in the detriment of conflict settlement.

19 The "7 steps" presented by President Yushchenko during the GUAM Conference in Chisinau have been later on developed in Ukraine's Plan, presented at Vinita on May 16-17, 2005.

20 On July 22, 2005 the Parliament of the RM has adopted the Law on the Special Legal Status of the Eastern Region of Moldova. The Parliament adopted the Law by developing the Resolutions issued by the Parliament on June 10, 2005.

21 Serghei Lavrov: "As long as Chisinau will hold onto its position regarding the Transnistrian conflict, this conflict can not be solved", Moldova.org, <http://politicom.moldova.org/stiri/eng/7583/>,

In 2005, Russia sought to invest massively in the on-site management of the groups of its “loyalists” from Transnistria; in order to prepare for the elections in the supreme Soviet of TRM²² (11.12.06). Russia hoped to also convince Ukraine to legalize the results of elections by evaluating the elections as valid. Should the elections be validated, the Transnistrian government would have been marked as democratic, and therefore, there would have been no more need for further democratization, as upheld by Moscow (regardless of the fact that democratizing Transnistria was required by both the international community and by the civil society).

In September 2005, Russia sought to convince the Government in Chisinau to restart the negotiations. It did so by menacing to block the gas supply in winter. On the diplomatic level, the Russian MFA sought to accredit the idea that it is ready to apply the “Kosovo solution” in Transnistria (unilateral recognition of the existent regime) if the West will not take into account “Russia’s interests” in the region, i.e. through recognition of the legitimacy of the elections. Some defects, however, intervened into Russia’s plan. Both OSCE and the EU on which Russia could count in a “barter” scenario (gas against concessions or, approval of the budget against on-site advantages) refused to discuss any scenario that would implicitly support the conservation of the local “loyal party” (Smirnov et Co.). On the other hand, there is Ukraine which realized, in 2005, that it can use the process of stagnation of the conflict resolution in its own interests. It counts on an “overthrow” of the present regime by means of the financial-industrial representatives of the Sheriff Company and the Ukrainian community from the region. The “indiscreet” negotiations of the ex-Secretary of CNS of Ukraine, Piotr Poroshenko, with the local oligarchy have stimulated considerable local tensions and serious frictions in the Moscow-Kiev relations. These tensions were actually part of the original plan which would give Ukraine the possibility to claim on the right to “fix the final score” in the internal dispute from Transnistria between the “industrialists” and the “warriors”. However, there was no way for the Ukrainian plans to be realized in their original format. Numerous objective factors have intervened in the logic of “the 7 steps” presented by Yushchenko at the GUAM Summit in Chisinau. The initiative of Sheriff representatives (Shevciuc) to modify the Constitution of the region got stuck in June 2005 while the West transmitted a definite message to Kiev to abandon its annexionist projects in regards to Transnistria. These were seen as a precedent that could be used later on by Russia against Ukraine (Crimeea).

Kiev continued to support the project of finding an alternative to Smirnov despite all warnings received from the West. Ukraine was counting on the philo-Ukrainian elite in the region as well as on its hyper-dependency on the “customs” factor (Transnistria exported through Ukraine without any legal acts that would be recognized by Moldova). The political representatives of “Sheriff” Company were well assured domestically as well. The “specifique” of their business within the status of Transnistria allowed them to legally own (obviously in the terms in which this word can be used in the separatist region) a personal “army.” It consisted of over 2000 armed people (security companies, bodyguards, guards employed for their commercial warehouses). Here we can still add the control that Smirnov presumably has upon police. Smirnov’s police is in competition with Antiufeev’s security forces. For the first time during his long presidency, Smirnov’s regime felt insecure while looking excitedly either for Kiev’s or Moscow’s support. The weak points of Kiev’s governance have overthrown even Poroshenko’s

Currently, Sheriff owns the absolute control upon the whole telephonic system in Transnistria (both mobile and cable), the whole TV cable system, the only TV private channel from Transnistria, the most popular regional radio station, and the only internet provider in the region. Sheriff company owns as well publishing houses, bakeries, commercial chains, including Mercedes and Skoda auto-shows, the super modern stadium from Tiraspol, 90% of all gas stations in Transnistria, 60% of all retail trade of food products, 30% of trade of industrial products, and nearly 50% of all trust companies of constructions in the region.

22 Transnistrian Republic of Moldova

plans. He was dismissed in September in tandem with his direct rival, prime-minister Timoshenko.

On September 28, in Odessa, EU and the US had been accepted as observers within the extended format of mediating countries. On October 4, the EU opens its permanent Mission in Chisinau, and on November 30, the EU Commissioner, Benita Ferrero Waldner and Javier Solana inaugurates the Mission for monitoring of the Moldovan-Ukrainian border (EUBAM) which is one of the kind on the whole ex-Soviet territory.

On December 11, elections took place in Transnistria. There was tremendous domestic pressure due to the growing contradictions between the two blocs: Obnovlenie and Respublica. The first one belonged to the influential financial-industrial company, called "Sheriff". It managed to gather under its umbrella the majority of the directorate from the region. The second bloc meets the interests, and the leaders of the present regime. We have to mention that Obnovlenie holds previously 17 out of the 43 deputy seats of the Supreme Soviet of the region. Meanwhile, it is considered that the ideology of this political group would be much more open than that of Smirnov's. It looks for solutions for compromise both in Chisinau and Tiraspol in regards to guaranteeing their current assets. The low participation rate in elections (nearly 50%) has somehow explained the festive atmosphere that accompanies, as a rule, any events in the region. The elite split practically into a few opponent groups: on the one side, the group of Smirnov's administration, on the other side, the private businessmen, and between them, those unaffiliated to any of the two groups. Only 43 out of more than 179 candidates finally managed to be legally elected in the Supreme Soviet. 23 of them represented Obnovlenie and 17 – Respublica. The formal majority of the "industrialists" has "dethroned" Grigori Maracuta from his Speaker function at its very first meeting. They replaced him with Evghenii Sevciuc. He is considered to be an official "opponent" of president Smirnov since the beginning of 2005. This coincided with the moment when open discussions started in Kiev about the potential support that Ukraine could offer to the regional political bloc that was linked to Sheriff's company name and the metallurgic plant from Ribnita.

Despite all of its inherent merits, the Mission arouses certain suspicions related to the vagueness of some important aspects upon the effectiveness of the current monitoring.

An EU Border Monitoring Mission (EUBAM) was launched in 2005. This was the most important indicator of Western involvement in combating smuggling and frontier traffic. The Mission is formed of approximately 69 people. These are experts in border control and border police. The Mission includes also nearly 50 Moldovan and Ukrainian specialists. The Mission's two-year mandate includes activities for prevention of smuggling and traffic, customs frauds, etc. The members of this Mission will inspect the Moldovan-Ukrainian border in mobile groups. They will also check unrestrainedly and repeatedly the vehicles and documents. They will also offer training to Moldovan and Ukrainian custom-house officers. Despite all of its inherent merits, the Mission arouses certain suspicions related to the vagueness of some important aspects upon the effectiveness of the current monitoring.

The EUBAM officials, in particular, could not offer a convincing answer to questions such as: (1) are the produced/exported goods that are entering and existing the separatist region qualified as "smuggled products" in case they do not have documents issued by the customs authorities of the RM? (2) can the Mission be credible in its efforts of watching qualitatively a surface of over 1000 km (only the Transnistrian border makes up 420 km) by a working team of only 52 employees? (3) is the Mission included or not in the negotiations' format, and then, in what way can the Mission's activities be developed by the means of a "thorough" monitoring in the region? As it could be expected, the first report of the EU Mission on border monitoring did not trace out anything that could be called "trafficking in weapons or drugs." Nor did it determine the type of illegalities for which Moldova requested the intervention²³ of the EU. Respectively, many questions that

²³ The EUBAM Mission confirms no smuggling activities in the rebel region of Moldova. Olviapress, Russian 26 Jan 06

civil society would like to address to the “new mediators – EU and the US” will remain simple rhetorical claims, if Ukraine does not take seriously its international obligations towards Moldova. These were also confirmed by governmental agreements that were signed in January and December 2005. We have to mention that Tarlev and Timoshenko signed an, as late as May, an agreement on commodities export to Ukraine only in basis of customs seals of a new type, those oficialized in Moldova²⁴. Ukraine does not respect the provisions of this agreement. Moreover, the approach of general elections makes it harder to believe that it will be possible to count on the discernment of the officials from Kiev. The intention of the authorities from Chisinau to transform “on the way” the Mission’s mandate collides once again with the Kiev’s muffled retort. The modification consists in giving the Mission the authority to verify the fulfillment of Moldovan-Ukrainian agreements on Transnistrian commodities export only in basis of the internationally recognized legislation. In Tiraspol, the implementation of this agreement would actually mean the commencement of the end of the oligarchy in the region²⁵.

Ukraine does not respect the provisions of this agreement. Moreover, the approach of general elections makes it harder to believe that it will be possible to count on the discernment of the officials from Kiev.

The negotiations in the extended format (5+2) failed. The reunion on December 15-17 that has been organized successively in Tiraspol and Chisinau, serves as an example. The mediators could not do anything but powerlessly visualize the obstructions of the Transnistrian part that were supported by Russia. There were active discussions about the format of a future mission. Its objectives had to be the assessment of the security zones, and the full verification of troops and military armament owned by the Transnistrian guards. Another objective was the monitoring of the military-industrial complex. None of these objectives had been accomplished. Thus, even OSCE had to ascertain the failure of the second round of negotiations in an extended format (27.01.06).

On the other hand, Ukraine’s position continued to slide towards “a pact with the devil.” The concessions made upon the Transnistrian problem represented the price that was paid for other promissory notes in regards to Russia. On December 16, the presidents of Ukraine and Russia made a common declaration where they have reiterated the existence of a “common position” upon the settlement of the Transnistrian conflict. Announcing the common position, the Russian Federation saluted the Ukrainian initiatives. Ukraine, in its turn, qualified the recent proposals on the initiatives as being “substantial.” The Putin-Yushchenko declaration emphasized the role of international guarantees in the long-term conflict settlement. It also stressed the importance of the transformation of the Russian pacifists from the region into a “peace-keeping mission” under the OSCE administration.

Neither the US nor the EU, without even mentioning the RM, had been consulted beforehand in regards to this declaration. It seems that this action was as well registered among the concessions made by Kiev in 2005 in order to prevent the crisis of the gases delivered from Russia. However, it had not helped Ukraine with anything. Very significant the fact that once Ukraine needed the solidarity of the RM, Ehanurov prime-minister approved the entrance in force of the Protocol on verification of all commodities exported

24 We mention that a customs Protocol had been signed between Ukraine and the RM in the middle of 2003 still, stipulating the possibility of exporting commodities over the Ukrainian border only in basis of Moldovan customs seals. This Protocol however was never used by Ukrainian authorities.

25 Adriaan Jacobitz de Seged: There Are Forces in Transnistria that Want to Tense Up the Situation. Zercalo-Nedeli. Com. 29.01.06

from the Eastern region of Moldova. The OSCE Council of Ministers had reunited during the first week of December in Liubljana. The meeting failed in adopting by consensus a common declaration upon frozen conflicts. This failure was compensated however by a series of declarations signed by the US, the EU and NATO. The made statements transmit a definite message of support in favor of the states affected by separatism, especially to Georgia and Moldova. In reply, the Minister of Foreign Affairs, Serghei Lavrov, has declared that Russia fulfilled all of its commitments taken in Istanbul. He argued that Russia retreated all of its equipment that this treaty regulates." The rest of the ammunitions will be withdrawn when the necessary conditions will be in place. The created situation is differently interpreted among analysts. It represents a crucial moment in Russia's relations both with the US and NATO. Until present, only 4 states have ratified the Treaty of Conventional Forces in Europe (Russia, Belarus, Ukraine and Kazakhstan). The other signatory states conditioned the ratification of the Treaty by the complete and unconditional withdrawal of ammunitions and Russian troops from Moldova.

Most of the experts try to analyze the failure of the reunion as a symbolic victory of small states. The failure to adopt the Common Declaration of OSCE happened not only due to Russia's refusal to include as well a special clause in regards to the lack of progress in the process of withdrawal of the Russian troops and ammunitions from the Transnistrian region of Moldova. It failed also due to the created common opinion within the Western community upon the Russian illegal military presence in Transnistria. What would have passed unobserved a few years ago, had reunited consensual the majority of the OSCE member states. In fact, Russia has isolated itself from the OSCE community by refusing to respect its commitments taken in 1999 in Istanbul. It also intends to block any initiatives to revive the discussions upon the withdrawal of its troops from Moldova. Thus, it promotes the idea of dividing the problem of its military bases in Georgia from the issue of the illegal presence of its military in Transnistria.

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Russia will try and use its common position with Ukraine and grant, though the OSCE, an internationally recognized mandate to its peacekeeping mission deployed in Moldova. The lack of an effective control upon the security zone, the tacit acceptance of transfers of military equipment, ammunitions and Russian militaries toward the separatist regime undermines the trust in a short-term success in demilitarizing the region. It is hard to believe that, in case Ukraine will still be obliged to respect its engagements towards Moldova, i.e. due to its aspirations related to the WTO, the Tiraspol authorities will quit the negotiations because the present status offers them advantages.

It is possible that in 2006, the foreign economic pressures will tension the situation domestically. On the background of augmenting pressures, the Tiraspol regime will have to face, for the first time, an ascending dissidence from the part of the local oligarchs. The latter are very much likely to save their businesses even with the price of destabilizing the situation. In 2006, similar to the previous years, the problem of Romanian language schools and the agricultural land plots owned by the villagers who live under the legal jurisdiction of Moldova will alert the group of mediators.

PUBLIC FINANCES

General Trends

The year 2006 will be marked by a slowdown in the growth rate of budget revenues.

The high budget revenues registered in 2002-2005 are in the process of becoming history, due to the unstable base for growth. The Government plans for an approximate increase of 18% in budgetary revenues in 2006. Unlike in 2005, when real revenues turned out to be much higher than expected, this will, for sure, not be the case of 2006.

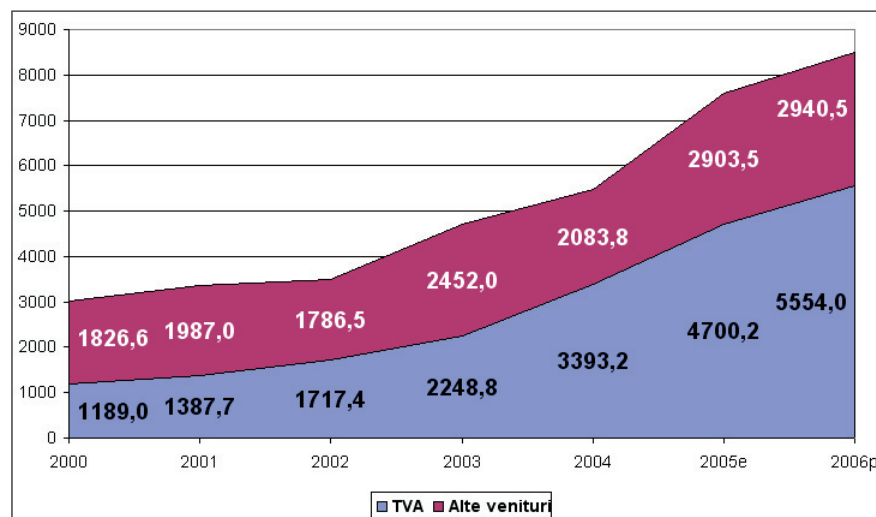
The expenditure policies of the last years, when all sources were oriented toward remunerating the labor force made capital investments into social institutions and infrastructure virtually impossible. The extra-budgetary funds of public institutions, that constitute approximately 1 Billion lei, could have been a solution to the problem.

The State Budget in Search for Sources of Growth

After the crisis in 1998, the state budget recovered only in 2003, when budgetary inflows increased significantly. This growth is, however, propelled by external factors related to massive labor force migration and not to internal factors.

According to the graph below, the VAT was the single source of budget growth in 2002-2005. However, the VAT already reached its growth limits.

Chart 4. Dynamics of public budget revenues



Source: Public Budget Law 2000-2006

The years of 2005-2006 will be marked by the Governments' preoccupation to modify the fiscal policy, which will be oriented toward the improvement and development of both fiscal base and the tax collection system.

The VAT

Despite the fact that the VAT is the sole tax that has registered constant growth during the last years, there are still possibilities for its qualitative and quantitative expansion. Therefore, the Government pursues two aims in its VAT realm fiscal policy:

The basis for the VAT growth will deplete in 2006.

- Extension of the VAT application area. In this matter, the list of VAT-free goods or upon which a minimal VAT is applied gets constantly reduced. Beginning with 2006 the VAT is applicable to pharmaceutical goods, agricultural products, imported machinery and equipment.
- Improvement of fiscal discipline. The bulk of VAT collections come from imported goods. As there is economic growth domestically, a question pops up. "Why does the domestic economy grow, but the local VAT stays unchanged?" Moreover, due to the fact that the bulk of agricultural output is not included in the economic circuit and a great many inhabitants in the rural areas continue to receive in kind revenues, the VAT on this matter is excluded from the state budget.

THE VAT'S BLIND BULLET

It seems that through fiscal policy the Government is interested only the short-term increase in budget revenues and not the economic development that could generate more budget revenues.

The Government is trying to apply the VAT to absolutely all kinds of products and economic activities without taking in consideration the consequences.

The application of VAT to the imported machinery and equipment is an imminent danger.

The VAT, in its essence, is a consumption tax paid by the consumer, returned to the producer and later transferred into the state budget.

In case when the VAT is applied at customs, economic agents credit ex interest the state budget, but later recover the money from the customers.

In case of imported consumer goods the agents recover their money in 2-3 months, and in case of equipment and machinery - up to 10 years.

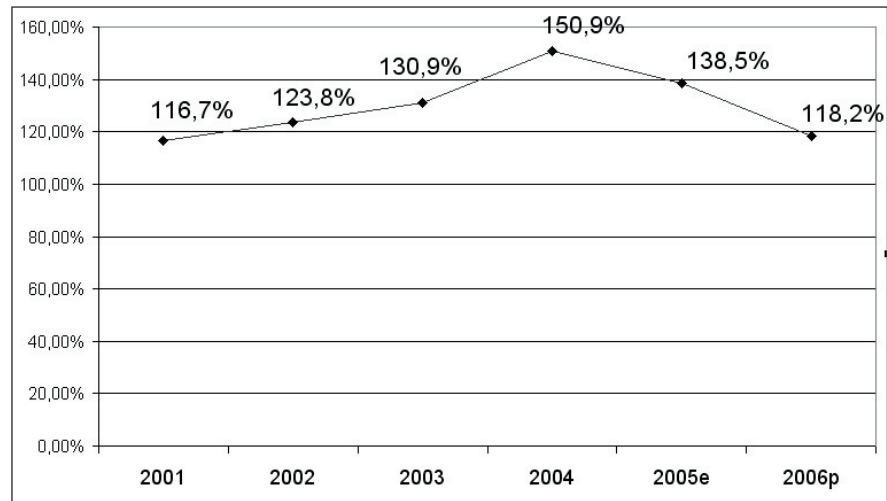
It is obvious that when businesses face the tradeoff between importing consumer goods or machinery and equipment with which to build local producing capacities, they will choose the first option.

In 2006, the increase of VAT collection from equipment and machinery will be conducted under the risk of depleting the fiscal base for the future due to the reduction of domestic production capabilities.

P.S. In 2005, in order to stimulate economic growth, the Government of Russian Federation has applied to most of important equipment and machinery a 0% quota on VAT, but for many enterprises this measure was undertaken too late.

Focusing the state budget revenues exclusively on VAT collection is a long-term risk. As it can be noticed on the graph below, the growth rates in 2002-2005 can easily become constant.

Chart 5. Rates of VAT-determined increase of budget revenues



Source: Law on the State Budget 2000-2006

The impressive increase of the VAT during the last years is conditioned by the external factors. At the end of the 90s, Moldova has been affected by an unprecedented wave of migration. As consequence, since 2002, the remittances from abroad rocketed. In 2005 they reached 1 billion Moldovan lei. These remittances have raised considerably the population's payment capacity, and, respectively, the consumption that has been covered by imported goods.

Currently, Moldova faces the second wave of migration related to the reintegration of families. As a consequence, the growth rate of remittances from abroad in 2006 will slow down, and we can even anticipate a reduction of those in 2007.

Deeming the absence of a stable fiscal base and unsustainability of the main budget revenue source, the VAT, we consider the possibility of a budget crisis followed by an economic crisis to occur in 2007-2008.

The Income Tax

The economic growth registered during last years, the increase of economic transactions, the doubling of population's earnings, paradoxically have not led to an increase in income tax, remaining thus almost the same during the last 5 years.

For the future, this tax may become a safe source for the increase of budget revenues. It is necessary, in this matter, to emphasize the fundamental causes that do not allow its collection today.

Income tax is a potential source for budgetary revenues growth for the following years.

First, the fiscal discipline is very low. Otherwise stated, both economic agents and population shirk from paying taxes. To reduce the fiscal evasion, the Government has perpetually and on yearly basis, reduced the income tax, thinking that lower taxes will spur discipline. In 2006 the tax will be set at 15% in 2006 for legal entities, and 18% at most for individuals. This measure, unfortunately, has not brought the expected outcome.

Second, there is a big disparity between the taxed income of individuals and their consumption. Consumption is always covered by incomes. Should we take consumption as reference, then the taxes should sum up to over 4 billion lei in 2006. In reality, the tax is 4 times lower. The main reasons explaining this disparity are related to the fact that 40% of population's revenues originate from remittances from abroad that are not taxed; only 25% of population is employed and pay income taxes institutionally; 25% of population is engaged in agriculture and the big majority of revenues are received in kind.

In 2006 a modification introduced in the fiscal code stipulates that revenues in kind will be taxed. However, it is difficult to imagine how they will be identified and collected.

Excises

The growth in the collection of excises should only be conducted when there is a steady growth in consumption for the products that are liable to excise, when smuggling is minimized (which has been happening for quite a bit), and there is increase in constraint.

If the first two actions have a general character, then the increase of the excise rate will be possible for oil products starting with 2006. Despite the fact that Moldova imports oil resources and while having a reduced payment capacity, the excise for oil products remains to be the lowest in Europe and the fiscal pressure for these products is almost twice smaller than in most European states. In 2005, oil products have registered a 70% increase in price. The consumers have gotten over the psychological barrier and the increase in price relatively easy. For year 2006, CEP experts foresee a significant drop in price for oil products on global market, process that will cause a decrease in prices on domestic market. In such conditions, the increase of excises will be possible for all oil products without influencing the increase in price.

Expected drop in global price for oil resources in 2006 will make it possible to increase excises for all oil products.

THE TAX ON REAL ESTATE – A SOVIET LEGACY

Revenues originating from real estate are reflected in the consolidated budget in two ways: revenues from land tax and real estate revenues (mainly buildings). In reality, the fiscal code perceives both types of goods as real estate and, respectively, describes one single rule of application of the taxation.

The taxation system of real estate is based on the appraisal of these goods. Until 2005, this appraisal was done based on a methodology inherited from Soviet times, where the official value of goods was 5-10 times lower than the real value. As a consequence, the amount of tax collected for real estate equals to 225 million lei, 190 million lei out of which, is the tax charged from the land owners and 34 million lei – the tax charged from real estate owners.

It is obvious that the collection of this tax could substantially increase, provided that the value of real estate will be assessed according to market prices. In this case, are facing the issue of social equity: over 95% of currently existing real estate values in Moldova have been created in a different economic system and

owners of the real estate do not have any possibility to purchase it in present conditions. Otherwise stated, the revenues of the owners do not correspond to the value of their properties, because the existing economic system, unfortunately, can not generate the construction of real estate.

Currently, the price of real estate is formed considering the incomes altered by remittances from abroad. The real estate market is, however, so small that the existing prices are far from reflecting the real situation. Stated differently, prices are formed by a small group of "players" whose revenues originate from abroad. Therefore, as we have suggested many times, the postponement of the new calculus methodology is opportune for at least another 2-3 years.

Application of the new methodology will be possible when the real estate market will start functioning normally and the majority of real estate owners will be able to carry out transactions, while the national economy will generate the production of real estate.

Public Investments into Natural Gas Infrastructure

The first national program for the development of gas delivery infrastructure was created in 1991. The first public investments were made, however, as late as in 2005.

The first national program for the development of gas delivery infrastructure was enacted in 1991, by the Decision No. 403 of the Moldovan government dated at 31.07.1991. This very broad program was only describing the importance of development of the gas delivery infrastructure. The program also had a deadline, which was set to year 2000. However, due to its very broad structure, as well as to the difficult economic situation, this program was not implemented. There is only one interesting stipulation in the Law on the State Budget for year 1997 where it mentions that the Ministry of Finance can undertake unique compensatory actions for the expenditures of local authorities if these are related to the development of gas delivery infrastructure for public institutions. This stipulation, in one form or another, can be found in the annual Law on State Budget for other years as well.

In conditions of a deep economic crisis, the Government has extended in 2002 the deadline for implementation of development of gas delivery infrastructure strategy until 2010.

In 2001, by the Decision No. 1492 of the Moldovan government dated at 28.12.2001, a new program, envisaging the development of national gas delivery infrastructure until 2005 was presented. Unlike the first program, the second already describes in details the intended investments. But because of poverty at that time and lack of financial resources in the state budget, the program foresaw capital investments for pipelines and branches construction in amount of 837,65 million lei, the biggest part out of which, 782,6 million lei or over 93%, was supposed to be placed by private agents. To make this program more credible, the government anticipated that the biggest part of investments should be made in 2005. Besides constructing new pipelines, the 2001 program foresaw capital investments in amount of 75.84 million lei for the unfinished networks. The expenditures had to be borne by the local and central public authorities.

Due to the lack of budgetary resources, the Government drew up the development of gas delivery infrastructure in 2001 through massive attraction of private capital.

The worsening of the economic situation, and the total lack of budgetary resources have considerably decreased the optimism of the Moldovan government. A new strategy for the development of gas delivery infrastructure, approved by the Decision No. 1643 of the Government dated at 19.12.2002 was issued. Unlike the previous strategy, there are no pre-established deadlines for execution in this one, but the notion of "medium-term perspectives 2010" is used. This strategy foresees the allocation of only 285.87 million lei or 3 times less than in the previous strategy. Moreover, the financial sources were not specified. It is mentioned only that investments will be made depending on the possibilities of allocation of financial resources by the state and local budgets and attracting private investments.

In fact, the development of natural gas delivery infrastructure by 2003 and its financing have been accomplished mostly with the help of the Social Investment Fund from Moldova. SIFM has granted 5.57 million USD to the local public authorities, in order to implement 116 projects on the development of gas delivery infrastructure.

In 2003, local budgets grew rapidly due to a significant increase in VAT collections. This fact allowed local public authorities in many localities of Moldova to start the process of developing gas delivery infrastructure in towns using personal financial resources. The mayoralty of Cupcini town, for example, has spent during that year 500 thousand lei from the local budget. Moreover, more local economic agents, and also the local population engaged into the process of developing the gas delivery system. They have financed both the construction of the thoroughfare and also the distribution network.

Central public authorities got directly involved in financing natural gas delivery infrastructure as late as in 2005, which is much later than it was pre-established according to the 2001 strategy, but relatively fast according to the strategy from 2002.

The 2005 state budget contains 48.7 million lei for the development of gas delivery infrastructure. But due to over execution of the state budget in revenues, the allocation grew to 243.5 million lei. For 2006, the government planned to allot 71.3 million lei from the state budget, but, in our opinion, it will allot 2-3 times more money.

Thus, in the following 2 years, and only due to remittances from abroad and massive allocations of VAT for imports, the government will over-accomplish the "pessimistic" plan from 2002 in regards to the development of the national gas delivery infrastructure.

Until now, SIFM, the raions, the mayoralties, the state, the businesses and the population have placed investments in the development of gas networks infrastructure.

Due to remittances from abroad and massive VAT collections from import goods, the Government will fulfill in 2 years the "pessimistic" 2002 program for the development of gas delivery infrastructure.

INVESTMENTS IN GAS NETWORKS DEVELOPMENT AND PROPERTY RIGHTS ON "MOLDOVA-GAZ" COMPANY

Until 2001 due to the precarious economic situation and the suspicious schemes for natural gas provision, Republic of Moldova has accumulated outstanding debts in amount of approximately 300 million lei against the Russian Company "Gazprom".

In 2001 the Republic of Moldova yielded 50%+1 of its "Moldova-Gaz" shares as part of debt relief against "Gazprom" through an agreement signed by the government of the Republic of Moldova and "Gazprom" Company, and for the remaining debt bills expiring in 2011 with an annual interest of 7% have been issued. In 2001, "Moldova-Gaz" assets have been estimated at 1,33 billion lei, 666 million out of which revert to "Gazprom". The other 50% of the shares had been divided among the government of the Republic of Moldova – 34%, authorities from Tiraspol – 14%, and natural persons – 2%.

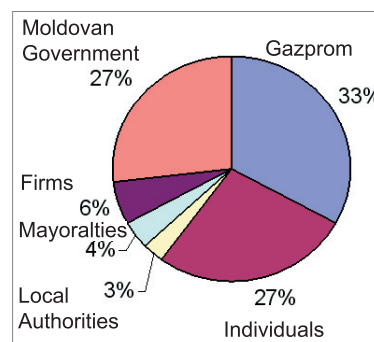
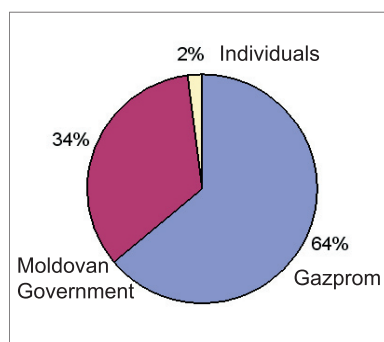
Following the negotiations in 2006 "Gazprom" gets the part of shares belonging to the Tiraspol authorities, thus the Russian Company has increased its shares holding up to 64%. It is also worth mentioning the fact that the Republic of Moldova, according to the law, can not have less than 35% of all shares.

As we have already mentioned, during all this period investments have been made in gas pipes construction, but by the Decision No. 683, dated at 18.06.2004 the local inhabitants, the local public authorities, and the economic agents are obliged to transmit for technical service the gas networks that they have built. This regulation solves the problem of network exploitation that have an increased degree of risk, and it also addresses a difficult problem, the one of the property rights.

Stated otherwise, through a Decision of the Moldovan Government, everyone enumerated above is obliged to yield their property to a private agent.

If this property is included in the statutory capital of "Moldova-Gaz" Company, then the owners' structure will change considerably.

Share quotas after signing of the Agreement in 2006. The shares of authorities from Tiraspol had been given up to "Gazprom"



Share quotas after incorporation of all investments placed into the statutory capital of "Moldova-Gaz" during 2001

The biggest investment efforts have been initiated by the local inhabitants. Each household has invested from 5 up to 15 thousand lei for the development of gas delivery infrastructure.

Local mayoralties and economic agents, as a rule, have contributed with 200-500 thousand lei each.

AGRICULTURE

In 2005, the agricultural policies of the state have been partly revised.

The process of harmonization of legislative acts regarding agriculture along the norms of the European Community was given start.

The total agricultural output for January-September 2005 amounted 9684 Million lei, which represents a 6.9% growth compared to the similar period in 2004

The exorbitant surfaces of grains have been maintained regardless of the ridiculous prices and the humongous quantity of stocked grains.

Several happenings on the course of 2005 will have a strong long-term impact on agriculture in Moldova. First, we should mention the structural reforms conducted actively by the new management of the Ministry of Agriculture and Food Industry. It seems this institution has finally repudiated the clichés which it had used for years to simulate reforms in agriculture.

On the course of the last year, the main state policies on agriculture have been revised and especially those referring to the management of agricultural land surfaces; the fiscal environment (fiscal conditions favoring the development of the strategic sub-sectors of agriculture were created); the subsidies system was revised, a new subsidized insurance system for agriculture was approved. The issues of revigorating the zootechnic sector, as well as the irrigation systems were given high consideration. On the other hand, the Ministry of Agriculture and Food Industry consolidated its partnerships with the similar institutions of the neighbouring countries. Due to that fact, many obstacles in the bilateral Moldovan-Romanian trade with poultry products have been overcome; the process of harmonization of the Moldovan legislation regulating agriculture with the norms of the European Community was given start; as well as a series of prophylactic measures on the monitoring and prevention of the bird flu have been jointly taken, etc.¹

Current Trends in Agriculture

The agricultural output of the period between January and September 2005 constituted 9684 Million Lei, thus demonstrating a 6% growth if compared to the same period of the last year. In 2004, the growth of agricultural output grew by 3% from 2003.

The current growth is determined by the increase in the output of animal farming by 8.7% and of vegetal output by 4.6 percent. According to previous estimates, the output of vegetal crops constituted 5954 Million Lei, while that of live stock – 3505 Million Lei. Services accounted for 221 million lei. It should be mentioned that the growth in the output of livestock is determined by a significant growth in the outputs of the main zootechnical products. Thus, the sales of live cows and birds increased by 5%, the output of eggs – by 16%, the output of wool – by 2% and of milk – 5 percent.

Crops

Throughout 2005, the structure in the main agricultural commodities has not registered qualitative changes. The share of grain crops and beans was, again, overwhelming, covering 1033.0 thousands hectares (67.4% of the total cultivated surface). The exaggerated surfaces of grains have been maintained regardless of the steep decrease in prices and of humongous undemanded supplies. For instance, in the first semester of 2005, the prices for cereal grains declined by 46% compared to the similar period in 2004. Besides, the forecast for 2006 is pessimistic. On 25 November 2005, the following establishments for autumn crops were planned for the 2006 harvest: autumn wheat – 328370 ha (101% of the planned surface), oat – 47807 ha (79% of the planned surface), etc. Due to the bad climatic conditions, and the protraction of agricultural works in the autumn of 2005,

¹ "The Contingency Plan of Republic of Moldova against Bird Flu", the Official Monitor of Moldova no. 161-163/555 from 02.12.2005.

the state of the seeded autumn crops was unsatisfactory at the end of 2005. From the total crops checked by the Ministry of Agriculture in the end of 2005, only 67891 ha were in satisfactory condition².

Table 2. The Structure of Agricultural Establishments, thous. ha

| | 2000 | 2001 | 2002 | 2003 | 2004' | 2005 ¹ | 2006'' |
|---|--------|--------|--------|--------|--------|-------------------|--------|
| Suprafața înființărilor agricole - total | 1527,3 | 1555,1 | 1573,8 | 1484,0 | 1565,8 | 1535,2 | - |
| Cereale și leguminoase pentru boabe - total | | | | | | | |
| din acestea: | 987,6 | 1076,5 | 1071,5 | 896,6 | 1076,9 | 1033,0 | - |
| grâu de toamnă | 369,9 | 433,9 | 442,7 | 202,0 | 312,1 | 399,5 | 328,4 |
| porumb pentru boabe | 441,5 | 471,3 | 446,7 | 553,5 | 583,0 | 455,5 | - |
| Culturi tehnice-total | 330,4 | 301,0 | 331,0 | 417,1 | 343,5 | 355,1 | - |
| din acestea: | | | | | | | |
| sfecla de zahăr | 62,7 | 59,5 | 49,7 | 37,8 | 34,6 | 33,9 | - |
| floarea soarelui | 227,7 | 208,4 | 256,7 | 352,4 | 269,8 | 274,1 | - |
| tutun | 23,5 | 16,9 | 9,2 | 5,6 | 5,6 | 4,7 | - |
| Cartofi, legume de câmp și bostănoase – total | | | | | | | |
| din acestea: | 124,8 | 114,2 | 107,7 | 89,9 | 79,1 | 79,8 | - |
| cartofi | 65,3 | 42,7 | 45,0 | 38,5 | 34,5 | 35,9 | - |
| legume de câmp | 50,2 | 62,2 | 54,3 | 41,6 | 36,5 | 36,9 | - |
| Culturi pentru nutreț-total | 84,5 | 63,4 | 63,6 | 80,4 | 66,3 | 67,3 | - |

Surse: Yearly Statistical Review 2005, data of the National Bureau of Statistics of Moldova

The harvest of the main crops from the second group is relatively fine, should we consider the last year's indicators. Therefore, according to the data from 16 December 2005, grain corn was harvested on a surface of 412311 ha, with a total harvest of 1515439 tons. The average productivity of corn constituted 36.8 q/ha. The harvest of soia was registered at a total of 35407 tons at 14.7 q/ha.

The surface of technical crops increased insignificantly compared to year 2004, but fell considerably if compared to 2003. The reduction of surfaces seeded with technical crops decreased due to the decrease in the surfaces of sugar beets and tobacco. In 2005, the surfaces planted with tobacco have been reduced 5-fold compared to 2000, and 3.6-fold compared to 2001. As for sugar beets, the areas were reduced by half, which did not hurt the output. The reason is in the increase in productivity, which resulted in mounting outputs.

The average productivity of this crop was of 291 q/ha, whereas individual companies registered a productivity of 700-800q/ha, which is a tremendous performance.

Because of the bad climatic conditions and the protracted agricultural works, the state of the autumn seeds was unsatisfactory.

In 2005, the surfaces planted with tobacco have been reduced 5-fold compared to the year 2000 and 3.6-fold, compared to 2001.

² On December 7, 2005, from the total crops checked, which had been seeded on 293780 ha, only 67891 ha were in the seed phase, 169788 ha were in the bud phase (1-3 leaves) and 55430 ha in the phase of germination.

Thus, according to the data on 16 December 2005, sugar beets were harvested on a surface of 34920 ha, whereas the total harvest was 1016133 tons.

In 2005, the surfaces planted with tobacco have been reduced 5-fold compared to the year 2000 and 3.6-fold, compared to 2001.

The two sugar-producing giants, JSC „Sudzucher Moldova” S.A.³ and JV „Marr Sugar Moldova” purchased together 985668 tons of sugar beets (compared to the purchases in 2004 -943095 and in 2003 662412), while 975365 tons of beets have been processed (compared to 926434 in 2004 and 649662 in 2003). In our opinion, the impressive results reached by the sugar beets producers and the sugar industry happened solely thanks to the support by both foreign investors and the local public administration, who are interested in the development of this sector.

The government has also contributed to fostering the sugar industry and the sugar beet dwellers by applying timely safeguard measures regarding the import of sugar, by maintaining import tariffs, regardless of the country of origin, and by applying an 8% VAT on sugar.

SAFEGUARD MEASURES AGAINST SUGAR IMPORTS

By the Law no. 8-XV from 05.02.2004, regarding the application of safeguard measures⁴, an exceptional import tax shall be applied for the following goods specified under the code „1701 – Sugar and its Substitutes, in both solid and liquid form” as well as the products under the code „1701 90 790 – Other Products” „1702 90 990 – Other” și „2106 90 590 – Other”, classified by the Register of Products of Republic of Moldova, approved by the Government of Rep. Of Moldova by the Decision no. 54 from 24 January 2004. The tariff shall be charged as follows:

- 55%, but not less than 115 Euro per ton
- from February 16 until December 31, 2004;
- 50%, but not less than 110 Euro per ton

- from January 1 till December 31, 2005;
- 45%, but not less than 105 Euro per ton
- from January 1 till December 31, 2006;
- 40%, but not less than 100 Euro per ton
- from January 1 2007 until February 15 2008.

In 2005, the Government distributed equitably and in a transparent manner the export quota on sugar for exports towards Romania. The quota was set to 14 thousand tons, as agreed with the Romanian side.

The established tax shall be applied as supplement to the tax in force, regardless of the country of origin. The tax is calculated and charged according to its value while at the customs checkpoint and is included in the taxable value of the product.

⁴ Official Monitor of Rep. of Moldova no. 26-29/153 from 13.02.2004

Meanwhile, the the Government distributed equitably and in a transparent manner the export quota on sugar for exports towards Romania. The quota was set to 14 thousand tons, as agreed with the Romanian side. The procedure of repartition of the exports quota favors both the sugar producers and the agricultural producers, suppliers of raw material. Moreover, according to the Law on the State Budget for the Year 2006, subsidies worth 20 Million Lei are being channeled to sugar producers. The subsidies will be granted to those agricultures, who will increase the established surfaces of sugar beets. The subsidy will be operated at 20 lei per ton delivered to the companies of the sugar industry. The subsidy also sets a requirement of productivity: 250 q/ha.

In 2005, the Government distributed equitably and in a transparent manner the export quota on sugar for exports towards Romania. The quota was set to 14 thousand tons, as agreed with the Romanian side.

REGULATIONS REGARDING THE DISTRIBUTION OF QUOTAS FOR THE SUGAR EXPORTED FROM REPUBLIC OF MOLDOVA TO ROMANIA

In 2005, the Government established the procedure of distribution of the export quota for the sugar produced in Moldova and exported to Romania by a regulation. The regulation was enacted in line with the Protocol of the Mixed Inter-Governmental Commission for Economic, Commercial and Techno-Scientific Cooperation agreed and signed on November 8, 2004 in Chisinau⁵.

According to the stipulations of the protocol, Moldova was granted a preferential quota for exports of sugar in amount of 14 thousand tons.

The export quota was distributed only to the producers of sugar according to the outputs of sugar

from sugar beets, proportionally by the individual output in 2004.

The regulation regarding the distribution of the export quota, presupposes a fair and transparent distribution procedure by.

Another aspect that should not be neglected is the fact that the regulation stimulates efficient and competitive production. This is a very important stipulation, deeming the fact that it imposes a new approach to supporting businesses by the Moldovan government. The latter has long time followed a practice by which the weaker and less efficient competitors would get preferential stimulatory assistance.

⁵ The Regulation regarding the Repartition of the Export Quota for the Sugar Exported from Moldova to Romania (Official Monitor. no. 59-61 from April 15, 2005)

On the course of the years 1997-2004, the areas planted with multi-annual crops had registered a steep decrease. During this period, the surface of orchards was reduced by 54 thousand ha, while the vines – by 28 th. ha. These decline tendencies pertain to fruit-bearing trees and bushes, but as well as for vines, the cultivation areas of which had been reduced by 45 th. ha, while the vine establishments were reduced by 37 thousand ha.

It should be noted that the diminuation of orchards did not affect the total output of fruit, berries and grapes during 1997-2004. Thus, during the last two years (2003 and 2004), a significant growth occurred in the output of fruit and berries, despite of the ever shrinking orchards. The total output of these agricultural goods is considerably higher than that of 1998-2002, but still is inferior to the output of 1971 – 1975 (786 thousand tons) and that of 1976-1980 (820 thousand tons)⁶.

Similar trends are detected for the vineries. Thus, in the last for years, the total output of grapes grew considerably compared to the years 1997-1999, fluctuating between 641.2 thousand tons and 703.8 thousand tons.⁷

We should mention that the total output of grapes (the average for 5 years) constitutes 7968 thousand tons in 1961-1965, 888 thousand tons in 1966-1970, 1013 tons in 1971- 1975 and 1234 tons (1976- 1980).

CENTERS AND WINE-LANDS FOR THE CREATION OF ORIGINAL TRADE MARK WINES

A list of Centers and Vine-Lands (micro-districts) for the production of original, trade mark wines was approved by the Governmental decision no. 551 from 07.06.2005. According to the decision, the Agro-Industrial Agency "Moldova-Vin" had to elaborate a proposal regarding a research study by the National Institute for Wine and Vines in order to spot new areas with considerable potential for

the production of trade mark wine. "Moldova-Vin" is also responsible for the creation, until 2010, of wine-production capacities in the areas spotted. The areas have to be at least 3250 ha in surface. "Moldova-Vin" is also responsible of the elaboration of technical regulations regarding the production of trade mark wines.

⁶ The year 2005 is an exception due to the bad climatic conditions the output of fruit and berries constituted only 370 thousand tons.

⁷ According to the data of the Agro-Industrial Agency "Moldova-Vin", the total output of grapes in 2005, constituted 500 thousand tons

Table 3. The List of Centres and Wine-Lands

| Wineries | Wine-producing Zones (micro-districts) | Surface of plantations (ha) | |
|---------------------------------------|--|-----------------------------|-------------|
| | | Existing | Prospective |
| Regiunea (zona) | vitivinicolă Cahul (Sud) | 295 | 1970 |
| Trifesti | Trifesti, Burlacu, Cahul, Vulcanesti | - | 220 |
| Ciumai | Ciumai, Borceag, Taraclia | 190 | 150 |
| Tigheci | Tigheci, Pleseni, Tiganca, Leova, Sarateni | - | 360 |
| Comrat | Comrat, Cazaclia, Tomai, Ceadir-Lunga | 40 | 480 |
| Cimislia | Cimislia, Fetita, Basarabeasca | - | 300 |
| Purcari | Purcari, Tudora, Talmaza, Carahasani | 65 | 460 |
| Wine-producing zone of Codru (Center) | | 515 | 1280 |
| Hincesti | Hincești, Carpineni, Bozieni, Sarata-Galbena | 215 | 180 |
| Bulboaca | Bulboaca, Mereni | 20 | 130 |
| Ialoveni | Ialoveni, Codru (National Institute of Wine Industry), Bardar, Milestii Mici | 60 | 340 |
| Cricova | Cricova, Stauceni | 115 | 180 |
| Romanesti | Siscani, Varzaresti | 25 | 130 |
| TOTAL | | 810 | 3250 |

Agriculture and the Law on the State Budget for the Year 2006

The Law on the State Budget for the Year 2006 was published in the Official Monitor of Republic of Moldova no. 164-167/810 from 09.12.2005.

According to the Law, in 2006, the funds directed to the development of rural regions will be increased. According to the law, the state budget contains a subsidy fund for agriculture amounting to 220 Million Lei, which is 30 Million lei more than initially proposed in the draft of the Law on the 2006 State Budget; and 40 Million Lei more than in the last year's budget, as well as 160 Million Lei more than in the initial draft of the law voted by the Parliament. These resources will be utilized on the grounds of a regulation and will be distributed for:

- Supporting orchards -15 Million lei.
- Subsidies for the production of sugar beets -20 Million lei.
- Subsidies for implementing the use of sanitary products (pesticides) and fertilizers - 50 Million lei.
- Supporting the zootechnical sector -15 Million lei .
- Stimulatory measures for the creation of technical service stations for machinery - 20 Million lei.
- Subsidies for delivery of the agricultural output on the territory of Moldova -100 Million lei.

To compare, the resources of the 2005 fund for subsidizing agriculture were used in the following way:

The State Budget for 2006 contains a 220 Million lei fund for subsidizing agricultural producers.

- For the Ministry of Agriculture and Food Industry - 42 Million Lei, including:
 - 30 Million Lei for subsidies and stimulatory crediting of businesses producing agricultural goods from the internal resources of commercial banks, citizens' loan associations and Corporation of Rural Finances;
 - 10 Million lei for stimulation of creation of orchards;
 - 2 Million Lei for equipping and technical endowment of zooveterinary offices;
- For the State Company "Moldresurse" -18 Million Lei for stimulation of creation of technical service stations for machinery used in agriculture.
- For the local public authorities of second level: for subsidising agricultural works; -120,0 Million lei.

Table 4. The Distribution of the resources of the Fund for Supporting the agriculture for 2004-2006, Million lei⁸.

| Total per years | 2004 | 2005 | 2006 |
|--|------|-------|-------|
| | 45,3 | 180 | 220 |
| Subsidies and incentives for crediting agriculture | 21,2 | 29,0 | - |
| Incentives for the creation of technical service centers for machines used in agriculture | 9,0 | 18,0 | 20,0 |
| Subsidies for the autumn ploughing works | 15,3 | - | - |
| Support for the development of orchards | - | 10,0 | 15,0 |
| Endowment of zooveterinary offices | - | 2,0 | - |
| Subsidies for the producers of sugar beets | - | - | 20,0 |
| Subsidies for the use of sanitary products and fertilizers | - | - | 50,0 |
| Support of the zootechnic sector | - | - | 15,0 |
| VAT restitution | - | - | 100,0 |
| Funds disbursed to the Local Public Administration of 2nd level for subsidies for agricultural works | - | 121,0 | - |

The Law on the 2006 State Budget stipulates the creation of a 60 Million lei fund for supporting the institution of vines.

The Law on the State Budget of 2006 stipulates the creation of the Fund for Creation of Vines and Vine Plantations. The 60 Million Lei worth fund will be managed by the „Industrial Agency, Moldova-Vin”. The Budget law also stipulates the creation of a 3 Million lei-worth fund for the promotion of the Nut Tree. This fund will be financed from 1% of the revenues from the commercial value of the exports of nuts, nut tree wood and their derivative products.

The resources of the fund shall be utilized for:

- Fostering the nut/nut tree genetic fund.
- Development of the technical-material base of nut tree plantations and laboratories.
- The growing and maintenance of nut tree until its commercial exploitation.

⁸ The figures for the financial resources for 2005 have been rectified so as to correspond to the Parliament's decision no. 359-XVI from 23.12.2005 on the modification of the Parliament's decision no. 19-XV from 17 February 2005 on the Regulation regarding the Utilization of the Agrarian Sector in the Official Monitor of Rep. of Moldova no. 176-181/891 from 30.12.2005

- Promotion of the nut tree culture (elaboration of the regulatory environment, of the technical knowledge, editing of lexical and scientific papers and manuals; promotion of applied research, organizing seminars and conferences)

The law on the State Budget of 2006 also stipulates a Special 21 Million lei Fund for the Implementation of the Programme for Fostering and Improving Soil Fertility. The fund will be financed from the purchases of public land plots. The program is still to be approved by the Government.

INDUSTRY AND SERVICES

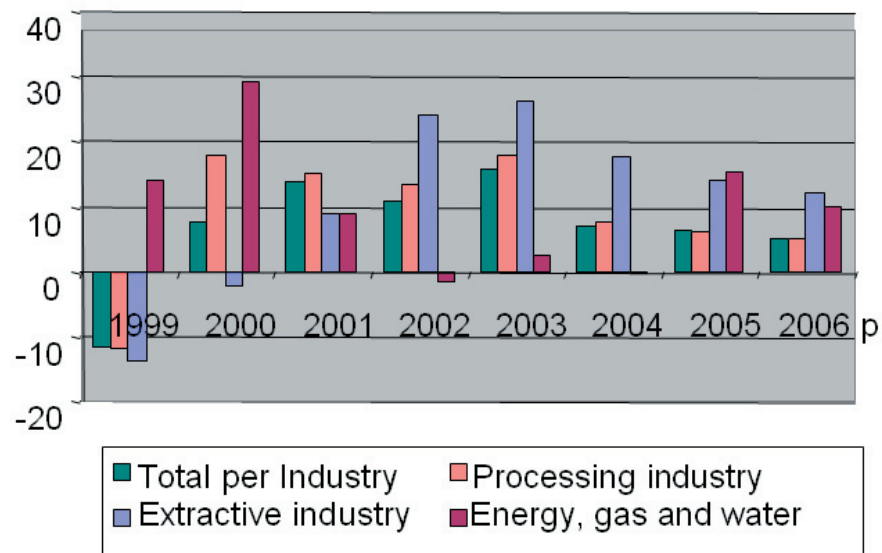
General Trends

In 2005, industrial growth experienced a slowdown, while the services have contributed a lot in economic growth.

In 2005 industry in Moldova diminished its growth rate because of the externalities and due to a decreased level of capital investments. The services sector continued to be the engine of economic growth. Services have developed due to the augmentation of the population's purchasing power, to the increase in domestic consumption and to the development of subsections – telecommunications, trade and construction.

The victory of the Communist Party at the elections has impeded the liberalization of economy and assured the excessive interference of the state into the private sector. The domestic political factor continued to be one of the obstacles for economic development in the last year.

Chart 6. Growth rate registered on various sectors of the national industry



Source: DSS, CPE

The Slowdown of Industrial Growth

Throughout 2005, the industrial sector has slowed down in its growth. In January-December 2005 the industrial output index constituted 106.3% compared to the same period of the previous year¹, the main causes of that being: (1) the restrictions imposed by the poorly developed infrastructure; (2) low investment into the real sector of economy; (3) the complicated international political situation; (4) the low competitiveness of domestic products on foreign markets; (5) the sharp scarcity in internationally-competitive personnel; (6) the exorbitant consumerism character of the national economy. The slowdown in the industrial growth was also amplified by the lack of an adequate policy aimed at the revitalization of national industry.

¹ According to the DSS datas

Table 5. Trends in the industrial output index (%)

| | Total: Industry | Processing Industry | Extractive Industry | Energy, gas and water |
|--------|-----------------|---------------------|---------------------|-----------------------|
| 1999 | -11.6 | -12.1 | -13.8 | 14 |
| 2000 | 7.7 | 17.8 | -2.3 | 29 |
| 2001 | 13.7 | 15.1 | 9 | 9 |
| 2002 | 10.8 | 13.3 | 24.1 | -1.8 |
| 2003 | 15.6 | 18 | 26.2 | 2.6 |
| 2004 | 6.9 | 7.7 | 17.5 | -0.4 |
| 2005 e | 6.3 | 6 | 14 | 15.3 |
| 2006 p | 5 | 5 | 12 | 8 |

Source: DSS, Forecast and Estimations CPE

The structure of the industrial production on branches, 2005

The introduction of VAT for the imports of machinery will depress the modernization of the industrial sector. According to our estimation, the growth of industrial output will continue to fall until it reaches 5% per annum. We forecast a similar trend for 2007.

Alarms in the Processing Industry

Throughout the precedent year, a clear a slowdown in the increase of outputs was recorded in the processing industry. Thus, the industrial sector, which accounts for a 67% share of industry, ceded from 7% in 2004 to 6% in 2005

The situation within the processing industry seems to be alarming. A relatively slow deceleration of growth rates was achieved due to improvements in fruit and vegetables processing, with a 6% rise in the output index, as well as in the sugar industry, where growth accounted 18%; alcoholic beverages have shown a 9% output growth.

The processing industry will grow by 5% in 2006.

For 2006 the processing industry will have a 5% output index growth rate. Should considerable investments in industry not occur, this sector will immerse in stagnation as soon as 2007.

Wine and Beer Industry in Deadlock

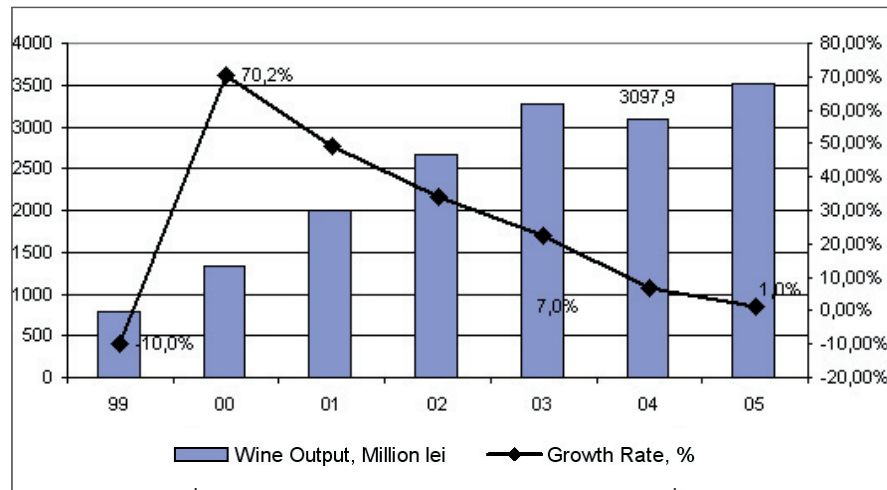
The alarming situation within the processing industry is a result of the crisis of Moldovan wine exports towards Russian Federation and that of a gradual decrease of the segment of Moldovan wine on the Russian market, as well as of the difficulties met in conquering new commodity markets. This happens not because the quality of our wines is low, nor because of unattractive prices, nor because of a lack of good marketing or trade marks recognized within the wine industry.

Our wines are currently positioned within the inferior segment of market. The bitter competition, the economic and political instability make domestic enterprises less attractive partners. The successful promotion of quality products implies considerable efforts and resources, including competent staff. Though, the lack of quality products and attractive prices created the situation that Moldovan wine promotion campaign records modest results.

Thus, throughout 2005 a 1% in wine production growth is noticed (in comparison to 7% in 2004) and 7% in beer fabrication which represents a considerable slowdown of the rhythm of the production volume growth

Chart 7. Dynamics of Wine Output

We set forth efforts supported for conquering new commodity markets for moldovan wines, but without obvious success.



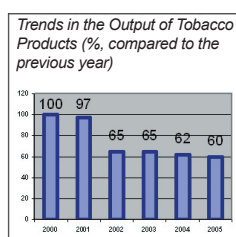
Foreign Investments Have Good Returns in the Sugar Industry

We lose ground on traditional commodity markets.

There are 8 sugar factories in Moldova, 5 of which are in working condition. The joint stock companies, Glodeni-Zahar and Cupcini-Cristal belong to the Russian company **Marr Sugar Moldova**. The factories in the towns of Drochia, Falesti and Alexandreni – belong to the Molovan-German joint venture **Sudzucker-Moldova**.

The companies from this sector produced in 2005 sugar in value of 614 Mln. Lei, having registered an 18% growth compared to 2004. Even though enterprises from this sector do not have the possibility to fully render profitable their production capacities as result of the restrictions on the domestic market and of the difficulties encountered when exporting on foreign markets, howbeit 2005 was a year when this industrial sector quit gained strength.

Efforts of Redressing the Situation in Product Manufacturing



The fabrication of Tobacco products registered a steady decline, as in 2005 the output represented 96% of that in 2004.

Even though the Government drafted an action plan aiming to improve the situation in this sector through extending tobacco plantations and rising productivity per ha, these actions did not cause any reveriments. The improvement in the situation will only be possible when the domestic tobacco giant "**Tutun-CTC**" is privatized and investments flow into this sector, as well as when the implementation of advanced technologies will allow the transition to intensive tobacco-production methods, of tobacco cultivation and the increase in the land productivity, thus improving the tobacco and its secondary products.

Maintaining High Growth Rates for Textile Products and Clothing is Barely Realistic

The sector of clothes and garmentry recorded a light evolution throughout 1998-2000. However, stagnation occurred in the subsequent years. For instance, in 2005, manufactured clothing registered a growth of only 2% compared to the preceding year, but in 2004 a growth of 19% arose, compared to 2003.

In the sector of textile products, a growth of 15% in 2004 was followed by a decrease of up to 5% in 2005.

A low rythm of growth is expected in textile products and store-clothes fabrication.

- While the average wage is ingreasing and the national currency exchange rate versus the hard currencies remains stable, the realization of counter-party operations in Moldova makes that he market become more attractive for foreign investors in the context of international sub-production operations.
- The comparative advantage of cheap, but in the same time, qualified labor force is decreasing, thus the transfer of the production capacities made by the EU companies from Central European countries to Eastern ones is "passing through" Romania and it seems that it will not stop by for a long period of time in Moldova either. If 3-4 years ago the risk of developing businesses in Moldova was compensated by the cheap labor ,while today, potential investors hezitate to invest in Moldova.
- On the one hand, we welcome any form of interest in developing production capacities, trasfer new technologies, know-how and job creation by foreign investors. On the other hand though, both the international sub-production operations as in the form of loan for Moldovan industry takes the form of export of services, instead of that of products (phisically, exported products are not the manufacturer's property but of

the buyer of services, meaning the foreign partner). Normally, domestic enterprises should orient their interest towards more complex forms of partnership, such as the international co-production (production of spare parts, common assembling and comercialization of finite products, etc.), these being obviously superior from the point of view of economic advantages for our country. Yet such relations can be developed only in conditions of developed infrastructure and of the capacities for high production.

A series of measures that could improve the position of Moldova before other countries and attract more advantageous international partnerships. These would be: the liberalization of economy, eradication of corruption from state institutions, promotion of legislative initiatives that would inspire the business climate and would offer a favorable legal framework for business development., including through balancing labor legislation, simplification of import-export procedures. Meanwhile, the domestic should set forth considerable efforts related to technologic modernization, attraction and assimilation of advanced technology and marketing practices creating a good image and name on external market.

The Causes Slowdown in the Extracting Industry

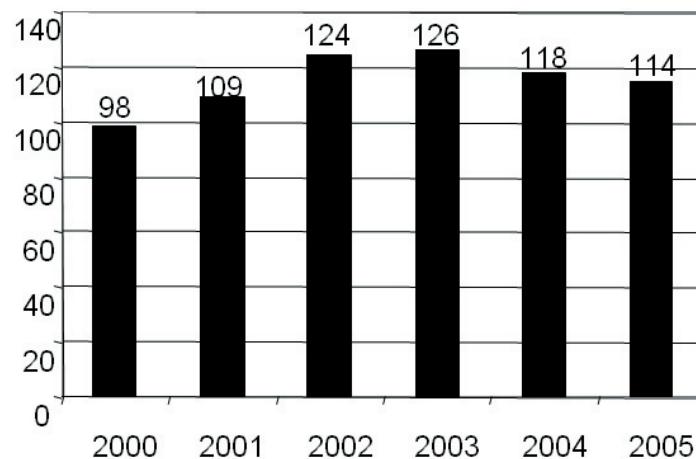
In 2006 the production of extracting industry will grow with 12%

On the course of the last 2 years, the extracting industry has slowed down in its growth. Thus, the output for January-December 2005 has grown by 14% in comparable prices, compared to January-December 2004.

On the one hand, we can witness an accelerated development of the construction sector, which is the main consumer of natural resources; on the other hand, there's depression in the extracting industry. This can be explained by the increase in use of modern technology in construction work and, meanwhile, by the orientation of producers toward modern construction. Modern construction has a tendency to use more qualitative materials and in smaller quantities. Hence is explained why more alternative construction materials start to replace the traditional ones.

For 2006, we predict a 12% growth rate in the extracting industry, but in 2007 the slow pace of development in the extracting industry will continue.

Chart 8. Extractive Industry Output Dynamics %, compared to the previous year



Economic Growth is Maintained by the Development of the Services Sector

Services have been the engine of economic growth in 2005.

Construction

In 2006, the services sector will grow by 10%

The amount of construction work executed by firms between January and November 2005 accounted for 210 Million MDL, which is 111% compared to the same time period of 2004. The construction sector will continue to grow in 2006, although at a slower pace. The same trend will be valid for 2007.

Transportation

The amount of transported goods decreased by 9.2% in January-November 2005, as compared to the same time span in 2004. The decrease was determined by lower traffick on the National Railway of Moldova, which

accounts for 50% of the transportation of goods. The amount of goods transported by the National Railway was of 10.6 Million tons (a decrease of 13.8% since the last year). There was, however, an increase in the transportation of goods by the auto-transport (a 12% growth, or 2.9 Million tons).

There was also growth in the transportation of passengers. During January-November 2005, the number of passengers transported by air transport increased by 14% compared to the last year. There are prospects of this growth to continue in the next two years.

Telecommunications

According to the National Strategy for Building the Information Society until 2007, the penetration rate of fixed telephony should reach 28%. For the mobile telephony, it is expected a penetration rate of 30%. In January-September 2005 the number of subscribers of fixed telephony grew by 31.5 thousand, reaching 886 thousand. Counted per 100 inhabitants, the penetration rate for fixed telephony represents 26.1 percent. Mobile telephony outran the fixed telephony by 117,100 subscribers, reaching 1,003,100, with a penetration rate of 29.6 percent. Between January 1 and October 1, the investment in the sector of fixed telephony amounted to 474 Million MDL, by 147.4 Million lei more than in the mobile telephony. In January-September 2005 the two mobile telephony operators have invested 326.6 Million MDL, from which 203 Mln MDL – Voxel and 123 Mln MDL – Moldcell.

The current year was marked not only by increases in the numbers of subscribers and growth of investments, but also by a more diverse spectrum of services. Both the fixed and mobile operators have had successes in implementation of new services. The quality of services was also increased. Nevertheless, the consumer prices in telecommunications are still very high. Another anguishing issue is the uneven distribution of utilization of these services, as most of the services are concentrated for the urban users, while the rural subscribers have limited access to last-minute services.

Tourism

In January – September 2005 Moldova was visited by 18.3 thousands of tourists, which represents a 15.6% increase from the same period in the last year. Most of the tourists have come from the United States (13.5%), Romania (13.2%), Russia (12.9%) and Turkey (12.4%).

As far as the infrastructure and services are improving and strive to reach international standards, while the connection to the major touristic attractions of the country is being developed, new opportunities pop up for the tourism industry in Moldova. If compared to the neighbouring countries: Romania and Ukraine, Moldova has relatively few attractive locations that could assure the development of a solid tourism industry.

In 2006, the services sector will grow by 10 percent. In 2007 the growth will continue, but at a slower pace.

FOREIGN TRADE

General Trends

Again a negative trade balance.

The year 2005 was not the best period for the development of foreign trade; that having been caused by a series of difficulties. It is regrettable that politics remains the main driving force of trade relations. It has become irrefutable that Moldova should develop its trade on the vector of European integration. Nevertheless, the immediate Eastern neighbors should not be neglected.

In 2005 the Moldovan Export Promotion Organization launched a new project:» Promoting Foreign and Domestic Investment". We hope that the project will become efficient and will facilitate the creation and improve the dialogue between the state and the foreign investors.

All these actions cannot, however, cover the losses caused by the barring of Moldovan imports in Russia. The advancement of cooperation between the Moldovan authorities and the main commercial partners has to be fair and symmetric.

The CIS markets are the most important factor affecting the export activity of Moldova. Moldova has already experienced similar export involutions during the Russian financial crisis in 1998. Although the Russian government is constantly asserting that the commercial disruption between the two countries are not driven by political reasons, we all know that the unilateral sanctions are used as instrument to hamper the European vector of Moldovan politics by economic means.

After nine months of 2005, one could see that the record-high trade deficit could, eventually, bring Moldova into a trap. Despite the efforts to develop stronger ties with the EU, the development proved to favor imports rather than exports.

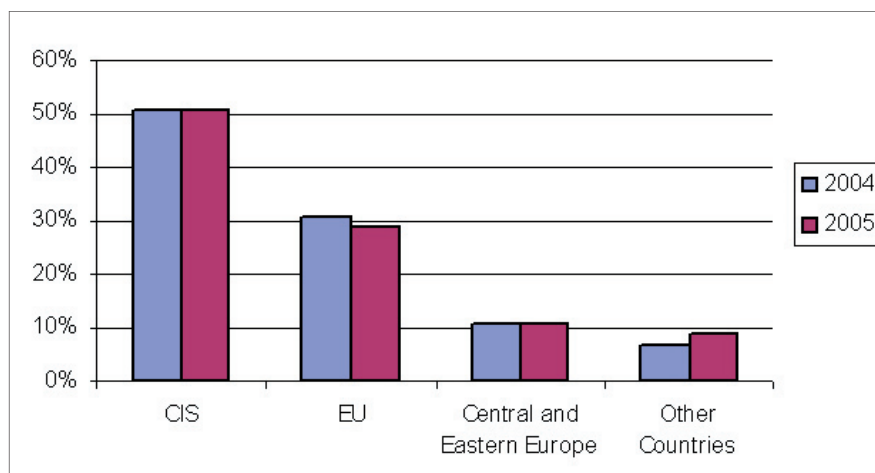
The Export

Losing the traditional markets without finding new ones ...

During the first 9 months of 2005 the situation was the following: the exports toward the European Union increased by only 3%, thus accounting for a 30% share in total exports. On the other hand, the export toward the CIS countries grew by 10%. We should mention that the CIS market is currently the most important market for the Moldovan goods, the biggest and the most rapidly extending, as opposed to the European markets.

The Central and East-European markets are very attractive and most promising for the Moldovan manufacturers. The CEE markets are the most dynamic for Moldova (there has been accounted a 12% growth of exports to these markets as opposed to last year). Nonetheless, a record of an overall 11% share in the total exports still leave much to be worked on.

Chart 9. Structure of Exports for Republic of Moldova



According to the data, it can be clearly concluded that the goods manufactured in Moldova demonstrate good sales figures of the Eastern markets that have become very important because of the continuous growth. It can also be concluded that exports have registered an insignificant, but steady decline. The figures could have been better, should some of the unfortunate happenings not happen; for instance, Russia, that is the main market for the Moldovan goods, has been almost totally closed for the last 6 months of 2005.

It has become clear that the Russian market is the main factor in the export activity of Moldova, as it has a share of one third of the total exports. The last time Moldova experienced such a decline in exports toward Russia was during the financial crisis in Russia in 1998. Although the Russian government asserts that the import restrictions against Moldovan goods are not driven by political reasons, it has become obvious that the Kremlin is using economic levers to hamper the political course of the Moldovan rule.

Russia, the main export market for the Moldovan goods, has been almost totally closed for the last 6 months of 2005.

The consequences of this “friendship policy” conducted by the main trade partner of Moldova are awesome: Russia’s share in the total exports of Moldova declined by 5% and the positive trade balance decreased by 30 percent.

The Moldovan exporters have tried to reorient toward other markets, such as Ukraine, Romania and Belarus; the results have been, however, slim. The conclusion is that it is very difficult to reorient exports in such a short period of time.

The losses that afflicted over some of the companies were so significant, that a good part of them decided to go out of business. We believe “trade war” started by Russia will have long term consequences on the Moldovan economy. Should such a “war” happen again, it could ruin the Moldovan economy.

THE ASYMMETRIC TRADE WITH THE EUROPEAN UNION: LIFE BOAT OR ILLUSION?

The foreign trade of Moldova, especially the export was strongly damaged by the unjustified sanctions imposed by Russia. Despite the sanctions, Russia continues to be the main trade partner of Moldova. To help the situation, European Union declared new possibilities for a group of countries, Moldova being one of them. The "new possibilities" include a new set of rules in the framework of which the future economic relations between the countries and the EU will develop. Although the new set of rules is unlikely to produce instant results, the political support behind this economic framework is evident. This "new set of rules" opens the opportunity of reorienting the Moldovan exports to Europe. This new framework of cooperation, if backed by commitment and adequate policy from the part of Moldova could consolidate the EU-Moldova partnership.

Our optimism should, however include a bit of realism. The main impediment in Moldova's relations with the EU are not the taxes and tariffs, but the unattractiveness and low quality of Moldovan goods, as well as the underdeveloped distribution logistics, especially towards the Western markets.

In fact, the abolishment of tariffs and the application of preferred taxes by the EU is a sheer proof of EU's economic openness towards Moldova. The final say is, however, ours. In line with that, it is extremely important to mention that in December 2005 a new project for the attraction of investment was started under the auspices of OECD. One of the priorities of the project is the stabilization of the business environment in Moldova aiming the attraction of investments, especially into the export-oriented branches of the national economy. The attraction of investment also presupposes bringing technologies of promotion and distribution of manufactured goods.

In other words, the preferential trade of Moldova with the EU will not bring to an essential modification in the structure of Moldovan exports. However, in the long run, evolution is possible, deeming a timely development of the managerial and institutional capacities in Moldova. In this case, the preferential trade could bring to the intensification of the trade relations between Moldova and the EU.

We should also mention the measures undertaken by the Moldovan Government to support the local manufacturer, which is a vital factor for the development of the country and for its image before the investors. These actions did not discourage both domestic and foreign investors to work in Moldova.

Light, but positive trends...

Food Products: The export of food products continued to increase in 2005. There has been a decline in the export of fruit, as the main export market for this category of goods was closed. A circa 25% growth of exports of food products in the first nine months of 2005 are positive changes in the Moldovan economy. As the share of food products in the exports rises, the importance of food processing industry gains importance in the national economy. This is especially important, because of the imperative of diversification of exports. Thus the situation when agriculture is the main economic sector still says on.

Nonetheless, there are positive tendencies, as the export of alcoholic beverages is on the rise. The huge investment in this branch make a good economic prospect for Moldova in international economics.

The Import

Imports demonstrate a spectacular boom

The Moldovan authorities should perform a detailed assessment of the causes of spectacular boom in imports and draw conclusions.

Raw minerals make the top chapter of imports; Russia being the most „active” exporter of raw minerals to Moldova.

THE SITUATION OF ENERGETIC RESOURCES

The rise in the gas prices has become a real fact for Moldova. The promises of the Government (that even in case the price doubles, the effects on the economy will not be very significant) sound at least excentric. The attempts to blackmail Russia by using the transit fee as tool would not bring us closer to the solution of the problem. Presently, Moldova is becoming more and more dependent on Russia (we wold like to remind here the purchase of the electric plant in Cuciurgan by a Russian company). The imports of natural gas makes 30% of Moldovan imports. In this situation, equal dialogue becomes very difficult.

The conflict related to the Cuciurgan plant is by far not resolved. Or, the resolution of these multiple emerged issues would diminish the danger of facing a major economic crisis.

The rise in the prices for natural gas will bring to the boost in prices of all energetic resources. This would have a profound impact on the Moldovan economy, and demolish the stability of the national economy. That is why it is so important to create a new economic realm.

Russian Federation is seeking to „punish“ us doubly: by setting restrictions on Moldovan imports ad by lifting the prices for fuels.

We believe the solution can only be found by compromise; and the role of hte Western partners should be central in this process of resolution.

While Russia is importing energy and raw minerals, Ukraine is invading our market with finite products: cheap food products (dairy products, for example). These products make a good competition to the domestic output.

The most alarming fact is the rise of the share of food products in imports: food products, alcoholic beverages and tobacco: around 35% of growth of imports, animal products, by 50%.

All these trends, together with the reduced competitiveness of the national economy (especially after the events of 2005) require a mobilization of the efforts of the Moldovan authorities. Alas, until the present there have been no adequate actions. We are also witnessing a new turn in the trade with Belarus. Compared to the same period of the last year, the import of products from Belarus grew by 40%, the majority of imports being manufactured goods.

Meanwhile, we should mention that this growth in imports is accompanied and influenced by an enormous influx of resources from abroad. Moldova is one of the world's champions according to the share of remittances in the GDP. These huge resources should be used not only for consumption, but should better be invested and allocated into the national economy.

Foreign investments are the best way in development.

There have been, therefore, a series of positive results, even success stories of foreign investment in Moldova. The number of joint ventures is growing, thus proving that investors start seeing Moldova not only as the poorest country in Europe, but also a good place to put your money in.

HOUSEHOLDS

Land ownership, including land used in agriculture, does not contribute to the increase in welfare of households.

For each unit of official income, there are two units of unofficial income betrayed by consumption.

In 2005, the growth in households' revenues continued to decline mainly due to increases in prices for main consumer commodities and services, as well as due to the low wages. Social inequality in Moldova was determined by the structure of households' revenues, by the main income sources of the socio-economic groups, and capital (land) ownership. Land ownership, including land used in agriculture does not contribute to an increase household's well-being.

The slowdown in growth of incomes depresses the demand of households, and together with that, limits consumption. Food tops the list of household expenses, representing half of total household expenses. The purchasing power of the population for other kind of products and services that determine a decent level of life is thus restrained.

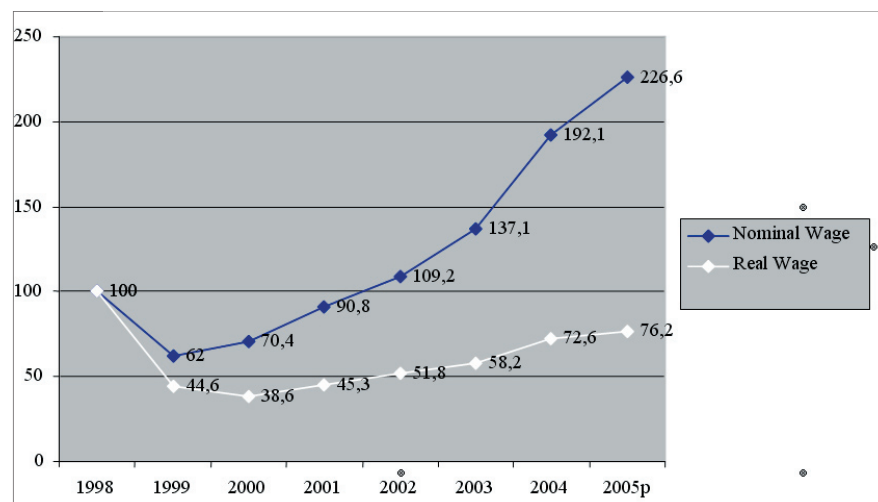
In 2005 there was a huge discrepancy between the households' income and consumption. This discrepancy may be explained by the massive shadow economy. By comparing the official revenues to the consumption of the population, we conclude for every unit of official income, there are two units of unregistered income, which cover the consumption.

The low wages withhold the revenues growth

By the end of 2005 the growth rate of the real income was 5% lower in comparison to the 26.5% rate of 2002.

The trend of the previous year (2004), that of substantial decrease in growth rates of the real income of the population has been maintained during the first three quarters of 2005. By the end of 2005 the growth rate of the real income was 5% lower as compared to the 26.5% rate in 2002.

Chart 10. The Dynamics of the Real and Nominal Wages in USD

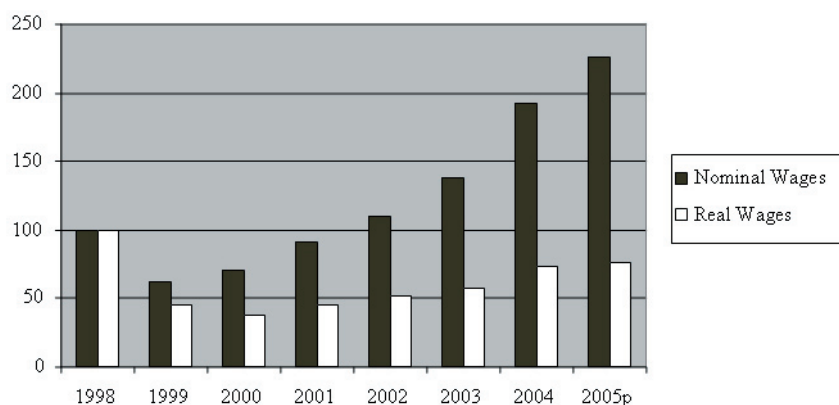


Source: DSS, CEP forecast

The increase in prices for main consumer commodities and services and the low wages are the main factors that withhold the growth rate of the real incomes.

The monthly average wage for three quarters of 2005, thus, has nominally increased by 18% in comparison to the similar period of 2004. The real wage, meanwhile, increased only by 5% and accounted for \$97/month. The small number of well-paid jobs does not allow for the solution of the problem of the "poor employed in economy." The growth of real incomes of the population is thus retained.

Chart 11. Growth Rates of the Real and Nominal Wage (in USD)



Source: DSS, CEP forecast

The revenues of the poor and vulnerable groups of population continue to be the most affected by the increase in prices of main consumer commodities and services. Thus, the growth of the cumulative CPI has led to the 4% rise in the price of the consumption basket even though the prices for food products decreased in the first semester of the year. The growth of CPI increased also the cost of subsistence allowance that was equal to 771 MDL (62 USD) in 2005 in comparison to 702.0 (56 USD) in 2004.

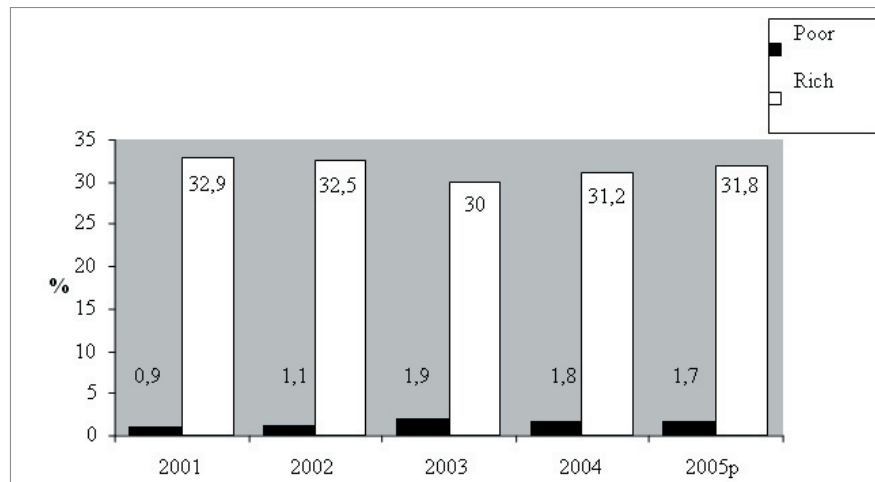
It should be mentioned that, generally, wages accrue slower than the GDP. This means that the massive transfers from abroad force up prices and not the wage accruals.

According the households budget data, the revenues originating from employment account for 67.1% of all family revenues, or an average of \$26.8 per person. Meanwhile, only 69.1% of the revenues generated by employment are cash income. The product consumption of households represents the rest of the income.

The structure of the households' revenues, the main source of income, land and home ownership are the main indicators of inequality. The revenues of the wealthiest families overrun nearly 18-fold the revenues of the poorest families in Moldova. The poorest 10% of population account for only 1.8% of the incomes, while 10% of the wealthiest population get 31.2% of incomes.

The revenues of the modest and poor groups of the population continue to be the most affected by increases in prices of main consumer commodities and services

10% of the population with minimum revenues hold only 1,8% of the income, while 10% of the population with high revenues hold 31,2% of the income.

Chart 12. Available income distribution between the rich and the poor

Individual agricultural activity represents the main income source for the majority of the poor households (52.6%)

Remunerated activity represents the main source of incomes. Nearly 40% of all available revenues originate in remunerated activity. The structure of household revenues is used to assess the differences between poor and rich households. More than 74% of all available revenues of the richest population are formed on the basis of remunerated activity and private transfers. Only 11.34% are formed based on agricultural activity.

Employment or social insurance, and allowances represent the main income sources for over 60% of the poor urban households (31.4% and 24.8%). Individual subsistence agricultural activity represents the main source of income for the majority of poor households (52.6%), as well as for the least poor households from rural areas (51%).

Social insurance and allowances, as well as wages account for nearly 22% of the incomes of poor households from rural areas of Moldova.

In rural areas, farmers represent 39.9% of all poor households, 17.6% out of which are engaged in agriculture. People employed in other sectors of economy are the most numerous and the most subject to risk, according to the assessment of urban poverty, calculated on the basis of the main income source of the head of the family. Poor people represent 58.6% of all inhabitants of the big cities and 56.7% of all inhabitants of the small cities. The pensioners are another significant socio-economic group of poor population. They form 30.9% of all citizens in the big cities, 27.8% of the citizens from small cities, and 29.5% of the citizens from the countryside.

In the first quarter of 2005 the remittances have increased impressively – by 54% more than during the same period of the previous year.

It is important to mention that land ownership, including land used in agriculture, does not increase the welfare level of households. The division of these social groups between those who have and those who do not have land plots within the territory of the household is approximately equal to the ratio of poor and rich households in the rural areas. The majority of the poor families who live in the rural areas and 66.3% of the inhabitants of medium-sized and big cities own land plots.

Money transfers are the most important supplementary source of the households' revenues. The most of the money transfers from the Moldovan citizens of who work abroad are received through unofficial channels. In the first quarter of 2005, the remittances have increased impressively – by 54% compared to the same period of the previous year. According to IOM data, the total value of remittances accounted for a record value of 30.4% of the GDP during the first quarter of 2005.

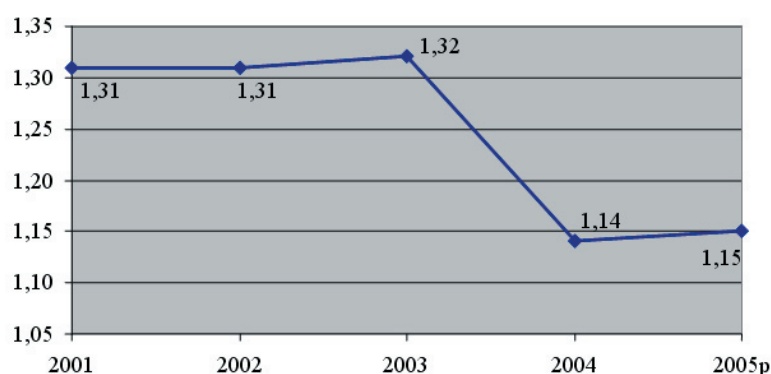
Food and Household Services Prevail in the Structure of Expenses

The average monthly per capita consumption expenses, make up 523.4 Lei, or by 9% more in comparison with the previous year; although the real consumption rate (according to CPI corrections) declined by 4,6%.

In 2005 the growth rates of consumption expenses experienced a significant decline as compared to the previous year. The general slowdown in the growth of real incomes lead to delays in the population's demand, thus being one of the factors that influence the withholding of families' expenses.

In 2005 the growth rates of the consumption expenditures of the population have significantly decreased

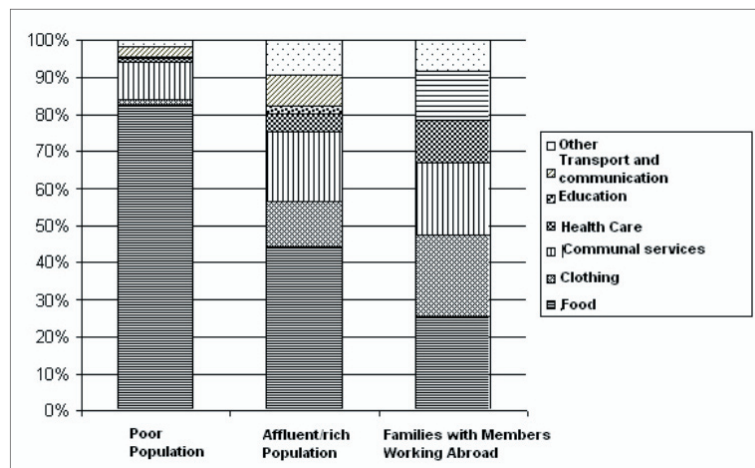
Chart 13. The growth rate of consumption expenditures



Source: DSS, CEP forecast

Consumption expenses for an affluent adult overrun the consumption of a poor adult by 5.6 percent. Food has the most significant share within the total consumption expenses (56.92%). As for the poorest people, food absorbs over three quarters of the expenses. Direct departmental expenses make up 15.23% on average. However, these expenses are two to three times higher in the rich families' budget than in the poor ones'.

The large share of food and household services are a considerable restraint on the households' budgets, thus hampering the population's possibility to purchase other products and services which are necessary for a decent life.

Chart 14. The structure of Households' Expenses

Generally, the expenses of families in which one or more members work abroad are comparatively higher in the urban areas. The education expenses make an exception in this case. This situation explains the larger extent of the delayed demand in the rural areas. The families containing migrant members show that 43% of the remittances are used for purchasing consumer commodities, 32% for purchasing and mending dwellings, 13% for education, and 12% for medical treatment.

The situation did not change radically in 2004: the rich grew richer, the poor grew poor.

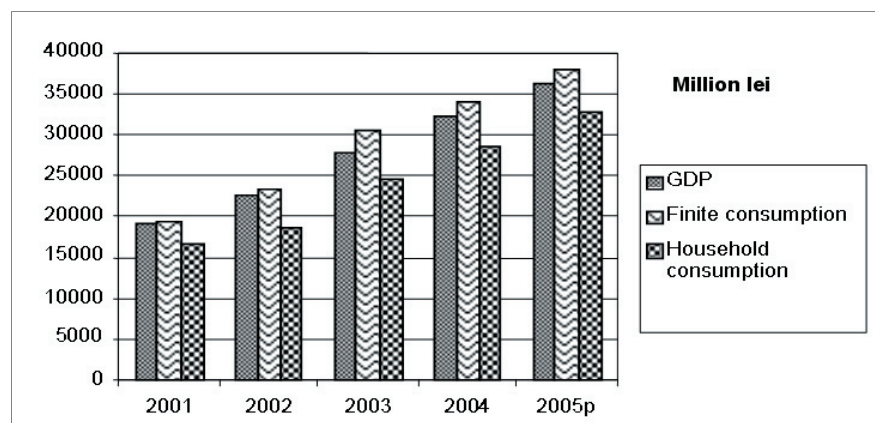
The distribution of the total consumption expenditures among the groups of the population denotes aggravation of consumption inequality in Moldova. After a period of relative reduction between 1998 and 2003), when inequality fell from 0,399 to 0,356, there was an aggravation of inequality, which rose up to 0,361. The comparison of the average level of consumption of the richest households with the poorest indicates that the consumption of the richest was 12,5 times higher in 1998 and 9,1 times in 2004. Until 2003, inequality continued to decrease constantly meanwhile the poorest group in the pool obtained gradually a bigger part of the total volume of consumption. The situation has changed in 2004. Distribution became more unequal in comparison with the previous year. The poorest have lost while the richest have won. Until now, the middle class does not seem to be affected. It is however too early to estimate this phenomenon as a change in trends.

Consumption growth as a method for institutionalization of the shadow economy

Two units of unregistered income, which is allotted to consumption, are assigned to each supplementary unit of official income.

The final consumption of households grew by 9% in 2005. This generally correlates with the dynamics of population's increase in incomes which have practically doubled. According to the data of the investigated households budgets, the real incomes, from all sources, grew only by 3,1% in comparison with the same period of the previous year. The high level of the shadow economy probably explains this considerable discrepancy between the growth rates of the final consumption and the households incomes. If we assume that the official and the informal economy have approximately the same growth rates, then two units of unregistered income, which is allotted to consumption, are assigned to each supplementary unit of official income.

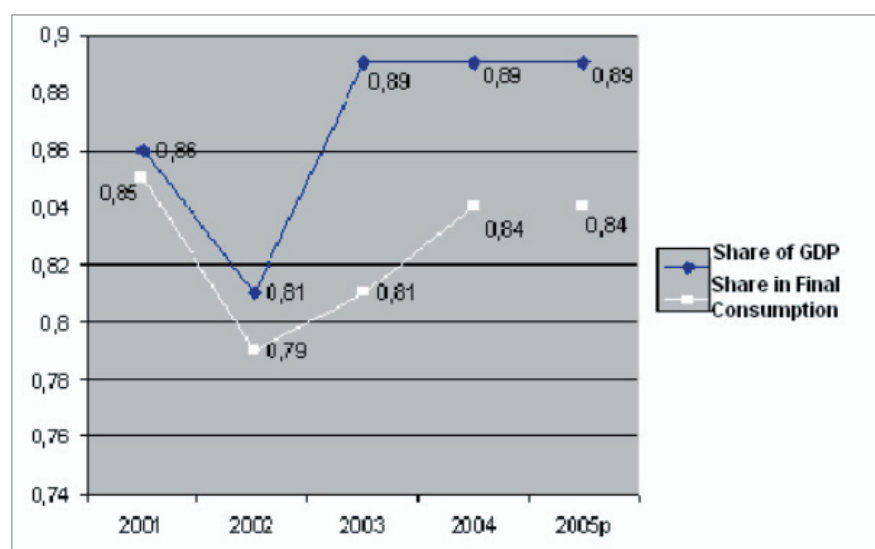
Chart 15. Consumption compared to GDP, in current prices



Source: DSS, CEP forecast

In year 2005, the growth rate of the final consumption continues to overrun the growth rate of the GDP. Its basic quota belongs to the household consumption, and it is conditioned by the money transfers from abroad during the last few years.

Chart 16. The Share of Households' Consumption in GDP and in the Final Consumption



Source: DSS, CEP forecast

The analysis final consumption trends compared to the trends in household consumption denotes a higher growth of household consumption (15.6%) in comparison with the growth of the final consumption (11.1%). This certifies the preponderance of the penchant for consumption of the population – trend that will be kept in upcoming years. Economic forecast indicate a steady growth in consumption by 8-10% yearly on average during the next 2-3 years.

PRICES

General Trends

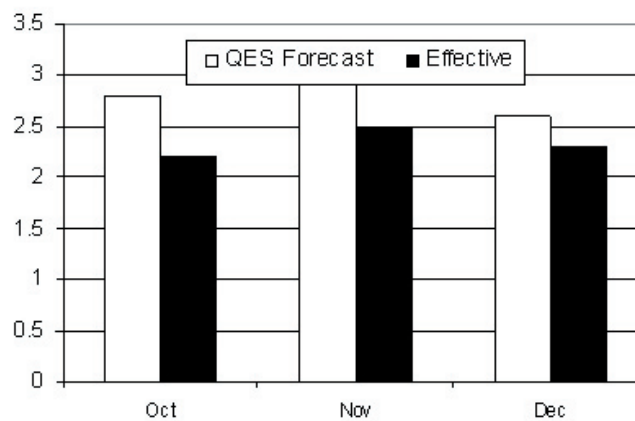
According to the data provided by the National Bureau for Statistics, the inflation rate was 4.9% in the fourth quarter of 2005. In December the inflation rate was 1.4 percent, just 0.5% lower than in November.

The inflation rate rose at 10% as compared during the period between December 2005 and December 2005.

The inflation rate between December 2004 and December 2005 was at 10%.

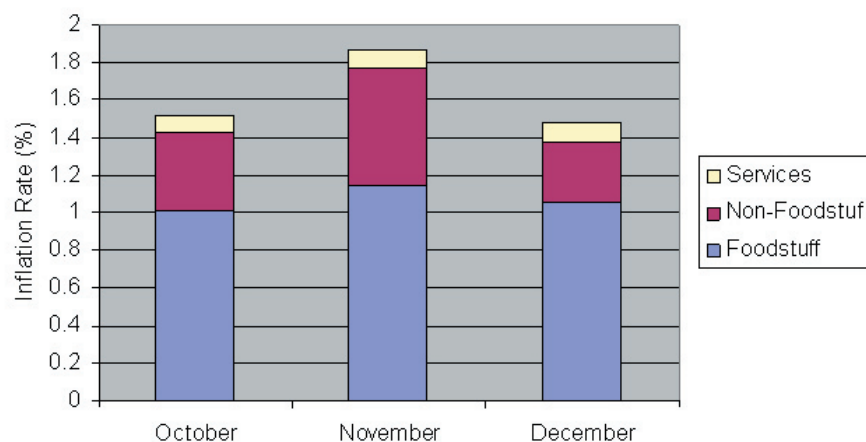
As it was forecasted for the fourth quarter of 2005, the food component grew within the Consumer Price Index (CPI), though not at the rate forecasted by us previously.

Chart 17. Food consumption in the CPI (Consumer Price Index)



In the following graph, each bar indicates the total inflation rate, while the each of the constituent segments represents the share of each sector within the total inflation rate.

Chart 18 The inflation Rate and how each sector contributed to it

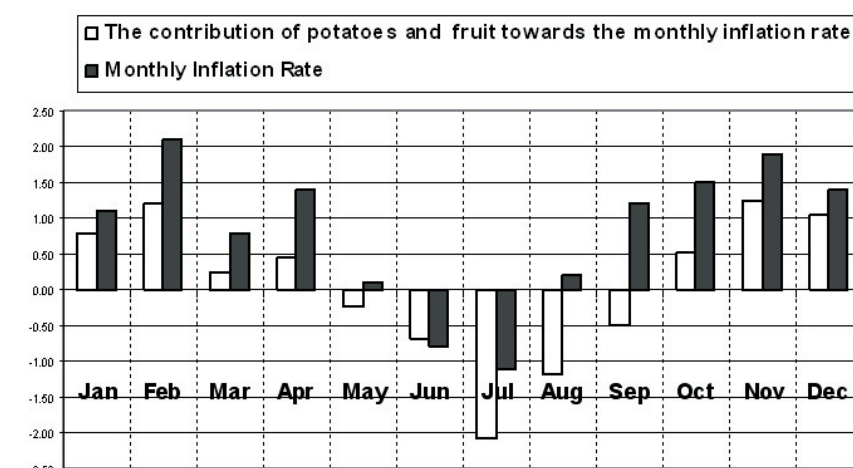


The Foodstuff Component within the Consumer Price Index

The CPI continues to be dominated by three categories of products: potatoes, vegetables and fruit. These products determine the developments in the CPI.

Potatoes, vegetables and fruit make the bulk of the CPI.

Chart 19. Inflation Rate in dynamics during 2005



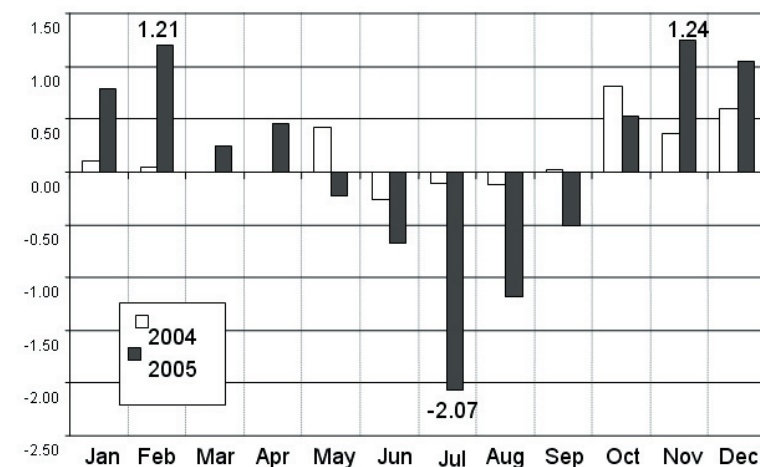
A significant impact on the trends in the CPI, as compared to the year 2004.

In December 2005, of the total 1.4% inflation, 1.05 percent (71%) was induced by fluctuations in the prices for for vegetables, potatoes and fresh fruit.

Due to the export barriers set for this category of goods on the CIS markets, the domestic price for potatoes, fruit and vegetables has fluctuated a lot, thus incurring frequent changes in the CPI.

Due to the import restriction on Moldovan agricultural products enacted in the Russian Federation, the prices these goods rocketed on the domestic markets.

Chart 20. The monthly contribution of vegetables, potatoes and fruit to the monthly inflation rate in 2005; compared to 2004



CPI is not representative enough for the whole Moldovan economy.

As consequence, the CPI is not representative enough for the whole Moldovan economy. We believe that is due to the wrong weighting within the calculation of the CPI.

We also have reserves towards the truthfulness of the data used in the calculations and also towards the efficiency of the methodology used by the Department of Sociology and Statistics in calculating the inflation rate.

Natural Gas

We are truly convinced that the Russian company "Gazprom" will proceed with the recalculation of gas prices, because the world prices are much higher than the ones charged to "Moldova Gas" for the supply of gas to Moldova. Our forecast could only be altered by a political decision. Discriminating on the possibility of such a decision, a revision of gas prices is very much probable.

A higher price for gas would, definitely, impact the CPI through the rising prices for household services, but also through the boost of prices for industrial goods. One indirect effect on the boost of prices for household services could be the rise of prices for the imported electricity. Starting with 2006, Ukraine will import gas at a triple price, as compared to the prices in 2005. As consequence, the prices for the electricity supplied to Moldova will rise essentially.

We believe that the price for household services will rise by 10 percent throughout the year 2006, which would contribute by 1% to the CPI in 2006.

Conclusions and Forecast

We believe the price for household services could rise by 10% in 2006.

In 2005, the rise in the price of fuels did not exert its full effect on the Moldovan economy. In the second half of 2005, there have been important implications only for the transportation and agriculture. The consequences of this boost in fuel prices on the non-food goods is still to be observed in 2006.

Because of the boost in imports and in the world prices, we could witness an „imported” inflation in 2006.

At the global level, the high price for oil determined essential shifts in the structure of overhead costs. The prices of imported goods is also to rise in the next year. Deeming the fact that imports increase at a miraculous pace, in 2006 we could witness an "imported" inflation. Thus, the CPI in 2006 will be largely determined by rising prices for imports.

The CPI is erratic.

Because the CPI in Moldova is calculated mainly by reference to three categories of goods, we consider it to be not enough representative for the entire economy. We are alarmed by the fact that the current CPI is deceiving all the general public, the National Bank and the International Monetary Fund. In 2005, almost all countries in the world have accounted higher inflation rates caused by rise in oil prices. Moldova seems to somehow elude the global tendency by recording a lower inflation rate, which raises many suspicions, also because Moldova is a fuel importing country.

For 2006, we forecast an inflation rate of 13%. Our forecasts, depend,

however, on the on the climatic conditions, as they could affect the next agricultural season. Bad weather could result in a boost in prices for food. This boost would not exceed the rise in prices usually observed in drought years, due to the fact that the food supply is much greater this year than in the previous two years¹. On the other hand, good weather could also be a threat, as due to the lack of access to export markets, a good harvest could result in overproduction and rocketing of prices of foodstuff goods and, therefore, in significant seasonal fluctuation in prices.

In conclusion, we uphold that the the rise in the prices for gas will not have a profound impact on the CPI. We estimate this impact to be less than 1 percent of the CPI. On the long run, however, the rise in the price of gas will affect the price of imported electricity.

***For 2006, we
forecast a 13%
inflation rate.***

Throughout 2005, the world price of oil has continued to rise, mainly because of subjective factors, such as the instability in Iraq and the natural disasters around the world. Based on fundamental factors, we estimate the price of oil for 2006 to be at the level of 65 US Dollars/barrel globally. These estimations could be distorted by the above-mentioned subjective factors (Iraq, hurricanes, etc.). We believe the importing companies would rise prices if oil gets more expensive than \$75/barrel. Even if the price of oil would decline to \$50 USD/barrel, the cartel arrangements in the oil-producing industry would not allow lowering the prices for fuels in Moldova.

Proposals and Suggestions

It is necessary to revise the weighting in calculations for the CPI. Currently, the weighting is being done in accordance to the expenses of the population. It is known that not all services get into the official statistics; we believe the weight of services is greater than officially estimated.

The urban and rural CPIs are weighted in proportion of 50%:50%. However, we estimate that the expenses of the urban population are much higher than of the rural one, therefore they have to be weighted accordingly.

Thus, the parallel calculation of more than one CPI is needed; for instance a CPI that does not include the most volatile goods: the potatoes and the fruit.

¹ as consequence of consolidation of farm agricultural households

MONETARY MARKET

Monetary policy for 2006 and its consequences

In the second half of 2005 GDP monetization reached 37%

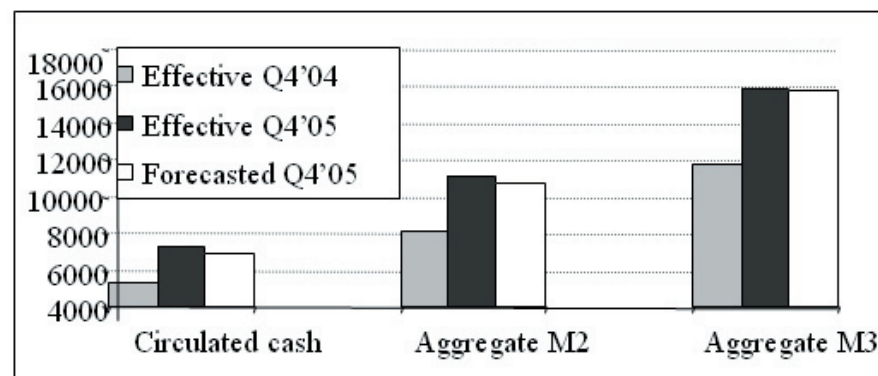
The monetary policy planned by the National Bank of Moldova (NBM) for 2006 is not very different from that of the last year. The NBM targets an inflation rate of between 8 and 10 percent. In our view, the inflation rate for 2006 will overpass these indicators due to the causes mentioned in the Prices Chapter. For 2006, the NBM plans to increase the monetary base with approximately 20%, the monetary indicator M2 – with approximately 40%, and has the intention to maintain the GDP monetization at around 35%.

For 2005, the GDP monetization was planned at 31.4%. During the second half of 2005, according to the Governor of the NBM, this indicator has amounted 37% of the GDP. We consider this value to be extremely risky for the financial system of Republic of Moldova, because it can cause strong inflation. This high rate shows that the monetary funds do not circulate efficiently within the national financial system; the NBM is obliged pushed into increasing money supply in order to cover the liquidity needs of the state. This happens, in particular, due to some dynamic commercial banks that try to counter the big supply of foreign currency, while other banks suffer from excess of liquidity.

The Year 2005 in Retrospect

In 2005 the M2 monetary aggregate increased by approximately 37% compared to the year 2004, thus reaching 11.1 billion lei. The growth appeared to be higher than our previous prognoses that were estimated at approximately 32%. We consider that the disparity between our predictions and the actual data stated by the NBM can be explained by the fact that the NBM has done a series of massive purchases of foreign currency on the domestic market in order to avoid appreciation of the Moldovan Leu. For 2006, the experts of the Economic Monitor foresee a growth of the M2 indicator with nearly 33% more than during the previous year.

Chart 21. Monetary indicators, comparison of the previous EM prognoses with the actual data



Source: NBM, EM estimations

As we have anticipated, during year 2005, the NBM reduced the bank rate from 14,5% to 12,5%. This decision forcedly led to a comparative reduction of the interest rates throughout the year.

Table 6. The medium rates for deposits and credits, comparison of prognoses with actual data

| | Q4'04 | Q4'05 | | Abs. deviation |
|---|-------|-------|-------------|----------------|
| | Real | Real | Anticipated | Q4'05/Q4'04 |
| Interest rate for deposits in Moldovan Lei, % | 15.5 | 11.5 | 12.8 | -4.0 |
| Interest rate for deposits in foreign currency, % | 5.4 | 5.1 | 5.1 | -0.3 |
| Interest rate for credits in Moldovan Lei, % | 21.0 | 17.8 | 18.2 | -3.2 |
| Interest rate for credits in foreign currency, % | 11.5 | 10.9 | 10.8 | -0.6 |
| Source: NBM, ME estimations | | | | |

The rapid increase in money supply and the surplus of liquidity in the national banking system allowed commercial banks to dictate interest rates. In the fourth quarter of 2005, the interest rates for deposits in Moldovan Lei were lowered down to 10.55%. This happens due to the fact that, currently, the Moldovan commercial banks have significant amounts of liquidity and have the power to install lower interest rates. We also have to mention that in the fourth quarter of 2005, the real interest rate for deposits is negative. This means that after having waived the inflationary effect the depositors lost money when they deposited money at the bank.

Excess of liquidity in the banking system allowed commercial banks to dictate the interest rates.

During 2005 the commercial banks have reduced the interest rate for credits with 3.2% by favoring lower rates for deposits. The NBM as well exerted pressures upon commercial banks aiming at a reduction of the interest rates for credits. The 3.2% reduction of interest rates for credits was lower than the reduction of interest rate for deposits (4.4%). By the end of 2005, thus, the commercial banks from the Republic of Moldova managed to extend the bank margin up to 6,8%.

The reduction of the interest rate for deposits in foreign currency was not significant percentually. This is all due to the interest rates for deposits and credits that are less influenced by NBM's policy. Moreover, the appreciation trend of the Moldovan Leu against the main partner currencies made credits in foreign currency very attractive for debtors. The debtors, thus, prefer credits in foreign currency over credits in MDL. Being aware of their clients' preferences, the commercial banks did not hasten to lower the interest rates for credits in foreign currency.

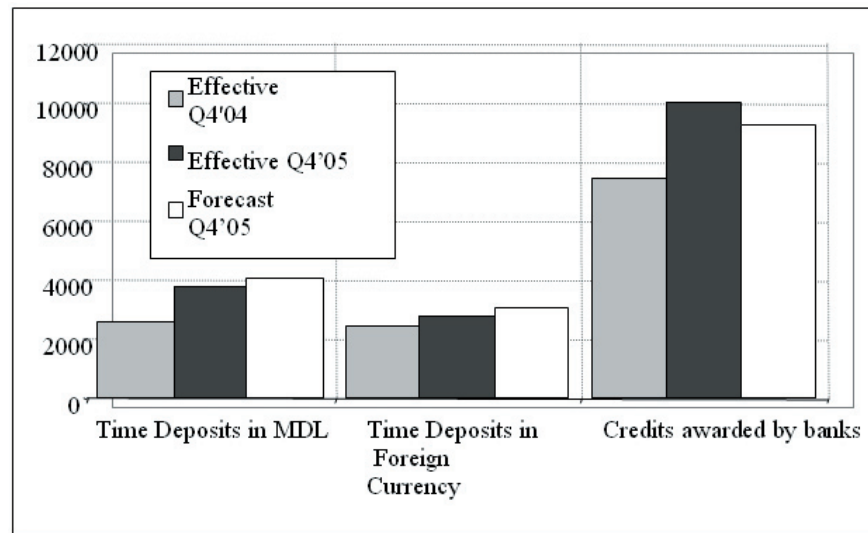
The reduction of the interest rate for deposits and credits in foreign currency was insignificant...

At the global level, interest rates are constantly growing both for the US Dollar and for the Euro. This factor may determine a minor increase in the interest rates both for credits and deposits in foreign currency during 2006 in Moldova.

The balance of deposits in Moldovan Lei and in foreign currency

In the fourth quarter of 2005 the time deposits in Moldovan Lei increased with approximately 47%, while the time deposits in foreign currency increased with only 17%. Massive reductions of interest rates that the commercial banks from the Moldova managed throughout the entire fourth quarter led to the population's unwillingness to save money. As a consequence, the balances of the present time deposits were lower than the balances previously anticipated by the EM.

Chart 22. : The volume of time deposits and credits, comparison of previous EM prognoses with actual data



Source: NBM, EM estimations

RECENT EVOLUTIONS IN THE PROFITABILITY OF THE COMMERCIAL BANKS OF THE REPUBLIC OF MOLDOVA

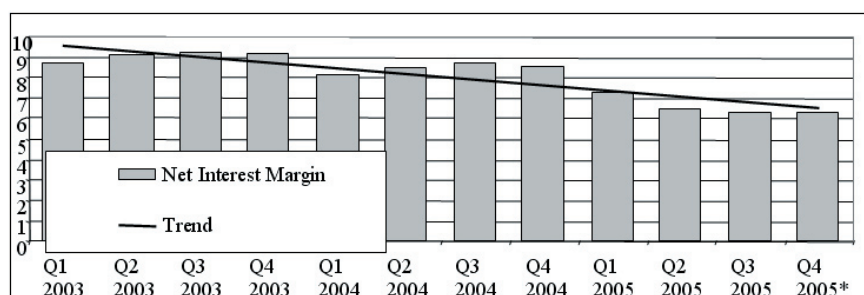
Since the declaration of independence of Republic of Moldova, the banking industry was considered to be the most flourishing and dynamic segment of the country's economy. Thus, throughout the first decade since the declaration of independence, the banking sector was in constant rise. It preserved a certain independence from the political situation, the difficulties immanent to transition or, attractiveness of the economic environment of the Republic of Moldova. Sometimes, the banking sector was alleged with having created an extra-profit for itself without really contributing to the development of the real sector of the economy. During the last few years, the situation became unstable even for the banking sector, however. Actually, the strong competitive environment was the one that had promoted innovations in the

banking sector, led to improvement of the banking activities and to a certain trend of reducing the profitability of the banking sector after 2000. We can notice that the net interest margin – the main indicator the profitability of the commercial banks' assets has decreased during the last 3 years, from the extreme limit of 9.04% in 2003, and reaching the rate of 6.33% by the end of 2005. This devolution within the banking sector represented a positive moment for the national economy as a whole; it reduced the credit interest rates more rapidly than the interest rates for deposits. Only in December 2005 a certain revigoration of the interest rate has been registered being given the fact that the commercial banks have drastically reduced the interest rates for credits in a higher proportion than the interest rates for deposits.

¹ (Interest-generated income – interest-generated expenditures)/average interest generating assets. This indicator presents the profitability of crediting and deposition activities of commercial banks.

The interest net margin decreased during the last three years from 9,04% in 2003 to 6,33% by the end of 2005...

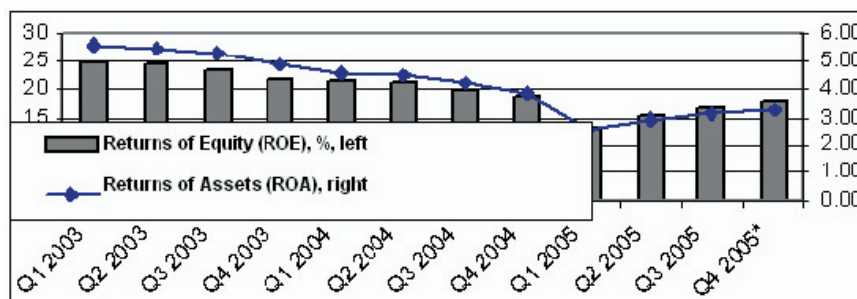
Chart 23. Net Interest Margin in the banking sector of the Republic of Moldova.



Source: EM calculations on the basis of the NBM data

The lowering of the banking margin has led, throughout the last 3 years, to the reduction of returns from assets. The lowest value was registered during the first quarter of 2005 when the rates for refinancing of credits have been reduced against the expectations of the NBM.

Chart 24. Profitability of assets and equities in the banking sector of the Republic of Moldova, quarterly average, 2003-2005.

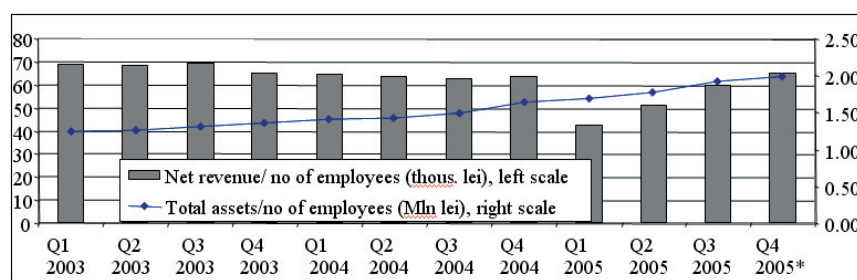


Source: EM calculations in basis of the NBM data.

As a consequence, the stakeholders' interest in reinvesting their profits and in the extension of the owned capital of the commercial banks diminished. In 2005, the profitability of the banking capital has fluctuated around 15%. We may notice that in the first half of 2004 7 shares have been issued in comparison to the same period of 2005 when only 2 issues have been registered.

We can also notice a reduction of the general profitability in the banking industry and the generated services in this segment of economy. Even if each additional employee had brought with him an increase for the assets of the banks in which they were engaged, the net profit for one employee of the bank still decreased during the last few years, with a trend of stability in 2005. As a consequence, every additional employee in the banking sector brings a lower output and contribution for the bank profit than in the last years. This will probably lead to a certain internal reorganization on the labor market of the professional categories related to the banking sector.

Chart 25: profitability of one employee in the banking sector of the Republic of Moldova, quarterly average, 2003-2005



Source: EM calculations in basis of the NBM

The banking sector of the Republic of Moldova has reached the period of maturity.

The above examples form a solid basis for the conclusion that the banking sector of the Republic of Moldova has reached the period of institutional maturity. If until now the commercial banks have developed through extensive means (open new branches, increase in number of employees), then in future, these will have to appeal to intensive measures for business development and for improvement of activities oriented towards clients within and outside of the country.

The Currency Market

During 2005, the national currency tended to appreciate due to the big supply of foreign currency on the territory of the Republic of Moldova firstly, and secondly due to the big demand of the Moldovan Leu of the population. Fluctuations registered at an exchange rate against the Euro and the US Dollar have been determined, mainly, by the fluctuations of the partner currencies. The US Dollar registered a 14,5% appreciation during 2005 against the Euro mainly because of consecutive growth of the interest rate of this currency. However, the share-part of the currency transactions circuit in dollars decreased from 75,8% in 2004 to 71,6% in 2005, while the share-part of the Euro increased from 20,5% in 2004 to 24,1% in 2005.

Forecast of the Exchange Rate

In 2006 we foresee a stable Moldovan Leu on the currency market. Certain fluctuations of the currency rate will be pegged to fluctuation of the Dollar and the Euro on the global market. For the first 2 quarters of 2006 we expect a currency rate of exchange Leu/Dollar of over 13 lei/dollar which will be determined by the appreciation of the dollar on the international arena. For the second half of 2006 the exchange rate for leu/dollar may fall again below 13 due to the expected depreciation of the dollar during that period. In regards to the exchange rate for Leu/Euro, we anticipate a relatively stable rate for the first half of 2006 and it may reach 16 Leu/Euro again during the second half of the year.

Conclusions and Forecast

Both the NBM and the Government of the Republic of Moldova are now pushing the commercial banks to reduce the cost of credit by all possible means. We emphasize that this objective can not be reached by reducing the refinancing rate by the NBM. During the fourth quarter of 2005, the interest rates for deposits in Moldovan Lei are negative. Considering the inflationary effect, the depositors lose when they deposit financial resources in banks. The further reduction of the refinancing rate can aggravate the current situation even more. The only way to reduce the cost of credit is to keeping domestic prices under control, meaning, keeping the inflation low. Only if the annual inflation rate was 5-6% the commercial banks are able to reduce the cost of credit in lei to 12-13%. But, considering the fact that the NBM targets the increase the aggregate money supply M2 by 40% in 2006, we are still far from forecasting a 5-6% inflation rate.

We should also remind that one should not limit to the CPI when determining the inflation rate. We believe that the inflation rate announced by DSS is largely underestimated and non-representative rate for the national economy of the Republic of Moldova (see Prices Chapter). For 2005, DSS announced

a 10% rate of inflation in CPI , while we consider that the estimative growth of consumer price in 2005 will equal approximately 12%.

We also consider that the NBM will not change the rate of refinancing in the first half of 2006. What will be done in the third and fourth quarter of 2006 will mostly depend on whether the price of gas will rise and exceed 1% of the CPI. This allows us to conclude that the NBM has reduced the refinancing rate to 12% in the fourth quarter. For 2006 we anticipate the rise of the M2 indicator with approximately 34% compared to the previous year.

The banking industry recorded increasing returns throughout the years. In 2005 however, the banking industry has seemed to enter a period of qualitative transformations explained by the maturity proven through profitability of capital that approaches the normal 15% rate.

We consider that the NBM will not change the rate of refinancing in the first half of 2006.

LABOR MARKET

General Trends

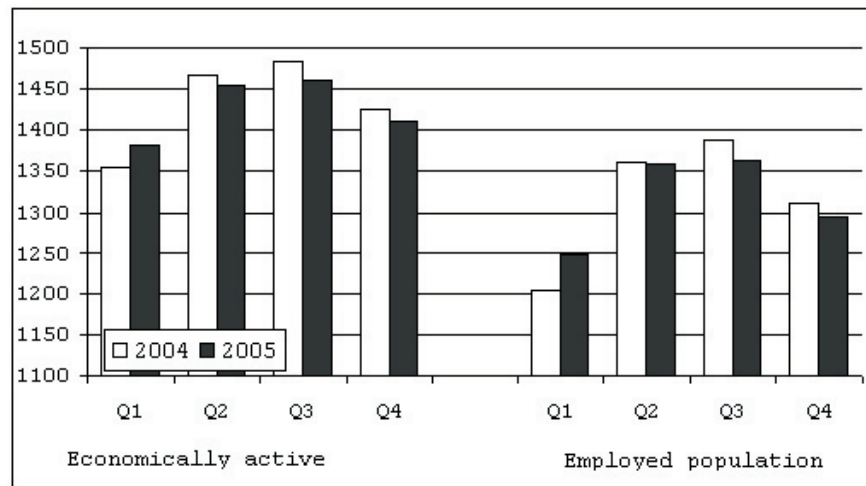
The preliminary results for the 3d quarter of 2005 confirmed the Government's expectations toward stabilization on the labor market. Following the positive results in the first quarter of 2005, there has been a decrease of labor occupancy throughout the quarters II and III. Therefore, the situation on the labor market in 2005 worsened as compared to 2004.

Throughout 2000-2005 the occupied population decreased by over 200 thousand, while the purchasing power of money lowered two-fold. Thus, the Government's plans that aim at increasing the numbers of the employed population by 300 thousand people together with raising the average wage up to 3600 Moldovan Lei until 2008 target nothing more than stabilizing the labor market at the figures of the year 2000.

Moreover, the population employed in agriculture will decrease by cca. 200,000 people within the next ten years due to natural causes such as: aging, high mortality rate in the rural areas, labor migration of the young population to the cities or abroad. These will hamper a lot the realization of the Government's plans.

The Employment Figures Reached their Lowest Level within Moldova's Post-Soviet Transition.

Chart 26: . Quarterly trends in the occupancy and the number of economically active population in Moldova (thousands; people).



Source: Department of Statistics and Sociology of Moldova, expert's estimation

The economically active population decreased by 1.5 percent in the third quarter of 2004, as compared to the same period of 2004. The employed population counted for 1,364 thousand, by 1.8 % less than in 2004.

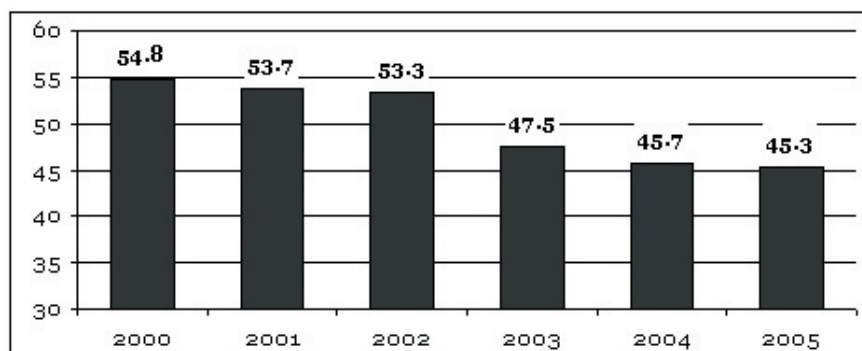
Despite positive developments in the 1st quarter, the 2nd and the 3rd semesters demonstrated a worse situation in the labor market. As, according to the recent trends, and to the fact that the second and third quarters should, generally, demonstrate a higher employment rate, we will uphold

For every employed individual, there are other two who are unemployed and have no income, and whom s/he has to support.

our estimation that the number of employed population will decrease in the near future.

As result, the employment rate of the population older than 15 years of age will demonstrate minimal values in 2005 and prospect for a further decrease in 2006 are also foreseen. In fact, the Moldovan economy employs only 45 percent of the population older than 15 years of age. Presently, for each employed individual, there are two jobless individuals that s/he has to support.

Chart 27: Employment rate of the population older than 15 years of age; % (percents)



Source: Department of Statistics and Sociology of Moldova, expert's estimation.

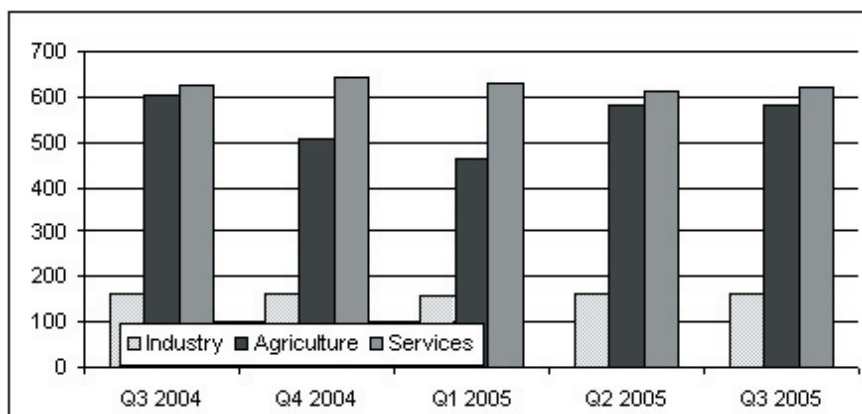
The Decrease in Employment Was Caused Primarily by the Situation in Agriculture

The industry managed to keep the number of employees untouched throughout the 3rd semester of 2005, at the level of 162 thousand people. Agriculture employs circa 580 thousand, while other 621 thousand work in services.

Agriculture is most susceptible to dramatic reductions in employment. At the present time, each employee in agriculture works, on average 3 ha of land, which can only allow for practicing survival agriculture.

Whereas a farmer in Netherlands or Denmark is considered to be able to practice an efficient agriculture and cover his expenses only if he would work at least 10 ha of land. Starting from the same standards, the number of population employed in agriculture should not exceed 180,000 people.

Chart 28: The structure of economically active population by field of occupation (thousands; people)



Source: Department of Statistics and Sociology of Moldova, expert's estimation.

With its 3 ha per employee, the economy continues to be a survival economy.

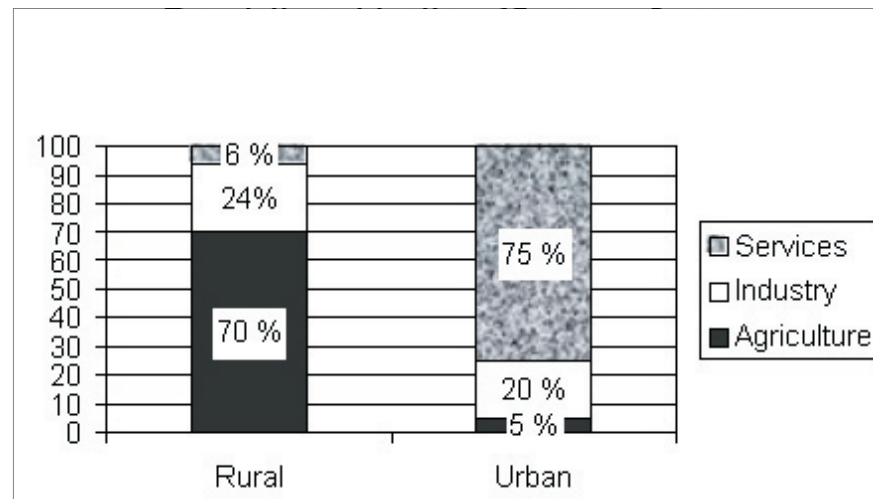
The population employed in agriculture should not exceed 180 thousand, as opposed to the present figure of 580,000.

In 10 Years, the Population Employed in Agriculture Will Naturally Downsize by 200,000.

70 percent of the rural population survives on an average monthly wage of 650 Moldovan Lei.

56 percent of Moldovan population is rural. Jobs outside agriculture are extremely scarce in the rural areas. At present, circa 70 percent of the rural population survives on a monthly wage of 650 Moldovan Lei. A rocketing rise in the salaries in agriculture is not expected, as long as the average productivity of a single ha does not exceed 3000 MDL.

Chart 29: Employment Rate for the Population older than 15 years of age; percent (%)



Source: Department of Statistics and Sociology of Moldova, expert's estimation

Circa 40% of the employees occupied in agriculture are approaching the retirement age.

That causes massive migration of youth away from the rural areas, which also causes a massive aging of the labor force employed in agriculture, with around 40% of employees (220 thousand) beyond, or approaching, retirement age. With that, only 9 percent of the employees in agriculture are younger than 25 years of age.

Thus, the population employed in agriculture will decrease by 200 thousand in the next ten years due to natural causes: aging, high mortality rate, migration to the cities and abroad, etc.

This could have both positive and negative consequences. First, premises for the emergence of big farms will develop. The big farms would concentrate the land plots and implant modern technologies and, by that, raise the productivity of the agriculture and the remuneration. The same is the probability of the pessimist scenario, according to which, the surfaces of abandoned land will extend leading to a decrease of agricultural output, all due to the reduced activity of the rural population. The last minute realities demonstrate penetration of foreign agricultural products on the Moldovan market, when the domestic agriculture is suffocated by the rocketing prices for fuels and the recent attempts of the central government to raise the fiscal burden of peasants.

The collectivization of agriculture, proposed by the present government cannot solve the problem of the inefficiency of the agriculture. Moreover, this policy could bring back the problems of 1995-1997, when the collective

households generated humongous debt and the liquidation of these households inferred a cost of about 2 Billion MDL to the state budget.

It would help if we learned at least from our own errors, if we can't learn from the mistakes of the others.

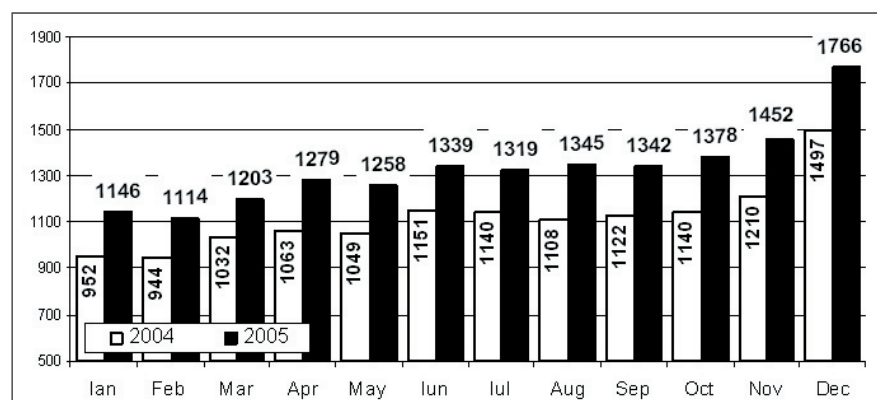
The average wage has grown by 19% for the first ten months of 2005, while the real wage – by 5 percent.

According to what we have foreseen in the last issue of the Economic Statewatch, the growth rate of the wages in 2005 has been slower than in the previous years. So, if the average growth of the nominal wage for the last 4 years accounted for 27%, then for the first 10 months of 2005 the nominal wage has grown by just 19%.

In 2005, the average monthly wage will exceed 100 US Dollars for the first time.

The same growth level is expected for the last months of 2005. Therefore, the average wage in 2005 will approach the value of 1320 MDL, thus, the 100 US Dollars threshold announced by the government will be surpassed.

Chart 30: The trends and forecasts regarding the real wage



Source: Department of Statistics and Sociology of Moldova, expert's estimation.

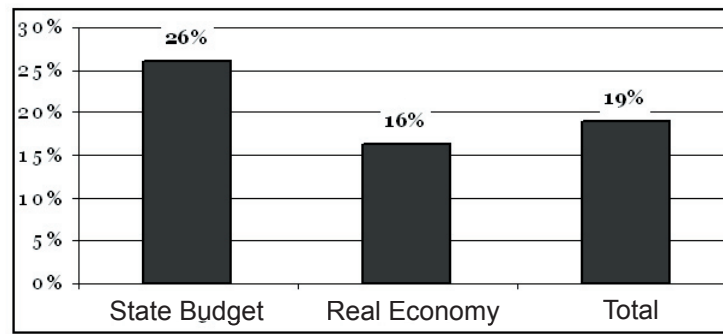
Alas, the purchasing power of the 2005 wage will not be higher than that of 2004 or 2003. Presently, the population relies more on collateral incomes that have grown significantly during the last years, mainly due to the remittances from abroad. The merchants have responded immediately to the rise in incomes by raising the prices, thus annulling the increases in wages. These developments hit hard on the employees in the national economy who do not have incomes other than wages and are, therefore, compelled to suffer the consequences of rocketing prices.

In 2005, the state budget took initiative for the raise in wages

Up to now, the private sector was the main promoter of raises in wages. As for 2005, the most of the growth occurred in the wages paid from the state budget. The wages in the real economy have not outgrown the average level of inflation.

Chart 31: Raise in monthly wages in 2005, as compared to 2004

In the budget sector, the wage grew by 26% in 2005, whereas in the real sector, the growth was just 16%.



Source: Department of Statistics and Sociology of Moldova, expert's estimation.

We should look at these developments negatively, as there are clear indicators that a possible stagnation in wage growth is staggering. In fact, the private sector has reached its limit in terms of wage growth. There has not been any significant growth in labor productivity; therefore, a further growth in salaries is possible only in the detriment of corporate profits, which would never be accepted by the owners.

● AN AVERAGE MONTHLY WAGE OF \$300 AND A RAISE IN EMPLOYMENT BY 300,000 EMPLOYEES BY 2008 ???

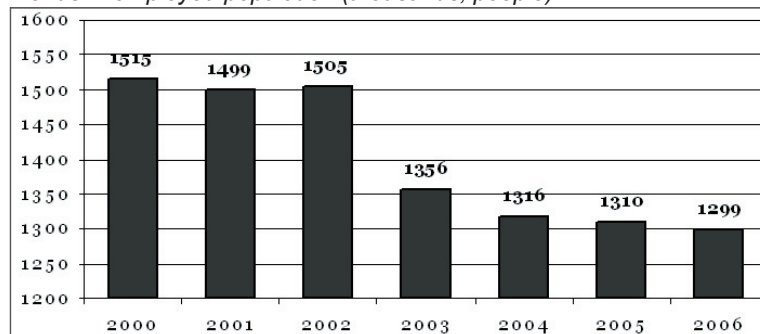
● One of the goals of the current government is an average monthly wage of \$300 and a raise in the employed population by 300,000 people by 2008.

● The realization of these objectives would not be an accomplishment, but rather a recuperation of what has been lost throughout the years. It seems the government is aiming to reach the levels of the year 2000, when the current rule came into power. However, since 2000, the population em-

ployed decreased by 200,000, but the purchasing power of wages hasn't grown more than 3-4% annually.

The accomplishment of the government's goals has been prone to failure from the very start. Moreover, we could risk supposing that it would be a greater realization to halt the decrease of the employed population at the actual level (1.3 Million) and, in the meantime to maintain a 3-4% annual growth in wages.

Trends in employed population (thousands; people)



Source: Department of Statistics and Sociology of Moldova, expert's estimation.



- Our assumptions are based on the following arguments:
 - - The year 2005 demonstrated the highest economic growth in the country's history, while the number of employed population continued to decrease. Future economic growth is more modest and, therefore, spectacular developments in the labor market are improbable. The Labor market will continue to shrink until it reaches a critical mass that would allow a later growth based on domestic incomes;
 - - The low labor productivity could force managers to perform major staff-cuts based on the fact that an important salary growth is impossible. In fact, if we would compare the Moldovan economy with the viable market economies, we'd see that the salary growth has reached its ceiling and that further growth is impossible without a raise in labor productivity;
 - - At the moment, 37% of the wages are paid from the state budget. A triple growth of these salaries is impossible without a similar budgetary effort. We are still pessimistic about

the possibilities of the state budget in terms of raising the salaries. Even ideally, the state budget will not be able to assure a growth in salaries bigger than 25% annually.

- The investment into fixed capital remains low as opposed to the declared goals. As compared to Poland's economic boom in 1992-1996, around 30 of the GDP was being reinvested, while the annual per capita investment exceeded \$1000. Although having similar goals, Moldova has never demonstrated this kind of performance. Throughout the last 5 years, the level of investment has not exceeded an average of 19% of the GDP, while the investment never amounted more than \$250 per capita;

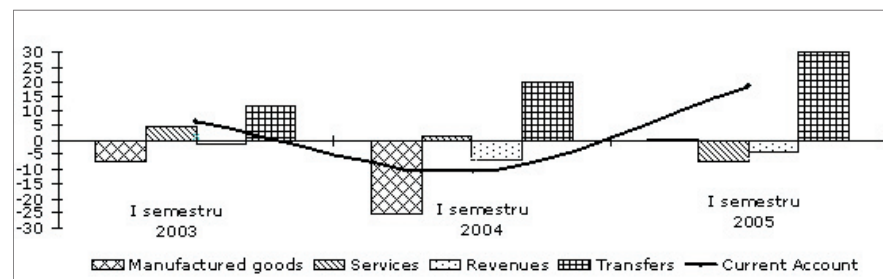
- There have not been important structural changes in the national economy, as the agriculture continues to employ over 40% of the active labor force. For the next 10 years, the number of employed in agriculture will decrease by 200,000 because of natural causes. Thus, the government will also face the problem of rural unemployment.

TRANSNISTRIA

General Trends

The first 9 months of 2005 have been characterized by changes in the monostructure of the Transnistrian economy. The share of metallurgy and of the textile industry has gained more importance in the zone's economy, thus diminishing the importance of other economic activities. During the period of January-June 2005 the Transnistrian GDP was of 213 Million US Dollars or 693 USD per capita. Services have retained the main share in the GDP 60.8 %, while manufacture constituted 29.9 percent. According to the National Bank of Transnistria (NBT), the GDP grew at 19%. It should be mentioned that this growth was registered mainly due to the fact that the methodology of calculation of the GDP was changed (services were included in the calculations).

Chart 32: The Dynamics of the Current Account of Transnistria in Semester 1, 2003-2005 (Central Bank of Transnistria)



In the first semester of the current year, the profile of the current account in the balance of payments was of 18.4 Million USD. There have been shifts in the weight of various components within the current account: the weight of services has grown, while the transfers have declined. The balance of services became negative for the first time, while the trade balance was positive. The first half of 2005 was characterized by a growth of the trade balance by 8.8 percent as compared to the same period of the last year, thus amounting to 740 Million USD.

The process of privatization is going at full speed. According to the Law on Privatization, the properties of 125 enterprises are to be privatized in 2005-2006. Therefore, there is a revitalization of the privatization in Transnistria. During the previous years, privatization would touch no more than 4 or 5 companies. In the first semester of the current year, 17 companies have been privatized. This tells us that the state is feverishly acquiring large sums of money under the pressure of the Transnistrian issue.

The Transnistrian economy is experiencing rather low inflation trends in comparison with the same period of the last year. These tendencies are conditioned by a decline in the upward-bound rocketing of prices. Thus, the prices for food products have risen 4.4-fold lower than in the first semester of 2004, thus registering 2.8%.

Should we start discussing on the possibilities of settling the Transnistrian conflict and of reintegration of Moldova, we should mention that the first nine months of the year have not been fruitful. However, a good turn in the settlement of the conflict came when the United States and the European Union joined the conflict settlement negotiation "team". From now on, the negotiations will be conducted in a "5+2" format, the US and the EU thus being invited as observers in the conflict settlement between Chisinau and Tiraspol.

THE CUCIURGAN POWER PLANT

The Cuciurgan Electric Power Plant was purchased by "Saint Guidon Invest" Company (SGI) in the end of 2003 for \$25 Million. The Company committed to invest another \$160 Million into the reconstruction of the electric plant. The Belgian company had bid against such Russian juggernauts like RAS EES and GAZPROM.

However, in February 2005 an affiliate company of RAO EES bought the 51% of shares of the Cuciurgan Power Plant. The representatives of the Russian giant company declared that this acquisition was conducted in the framework of the company's access policy in the Balkans. The sales policy would be directed by the first investor, "Saint Guidon Invest". As soon as the Belgian company sold the first pack of shares, the Administration in Tiraspol inquired on the fulfillment of the investment obligations undertaken by "SGI". The separatist administration also questioned the legitimacy of

the privatization of the Cuciurgan Power Plant. Because of these pressures, the Belgian company decided to sell the remaining shares to RAO EES. That is how the Russian juggernaut became full owner. Besides, RAO EES has presented itself as a bona fide buyer, so as to avoid any further speculation and re-questioning of the deal.

The Cuciurgan power plant has an output capacity of 2520 MgW. Therefore, should the power plant work at its full capacity, it would cover the electricity needs of Moldova and be able to export another 1200 MgW.

The new management of the power plant initiated talks on rising the prices (at the present moment there no such agreement). It should be emphasized that The Cuciurgan Power Plant has a major importance for the energetic security not just of Transnistria, but of whole Moldova.

The Industry

There have not been any important changes in the structure of the Transnistrian industry, as the metallurgy still has the greatest role (52%). Metallurgy is followed by the energetic industry (17%); by the light industry, mainly represented by the textile industry (13%), then the food processing industry (8%) and the machine industry (6%).

During the first nine months of 2005, the industrial output of Transnistria valued 4290 Million Transnistrian Rubbles. Metallurgy demonstrated a 12% growth as compared to the same period of the last year, thus continuing to be the basis of the Transnistrian economy. The light industrial goods have displayed a heterogeneous and uneven growth. Thus, the cotton textiles grew by 30%, while the silk experienced a 20 % decline. Footwear also recorded decline, but mainly because low export opportunities.

Food processing industry has registered growth in the output of bread, wine and groceries. The bulk of the industrial output is generated by private-owned businesses (40%), as well as by joint ventures (37%). The share of state companies was 13%, while the municipal enterprises produced 2% of the output. Private business continues to be hampered by monopolistic tendencies in the zone. However, sources in the Transnistrian administration uphold that industry largely benefited from the influx of foreign capital and management.

Agriculture

Agricultural output has grown by 15 percent as compared to the same period of 2004. This growth has been, nevertheless, uneven throughout the agricultural sector. The canned food sector experienced decline in the first 9 months of 2005. The Transnistrian authorities explain this fall in outputs by the fact that Moldova imposed restrictions and by the

shortages in supply of primary goods. It should be noted that Transnistria continues to be an importer of agricultural goods. Besides, the locally-produces agricultural goods is facing tough competition. There are almost no privately run enterprises in the agricultural sector and the outdated models of organization of the collective companies no longer deliver. The Transnistrian administration initiated changes in the enclave's constitutions, so as to allow private property. However, the process is just in its initial phase. The changes envisaged by this modification are vitally crucial for the survival of agriculture in Transnistria. There interest of the private investors towards the agriculture in Transnistria is going to increase. However, the prospects for the development of agriculture in Transnistria are slim, mainly because of the multitude of factors hampering the development of this sector, namely lack of infrastructure for transportation, the tough competition from the part of the neighboring economies, lack of a solid and sustainable policy towards agriculture.

The Monetary Market

The deposits of legal entities have grown three-fold.

During 2005, the banking sector demonstrated a steady development in Transnistria, as there has been a growing demand on banking services. During the first 9 months of 2005, the assets of the banks have increased by more than 80 percent. The statutory capital displays a substantial growth, led by the increase in the stock capital of the commercial banks.

The liabilities of the commercial banks recorded a higher increase than during the same period last year. Firms have been more active in this time of the year and have used over 50% of the available resources. The deposits of legal entities have grown three-fold. There was a tendency of growth in long-term deposits. However, the bank clients have kept their fidelity for convertible currency. The share of securities in the banks' assets increased from 1.5% to 16%. The structure of the credit portfolio has maintained the trends of the last years, as 90% of the credits were claimed by entrepreneurs and businesses, from which 75 percent were released in foreign currency.

In the period between January and September 2005, the Transnistrian Rubble has had an insignificant depreciation (towards the USD, from 8.00 to 8.15 Rubbles per USD).

We believe these figures are not true, as there is a clear interference by the Transnistrian authorities. The aggregate demand for foreign currency increased two-fold, from which 80% is the share of US Dollars. The demand for transferred foreign currency was caused by the needs of import, as well as by the needs in repayment corporate debts. The structure of the aggregate demand on transferred foreign currency repeats the patterns in the demand for cashed foreign currency.

Foreign Trade

The exports towards the European countries decreased by 25%

The foreign trade of Transnistria has grown by more than 6 percent (\$40.8 Million) in the first 9 months of 2005. There is a monostructural tendency in the Transnistrian exports, as the output of the metallurgic industry makes up to 67% of exports. The share of other products is decreasing. Thus, the textile products have made 13% of total exports; raw minerals – 6 %, while the food products – just 3 percent.

The uneven structure of exports is a threat for the economy of the zone, fact that should be given a particular attention by the Transnistrian authorities. As a consequence of the cooling relations between the EU and Transnistria, there is a tendency of reorienting the exports towards Russia. The exports have grown by 8.5 percent, while the exports towards the Europe declined by 25% (by 43% towards the EU countries) as compared to 2004. These shifts had a significant influence on the structure of utilization of monetary resources (the share of the Euro in exports has diminished).

***Exports towards
Russia have
been magnified
by 1.5***

Meanwhile, the exports towards Russia have been magnified by 1.5, increasing from \$44 Million in the first semester of 2004 until \$112 Million in the first half of 2005.

The imports grew by just 5 percent. There have been no significant changes in the structure of imports. The main import chapters stood the same: raw material for metallurgy (30%), energy resources (20%), and food products (20%). The geography of imports remained unchanged. The main share in Transnistria's imports accounts for the CIS, with its 64% of total imports. The European countries account for 24% of imports, while the other countries make up 7% of total imports. The main import countries are Russia, Ukraine and Moldova. The imports from Ukraine are diversified, including food products, metal, machinery, etc. Energy resources make the bulk of imports from Russia.

The exports grew faster than imports by 1.8 times, which allowed stabilizing the enclave's trade balance to an extent, when the exports cover the imports by 72.9%.

By analyzing the structure of foreign trade, we shall conclude by emphasizing the major share of metallurgical output and light industry products in exports on the background of an acute shortage of resources, including food resources, which creates dependency on imports.

INTERNATIONAL

Despite all expectations, the global increase in prices for energy resources have slowed down global economic growth. According to the general trends, the global economy demonstrates trends of sustainable growth. However, it is obvious that this growth would be much higher if the oil price had not increased. Therefore, expectations had been confirmed.

General Trends

**Global GDP
growth
decreases.**

Despite high prices for energy resources and increasing interest rates, the global economy demonstrated growth during the second and third quarters year 2005. By the end of 2005, the global economy will grow at the rate of 4.5-4.7%. The rises of interest rates were caused by economic growth, while the increase in oil price was caused by two factors: decrease in supply and expectations of increase in demand.

We believe that the impressive growth of private consumption on the largest market of the globe, the USA, was one of the factors that influenced the most global business. This has pushed companies around the globe to increase their outputs to cover the demand on the American market.

The Asian market shows positive developments. China registered an overwhelming stability in GDP growth. With the current trends, China will display more than 9% in GDP growth. Investments grew by 25% in 2005 in China, thus spurring promising forecasts for the Chinese economy. The US continues to insist upon the appreciation of the Chinese currency (Yuan) and it is believed that Chinese authorities will initiate a series of measures in this regard at the beginning of 2006. But we think that these actions will not influence much the rapid growth of the American trade deficit with China.

Japan as well takes advantage of the growing American market growth by increasing the output of goods and services. Thus, Japan can register a 1,8% growth of GDP in the end of 2005.

The EU faces a tradeoff between the control on inflation and sustainable economic growth; the top responsibility in guaranteeing these objectives being reserved for the Central European Bank. In order to harmonize the situation, there is a clear need of structural reforms in economy. CIS states show positive trends, but will definitely not register results higher than those of 2004.

United States

Despite pessimistic forecasts (damages caused by hurricanes in 2005 and rocketing prices for energy resources) the US economy has shown positive trends in the third quarter of 2005. It was supposed that the tragic events that happened recently in the US could provoke significant damages to the national economy. However, despite the all above-mentioned factors, the US economy demonstrated a growth of about 4% in September 2005 as compared to 3.3% in the second quarter of 2005, when the prices for energy resources reached the maximum quotation.

Household consumption continues to be the main engine of economic development in the US with a 60% share of the US GDP. It should be noted that the overall increase in prices were the result of the upturn in prices for energy resources. High energy prices make the FRS (Federal Reserve) increase the rate of refinancing. As result, along the low growth in revenues, there can be a long-term downturn in private consumption.

The US economy remains to be stable and attractive for investments. We have to mention the fast growth in investments (the net inflow of capital went beyond 100 billion USD). This helped maintaining positive trends in GDP growth.

Positive trends in employment rate continued on the major picture a slowdown in general economic growth, although this digression is not significant. We believe that the US GDP will grow at 3,2% in 2006.

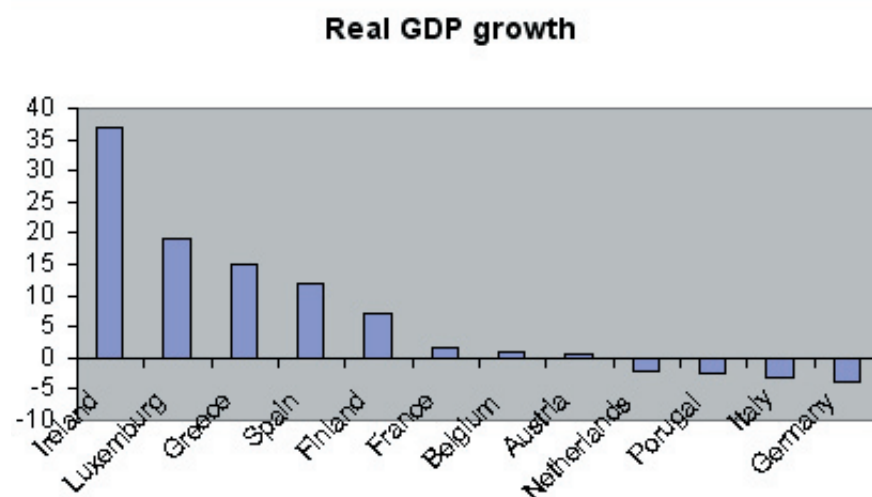
European Union

The European economy recorded positive results in 2005, although it has become difficult to reach consensus among all members of the EU. It has become difficult to find optimal solutions for all EU members by employing stabilization and stimulatory measures.

The 2005 results for the Euro zone allow optimistic forecast.

The rising prices for energy resources lead to an increase in inflation over the level pre-established by the European Central Bank, along a simultaneous domestic demand. Economic performance of Euro zone member states differ significantly. For some countries, domestic demand was the main factor of GDP growth, for others – foreign trade (ascending) pushed GDP growth.

Chart 33. Euro Zone: discrepancies in growth of Euro zone states (cumulative difference 1999-2004)



Source: OECD, IMF

European companies register positive results and growth of revenues, while the recent depreciation of Euro supports the positive trends in economic development in Euro zone countries. In 2005, Europe can reach a 1.2% GDP growth and has good development prospects.

The ongoing decrease in domestic demand determines us to talk about the decrease of the inflationary pressure upon the economy of the Euro zone. Inflation has reached approximately 2%, thus aligning itself to the global increase in prices of crude oil.

Western European countries are facing anguishing problems in employment. The socially-oriented policies and the growing number of elderly population that are paired by the high rate of unemployment have caused the appearance of some serious problems that urge reform.

Central and Eastern Europe

Central and Eastern European economies demonstrate firm trends of economic development. The countries that have oriented their economies toward the Euro zone were affected by the slower growth of Western European economies. The main features of this region are: significant external imbalance and impressive rate of credit use, pushed up by low interest rates. A high level of credit utilization can lead to economic recession, therefore the dangers should paid attention to.

Poland registered a 3% GDP growth. This growth has been sustained mostly by a stable increase in exports. Extraordinary results have been registered by the Baltic States, with an average GDP growth of over 7%; the main factor that determined this growth being the increase of domestic demand. The low interest rate has accelerated private consumption, but brought inflation as well as. This fact had a negative influence on the current account deficit. In Romania and Bulgaria trends of firm growth are shaped despite recent floods that provoked doubts on the possibility of expected GDP growth to actually occur. It is necessary, however, to undertake a series of measures that will counterbalance inflation in Romania. Meanwhile [N1], there is need of support of foreign investments that will sustain counterbalancing measures for inflation.

CIS

CIS states maintain the rhythm of the GDP growth.

Due to positive trends, we consider that CIS states can reach a GDP growth of 6% by the end of 2005, in comparison to the last year's figures of nearly 7,5%.

The CIS economies show stable growth trends that are sustained mostly by high prices for their products on international markets and, especially, by the availability of natural resources (oil and natural gases), agricultural goods and metal. But the key factors that allow maintaining economic growth in CIS countries at the desired level are the economic reforms that have to be well thought and transparently promoted. The situation in Ukraine represents a good example with regards to fast and adequate reforms.

Russia

We consider that Russia can reach a 6% GDP growth by the end of 2005. The Russian Federation “benefits” from its deteriorating image on global level due to the “Yukos” case. Regardless of the staggering evolution of prices, the energy resources stood on the top of the Russian exports’ list. However, energy exports are not the only resource assuring the country’s economic growth. Private consumption emerges as one of the main factors that influence GDP growth, due to the rise in domestic demand, to increase of populations’ earnings, and improvement of investors’ expectations.

One of the successes of the Russian Government was the maintenance of the level of inflation that, according to our estimations, will reach 11% if we take in consideration the accelerated growth of private consumption. The labor market registers an increase in employment rate. Thus, Russia can reach more significant results than the European Union. Meanwhile, Russia is facing a deficit of qualified labor for the nearest future. Thus the Russian government should undertake urgent measures towards solving this issue in order to boost the development of the real sector of the economy, and not only of the extractive industry.

Foreign investments have grown tremendously throughout 2005. Investments were mostly oriented towards the extractive industry. Russian Federation still has to decide on the priorities of state development – whether to continue its dependence on the energetic sector, or to diversify its economy.

Ukraine

Ukraine is one of the main trade partners of Moldova. Therefore, the economic development trends of “our Eastern neighbor” are very important for our country.

The third quarter of 2005 did not bring an economic boom in Ukraine. Political instability led to negative consequences on the Ukrainian economy, as foreign investors have lost their trust in Ukrainian authorities. Therefore, politicians will have to invest a considerable effort to regain a positive image; as the re-privatization process has had a negative influence upon the expectations of foreign investors and there will be a long time until they have recovered their lost trust. As a consequence of these policies, the investment rate is by far very small. Additionally, there was a decrease in external demand on Ukrainian steel can be noticed.

The real sector of Ukrainian economy displays a minimal growth. In fact, that growth rate can barely be called growth. Thus, the main force behind economic growth is private consumption and increases in revenues.

Trade balance closed the third quarter on a negative note, mainly because of the accelerated growth of imports on the background of the decreasing exports. If the above-analyzed trends will be maintained, a 5% GDP growth will be reached by the end of year 2005 (in comparison to 12.1% GDP growth in 2004); which will constitute the slowest growth rate for the last three years.

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

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e | 2006p |
|-----------------------------------|-------|-------|-------|-------|-------|-------|--------|--------|
| GDP | 12322 | 16020 | 19052 | 22566 | 27297 | 31992 | 36200 | 40226 |
| Final consumption | 11090 | 16503 | 19263 | 23289 | 29706 | 33832 | 40700 | 48026 |
| households | 9137 | 14031 | 16385 | 18493 | 24417 | 28576 | 34500 | 41698 |
| public administration | 1888 | 2348 | 2736 | 4600 | 5072 | 5504 | 5950 | 6450 |
| private administration | 65 | 124 | 142 | 196 | 216 | 235 | 250 | 285 |
| Gross investment | 2820 | 3836 | 4436 | 4886 | 5916 | 8096 | 9800 | 11270 |
| gross fixed capital formation | 2272 | 2472 | 3190 | 3682 | 4668 | 6955 | 8500 | 10410 |
| changes in stocks | 548 | 1364 | 1246 | 1204 | 1248 | 1141 | 1300 | 1350 |
| Net exports of goods and services | -1588 | -4319 | -4647 | -5619 | -8325 | -9936 | -14300 | -19070 |
| exports of goods and services | 6446 | 7946 | 9536 | 11834 | 14487 | 15652 | 19100 | 21010 |
| imports of goods and services | 8035 | 12265 | 14183 | 17453 | 22812 | 25588 | 33400 | 40080 |
| Memo: GDP mill USD | 1171 | 1288 | 1481 | 1663 | 2007 | 2520 | 2946,4 | 3094.3 |

Source: Department of Statistics and Sociology of Moldova, estimates by Moldova Quarterly Forecasting

Table 2. Structure of Gross Domestic Product, %

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e | 2006p |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| GDP | 100 | 100 | 100 | 100 | 100 | 100,0 | 100,0 | 100,0 |
| Final consumption | 90.0 | 103.0 | 101.1 | 103.3 | 108.8 | 105,8 | 112,4 | 119.4 |
| households | 74.2 | 87.6 | 86.0 | 82.0 | 89.5 | 89,3 | 95,3 | 103.4 |
| public administration | 15.3 | 14.7 | 14.4 | 20.3 | 18.4 | 17,2 | 16,4 | 16.0 |
| private administration | 0.5 | 0.8 | 0.7 | 1.0 | 1.0 | 0,7 | 0,7 | 0.7 |
| Gross investment | 22.9 | 23.9 | 23.3 | 21.7 | 21.7 | 25,3 | 27,1 | 28.0 |
| gross fixed capital formation | 18.4 | 15.4 | 16.7 | 16.3 | 17.1 | 21,7 | 23,5 | 25.8 |
| changes in stocks | 4.4 | 8.5 | 6.5 | 5.3 | 4.6 | 3,6 | 3,6 | 3.3 |
| Net exports of goods and services | -12.9 | -27.0 | -24.4 | -24.9 | -30.5 | -31,1 | -39,5 | -47.4 |
| exports of goods and services | 52.3 | 49.6 | 50.1 | 52.4 | 53.1 | 48,9 | 52,8 | 52.2 |
| imports of goods and services | 65.2 | 76.6 | 74.4 | 77.3 | 83.6 | 80,0 | 92,3 | 99.6 |

Source: Department of Statistics and Sociology of Moldova, estimates and computations by MQF

Table 3. Annual real change of GDP components, %

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e | 2006p |
|-----------------------------------|-------|-------|-------|-------|------|------|-------|-------|
| Final consumption | -15.8 | 17.2 | 4.4 | 9.7 | 13.4 | 15.1 | 20.3 | 18 |
| Private consumption | -8.2 | 20.7 | 6.1 | 5.9 | 17.0 | 18.0 | 20.7 | 20.1 |
| Public consumption | -38.3 | -1.2 | -6.2 | 30.3 | -0.5 | 1.5 | 8.1 | 8.4 |
| Gross investment | -37.9 | 48.4 | 1.5 | 52.4 | -4.6 | 1.0 | 6.38 | 14 |
| Gross fixed capital formation | -19.8 | 11.9 | 5.2 | 1.1 | 8.7 | 6.4 | 21 | 15 |
| Changes in stocks | -23.1 | -8.7 | 17.3 | 5.7 | 13.3 | 10.0 | 22.2 | 22.4 |
| Net exports of goods and services | -0.7 | 97.6 | -16.8 | -10.9 | -5.3 | -7.0 | 13.9 | 3.8 |
| Export of goods and services | -65.9 | 124.6 | -1.5 | 9.1 | 37.7 | 32.2 | 43.9 | 33.3 |
| Import of goods and services | 3.1 | 9.5 | 17.2 | 19.0 | 18.9 | 22.8 | 22 | 10 |
| Final consumption | -22.6 | 32.3 | 10.6 | 15.7 | 25.0 | 26.3 | 30.5 | 20 |

Source: Department of Statistics and Sociology of Moldova, estimates and computations by MQF

Table 4. Factoral contribution to real GDP change, %

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e | 2006p |
|-----------------------------------|-------|-------|------|------|------|------|-------|-------|
| Final consumption | -15.9 | 15.4 | 4.5 | 9.8 | 13.8 | 16.4 | 13.3 | 13 |
| households | -6.1 | 15.4 | 5.4 | 5.1 | 13.9 | 16.1 | 11.6 | 13.43 |
| public administration | -9.4 | -0.2 | -0.9 | 4.4 | -0.1 | 0.3 | 0.31 | 0.55 |
| private administration | -0.3 | 0.2 | 0.0 | 0.4 | 0.0 | 0.0 | 0.01 | 0.05 |
| Gross investment | -5.1 | 2.7 | 1.2 | 0.2 | 1.9 | 1.4 | 3.36 | 2.44 |
| gross fixed capital formation | -5.1 | -1.6 | 2.7 | 1.0 | 2.2 | 1.7 | 3.11 | 3.63 |
| changes in stocks | 0.0 | 4.3 | -1.4 | -0.7 | -0.3 | -0.3 | 0.25 | -0.02 |
| Net exports of goods and services | 17.6 | -16.1 | 0.4 | -2.2 | -9.4 | -9.8 | -10.4 | -9.8 |
| exports of goods and services | 1.4 | 5.0 | 8.5 | 9.5 | 9.9 | 12.1 | 6.93 | 2.49 |
| imports of goods and services | -16.2 | 21.1 | 8.1 | 11.7 | 19.3 | 21.9 | -17.3 | -12.3 |
| Real GDP change | -3.4 | 2.1 | 6.1 | 7.8 | 6.3 | 8.0 | 6.3 | 5.7 |

Source: Department of Statistics and Sociology of Moldova, estimates and computations by MQF

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

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------|-------|-------|-------|-------|-------|-------|
| Value-added | 7719 | 10999 | 14022 | 16773 | 19689 | 23356 | 27353 |
| Agriculture, hunting, forestry and fishing | 2349 | 3062 | 4066 | 4261 | 4730 | 5265 | 5834 |
| Mining and quarrying | 17 | 24 | 26 | 36 | 50 | 66 | 86 |
| Manufacturing industry | 1276 | 1613 | 2281 | 3005 | 3352 | 4294 | 5616 |
| Electricity, gas and water supply | 229 | 456 | 308 | 523 | 499 | 504 | 566 |
| Construction | 289 | 409 | 433 | 584 | 665 | 905 | 1314 |
| Wholesale and retail trade | 942 | 1885 | 2003 | 2287 | 2488 | 3028 | 3392 |
| Transport, storage and communications | 671 | 1013 | 1528 | 1974 | 2255 | 2863 | 3692 |
| Other activities | 1947 | 2537 | 3379 | 4103 | 5651 | 6431 | 8609 |
| Net tax on products and imports | 1403 | 1323 | 1998 | 2278 | 2867 | 3941 | 4639 |
| GDP | 9122 | 12322 | 16020 | 19052 | 22566 | 27297 | 31192 |

Source: Department of Statistics and Sociology of Moldova, estimates by Moldova Quarterly Forecasting

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

| | 1998 | 1999 | 2000 | 2001 | 2002e | 2003 | 2004e |
|-----------------------------------|------|------|------|------|-------|-------|-------|
| Wages | 3792 | 3728 | 5104 | 6793 | 8048 | 10027 | 12834 |
| Net taxes on products and imports | 1543 | 1588 | 2247 | 2569 | 3161 | 4327 | 5230 |
| Operating surplus | 3787 | 7006 | 8669 | 9690 | 11375 | 13033 | 14901 |
| structure of Income Account, % | | | | | | | |
| Wages | 41.7 | 30.3 | 31.9 | 35.7 | 35.7 | 36.7 | 39.0 |
| Net taxes on products and imports | 16.9 | 12.9 | 14.0 | 13.5 | 14.1 | 15.9 | 15.9 |
| Operating surplus | 41.5 | 56.9 | 54.1 | 50.7 | 50.4 | 47.7 | 45.3 |

Source: Department of Statistics and Sociology of Moldova, estimates by Moldova Quarterly Forecasting

Table 7. Industrial output, current prices, millions MDL

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005e | 2006p |
|-----------------------------------|------|------|-------|-------|-------|-------|-------|-------|
| Total industry | 7191 | 8168 | 10428 | 12624 | 15963 | 17549 | 21500 | 25063 |
| Mining and quarrying | 57 | 62 | 74 | 101 | 127 | 159 | 213 | 287 |
| Manufacturing industry | 5002 | 6755 | 8452 | 10550 | 13311 | 11936 | 14623 | 16944 |
| Electricity, gas and water supply | 2133 | 1351 | 1902 | 1973 | 1990 | 1561 | 1698 | 2040 |

Source: Department of Statistics and Sociology of Moldova, estimates by Moldova Quarterly Forecasting

Table 8. Gross agricultural output

| | Total, millions MDL | Annual real change, % | Crop production, millions MDL | Annual real change, % | Livestock production, millions MDL | Annual real change, % | Service in agriculture | Annual real change, % |
|-------|---------------------|-----------------------|-------------------------------|-----------------------|------------------------------------|-----------------------|------------------------|-----------------------|
| 1999 | 8184 | -8.4 | 5401* | -11.7 | 2783 | -3.5 | n/a | n/a |
| 2000 | 8268 | 1.0 | 5790 | 7.2 | 2202 | -7.8 | 276 | n/a |
| 2001 | 8646 | 4.5 | 5727 | -1.1 | 2655 | 1.2 | 264 | -4.3 |
| 2002 | 9474 | 9.5 | 6298 | 9.9 | 2870 | 5.7 | 306 | 15.9 |
| 2003 | 10354 | 9.2 | 7086 | 12.5 | 2937 | -4.9 | 331 | 8.1 |
| 2004 | 12601 | 21.7 | 8917 | 25.8 | 3356 | 4.0 | 328 | -0.9 |
| 2005e | 13357 | 6.0 | 9274 | 4.0 | 3658 | 2.5 | 346 | 5.48 |

Source: Department of Statistics and Sociology of Moldova, estimates by Moldova Quarterly Forecasting

Table 9. Major agricultural commodities

| | Grains, th. tons | Grapes, th. tons | Fruits, th. tons | Vegetables, th. tons | Meet (livestock), th. tons | Eggs, mil. | Milk, th. tons |
|-------|------------------|------------------|------------------|----------------------|----------------------------|------------|----------------|
| 1999 | 2200 | 465 | 136 | 489 | 147 | 555 | 589 |
| 2000 | 1935 | 704 | 255 | 364 | 123 | 575 | 574 |
| 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 |
| 2005e | 2953 | 500 | 370 | 310 | 127 | 750 | 653 |

Source: Department of Statistics and Sociology of Moldova, estimates by Moldova Quarterly Forecasting

Table 10. Public Expenditures, Revenues and Debt

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e |
|---------------------------------------|------|------|------|------|------|------|-------|
| Total revenues | 25.2 | 25.6 | 22.7 | 22.5 | 24.3 | 24.2 | 23,9 |
| Tax revenues | 19.7 | 19.3 | 18.0 | 19.0 | 21.0 | 21.9 | 21,7 |
| Corporate profit tax | 1.9 | 1.7 | 1.8 | 1.9 | 1.7 | 1.8 | 1,8 |
| Personal income tax | 1.8 | 1.7 | 1.8 | 2.1 | 1.7 | 2.1 | 2,1 |
| Land tax | 1.1 | 1.0 | 0.9 | 0.8 | 0.0 | 0.5 | 0,5 |
| Real estate tax | 0.2 | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 | 0,1 |
| VAT | 7.6 | 8.4 | 7.9 | 9.0 | 10.2 | 9.6 | 10,3 |
| Excises | 3.6 | 4.1 | 3.6 | 2.9 | 3.3 | 3.2 | 3,1 |
| Taxes on foreign trade | 1.9 | 1.4 | 1.2 | 1.5 | 1.7 | 1.7 | 1,6 |
| other tax revenues | 1.5 | 0.8 | 0.7 | 0.6 | 2.4 | 2.9 | 2,8 |
| Non-tax revenues | 4.6 | 5.5 | 3.9 | 3.2 | 2.9 | 2.3 | 2,5 |
| NBM profits | 1.3 | 2.4 | 1.2 | 0.6 | 0.5 | - | 0,1 |
| Proceeds from privatisation | 1.1 | 0.9 | 0.5 | 0.5 | 0.4 | 0.2 | 0,2 |
| other non-tax revenues | 2.2 | 2.2 | 2.2 | 2.1 | 2.0 | - | 1,8 |
| Total spending | 28.4 | 26.6 | 22.7 | 23.0 | 22.6 | 23.1 | 23,4 |
| Economic activities | 2.5 | 2.3 | 1.7 | 1.8 | 1.9 | 2.1 | 2,3 |
| External trade activity | 0.5 | 0.4 | 0.4 | 0.4 | 0.0 | 0.5 | 0,4 |
| Education | 4.7 | 4.5 | 4.8 | 5.5 | 4.8 | 4.7 | 4,6 |
| Health | 2.9 | 2.9 | 2.8 | 3.5 | 2.6 | 2.4 | 3,0 |
| Social assistance | 3.8 | 3.8 | 2.6 | 2.9 | 2.7 | 3.4 | 3,1 |
| Public administration | 4.3 | 4.1 | 4.0 | 4.7 | 3.8 | 4.3 | 4,2 |
| Debt servicing | 7.0 | 6.4 | 4.2 | 2.2 | 2.1 | 2.1 | 1,8 |
| Capital investment | 0.9 | 1.1 | 1.1 | 1.1 | 0.3 | 0.9 | 1,1 |
| Other | 1.9 | 1.0 | 1.1 | 0.9 | 4.3 | 3.5 | 2,3 |
| Budget balance | -3.2 | -1.0 | 0.0 | -0.5 | 1.6 | 1.1 | 0,5 |
| Domestic debt | 15.5 | 12.6 | 12.6 | 12.5 | 10.7 | 11.2 | 11,1 |
| Foreign debt (millions USD) | 65.9 | 79.3 | 64.5 | 59.4 | 51.5 | 42.9 | 24,9 |
| Energy payment arrears (millions USD) | 35.5 | 24.6 | 19.4 | 18.1 | 15.9 | 10.9 | 9,1 |

Source: Department of Statistics and Sociology of Moldova, estimates by Moldova Quarterly Forecasting

Table 11. Monetary indicators

| | Currency in circulation | | Reserves of banks | | Monetary base | | M2 | | M3 | | Multiplier | | Foreign reserves of NBM, millions USD | USD/MDL period average |
|--------|-------------------------|----------|-------------------|----------|---------------|----------|--------------|----------|--------------|----------|------------|------|---------------------------------------|------------------------|
| | millions MDL | growth % | millions MDL | growth % | millions MDL | growth % | millions MDL | growth % | millions MDL | growth % | M2 | M3 | | |
| Q1'00 | 1109.3 | -1.1 | 438.0 | 16.3 | 1547.3 | 3.2 | 1875.7 | 3.7 | 2749.5 | 9.8 | 1.21 | 1.78 | 191.3 | 12.42 |
| Q2'00 | 1159.2 | 4.5 | 456.3 | 4.2 | 1615.4 | 4.4 | 2005.2 | 6.9 | 2788.8 | 1.4 | 1.24 | 1.73 | 192.1 | 12.62 |
| Q3'00 | 1339.6 | 15.6 | 426.0 | -6.6 | 1765.6 | 9.3 | 2301.6 | 14.8 | 3181.7 | 14.1 | 1.30 | 1.80 | 190.5 | 12.38 |
| Q4'00 | 1469.3 | 9.7 | 476.4 | 11.8 | 1945.7 | 10.2 | 2514.2 | 9.2 | 3511.4 | 10.4 | 1.29 | 1.80 | 222.5 | 12.31 |
| Q1'01 | 1406.3 | -4.3 | 477.8 | 0.3 | 1884.1 | -3.2 | 2526.2 | 0.5 | 3574.0 | 1.8 | 1.34 | 1.90 | 222.7 | 12.69 |
| Q2'01 | 1475.7 | 4.9 | 477.6 | 0.0 | 1953.3 | 3.7 | 2691.3 | 6.5 | 3886.1 | 8.7 | 1.38 | 1.99 | 210.2 | 12.95 |
| Q3'01 | 1698.0 | 15.1 | 525.3 | 10.0 | 2223.3 | 13.8 | 3189.7 | 18.5 | 4423.5 | 13.8 | 1.43 | 1.99 | 227.1 | 12.88 |
| Q4'01 | 1834.2 | 8.0 | 654.7 | 24.6 | 2488.9 | 11.9 | 3464.5 | 8.6 | 4787.4 | 8.2 | 1.39 | 1.92 | 228.5 | 12.94 |
| Q1'02 | 1751.4 | -4.5 | 776.1 | 18.5 | 2527.4 | 1.5 | 3450.9 | -0.4 | 4852.7 | 1.4 | 1.37 | 1.92 | 225.0 | 13.21 |
| Q2'02 | 1826.7 | 4.3 | 690.4 | -11.0 | 2517.0 | -0.4 | 3560.7 | 3.2 | 5187.0 | 6.9 | 1.41 | 2.06 | 220.0 | 13.62 |
| Q3'02 | 2246.7 | 23.0 | 755.0 | 9.4 | 3001.7 | 19.3 | 4346.0 | 22.1 | 6126.7 | 18.1 | 1.45 | 2.04 | 279.3 | 13.64 |
| Q4'02 | 2288.5 | 1.9 | 974.2 | 29.0 | 3262.7 | 8.7 | 4517.6 | 3.9 | 6511.5 | 6.3 | 1.38 | 2.00 | 269.6 | 13.81 |
| Q1'03 | 2193.1 | -4.2 | 944.0 | -3.1 | 3137.1 | -3.8 | 4455.1 | -1.4 | 6885.7 | 5.7 | 1.42 | 2.19 | 250.4 | 14.18 |
| Q2'03 | 2364.1 | 7.8 | 915.3 | -3.0 | 3279.4 | 4.5 | 4749.5 | 6.6 | 7300.7 | 6.0 | 1.45 | 2.23 | 260.1 | 14.36 |
| Q3'03 | 2907.5 | 23.0 | 797.3 | -12.9 | 3704.9 | 13.0 | 5384.6 | 13.4 | 8199.0 | 12.3 | 1.45 | 2.21 | 285.9 | 13.92 |
| Q4'03 | 2740.5 | -5.7 | 1078.4 | 35.3 | 3818.9 | 3.1 | 5621.9 | 4.4 | 8509.2 | 3.8 | 1.47 | 2.23 | 302.3 | 13.32 |
| Q1'04 | 2632.8 | -3.9 | 1233.6 | 16.2 | 3866.5 | 1.8 | 5800.9 | 3.2 | 8659.2 | 1.8 | 1.5 | 2.2 | 309.6 | 12.6 |
| Q2'04 | 2853.4 | 12.7 | 1350.5 | -7.3 | 4203.8 | 6.4 | 6130.1 | 5.9 | 9099.1 | 8.8 | 1.5 | 2.3 | 295.7 | 11.9 |
| Q3'04 | 3320.9 | 4.3 | 1675.5 | 4.1 | 5000.4 | 4.3 | 7140.9 | 4.9 | 10384.9 | 5.3 | 1.5 | 2.3 | 391.6 | 12.1 |
| Q4'04 | 3699.1 | 4.1 | 1611.4 | 4.0 | 5313.1 | 4.2 | 8137.0 | 4.6 | 11719.6 | 5.1 | 1.5 | 2.3 | 470.3 | 12.5 |
| Q1'05 | 3656.1 | -1.2 | 1969.7 | 22.2 | 5626.4 | 5.9 | 8432.9 | 3.6 | 12103.3 | 3.3 | 1.5 | 2.2 | 461.2 | 12.5 |
| Q2'05 | 3895.2 | 6.5 | 2102.0 | 6.7 | 5997.2 | 6.6 | 9258.4 | 9.8 | 13345.7 | 10.3 | 1.5 | 2.2 | 482.6 | 12.6 |
| Q3'05 | 4323.7 | 11.0 | 1996.9 | -5.0 | 6320.6 | 5.4 | 10091.7 | 9.0 | 14546.8 | 9.0 | 1.6 | 2.3 | 582.1 | 12.7 |
| Q4'05e | 4410.1 | 2.0 | 2496.1 | 25.0 | 6906.3 | 9.3 | 10740.8 | 6.4 | 15704.3 | 8.0 | 1.6 | 2.3 | 575.0 | 12.7 |

Source: National Bank of Moldova, computations by MQF

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

| | Deposits | | | | Credits | | | | | |
|--------|----------------|-----------------|------------------|-----------------|--------------------|-------------|------------------|------------------|---------------------------|-------------------------------|
| | Current in MDL | intrest rate, % | Foreign Deposits | intrest rate, % | NBM to Government. | NBM to bnks | NBM base rate, % | Banks to Economy | intrest rate (for MDL), % | intrest rate (for foreign), % |
| Q1'00 | 378.4 | 24.5 | 461.1 | 4.8 | 1675.9 | 102.8 | 30.0 | 1751.2 | 35.2 | 16.7 |
| Q2'00 | 411.1 | 26.5 | 384.9 | 5.6 | 1675.9 | 103.8 | 29.0 | 1795.8 | 35.0 | 17.2 |
| Q3'00 | 463.7 | 24.6 | 424.4 | 4.9 | 1675.9 | 103.7 | 28.7 | 1984.3 | 33.7 | 15.8 |
| Q4'00 | 493.8 | 23.8 | 368.1 | 5.1 | 1675.9 | 62.3 | 27.0 | 2291.2 | 32.4 | 15.1 |
| Q1'01 | 484.4 | 23.8 | 396.0 | 4.9 | 1660.8 | 102.8 | 20.0 | 2374.2 | 29.9 | 14.7 |
| Q2'01 | 479.2 | 21.3 | 416.6 | 4.4 | 1645.8 | 104.2 | 19.0 | 2543.8 | 29.6 | 14.1 |
| Q3'01 | 845.1 | 20.2 | 486.3 | 3.9 | 1750.9 | 96.7 | 16.0 | 2827.0 | 26.6 | 13.3 |
| Q4'01 | 1028.4 | 18.4 | 809.6 | 3.0 | 1888.5 | 75.6 | 13.5 | 3101.3 | 26.2 | 11.9 |
| Q1'02 | 1038.3 | 16.5 | 958.2 | 3.3 | 1984.0 | 178.1 | 13.0 | 3202.5 | 24.9 | 12.8 |
| Q2'02 | 1058.2 | 14.1 | 1089.9 | 3.0 | 2007.1 | 86.8 | 12.0 | 3392.1 | 24.5 | 12.6 |
| Q3'02 | 1211.6 | 14.3 | 1177.4 | 3.3 | 2007.1 | 84.8 | 10.0 | 3782.2 | 22.5 | 11.9 |
| Q4'02 | 1172.1 | 12.6 | 1306.6 | 3.3 | 2144.0 | 81.4 | 9.5 | 4165.7 | 19.3 | 11.9 |
| Q1'03 | 1211.9 | 12.3 | 1544.1 | 3.0 | 2144.0 | 79.6 | 10.5 | 4675.2 | 19.5 | 11.0 |
| Q2'03 | 1280.1 | 11.9 | 1654.7 | 2.9 | 2144.0 | 76.7 | 10.5 | 4878.9 | 19.6 | 10.8 |
| Q3'03 | 1330.4 | 12.2 | 1741.6 | 2.8 | 2144.0 | 92.4 | 12.0 | 5615.5 | 18.7 | 10.2 |
| Q4'03 | 1469.6 | 13.8 | 1813.0 | 3.7 | 2144.0 | 72.3 | 14.0 | 5999.7 | 19.4 | 11.2 |
| Q1'04 | 1725.9 | 15.0 | 1806.0 | 4.5 | 2143.6 | 67.96 | 14.0 | 6168.1 | 20.8 | 11.5 |
| Q2'04 | 1856.3 | 14.8 | 1909.0 | 4.9 | 2635.8 | 67.96 | 14.0 | 6290.0 | 21.1 | 11.3 |
| Q3'04 | 2145.9 | 15.8 | 2051.8 | 5.1 | 2472.2 | 65.41 | 14.5 | 6846.7 | 21.0 | 11.3 |
| Q4'04 | 2572.3 | 15.5 | 2393.6 | 5.4 | 2741.0 | 62.29 | 14.5 | 7399.3 | 21.0 | 11.5 |
| Q1'05 | 2901.5 | 15.4 | 2538.0 | 5.3 | 2821.7 | 61.6 | 14.0 | 7619.3 | 20.9 | 11.3 |
| Q2'05 | 3260.7 | 13.5 | 2614.0 | 5.2 | 2728.0 | 61.5 | 13.0 | 8117.9 | 19.6 | 11.2 |
| Q3'05 | 3596.2 | 12.7 | 2709.5 | 5.1 | 2800.* | 54.2 | 12.5 | 8976.9 | 18.7 | 11.0 |
| Q4'05 | 3792.3 | 11.5 | 2800.* | 5.1 | 2800.* | 62.5 | 12.5 | 9990.5 | 17.8 | 10.9 |
| Q1'06p | 3960.0 | 10.7 | 3100.0 | 5.2 | 2750.0 | 65 | 12.5 | 11500.0 | 18.1 | 10.8 |
| Q2'06p | 4350.0 | 10.5 | 3400.0 | 5.3 | 2750.0 | 65 | 12.5 | 10205.0 | 18.2 | 10.8 |

Source: National Bank of Moldova, computations by MQF

Table 13. Wages

| | Nominal monthly wage, MDL (average per quarter) | Real change, quarter on quarter, % | Real change, year on year, % | Minimum Monthly Consumption Budget, MDL, average per quarter | Ratio of nominal average monthly wage to minimum consumption basket, % |
|--------|---|------------------------------------|------------------------------|--|--|
| Q3'99 | 315.9 | 4.8 | -8.1 | 664 | 47.6 |
| Q4'99 | 405.8 | -7.4 | 9.0 | 775 | 52.4 |
| Q1'00 | 349.0 | 6.8 | -13.8 | 948 | 36.8 |
| Q2'00 | 388.8 | 1.0 | -8.1 | 954 | 40.8 |
| Q3'00 | 416.9 | 6.9 | -6.3 | 954 | 43.7 |
| Q4'00 | 530.7 | -4.9 | 15.8 | 965 | 55.0 |
| Q1'01 | 447.3 | 11.7 | -4.6 | 1047 | 42.7 |
| Q2'01 | 500.9 | 3.7 | 4.7 | 1085 | 46.2 |
| Q3'01 | 531.0 | 4.5 | 13.2 | 1011 | 52.5 |
| Q4'01 | 641.4 | 4.7 | 32.6 | 1007 | 63.7 |
| Q1'02 | 579.0 | 8.4 | 16.4 | 1023 | 56.6 |
| Q2'02 | 646.8 | 8.6 | 27.3 | 1068 | 60.6 |
| Q3'02 | 705.5 | 4.5 | 43.8 | 1114 | 63.3 |
| Q4'02 | 885.3 | 2.0 | 75.2 | 1136 | 77.9 |
| Q1'03 | 775.7 | 11.0 | 46.0 | 1259 | 61.6 |
| Q2'03 | 864.2 | 0.7 | 57.3 | 1279 | 67.6 |
| Q3'03 | 921.3 | 3.4 | 62.9 | 1312 | 70.2 |
| Q4'03 | 1088.7 | 6.8 | 78.9 | 1349 | 75.7 |
| Q1'04 | 976.0 | -2.1 | 55.7 | 1386 | 70.4 |
| Q2'04 | 1087.7 | 4.7 | 70.9 | 1423 | 76.4 |
| Q3'04 | 1123.3 | 4.1 | 73.4 | 1460 | 76.9 |
| Q4'04 | 1282.3 | 2.9 | 87.2 | 1497 | 85.7 |
| Q1'05 | 1154.3 | -13.5 | 62.0 | 1545 | 74.7 |
| Q2'05 | 1292.0 | 14.2 | 76.1 | 1590 | 81.3 |
| Q3'05 | 1336.3 | -0.1 | 76.0 | 1646 | 81.2 |
| Q4'05e | 1532.2 | 8.7 | 91.3 | 1736 | 88.2 |
| Q1'06p | 1333.2 | -14.7 | 63.2 | 1771 | 75.3 |
| Q2'06p | 1479.3 | 8.25 | 76.6 | 1806 | 81.9 |

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

Table 14. Unemployment, %

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005 e | 2006p |
|----|------|------|------|------|------|-------|--------|-------|
| Q1 | 14.0 | 10.5 | 8.8 | 7.9 | 9.8 | 7.3 | 8.1 | 8.0 |
| Q2 | 11.2 | 7.8 | 6.8 | 6.3 | 7.0 | 7.8 | 8.0 | 7.9 |
| Q3 | 9.5 | 7.3 | 6.3 | 5.8 | 6.5 | 7.9 | 8.0 | 8.0 |
| Q4 | 10.0 | 8.4 | 7.2 | 7.3 | 7.8 | 8.0 | 7.9 | 7.9 |

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

Table 15. Price indexes by sector, %

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

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

Table 16. Average consumer prices changes, %

| | Ian | Feb | Mar | Apr | Mai | Iun | Iul | Aug | Sep | Oct | Noi | Dec | Compared to December, previous year | Yearly average |
|-------|-----|------|------|-----|-----|------|------|------|-----|-----|-----|-----|--|-------------------|
| 1995 | 2.9 | 2.3 | 0.7 | 0.6 | 0.4 | 0.2 | 0.2 | 0.2 | 2.6 | 2.7 | 6.0 | 2.9 | 23.8 | 30.0 |
| 1996 | 3.5 | 2.5 | 1.1 | 1.1 | 0.8 | 0.1 | 0.1 | -0.3 | 1.5 | 1.6 | 1.4 | 0.8 | 15.1 | 24.0 |
| 1997 | 1.9 | 1.4 | 1.0 | 0.8 | 0.6 | 2.0 | -1.0 | -0.8 | 1.2 | 0.9 | 1.1 | 1.5 | 11.2 | 12.0 |
| 1998 | 1.3 | 0.4 | -0.1 | 0.7 | 0.2 | -1.1 | -1.4 | -0.6 | 0.2 | 1.4 | 8.6 | 7.8 | 18.3 | 8.0 |
| 1999 | 5.4 | 1.5 | 0.6 | 2.0 | 4.1 | 7.2 | 2.5 | 0.7 | 1.7 | 2.1 | 4.3 | 5.0 | 43.7 | 39.0 |
| 2000 | 2.9 | 1.3 | 0.1 | 1.6 | 1.4 | 4.4 | 0.7 | 0.8 | 1.4 | 1.0 | 0.8 | 0.8 | 18.4 | 31.0 |
| 2001 | 1.2 | 0.3 | 0.3 | 1.5 | 0.5 | -3.5 | -1.7 | -0.5 | 0.9 | 1.3 | 1.1 | 1.9 | 6.3 | 10.0 |
| 2002 | 1.3 | -3.4 | 0.5 | 1.9 | 1.6 | -3.4 | -1.5 | -0.6 | 0.8 | 1.2 | 1.2 | 1.9 | 4.4 | 5.2 |
| 2003 | 1.9 | 1.8 | 0.9 | 1.5 | 0.5 | 1 | 1.3 | 0.4 | 1.6 | 2.1 | 1.1 | 0.7 | 15.7 | 11.6 |
| 2004 | 1.5 | 0.9 | 0.6 | 0.9 | 0.5 | 0.1 | 0.3 | 0.5 | 1 | 2.2 | 1.8 | 1.6 | 12.5 | 12.6 |
| 2005e | 1.1 | 2.1 | 0.8 | 1.4 | 0.1 | -0.8 | -1.1 | 0.2 | 1.2 | 1.5 | 1.9 | 1.4 | 10.1 | 10.25 |
| 2006p | 1.3 | 1.7 | 2 | 1.4 | 1.1 | 0.1 | -0.5 | 0.2 | 1.1 | 1.3 | 1.6 | 1.1 | 13.0 | 13.1 |

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

Table 17. Balance of payments, millions USD

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 e | 2006p |
|---|----------|----------|---------|----------|---------|---------|--------|---------|
| Current account balance | -46.99 | -120.92 | -108.05 | -103.14 | -142.09 | -113 | -285 | |
| Trade balance in goods | -134.7 | -306.62 | -312.92 | -378.25 | -622.3 | -758.3 | -1085 | -1377.9 |
| Exports FOB | 474.84 | 476.58 | 569.43 | 659.8 | 806.3 | 995.2 | 1080 | 1328.4 |
| Imports of goods | -609.54 | -783.2 | -882.35 | -1038.1 | -1428.6 | -1753.5 | -2165 | -2706.3 |
| Balance of services | -32.05 | -43.13 | -48.75 | -38.8 | -39.47 | -54.8 | -60 | -66 |
| Income, including | 33.99 | 72.25 | 100.78 | 159.27 | 215.04 | 336.5 | 460 | 510 |
| Remittances from work | 90.05 | 126.24 | 183.67 | 239.05 | 278 | 480 | 560 | - |
| Current transfers | 85.77 | 156.58 | 152.84 | 154.64 | 304.64 | 363.6 | 400 | - |
| Capital and financial account (excluding changes in reserves) , including | 121.27 | 169.46 | 80.32 | 86.35 | 67.29 | 143.45 | 180 | - |
| Capital account | 116.61 | -11.97 | -20.66 | -15.32 | -12.81 | -5.35 | -20 | - |
| Direct investments | 37.83 | 135.99 | 146.05 | 116.18 | 58.37 | 147.92 | 170 | - |
| Portfolio investments | -140.06 | 117.03 | -32 | -27.48 | -21.21 | -10.41 | -30 | - |
| Other investments | 106.89 | -71.59 | -13.07 | 12.97 | 42.94 | 11.29 | 60 | - |
| Net change in NBU reserves | -48.7 | -47.42 | -9.47 | -26.96 | -14.07 | -147.99 | -80 | - |
| Errors/omissions | -25.58 | -1.12 | 37.2 | 43.75 | 88.87 | 117.54 | 185 | - |
| Net Investment Position | -1364.41 | -1473.31 | -1535.8 | -1649.66 | -1694.5 | -1637 | - | - |

Source: NBM, computations by MQF

Table 18. Real GDP in major trade partners of Moldova

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

Source: NBM, computations by MQF

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

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e | 2005 p |
|----------|--------|-------|-------|-------|--------|--------|--------|--------|
| CIS | 440.2 | 221.9 | 252.7 | 334.5 | 434.8 | 593.4 | 767.8 | 1108.9 |
| Russia | 233.0 | 118.8 | 104.6 | 136.3 | 168.6 | 183 | 216.3 | - |
| Ukraine | 151.6 | 78 | 112.4 | 164.2 | 225.3 | 309.3 | 436.4 | - |
| Belarus | 50.6 | 21.3 | 32.7 | 38.7 | 39.1 | 50.6 | 64.6 | - |
| Other | 5.0 | 3.8 | 3.0 | 4.7 | 1.8 | 50.5 | 50.5 | - |
| UE | 281.2 | 156.6 | 209.3 | 249.0 | 290.6 | 505.8 | 582.7 | 757.5 |
| Germany | 91.9 | 66.2 | 85.4 | 93.6 | 101.3 | 135.6 | 150.9 | - |
| Italy | 65.1 | 34.2 | 45.1 | 61.1 | 82.8 | 118.7 | 132.1 | - |
| Other | 124.2 | 56.2 | 78.8 | 94.3 | 106.6 | 252.5 | 299.7 | - |
| SEE | 214.8 | 143.1 | 205.2 | 190.6 | 256.1 | 133.5 | 199.5 | 219.5 |
| Romania | 112.9 | 90.1 | 129.3 | 107.1 | 126.2 | 98.2 | 164.5 | - |
| Bulgaria | 29.3 | 9.7 | 14.4 | 23.5 | 28.9 | 30.1 | 29.6 | - |
| Hungary | 29.0 | 10.2 | 15.3 | 20.7 | 22.3 | 19.6 | 0.0 | - |
| Other | 43.6 | 33.1 | 46.3 | 39.3 | 78.7 | 0.4 | 5.4 | - |
| Other | 87.5 | 51.5 | 107.8 | 123.1 | 121.7 | 4.8 | 224.2 | 291.5 |
| Total | 1023.7 | 573.1 | 777.4 | 897.2 | 1103.1 | 1402.8 | 1774.2 | 2377.4 |

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

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

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005e | 2006p |
|----------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| CIS | 429.1 | 256.3 | 279.7 | 348.0 | 368.8 | 423.8 | 502.6 | 603.1 | 677,5 |
| Russia | 336.8 | 191.8 | 212.5 | 249.9 | 251.7 | 308.4 | 353.4 | - | |
| Ukraine | 48.7 | 35.2 | 36.5 | 62.0 | 64.9 | 56.2 | 64.8 | - | |
| Belarus | 31.8 | 21.7 | 21.8 | 30.2 | 39.6 | 41.1 | 58.7 | - | |
| Other | 11.8 | 7.6 | 8.9 | 5.9 | 12.6 | 18.1 | 25.7 | - | |
| UE | 82.9 | 98.4 | 103.3 | 122.3 | 172.9 | 211.0 | 297.1 | 386.2 | 425,1 |
| Germany | 23.9 | 36.9 | 36.3 | 41.1 | 52.6 | 56.2 | 71.9 | - | |
| Italy | 22.3 | 25.9 | 36.6 | 47.7 | 64.4 | 82.4 | 136.7 | - | |
| Other | 36.7 | 35.6 | 30.4 | 33.6 | 56.0 | 72.4 | 88.5 | - | |
| SEE | 80.5 | 82.8 | 65.1 | 62.0 | 96.1 | 98.1 | 105.7 | 163.4 | 159,4 |
| Romania | 60.8 | 42.1 | 39.1 | 40.2 | 59.7 | 90.2 | 98.9 | - | |
| Bulgaria | 2.8 | 5.4 | 3.2 | 3.8 | 3.5 | 6.2 | 5.5 | - | |
| Hungary | 3.5 | 16.4 | 4.8 | 7.3 | 9.2 | - | - | - | |
| Other | 13.4 | 18.9 | 18.1 | 10.7 | 23.8 | 1.7 | 1.3 | - | |
| Other | 39.6 | 24.8 | 25.9 | 37.8 | 72.8 | 57.1 | 80.9 | 90.0 | 66,4 |
| Total | 632.1 | 462.3 | 471.5 | 570.2 | 710.6 | 790.0 | 986.3 | 1242.7 | 1328.4 |

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

Table 21. Retail turnover and private housing starts

| | Retail turnover, quarterly, millions MDL | Year-on-year or quarter- on-quarter real change, % | Services rendered to population | Annual growth rate, real, % | Investment in commercial and residential real estate |
|-------|--|--|------------------------------------|--------------------------------|--|
| 1996 | 3840 | 12.3 | 820 | -21.9 | 105 |
| 1997 | 3971 | -7.7 | 1237 | 10.2 | 122 |
| 1998 | 3679 | -14.2 | 1299 | -11.7 | 114 |
| 1999 | 3602 | -29.6 | 1897 | -10.2 | 94 |
| 2000 | 6012 | 27.4 | 2600 | 0.1 | 67 |
| 2001 | 7612 | 15.1 | 3404 | 21.2 | 92 |
| 2002 | 10753 | 34.3 | 4222 | 11.8 | 105 |
| 2003 | 14537 | 18.2 | 5229 | 13.3 | 114 |
| 2004e | 17428 | 11.0 | 6912 | 4.8 | - |
| 2005p | 21951 | 10.0 | 8468 | 7.0 | - |

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

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

| Anul | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004e |
|--|------|------|------|-------|-------|-------|-------|
| Disposable income, average per month per one household member, MDL, including, % | 5159 | 5833 | 8105 | 10492 | 13961 | 18285 | 23838 |
| wages | 1790 | 2065 | 3023 | 3966 | 5166 | 6820 | 9003 |
| proceeds from agricultural activities | 2033 | 2246 | 2796 | 3347 | 4174 | 5284 | 6510 |
| proceeds from individual activity | 155 | 193 | 243 | 283 | 363 | 713 | 1098 |
| revenues from propriety | 36 | 23 | 16 | 31 | 14 | 110 | 157 |
| social payments | 521 | 484 | 778 | 1144 | 1969 | 2560 | 3379 |
| other current allowances | 21 | 23 | 32 | 42 | 42 | 18 | 22 |
| other current transfers | 604 | 799 | 1216 | 1679 | 2234 | 2779 | 3669 |
| Consumption | 5497 | 6144 | 8380 | 10831 | 14144 | 18610 | 24156 |

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